

ENVIRONMENT AND RURAL DEVELOPMENT COMMITTEE

Wednesday 17 March 2004
(Morning)

Session 2

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ENVIRONMENT AND RURAL DEVELOPMENT COMMITTEE

8th Meeting 2004, Session 2

CONVENER

*Sarah Boyack (Edinburgh Central) (Lab)

DEPUTY CONVENER

*Eleanor Scott (Highlands and Islands) (Green)

COMMITTEE MEMBERS

*Roseanna Cunningham (Perth) (SNP)

*Rob Gibson (Highlands and Islands) (SNP)

*Karen Gillon (Clydesdale) (Lab)

*Alex Johnstone (North East Scotland) (Con)

*Maureen Macmillan (Highlands and Islands) (Lab)

*Mr Alasdair Morrison (Western Isles) (Lab)

*Nora Radcliffe (Gordon) (LD)

COMMITTEE SUBSTITUTES

Alex Fergusson (Galloway and Upper Nithsdale) (Con)

Janis Hughes (Glasgow Rutherglen) (Lab)

Jim Mather (Highlands and Islands) (SNP)

Jeremy Purvis (Tweddale, Etrick and Lauderdale) (LD)

Mr Mark Ruskell (Mid Scotland and Fife) (Green)

*attended

THE FOLLOWING GAVE EVIDENCE:

Peter Cook (Scottish Agricultural College)

Dr Janet Dwyer (University of Gloucestershire)

Stewart Jamieson (Scottish Organic Producers Association)

John Kinnaid (NFU Scotland)

Becky Shaw (Scottish Crofting Foundation)

CLERK TO THE COMMITTEE

Tracey Hawe

SENIOR ASSISTANT CLERK

Mark Brough

ASSISTANT CLERK

Catherine Johnstone

Roz Wheeler

LOCATION

Committee Room 2

Scottish Parliament

Environment and Rural Development Committee

Wednesday 17 March 2004

(Morning)

[THE CONVENER opened the meeting at 10:02]

Common Agricultural Policy Reform Inquiry

The Convener (Sarah Boyack): Good morning. I welcome everyone—committee members, witnesses, the press and the public—to the meeting. I have received no formal apologies. Rob Gibson will be late, but he will be here at some point. I remind everyone to turn off their mobile phones.

Agenda item 1 is our inquiry into reform of the common agricultural policy. This is our first evidence-taking session in our inquiry. We have tried to invite a representative range of witnesses to ensure that we are focused. We have put out an open call for written evidence to members of the public and to key organisations and interested parties. Today, we will hear from two sets of key witnesses. The aim of this first session is to get an overview from the perspective of the industry and independent analysts. We will be looking into the key issues of the implementation of CAP reform and, in particular, into the implications for farmers and land managers of decisions made by the Scottish Executive. Before we start, do any members have any relevant interests to declare?

Alex Johnstone (North East Scotland) (Con): All the usual ones. I am a farmer and a partner in a farm business that receives subsidy payments.

The Convener: Thank you. As no one else wants to declare an interest, we can move on and welcome our first panel of witnesses. We have with us John Kinnaird, who is the president of NFU Scotland; Becky Shaw, who is the crofting environment officer for the Scottish Crofting Foundation; and Stewart Jamieson, who is a board member of the Scottish Organic Producers Association. I thank you all for the written evidence that you have sent us, which has been most useful. Because we have your written evidence, we will not be inviting you to make opening statements. That is our usual practice in inquiries. I invite committee members to ask questions based on the written evidence.

Eleanor Scott (Highlands and Islands) (Green): This question follows up a point in the

submission from the Scottish Crofting Foundation. Becky, you say:

“It is likely that agriculture in hill, upland, peripheral and fragile areas will decline under a decoupled support system ... unless there is significant direction of support from other measures put in place.”

Will you amplify that point by highlighting the risks for peripheral areas and suggesting how they could be mitigated?

Becky Shaw (Scottish Crofting Foundation): Research that has been carried out by a range of economic analysts—including Peter Cook, who will give evidence to the committee later—shows that, over the longer term, the trend of decoupling will be towards economic rationalisation, which will tend to lead to a decline in livestock numbers in some of the more fragile and peripheral areas. The rate of that decline will depend on a number of factors, many of which are perhaps not economically rational.

In any case, we all recognise that decoupling might have an impact in more fragile areas. How we mitigate that boils down to the correct and effectively targeted use of pillar 2 resources to address concerns and to support and maintain the kinds of agriculture in fragile areas that contribute to the rich environment, the social system and indeed the whole culture and way of life.

It is clear that, if the economic rationalisation effect of decoupling goes one way, an obvious instrument that pulls the other way and supports such less favoured areas is the less favoured area support scheme. I see that the committee will be discussing that matter today. Although this year's solution is a step in the right direction, we feel that there is further to go if we are to counterbalance that effect of decoupling.

Eleanor Scott: You mentioned that the beef national envelope has perhaps been used to support cattle production in some of those areas for environmental as well as agricultural reasons. In that respect, do you see the eventual shift to pillar 2 support as an environmental or rural development measure?

Becky Shaw: Yes. Many stakeholders, including NFU Scotland, have said that, ideally, targeted support for suckler cow production as an environmental and socioeconomic good should be delivered through pillar 2 support. The systems are quite fragile; indeed, cattle are already leaving the area. The beef national envelope offers an early solution that will allow us to develop in its place an integrated rural development scheme.

Maureen Macmillan (Highlands and Islands) (Lab): Do only suckler cows need support or are other forms of livestock affected?

Becky Shaw: Research shows that livestock numbers in general are likely to decrease. Our consultation response called for some targeted support for sheep and arable cropping. In Peter Cook's analysis, the correlation between cattle and arable cropping probably already exists and a measure that retains cattle is also likely to lead to the retention of more mixed systems and cropping.

The issue of the decline of sheep livestock numbers is also significant, particularly in the more specialist sheep areas or in areas such as Lewis and Harris where the overall stocking rates are low and could be higher whilst retaining environmental benefit. It is clear that there will be some decline in overall livestock numbers, although we are not yet sure how soon that effect will become apparent or what factors will influence it.

The Convener: Alasdair, do you want to ask a question on this issue?

Mr Alasdair Morrison (Western Isles) (Lab): Yes. I must apologise for my delayed arrival, convener; I was held up at another meeting. As a result, I might have missed the thread of earlier questioning.

The last paragraph on the first page of the Scottish Crofting Foundation's submission refers to the effects of "a decoupled support system" in fragile areas and says that "rural businesses and infrastructure" in places such as those that I represent and other parts of the west Highlands will suffer. Will Becky Shaw develop that theme?

On page 2 of its submission, under the heading "Historic basis", the SCF welcomes the fact that the Deputy Minister for Environment and Rural Development recognised in his statement on 12 February that the historic basis of payments is not a long-term solution and that it

"should be reviewed at the earliest opportunity".

How would the SCF define the phrase "earliest opportunity"?

Becky Shaw: I think that I may have covered what you were asking about in your first question. To reiterate, although we think that a decoupled system has great potential to provide environmental benefit, we also foresee risks to the more fragile areas and to smaller units. Across Europe, small-farm organisations are similarly concerned. Every country seems to have different solutions, but there is a strong feeling that we can do a lot with our rural development measures.

As you will know, we are in favour of a gradual move away from the historic basis of payments. We welcome the minister's recognition that the historic basis is part of a developing scenario. We do not see why payment rates should be the same in 2010. In the short term, however, the approach provides us with a little bit of stability while we get

used to the process of decoupling. We strongly advocate that the position be reviewed perhaps as early as 2008. There is a wide recognition that the present position represents more of a breathing space than a long-term solution.

Mr Morrison: At the outset, I should have declared an interest, as I am a member of the SCF.

The SCF paper says that different types of agricultural management are rewarded in hugely different ways. When do you think that there will be a harmonisation of the way in which the management of the land is rewarded? Would that happen in conjunction with what you describe as the developing scenario with regard to the historic basis and area payments or would it happen naturally?

Becky Shaw: It would probably happen in conjunction with the developing scenario. Obviously, the CAP will continue to evolve. We will have to wait and see exactly how it evolves, but, as the emphasis is becoming less on money directly supporting production, we believe that the emphasis has to be on multifunctional farming—on agriculture that produces food and is productive but also rewards land managers for the other non-market goods that are provided by agriculture. The process is evolving. I cannot put a timescale on it, but I think that, as the trends become apparent over the next 10 years, we will see that there has been quite an interesting change.

The Convener: Perhaps we should move on to the issue of how we get from where we are to where we are going. The NFU Scotland paper talks strikingly about the need for transparency in relation to the purpose of our spending and Becky Shaw's comments about the different types of farming that public policy should support also relate to that question. In theory, the land management contract approach takes us to a more explicit public policy justification for farming, which is different from the approach that has been adopted previously. Perhaps our witnesses would like to comment on how we can move to the land management contract approach.

John Kinnaird (NFU Scotland): It is important that we move towards a transparent system. We believe that the land management contract model represents the right way to go in the medium term because it relates not only to production but to social, economic and environmental issues. The important thing about land management contracts is that they would allow businesses to respond to the social, economic and environmental issues, irrespective of where they are, rather than to deal with only one aspect at the expense of another.

In the short term, I believe that the historic basis of payments is the right way of ensuring stability and enabling businesses—be they crofting

businesses, farming businesses or whatever—to adapt to what is a huge change to the way in which payments are made.

We have already touched on the beef national envelope. Because of the importance of beef production to the economy of Scotland as a whole, and not just to agriculture or crofting, it is vital that we maintain a level of production. There is concern, however, that the national envelope may create anomalies, which is the very thing that we cannot have at this stage. The beef national envelope must be effective. It must also be flexible; it should be introduced when it is required, rather than at the outset, because problems may not necessarily be identified straight away. Moreover, it should not, at this stage, be geographically targeted to one region of Scotland or another.

To go back to the original question, we believe that land management contracts are the way forward. They will fit in with the changes to the rural development plan, which will be introduced in about 2007. The plan is up for review anyway, so that would appear to be the correct time to consider how land management contracts can work in Scotland as a whole and how, rather than being limited, they can deliver the social, economic and environmental benefits that are required.

10:15

Stewart Jamieson (Scottish Organic Producers Association): We in the organic sector believe that we are already operating under land management contracts. They are part of the organic system, although perhaps not in the way in which the aid schemes were started and the way in which they operate. I agree with John Kinnaird's point about transparency. If we are operating on behalf of the environment, and for social reasons and food production, we have to be quite clear that that is what we are doing. The organic sector does not have an issue about that, because we are very comfortable with the principle of land management contracts.

Roseanna Cunningham (Perth) (SNP): I want to return to the historic basis for the single farm payment. The submissions from Becky Shaw and John Kinnaird differ on that issue. The impression given in the SCF paper is, "Okay, the initial decision is historic basis, but let's get away from it as quickly as possible." The NFU paper is welcoming of the historic basis and gives the impression that, somewhere in the long grass, there might, at some indeterminate point in the future, be a reason to revisit it. That difference may just be a matter of language or there may be some real divergences between the two organisations in respect of the future. It has been

suggested this morning that, given that we are on five-year reviews, the review of the historic basis is likely to take place in 2009. Would you both be happy with that timescale or are there much more deep-seated differences between the two organisations?

John Kinnaird: Ladies first.

Becky Shaw: Thank you, John. To be pragmatic, we recognise that a decision has been taken and that it would be silly to review it next year. However, we welcome the fact that the minister has mentioned that the policy will be reviewed at the earliest opportunity and we think that 2008-09 is not too early.

John Kinnaird: We have to remember that land management contracts are part of the Executive's "A Forward Strategy for Scottish Agriculture". There is an impetus for the minister to introduce them, although there would be no point in doing so before 2007. Historic payments are important to allow stability. If we were going down an area payment route, we would see massive redistribution of money and little economic benefit. There can be no justification for large tracts of land attracting large payments when there is no real benefit to rural communities or to the economy. That is why we welcome the historic payments. One of the review dates appears to be 2009; I would imagine that by that time, or perhaps before then, land management-style contracts will have been introduced.

Roseanna Cunningham: So you would not want that review unless land management contracts had been introduced and, if that can be done round about 2009, you will be—

John Kinnaird: We do not need the review to bring in land management contracts.

Roseanna Cunningham: But you do not want the review unless they have been introduced.

John Kinnaird: I do not think that that is the case at all. The review is more fundamental than just looking at land management contracts. It will be European Union-wide, not UK or Scottish specific. We have to move away from looking only at 2009, but I think that, come 2009, we will see fundamental changes in how support is delivered.

The Convener: That raises the question where the debate in Europe will go over the next few years. There is an issue about what member states will argue on the way forward. To what extent are your organisations, as producer organisations, engaging in that debate and to what extent do you want to shape that debate in Scotland?

John Kinnaird: We definitely want to shape that debate in Scotland. Through the CAP reform agreement in Luxembourg last year, we have

already got regionalisation, which allows the Executive to identify specific areas within Scotland. What is important for Scotland is what is delivered for Scottish farming, for Scottish crofters and for the Scottish public.

Becky Shaw: Obviously, we want to be involved in that debate at the European and Scottish levels. We have regular contact with the European Commission and we will aim to feed our views into the developing European process over the next few years.

Stewart Jamieson: We would prefer to keep the regionalisation aspect, which is an important part of any forward strategy, based on a Scottish input. That is the Executive's view in "A Forward Strategy for Scottish Agriculture", and we do not see any reason to change that. The implementation of organic rules and protocols is obviously dealt with on a Europe-wide basis. We believe that that is fine, but economic and social factors will come into play in different situations in different countries. We think that we should keep some Scottish control of social and marketing issues, which might be completely different in Scotland.

Rob Gibson (Highlands and Islands) (SNP): There are different ways of implementing CAP reforms in different states and even within the UK, but, if we are to gain public goods out of those reforms, we must be concerned about the tradeability of entitlements, particularly in less favoured areas such as the Highlands and Islands. We do not want a move towards the consolidation of the kind of farms that we would describe at the moment as being intensive. Would you like to comment on that?

Becky Shaw: Certainly. One reason why we suggested moving away from entirely historic payments was the big disparity in the levels of historic payment in different areas. We are concerned that a similarly difficult situation could arise as that in the housing market. Some land is currently without any entitlement and land may be made available by people deciding to opt out of the system if they are receiving very little from it. We are concerned that people who have to retain, say, 100 hectares with a high entitlement might move that 100 hectares to somewhere in the Highlands and Islands where the minimum requirements for maintenance are fairly low and the land might not require significant input of time or effort. A local person could not afford to compete with that, so there would be an obstacle for young people. That is not a problem only in the Highlands and Islands; the potential obstacles for people coming into agriculture need to be considered.

Land in an area could be used to claim entitlement even without a person having to be

there, in which case it would bring no benefit into the local economy. If the person were actually to come to a place such as Lewis, although they would be bringing a high entitlement and perhaps out-pricing somebody local, at least they would be living in the community and using the services, shops and other facilities, which would have a knock-on economic impact. We are concerned about the issue and, in the Highlands and Islands, we have been discussing how best to deal with it. In crofting areas, the Crofters Commission would be willing to exercise its powers more strongly to ensure residency if someone transfers into the area. Obviously, that does not deal with the young person problem, but that problem will perhaps have to be addressed nationally.

John Kinnaid: The young person problem is clearly important, irrespective of where one is. However, we have to remember that, to be able to get their entitlement, people have to abide by stringent cross-compliance regulations. People cannot do nothing; if they do not abide by those cross-compliance regulations, they will not get their payments.

The trading of entitlements will be important and significant in the short term, especially for the tenanted sector. At the moment, much of the net worth of the tenanted sector can be in livestock or, perhaps, in quotas. The quota system will disappear when the single farm payment comes in. With the reduction in quota—to the point at which there is no quota at all—there is a real danger that the net worth of tenanted farms in particular will be significantly lower. Initially, the single farm payment will have a value, so, in the short term, it is important that such payments are tradeable.

I do not believe that we will see a move towards intensive farming. Because of cross-compliance, and because people will be more market oriented, we will find that, rather than going for specific production methods—for which there is support at present—farmers and crofters will be able to go for the market and produce what their land is capable of producing. They will look at all aspects of land management rather than specifically at production. That is important. People will be able to consider the broad spectrum rather than just production. I therefore believe that the single farm payment must be tradeable.

Stewart Jamieson: In the short term, the payment will have to be tradeable and there will be winners and losers. In the long term, the CAP reforms will focus our attention much more on the market and, to some extent, on environmental and social effects. They will take our attention away from production. We therefore do not see a long-term role for the trading of entitlement. Such trading should be discouraged. Eventually, given

that the reforms will encourage people to become more market oriented, producer support will inevitably disappear. I will not predict how long that will take, but we will be more focused on the market and the environment, rather than just on producer support.

People who wish to make money out of trading entitlements at the moment should go ahead. In the long term—by which I mean about 10 years—I do not think that those entitlements will have a value. The situation will be like that of milk quotas, which have had considerable value over the years but which are almost certain to disappear over the next three to four years.

The Convener: In your submission, you mention the potential danger of the loss of some organic farming because of uncertainty over the current support mechanisms. How can we avoid that loss? You say that

“the detailed application of the new OAS will deter a significant number of farmers from going organic.”

Will that not run counter to the Executive's aim of promoting environmentally sustainable agriculture?

10:30

Stewart Jamieson: Yes, it will. We have a major problem in keeping the existing producers. Organic farming is a long-term commitment. The aid scheme lasted for five years but, at the end of five years, an organic farm is only just getting going. The Executive has approved some form of continuing payments. That demonstrates a slight recognition that some support is due. However, we in the organic industry do not believe that those levels of support are sufficient to make producers consider continuing with organic farming.

That takes me back to the point that the returns from the market are not sufficient to keep organic farmers in business. Those farmers provide environmental and social benefits—organic farms tend to require more labour than conventional farms do because of the protocols that we have to observe. That is an important aspect of organic farming for rural communities and it should be recognised.

A few minutes ago, we spoke about transparency and why our organisation exists. It must be recognised that existing organic farmers need support to continue their enterprises because they provide a number of benefits. If the market gave a sufficient return, organic farmers could keep going. That leads me to a point about the importance of marketing, which we might discuss later. Current producers deserve some sort of on-going support.

By a twist of fate that no one could have predicted, more organic farmers might come on

stream in the next two years, purely for financial reasons. Farmers will have the single farm payment and they will also be able to take on board the organic aid scheme. In the past, if farmers decided to become organic, that inevitably meant a considerable reduction in stocking levels and output, which led to a reduction in support. That will not be the case with the single farm payment. Many farmers are beginning to realise that the single farm payment is throwing us towards de-intensification, which means that they might be able to take on the organic scheme. The motives behind that may be financial, which is not unreasonable, but that is not the way in which we want the environmental and other aspects of organic farming to be developed. The Executive must recognise that possibility. We are all looking for an expansion of organic farming.

Alex Johnstone: I have a brief question for John Kinnaird, although if he does not want to answer it now, I will talk to him later. We all know that the thrust behind the mid-term review is to break the link between production and support. The widely held view within the farming industry is that that is a good thing. Two of the witnesses today—and others who are not giving evidence—support the principle generally but seek to find ways in which the system can benefit their particular sector, perhaps at the expense of ordinary farmers who are involved in commodity production. Is it important that we defend the rights of non-specialist farmers or commodity producers in Scotland for a number of reasons, but specifically to ensure that Scottish farmers are not subjected to redistribution in the long term, which might put them at a competitive disadvantage with farmers in other European countries who are not subjected to the same redistribution of resources?

John Kinnaird: I will not dodge the question. Our view on the issue was produced as a result of what was probably the biggest consultation that our organisation has ever undertaken. We represent not only commodity producers but a proportion of crofters. Many of those producers, whether they are crofters or farmers, are also organic producers. We must be careful not to pitch one against the other. In the long term, it is clear that the best answer will be land management contracts, because they will reward every type of production in a way that is specific to individual farms and crofts, irrespective of where they are in Scotland.

We need to protect our markets, which are important; our produce is recognised around the world. We must be careful not to throw out the baby with the bathwater. That is important not only from the farming point of view but further downstream, due to the added value and employment that agriculture creates. We must maintain a level of support to allow businesses to

adapt—again, that is part of the forward strategy for Scottish agriculture. The final part of the vision is to embrace change, and agriculture has always done that. It has done so for as long as I have been in the industry, and it will continue to do so.

I do not think that there are many threats in the reforms, but our members need time to adapt their businesses, irrespective of the form of production that they are in, because the marketplace will determine more and more. At the moment, support payments are made on a production basis, which tends not to be best for individual businesses. People have to think, “Can I do this now or will it prevent a payment from coming?” To take that system away, for all forms of production, is a huge step forward. We should consider what is good for Scotland as a whole.

We want to keep traditional, commodity-based farming in place, because it is important to rural communities. Agriculture remains the hub of the rural community and employment in that community. That must continue, but we have to move towards market-oriented output—that is important in the long term. At the same time, we must move beyond pure production. We require the market signals to come from the end buyer. As producers, we remain weak sellers—that is true of crofters, organic producers and conventional farmers. That situation must change and evolve to allow all sectors to thrive.

The Convener: To date, we have concentrated on pillar 1, which is concerned with the existing frameworks and how to keep a farming industry while preparing it for change. The other part of our agenda is the rural development angle. All the signs are that pillar 1 is moving towards pillar 2, which will be the European Union's new method of support. To pick up on John Kinnaird's final point, how do the witnesses envisage the new moneys that will come gradually through the rural development plan helping that agenda? All the witnesses talked about the long-term future, and marketing seems to run through everyone's comments, but we have considered other issues, such as rural jobs and facilities. Maureen Macmillan talked about creameries before the meeting, and we have had discussions about abattoirs. How should we manage those aspects of rural development? Do we need different options to allow us to do so? Do the witnesses have views on how we should shift to that side of the equation?

Becky Shaw: I share many of John Kinnaird's views on land management contracts. It is important for us to move to a system that allows different priorities to be recognised in different parts of the country. We need a national framework with regional options to allow the priorities of different areas to be taken into account

in different ways. We are sure that the priorities in Skye are different from the priorities in Fife. It is important for there to be enough flexibility in the land management contract system to deal with the priorities that are identified at local or sub-regional level.

To return to the discussion about the extent to which we want to leave a decoupled system and the market to regulate agriculture, and the extent to which we want to use the other available mechanisms to impact on that, it is clear that there will be infrastructure loss under such a system, perhaps through livestock loss in particular areas. Therefore, the rural development programme is important for maintaining agricultural activities that contribute social, economic and environmental benefits. The infrastructure must be considered if we are to maintain levels of production in a particular area and products that can be sold in the local market. Land management contracts alone would not be enough. The infrastructure in particular areas would have to be supported to allow producers to sell in their local markets. It is possible for a range of things to be done under the rural development fund and discussions are starting on how people view the different priorities.

We regard it as important, for social, ecological and cultural reasons, to maintain small-scale agriculture in fragile areas in Scotland. That might sometimes require more infrastructure support to enable people to sell to local markets. For example, if the existing infrastructure does not allow a producer to sell Shetland lamb in Shetland because it must be shipped to Aberdeen and packaged before being sent back, that creates enormous difficulties. Production for local markets must be considered in the context of infrastructure requirements.

The Convener: The NFUS referred to land management contracts in its written submission, but is not the whole issue of rural development additional to those contracts?

John Kinnaird: We must consider what we are trying to achieve. There is a great danger that, under the rural development regulation, we will go down a predominantly environmental route that will be far too narrow. No one, including the NFUS, would disagree that the environment is important. However, we must first consider how the funding will be delivered and how it will benefit all aspects of the food chain, if you like, such as marketing, abattoirs and processing—the whole gamut. It is important that, rather than be specific about raising certain sums of money, we consider the delivery routes for the funding. We should all be involved in doing that because it is important that the funding benefits all rather than a few. Pillar 1 direct payments will gradually disappear and we will increasingly move towards pillar 2 arrangements.

Land management contracts would have an important role to play because they would cut across not only production, but animal welfare, food quality and marketing—they would have a wide base, rather than a narrow one. However, it is important to ensure that we know what we are trying to achieve before we go down the land management contract road. The objectives are a bit unclear at the moment.

Stewart Jamieson: I agree with John Kinnaird and Becky Shaw about the importance of local processing facilities and support for them. I am an organic milk producer. I would be delighted if we had in Wigtownshire a local organic creamery making organic cheese. However, the Executive cannot lead people; it can only put measures in place. The onus is on us, as farmers and producers, to take advantage of what is available.

I can illustrate that point with what we have done in the milk industry in Scotland. I am one of 25 organic milk producers in Scotland and, nine months ago, we took advantage of the Scottish Executive Environment and Rural Affairs Department's marketing development scheme to form ourselves into a small co-operative employing a marketing manager. The co-operative is 50 per cent funded by us and 50 per cent funded by the marketing development scheme. So far, it has been a bit of a success story. Scottish organic milk will appear on supermarket shelves within the next two weeks. The good news is that not only is it Scottish milk, but it is one of the first examples of Scottish branding of organic produce. We hope that that will have a positive effect. We also hope that it will increase sales in Scotland of organic milk, which has never been branded as Scottish before. At the moment, organic milk in Scotland is labelled only as organic milk. We hope that there will be benefits to the producers in the form of increased sales, and also benefits to consumers through drinking healthy milk. I am smiling as I say that—I could go on about it if we had time.

The Convener: We have seen the adverts.

Stewart Jamieson: That is just an example. It is important that the Executive takes initiatives such as the development scheme on board. The scheme exists to assist producers who can see the marketing possibilities. We all realise that, whatever food we produce, it is never going to sell itself. There has to be marketing and we have to market the Scottish brand continually. Scottish products should always be seen as quality products, but a quality product is no good unless it is marketed.

10:45

Alex Johnstone: In that last set of answers, there seems to be a general acceptance that in

years to come there will be a reduction in the significance of direct farm support and an increase in the significance of support that is targeted through the rural development regulation. What part do the members of the panel think that modulation will play in that?

Stewart Jamieson: Modulation will play a big part. As organic farmers, we are comfortable with modulation, which is going to be an increasingly important aspect of food production. We are all coming to realise that people in the countryside are not just there for food production; they maintain the countryside and provide lots of the social aspects of life in the countryside. If that is what the countryside is there for, we should say that. We have to go back to John Kinnaird's point about transparency. We are comfortable with modulation and agree that it should be used for the environmental and social aspects of rural development. I hope that, as organic farmers, we can be a part of that to some extent.

John Kinnaird: Modulation will obviously play a very important part in rural development because it will attract match funding. If there is no match funding, I do not believe that we can progress rural development spending because that would simply create a massive redistribution system. It is important that we set out the objectives before we raise a particular sum of money.

We have said already that we are pleased with the Executive's acknowledgement that historic payments must come in to stop that massive redistribution and to allow businesses time to adapt. We have to do exactly the same, as far as modulation is concerned. I am not saying "This is our money; we have to keep it"; I am saying quite the opposite. However, it must be remembered that agriculture is the trigger for match funding. If all that money disappeared out of agriculture, it and crofting would be destabilised. It is important that the initial money raised to trigger match funding remains with agriculture, crofting and organic producers to give them stability. It has already been acknowledged that the match funding is vital. It is important to recognise that somewhere between £36 million and £40 million will be coming into Scotland plc, which should be targeted at improving marketing and processing and everything else that fits around them.

It is interesting to note that, at the moment, RDR spending is simply going down one avenue—the environment. The spending must be broadened out to give social, economic and environmental benefits. That is the important part of the RDR, but we have to make sure that the objectives are set out from the start, which is not happening at the moment. The objectives are too narrow and must be broadened out so that everyone can benefit from them and there is equitable access to land

management contracts, for example. That is absolutely crucial.

Becky Shaw: I will have to diverge a little from John Kinnaird's views. The interesting distinction between agriculture and crofting is questionable. We believe that modulation will play an important part in the future of land use in Scotland. The match funding that we can attract into the system, and the renegotiation of the British allocation of European spend, must be looked at, as the NFUS paper mentioned.

As to the uses of modulation, it is clear that the current mechanisms are not particularly well distributed. It is important that we have mechanisms for the rural development spend that are robust, sensible and targeted. Simply to move money from pillar 1 to pillar 2 and then work out exactly what we will do with it is problematic. We see the future mechanisms delivering through land management contracts and pillar 2.

Over the next two years, leading up to the new RDR in 2007, we will have to decide exactly what the priorities are for spending the rural development money. We must ensure that the money is spent properly in a way that meets all our objectives—the environmental objectives, the maintenance of high nature value farming systems, the maintenance of rural agricultural communities, elements of processing and marketing, reconnecting people with land, and access and education. There is an enormous range of ways in which rural development money can be spent to benefit everybody in Scotland and to continue to provide the public benefits that are derived from agriculture.

Maureen Macmillan: What do you think about the proposal from the Scottish Council for Voluntary Organisations that some of the money should be used for village halls and shops, and not necessarily be directed at agriculture-based enterprises or infrastructure? It argues that funding should go into the wider community. Where do you see the balance lying?

John Kinnaird: We do not dispute that there is a balance to be struck. The reason that match funding is so crucial is that it brings money into Scotland. You refer to exactly the kind of projects that the match funding could be used to fund. The objectives must be clear and should not be based on agriculture alone, but agriculture is the trigger. The £36 million to £40 million is important, and could be spent on a raft of different items, including those that you raise.

Becky Shaw: In the Highlands and Islands, agriculture plays a key part in maintaining community infrastructure so, in itself, supporting agriculture and continued land management is an important factor in maintaining rural communities.

There is scope for a balance to be struck and for modulated funds to be used for other objectives, but in the Highlands and Islands in particular there is a strong connection between agriculture and agricultural communities. It is important that we continue to support agriculture in those areas, because in many remote areas it is the backbone of the rural community. We need to consider making decisions to spend money on other areas, but we must recognise the important role of agriculture in rural development and in maintaining rural populations.

Stewart Jamieson: I am happy with that. We have moved from talking about agriculture in isolation to realising, over the past 10 to 15 years, that we are talking about rural issues. I am happy about funds moving in one direction or the other, because we are talking about the rural environment, not farmers in isolation.

Nora Radcliffe (Gordon) (LD): I would like John Kinnaird to clarify how we treat the money that we get through modulation. I get the sense that people are seeing it as two distinct parts of a pot. Am I picking that up wrongly?

John Kinnaird: No. What I am saying is that agriculture and crofting—crofters receive some money as well, through production support—are the trigger for the match funding. There is no way that we would expect not to have to do something under rural development. It is not a case of our having to keep what we have got; we will have to continue to produce public benefits for that funding. However, we must be careful that all that funding does not suddenly disappear out of agriculture and crofting, as that would take it out of rural communities. Farming and crofting are central to rural communities: that is the important aspect. The trigger is agriculture and crofting—it has to be—but the crucial part is the match funding.

The Convener: I will let Rob Gibson ask a brief question, but I am keen for us to move on to the second panel of witnesses.

Rob Gibson: In her paper, Becky Shaw states:

"It is on account of our concern over existing mechanisms and their targeting that we advocated a franchise of 5000 Euros be applied to national modulation".

Can you explain to the committee how that would work?

Becky Shaw: The European compulsory modulation has a franchise that operates on the first €5,000 of all European money, which is basically a supporting mechanism for the smaller farmer. We were keen to see some targeted support in recognition of the rural development benefits per se of the smaller farm organisation. We would like to see in pillar 2 some recognition of the fact that the small unit—the small family farm,

croft, or whatever—has a strong rural development role and to ensure that a free, decoupled market does not lead to the loss of the smaller unit. Our intention, through rural development mechanisms in pillar 2, is to ensure that the small farm, the family farm or the small unit retains its crucial place and is recognised for what it contributes as a rural development element per se.

The Convener: We seem to have covered a lot of ground, both in the big-picture sense and in getting down to a very technical level. Thank you for fielding all the questions that we have fired at you. If, on reflection, there is anything that you want to send us, we will be happy to read your supplementary comments. Thank you for coming along this morning and for giving us your written submissions in advance.

I suspend the meeting for a couple of minutes, while our second panel of witnesses comes in.

10:57

Meeting suspended.

11:01

On resuming—

The Convener: I welcome our second panel. We have with us Peter Cook, who is a retained adviser to the Scottish Agricultural College, and Dr Janet Dwyer, who is a reader in rural studies at the University of Gloucestershire. We will not have opening statements from the witnesses, but I thank them for their written submissions. I know from talking to colleagues that they want to raise a number of issues on the back of the submissions.

Eleanor Scott: I thank Peter Cook for his submission, although I found it to be slightly depressing. In the second last paragraph you say:

“We have worked through options for many producers post-decoupling and the results are often stark.”

I got the impression that you take a pessimistic view. Is that your view of the current reforms or of agriculture generally? Alternatively, am I picking up what you said wrongly and is the situation really not that bad?

Peter Cook (Scottish Agricultural College): I am quite positive about the future—you have picked up on particular situations that I mentioned in my submission. Decoupling creates opportunities for some people to make radical changes to their businesses, but the reality in the industry is that most people will not do so because they will want to find a solution in agriculture. I was referring in my submission to people who are looking to retire or semi-retire, or people who need to restructure their businesses. They might have a

lot of employed labour and want the opportunity to cut costs. The fact that people can collect quite a large payment without having the same level of agricultural activity as in the past means that they can make radical changes.

However, I also said in my submission that the majority of people will look on the single decoupled payment as part of their farm income. As long as the whole picture is one of profit, they will probably keep things as they are for the moment. However, things will change. It is inevitable that if there is an enormous shift in the way that subsidy is paid, there will be major shifts over a 10-year period, which it is important to realise. The guy who makes the big change by coming out and selling all his cows releases a lot of land for somebody else. The land will not sit idle; some entrepreneurial guy next door will try to pick it up and farm it differently. The livestock effects and the percentage changes are surprisingly small. However, where the cattle, sheep and crops are, and how farms are structured, could become different given time.

Alex Johnstone: I want to look at some of the projected changes. What is driving the fairly radical changes that are proposed for the cropping area and the dairy cow and sheep populations in Scotland?

Peter Cook: As an economist, I know that one has to be very careful about anything that is produced using an economic model because such models use particular assumptions at the time. For example, in the model that we used, we used very depressed cereal prices from probably two years ago, and we used the opportunity that people in the marginal cropping areas of Scotland had to reduce their cropping while still receiving area payments. If we subtract the area payment from the margins that people make in the marginal cropping areas of Aberdeenshire, upland Perthshire and upland Borders, very little margin is left.

Alex Johnstone: Will cropping areas in Scotland become very reactive to world market conditions?

Peter Cook: Yes. That is a feature of every activity. I think that we will probably see more fluctuation; indeed, we have already seen it happen in grain and milk prices. The industry is much more volatile and there will be more volatility in the cropping area. With the positive trend in prices, the amount of cropping will rise; however, that will decline as we go into a negative price trend. The area payments system has given much more stability because it provides a basic level of income. There will be much more volatility. As prices have improved this year and in light of the prospects for next year, we will probably revise our figures a little. However, we still expect a decline in cropping in Scotland.

Alex Johnstone: Behind all that lies the assumption that taking the subsidy element out of the profitability calculation might cause commodity values to react and beef, lamb and milk prices to rise. Have you taken that into account or could that aspect influence the figures over a 10-year period?

Peter Cook: Small rises of between 5 and 10 per cent in beef and lamb prices have been built into the figures. I cannot for the life of me remember the exact percentages, but I think that the figure for beef prices is 8 per cent or thereabout. We have based those increases on modelling that has been carried out by many different organisations including the European Union, which assumes that, although European beef production could be significantly reduced, the effect on prices will be limited by the fact that we will be more open to third-world imports. The world beef-supply situation will be just as important a factor and will keep the price lower than we might have expected with the reduction in production. An awful lot of assumptions were made about the world beef supply, but the fact is that we do not know what prices will be like. Any substantial price increases would blow huge holes in the forecasts, which are extremely sensitive to prices. However, our assumption is that there will be a small price increase.

Alex Johnstone: You have gone into some detail about how you expect farmers to react to the change in circumstances. In my experience, they tend to be slow to react initially, but as time goes by they become very keen to react to the marketplace. Is five years adequate for the introduction of market-driven changes or do we need longer, perhaps five to 10 years?

Peter Cook: Once again, that depends on prices. If they change markedly from our assumptions, people will react faster. However, if our price assumptions are right, we will need a 10-year horizon before people make substantial changes.

We assume that for the first few years after the changes have been introduced the conservative majority of people—not everybody—will just sit and keep their businesses roughly as they are. They will see what happens to prices, see what other people do and see what happens to the marketing sector in Scotland before they make judgments on how to change their businesses. It will take from three to eight or 10 years before we see any marked changes such as those that we have forecast.

Rob Gibson: Dr Dwyer emphasises the fact that in the changeover from the current system to one that is fully decoupled, there is a need for a lot of training, reassessment and so on in relation to areas such as how to conform with the good

agricultural and environmental condition policy. What would you recommend to the minister in respect of the Government being proactive in that area?

Secondly, perhaps Peter Cook could say whether the Scottish Agricultural College is geared up to help people think about the changes that need to take place.

Dr Janet Dwyer (University of Gloucestershire): I suggest that that issue has not been sufficiently thought about and planned for in preparation for the major reforms that, in the medium to long term, will make a big difference to the way in which people think about their farm businesses and their future in rural areas.

There is a need to put rapidly in place some more strategic thinking about how training needs can best be met in the next few years. As Peter Cook says, training might not be an immediate need if most people are going to spend two years considering what they might do but, if the issue is not dealt with in the first two or three years, there could be quite unpredictable and possibly detrimental change in the medium term. That is an important aspect to consider.

There are two sides to the issue. On one side is the need to ensure that farmers are up to speed with the requirements of the GAEC policy and the standards that are required to be met by the legislative part of cross-compliance; on the other side is the equally important need to integrate that with farm business planning and to ensure that farmers think about how their businesses might need to develop to meet environmental requirements and to become orientated more towards changing market needs and market opportunities.

Within the business redevelopment focus, there is a need to think about new skills that go beyond traditional agricultural skills, for which bodies such as the SAC are well established. The SAC has a good reputation in relation to the environmental side.

There is a lot to be learned by examining the way that training and reskilling are supported in small businesses outwith agriculture. We should consider ways in which those models could be adapted or focused on helping to address the needs of the agriculture community. That is important because many businesses might find that their future lies outside agriculture.

The Convener: Presumably the SAC is in pole position to assist in some of that transitional work.

Peter Cook: I am not an employee of the SAC, except as a contractor, so I had better not comment on that.

The Convener: Generally, what needs to be done?

Peter Cook: It is a big task, but we are lucky in that there is throughout Scotland a network of SAC offices and a tremendous programme of information meetings that is run by the National Farmers Union and other organisations. To be honest, farmers are at the moment absolutely plastered with mid-term review information. There are meetings all over the place. In a way, we have an extremely good information system. That does not relate to training or to strategic thinking, however. On that, I point out that the Scottish Executive's farm review pilot scheme is a grand programme that brings in the environmental aspects of farming as well as the business aspects. The only problem with it is that it only reviews the business; it does not consider future options. I understand that it could be argued that, in doing that first piece of work, it is doing enough and that farmers should carry out options appraisals. However, I think that it is more important to support people in considering their options in the light of the major change that they face than it is to review history, which is totally irrelevant.

Rob Gibson: As a result of the overall reform timetable in Europe, we are thinking about replacing the current structure with the single rural fund after 2007. How will farmers adapt to a single rural fund, which will have big environmental and social implications, unless specific training is provided for them?

11:15

Peter Cook: That is an important point. We say to farmers, "Given that the modulation rate is 10 per cent and perhaps another 3 per cent might be available from the national reserve, the payment that you have received in the past will reduce by that amount. For goodness' sake, do not think that the world will be that way forever".

We all have to realise that the historic lump of direct payment will change. We have to start thinking about a world 10 years from now in which perhaps half of that payment will come through environmental and other schemes. How does one operate a business in such an environment? That is the key question about which folk must think, but they are not doing so. We need to push the point because that is the way the world is going.

Dr Dwyer: As someone who has come up here and is not Scottish, I might be being a little controversial. I understand entirely the view that the money for rural development must remain in agriculture, and the reasons why that strong view is taken in Scotland, given the structure of your rural areas and the heavy dependence on agriculture.

However, all the evidence in Europe points to the increasing need to think about funding that

goes beyond the farm gate. That does not mean that farmers do not benefit from it—it often means that farmers benefit greatly—but they benefit because their businesses become more diverse and because they are not dependent solely on agricultural production. That is another matter that will be important when farmers prepare for the changes.

We are now getting into the period when the Scottish Executive needs to think in detail about what it wants to do for the second phase of the rural development programme. It is important to think clearly about the need for reorientation of economic activity in rural areas, to think about the need to prepare farmers and to think about reskilling in relation to a diverse range of business opportunities. That is another consideration that must be fed into the change management process.

Rob Gibson: Perhaps we should send the Executive to school, first.

The Convener: During the past year, we have picked up the point about diversification of agriculture so that it includes, for example, small-scale forestry initiatives and tourism initiatives and how we could provide support for that. I think that Dr Dwyer is saying that it is not good enough to think about diversification in a couple of years' time when change is imminent; it has to be done now. That comes across loud and clear.

Karen Gillon (Clydesdale) (Lab): You seem both to be sceptical about the use of a national envelope. From my discussions with farmers I have found that they share that scepticism. Will you expand on where that scepticism comes from and tell us what other measures could be better employed?

Dr Dwyer: I was part of a team that evaluated the options for use of the national envelope in England. We presented many suggestions to ministers, which they decided not to implement. However, we looked in particular at the option of having some kind of targeted support for suckler assistance as a result of the arguments that were made—from the economic modelling work—about the need to protect suckler production in particular.

I was influenced by the changing view from the beef sector that I observed during the period of our study, which began in October and went through to January. The sector's view is that, as beef markets look to be set to develop more positively over the next one or two years, it is uncertain whether such a blunt instrument as the national envelope will be a good way to protect suckler systems. Ideally, one would wish to have more targeted support schemes delivered through pillar 2 mechanisms whereby one could target money specifically at environmentally beneficial systems,

or at systems in particularly disadvantaged areas that are under threat for infrastructure or remoteness reasons. The national envelope is a crude system that will target support indiscriminately across the board at people who produce calves. The risk with such a system is that there will be a lot of dead weight.

I understand why the Executive is going down the route of using the national envelope, but it is important that we monitor how things change and how markets in particular change over the next couple of years. Our concern is that we do not know whether the national envelope provisions will be set in stone forever or be flexible and modifiable over time. For me, that is a major disadvantage of deciding now that we will definitely use the national envelope. If we cannot make any changes after two or three years, we might end up wasting money completely.

Peter Cook: I agree totally with that analysis.

The question is what we want the national envelope for. If we want to keep Scotland's suckler cows because we want to protect that important sector, the national envelope will not do that because it will not provide enough money. Only £40 a cow is not enough to change people's decisions, given that the size of the direct payment is currently more than £150 per cow. The envelope does not hit that target.

If we want the envelope to support specific systems that enhance the environment or quality, the envelope might be able to do that because it will be targeted and will provide a reasonable sum of money per animal. However, if we want the envelope to ensure that, for environmental and social reasons, beef cows continue to be kept in particular parts of Scotland, such as in the Western Isles, a pillar 2 scheme would provide a more flexible and better route than the envelope system, which is not the best way to achieve that goal.

Of course, we do not know how the envelope system will work, but it is difficult to see how the system could be designed to hit any of the targets that Scotland wants to hit.

The Convener: That takes us to the fundamental question about what targets we want to hit, which was raised by our previous witnesses. The producers want to be told what the objectives are, because they need to know that before they start shifting production. The comment was made that people will follow the money. Do either of the witnesses have views on what objectives the Scottish Executive should have as it moves ahead with the process? We have talked about the need for provision of more environmental farming and rural diversification, as opposed to just traditional intensive support. In preparing to come and speak

to us today, was either of you able to think about how we should flesh out the objectives?

Dr Dwyer: I cannot say that I have given much thought to changing the partnership agreement's existing admirable objectives, which have much consistency with the objectives that were agreed at the meeting on rural development that Commissioner Fischler held in Salzburg in November. However, there are perhaps two main differences of emphasis in the European focus that might be equally relevant to Scotland.

The first is the emphasis on looking beyond the farm gate and on thinking more about the economic viability of small rural communities in the 21st century, given that such communities might have to move away from being entirely or heavily dependent on agriculture and seek opportunities for supporting other kinds of economic development. The European objectives perhaps take a broader view of a living, thriving and actively managed countryside.

The other difference is more to do with mechanisms—I am straying a little from the point about objectives, but mechanisms are equally important in respect of the way in which policy is designed and developed. At European level, the importance of having strong bottom-up processes that feed into policy development is increasingly being recognised. In a sense, a goal of effective policy in rural areas should be that the actors whom the policy affects should feel a strong sense of ownership and involvement in the process. I hear some of that in the rhetoric about land management contracts. Those are promising, but they need to go wider to embrace not only land managers but whole rural communities in active participation in thinking about their futures and in trying to determine the appropriate ways of moving forward.

The Convener: That certainly tunes in with the big debates that we have had on nature conservation in the past three months, involving the rural communities. I invite Peter Cook to add something about objectives.

Peter Cook: I am sure that members realise that there is a terrible problem in Scotland because of its diversity. The first important target is a competitive food industry. Scotland has a large food industry—the committee will know all the figures. A higher proportion of jobs in Scotland than in the rest of the UK and many other European countries are in food manufacturing. The sector is important in adding value and is part of all our strategies for the future. There will be competitiveness only if there is a competitive agricultural industry that can supply, at reasonable cost, quality beef products, lamb products, malting barley and many other niche products. The industry must be allowed to be competitive and

people must be allowed to make competitive decisions.

Achieving competitiveness is difficult in Scotland because, from an environmental point of view, we want to protect and improve an enormous chunk of the country—in fact, we want to protect and improve the whole country. That objective must somehow be slotted in with allowing the industry to compete with beef producers in other parts of the world—in Europe, for example.

There is a strong rural community and social set of goals. It could almost be said that that is a regional matter, but it would be wrong to say that it is totally a regional matter. It is partly related to crofting and its social and political importance as a way of maintaining communities. Those are not agricultural communities, although they do some agricultural activity, which is the backbone of a structure that maintains communities that would probably not otherwise be there.

The Parliament must somehow mix up all those objectives and come up with a sensible policy. I suppose that that is why everybody in Scotland comes back to land management contracts. People think that, through such a mechanism, there can be targeting not just regionally, but for every farm, I suppose. There could be a contract that was much more competitively related in some areas, while others had bigger environmental components, but the system would be a beast to manage. I wonder whether the committee has thought about the costs of managing such a system.

I find such matters difficult. I am sure that I have not clarified matters or improved any thinking, but the three areas that I mentioned are important and all three must be hit. Of course, they are interlinked and one will not have what one wants if one does not hit all of them.

The Convener: I do not know about other members, but I have received serious food for thought from those two answers, which seem to take us to the heart of the challenge. In a sense, they show why we wanted to do the inquiry in the first place. We know about the huge shift, but we must get into all the background issues to begin to have clarity of focus. The points about training, and raising people's awareness and their ability to engage fully in the challenges and—we hope—come out on the side of the opportunities, were well made.

Alex Johnstone: My point follows on from what Peter Cook has just said. I would like an opinion on one of the stark assumptions that is made by many people in the farming industry in Scotland—that Scotland cannot compete at commodity level in respect of grain, beef and meat production in general. Is that argument justified, or is there a

route down which Scotland could go so that our better farms could be competitive on a world-market scale?

Peter Cook: The honest answer to that question is that we do not know, because we have not been asked to do that. We will find out in the next 10 years. We can do lots of academic studies and say that, theoretically, farms can produce beef at such a price; however, if you want my hunch, I would say that, in beef, our future is probably as a quality, high-priced producer. The problem in Scotland is that we have a six-month winter, which creates costs.

Alex Johnstone: In Aberdeenshire, winter lasts for seven months.

Peter Cook: That is if you are lucky. The snow melts in July.

Our long winter is an extra cost. Someone on a rangeland in a pampas would have a different cost structure and a different break-even price.

11:30

Alex Johnstone: It could be argued that perhaps that indicates that it takes two acres to do what could be done with one acre in another part of the country or another country. At the end of the day, if someone is organised efficiently and they have that additional area of land, it is possible to compete.

Peter Cook: That is right. It could be argued that a model for the future of Scottish agriculture could involve having 2,000-acre farms on the east coast that could compete with anyone. That might be the case, but it would take an awful long time to get there. There are many impediments to the implementation of such a model. The Parliament will probably put some impediments in place, because members will not want the possible environmental consequences of such 2,000-acre farms; they might not want the social consequences, either.

The fact that the Parliament will create costs means that the only way in which it will be possible to compete—in some sectors, at least—will be to have a high-value, added-value product. The farm bit is only a small component of that; the battle will be won by having an extremely clever entrepreneurial marketing sector. That is very important. We want to have lots of entrepreneurs selling beef, dairy products and so on in niche markets at high prices through good distribution systems. That is what will keep the industry competitive. I am not sure whether that is an answer to your question.

Alex Johnstone: You have pointed me in the right direction.

Rob Gibson: As far as the niche markets are concerned, it is clear that the consumer is a big part of the issue. We have been driven by what the supermarkets have been prepared to pay for beef and other things, but, in terms of labelling and so on, do you have any views about how our policies ought to be developed to ensure that our ability to find niche markets—which is the result of the developed stage of our agriculture—can benefit from the new system? Should those aspects be part of pillar 2 as well?

Dr Dwyer: It is important that pillar 2 should include support for developments in marketing—niche marketing, in particular. I echo much of what Peter Cook said about competitiveness. It is all about the kind of countryside and the kind of environment that one wants and how many people one wants in the countryside. In a sense, those issues set limits on the sort of production systems that are acceptable and appropriate for Scotland. If we say that there are certain environmental standards that we want to be maintained, resources that we want to be protected and communities that we want to support, we need to become competitive through added value, quality marketing and branding.

Much has been said about the problems that farmers have in dealing with the multiple retailers. From examining successful marketing initiatives across Europe, I have been impressed by cases in which a Government has taken action to link different levels in food chains, from the consumer right back to the producer, in developing strategies for improving quality marketing. That is another reason why, in the context of stimulating such developments, support in pillar 2 needs to look beyond the primary producer.

Leaving aside consideration of whether organics are the future for Germany—it is clear that the minister thinks that that is the case—I was impressed by what I saw in the organic sector there. A lot of money has been put into integrated organic promotion schemes, in which teams of agronomic advisers, market advisers, trainers in marketing and business skills and consumer-end promoters—people who work with the supermarkets to get organic products displayed in special ways and promoted through special initiatives—are co-located in local areas and working together as part of an integrated strategy. That model could be applied to many issues in relation to improving the competitiveness of quality Scottish produce.

The Convener: That issue was mentioned earlier, when the organic producers were talking about how they got together as a co-operative to deal with milk, so that we could have specifically Scottish organic milk on the supermarket shelves. We would be quite interested in following up that

point, because the issue arose in our previous discussions on the budget.

I am conscious of the time and of the fact that there has been a lot of nodding of heads around the table—there has been a lot of interest in what you have been telling us. You apologised at one point for being slightly provocative, but I think that we would like to hear such thoughts. The background papers have been most useful in giving us a slightly different take on the strategic issues and how we can think about the opportunities that will come from CAP reform. Thank you both for your background work. Would you like to add a brief comment in conclusion?

Dr Dwyer: Yes. A lot of the questions to the previous panel focused on decoupling decisions and the impact on the land management contract plans for Scotland. I have not spent a lot of time considering that, but, having read the papers to get up to speed on where we are with the land management contract proposals for Scotland, I have a couple of concerns about providing the finance to ensure that those things become a reality and do not just stay on the drawing board.

The fact that it has been decided to opt for an historic basis for decoupling implies that the decision has been made that pillar 1 will not be the source of support for tier 1 of the land management contracts. If the payment is on an historic basis, payment levels will vary hugely across the country, so it would seem unreasonable to try to link those payments to the things that tier 1 of the land management contracts programme was trying to deliver. That is simply because of the apparent unfairness whereby somebody in Perthshire would get three or four times as much per hectare for doing tier 1 of the LMCs as someone in Sutherland, who would get far less.

I am concerned, therefore, that even with the reallocation of the budgets for the new RDR programmes at European level beyond 2007—the Commission is being very positive at the moment and saying that there will be an increase in that budget and that everybody will get extra money—and even with the decision to go to 10 per cent modulation, the money might not be sufficient. I am aware that, south of the border, the new money that will be available for pillar 2 will be sufficient to deal only with the environmental land management elements and not to deal with a lot of the other growing interests that people have in pillar 2.

I am a little bit worried that, if the minister's decision implies that the pillar 1 money will not fund the land management contracts, there might not be enough money in the pillar 2 budget from 2007 to make the things that the partnership has supported happen in the way that the Scottish

Executive has described, providing schemes that are broadly available to every land manager in Scotland for delivering a range of benefits, public goods and environmental and social benefits for wider society. The committee might like to consider that further in its inquiry.

I want to re-emphasise the fact that, although land management contracts could be an extremely important vehicle for encouraging more sustainable agricultural practice and for creating the basis for rural development support, they will not be enough on their own. Because LMCs are focused on payments going to people managing land, payments for rural development need to go to other people—the people who will train, support and provide the infrastructure. Even the processing and marketing grant currently goes not to farmers, but to people who will provide the processing infrastructure to make the farm products marketable. It would be a shame if that important additional function of second pillar money in Scotland were forgotten; however, because it does not figure in the current rural development programme, it is not figuring enough in the debate about the next one. Given the way that structural funding is going for wider economic regional development funds and social funds, it seems increasingly likely that we will need to look to pillar 2 to provide wider economic and social support in rural areas.

The Convener: Now is the time to identify the different objectives and diversification opportunities that we want to come out of the process. That is a useful point and I see a general nodding of heads round the table.

Thank you for those final comments. I thank both of you for coming along. If anything else occurs to you afterwards, feel free to get back in touch with us via the clerks.

11:39

Meeting suspended.

11:45

On resuming—

Renewable Energy Inquiry

The Convener: If I may interrupt the interesting private discussion that colleagues are having, we will resume. We had a good discussion on CAP reform before the break, but members will recall that we have several sessions still to come. There will be a lot of opportunity to give feedback on the discussions over the next few weeks.

Agenda item 2 concerns our inquiry into renewable energy. I circulated a paper from myself that sets out for members the series of key issues that the clerk, Tracy Hawe, and I worked up after we had thought through the objectives of the Enterprise and Culture Committee renewable energy inquiry. Given that we have sent Rob Gibson to act as a reporter in the past, I am mindful that it is not possible to get every issue on to the agenda. When I go to meetings of the Enterprise and Culture Committee, I will attempt to get through the core issues. We should have the opportunity to follow up if we do not get everything on to the record at committee meetings.

I wanted to bring the paper before the committee to let everyone know what my thoughts are at the moment—at this interim point—and to ask members to get back to me by e-mail if they have comments to make. The Enterprise and Culture Committee's evidence-taking session is scheduled for 30 March, which gives members a bit of time to get back to me, although I ask them to do so as soon as possible. The paper sets out a framework for the core topic headings. If members think that anything is missing, I would appreciate early comment. Is that acceptable to everybody?

Members indicated agreement.

Subordinate Legislation

Sea Fish (Prohibited Methods of Fishing) (Firth of Clyde) Order 2004 (SSI 2004/55)

Domestic Water and Sewerage Charges (Reduction) (Scotland) Regulations 2004 (SSI 2004/68)

Less Favoured Area Support Scheme (Scotland) Regulations 2004 (SSI 2004/70)

Sea Fishing (Restriction on Days at Sea) (Scotland) Amendment Order 2004 (SSI 2004/81)

11:46

The Convener: Agenda item 3 is our subordinate legislation slot for the day. We have four instruments to consider under the negative procedure. The Subordinate Legislation Committee has considered all the instruments and has drawn our attention only to SSI 2004/70. Members have an extract from the Subordinate Legislation Committee's ninth report. Does any member have a comment to make on the instruments? I know that members have read them in great depth, as I have done.

Rob Gibson: I note that some changes have been made to the LFAS instrument, which I hope are for the good. It is positive to note that the scheme has to be kept under review. I hope that people out there realise that the scheme is under review, as some people are still unhappy about the distribution.

The Convener: Your comments are more about the background to and awareness of the instrument.

If members are content with the instruments, are they happy to make no recommendation to the Parliament?

Members *indicated agreement.*

The Convener: On that basis, I will close the meeting. I remind members that our meeting next Wednesday morning has a 10 am start. We have two panels of witnesses who will give evidence on CAP reform. The meeting will give members an opportunity to develop the discussions that we have had this morning.

Meeting closed at 11:48.

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