

ENVIRONMENT AND RURAL DEVELOPMENT COMMITTEE

Wednesday 8 February 2006

Session 2

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ENVIRONMENT AND RURAL DEVELOPMENT COMMITTEE

5th Meeting 2006, Session 2

CONVENER

*Sarah Boyack (Edinburgh Central) (Lab)

DEPUTY CONVENER

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

COMMITTEE MEMBERS

*Mr Ted Brocklebank (Mid Scotland and Fife) (Con)

*Rob Gibson (Highlands and Islands) (SNP)

*Richard Lochhead (North East Scotland) (SNP)

*Maureen Macmillan (Highlands and Islands) (Lab)

*Mr Alasdair Morrison (Western Isles) (Lab)

*Nora Radcliffe (Gordon) (LD)

*Elaine Smith (Coatbridge and Chryston) (Lab)

COMMITTEE SUBSTITUTES

Alex Fergusson (Galloway and Upper Nithsdale) (Con)

Trish Godman (West Renfrewshire) (Lab)

Jim Mather (Highlands and Islands) (SNP)

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD)

Eleanor Scott (Highlands and Islands) (Green)

*attended

THE FOLLOWING ALSO ATTENDED:

Alex Fergusson (Galloway and Upper Nithsdale) (Con)

THE FOLLOWING GAVE EVIDENCE:

Ross Finnie (Minister for Environment and Rural Development)

Allan Wilson (Deputy Minister for Enterprise and Lifelong Learning)

CLERK TO THE COMMITTEE

Mark Brough

SENIOR ASSISTANT CLERK

Katherine Wright

ASSISTANT CLERK

Neil Stewart

LOCATION

Committee Room 4

Scottish Parliament

Environment and Rural Development Committee

Wednesday 8 February 2006

[THE CONVENER *opened the meeting at 11:04*]

Subordinate Legislation

Older Cattle (Disposal) (Scotland) Regulations 2006 (SSI 2006/4)

The Convener (Sarah Boyack): I welcome members of the public, the press and committee colleagues to today's meeting. I remind everyone to put their phones on to silent mode. We do not have any apologies today—we have a full house.

We have one Scottish statutory instrument to consider under the negative procedure. The Subordinate Legislation Committee considered the regulations and made a number of comments on them; an extract of its report is included in our papers. Members will note that the Scottish Executive has acknowledged some errors and has made a commitment to make an amending instrument to correct them.

Rob Gibson (Highlands and Islands) (SNP): It is important to get the regulations in place soon. There is a whole issue to do with getting the market moving again. The regulations should have been more accurate in the first place. I am glad that they will be corrected soon. I hope that they get a fair wind, as they will certainly be welcome in the agricultural community.

The Convener: The fact that amendments will be made subsequently means that the regulations will not be delayed—Mark Brough, the clerk, is indicating that my interpretation is correct. Your points are taken on board, Rob.

Are members content with the regulations and happy to make no recommendation to the Parliament?

Members indicated agreement.

Petitions

Scottish Agricultural College (Restructuring) (PE653)

11:05

The Convener: The next item is a catch-up on public petitions that are round and about the committee's remit. We have three petitions to consider this morning, the first of which is PE653, on the Scottish Agricultural College. Members who have been on the committee for a long time will know that this is one of the first issues that we picked up following the election in 2003. We have quite a bit of update information on the college's business plan. Members have a note providing an update on the business plan for the SAC, together with comments from the Minister for Environment and Rural Development and from a representative of the petitioners.

Nora Radcliffe (Gordon) (LD): The petition achieved its objective, in that the SAC looked again at its proposals. The outcome is far better than the original proposals. We need to keep a watching brief on the matter, but the petition has achieved its objective. The committee and the minister did a good piece of work on the issue.

Rob Gibson: In the context of our discussions on the food chain, it is interesting to note that the Government supports the SAC to the tune of £17 million per year. The development of co-operatives, on the other hand, attracts about £300,000. In future, we might well wish to examine the question of best value in spending on the Scottish Agricultural College. The petition has helped the college to maintain its presence in different parts of the country where agriculture is still practised but, at some point in the future, we might wish to consider what it is spending its money on.

The Convener: It is always open for us to return to the matter. Having said that, I think that we are in a position formally to close consideration of the petition. It has been round the tracks for almost three years now. Nora Radcliffe is right to say that the committee's intervention has been helpful for the long term. It has certainly caused a lot more discussion about the SAC than might otherwise have been the case. If members are happy with that, we will formally close the petition and we will let the petitioners know that we have done so.

Members indicated agreement.

Sewage Sludge (PE749)

The Convener: I remind members that, the last time we considered PE 749, on sewage sludge, we agreed to return to the petition once the Scottish

Water sludge strategy had been developed. The matter is on our agenda today for information. I wanted to log the fact that the consultation on the national sludge strategy and the strategic environmental assessment has been launched. I wanted simply to keep members posted on that. Do members have any comments or questions on the petition?

I thought that we could note the launch of the consultation by Scottish Water and return to the matters that are addressed by the petition once the consultation is complete. Members will see that the consultation raises a lot of issues, many of which are the kinds of matters that we have been raising in our European updates and in our regular discussions with ministers on a more sustainable approach to both the management of sludge and waste to energy. There are a lot of matters for communities to consider, and we will come back to them. We will move that petition to the side and return to it later, if colleagues are happy to do so.

Members indicated agreement.

Fishing Industry (PE804)

The Convener: Our third petition, PE804, is from the Cod Crusaders group. It calls for Scottish control of the fishing industry and withdrawal from the European Union's common fisheries policy. The petition has not been formally referred to the committee. The Public Petitions Committee referred it to the European and External Relations Committee because of the wider European Union issues that it raised. Before dealing with it formally, the European and External Relations Committee decided to write to us to ask whether we wished to consider it. The petition is before us for comment and it comes with a lengthy background note from Mark Brough, outlining the work that the Public Petitions Committee did on the issue as well as the history of discussions on the subject over the past few years in the Parliament. Do members have any comments?

Richard Lochhead (North East Scotland) (SNP): I have paid close attention to the petition; indeed, I attended various meetings of the Public Petitions Committee when it was discussed. There is a sense that the petition is being sent from pillar to post in the Parliament. The people behind the petition are keen for it to be taken up by one of the committees. I am very sympathetic to the aims of the petition, and other committees that have looked at it seem to have a great deal of sympathy with it too.

I would like the Environment and Rural Development Committee to take up the petition. The petition has the support of more than 250,000 Scots, so it would not be right for the committee or the Parliament to discard it. I wonder whether the

committee could hold a joint inquiry with the European and External Relations Committee, given that the petition crosses the remits of both of them.

Mr Alasdair Morrison (Western Isles) (Lab): I strongly argue that, as the subject committee, we should have nothing to do with the petition. There are proper processes in this place for dealing with petitions and if it has been sent from pillar to post, I suggest that we send it back to pillar—the European and External Relations Committee—having noted what that committee said. I would not like the Environment and Rural Development Committee to waste one moment on what is a politically motivated campaign. I would support any legitimate effort to safeguard fisheries and fishing communities on any coast of Scotland, but it would be a waste of our time to consider the petition.

The issues have been well debated in the Parliament at plenary and we would be doing a disservice to fishing communities and wasting our resources and time if we were to give the petition even a moment's consideration. I suggest that we return it forthwith to the European and External Relations Committee.

The Convener: We have two suggestions.

Mr Ted Brocklebank (Mid Scotland and Fife) (Con): Like Richard Lochhead and other members, I have taken a particular interest in the petition and, although I have not attended as many meetings on the subject as he has, I have attended some. I share his view that the petition does not appear to be going anywhere, which is regrettable for the reasons that he outlined. My views on the aspirations of the Cod Crusaders and others to safeguard the Scottish fishing industry are well known. Equally well known is my view that the Scottish fishing industry should be out of the common fisheries policy and that we should regain national and local control of our fishing.

Whether this committee is the right committee to look at the issue is another matter. Ultimately, it would be for United Kingdom legislation to take us out of the common fisheries policy; such legislation could not be enacted in Scotland. We have responsibility for fisheries within a 12-mile limit, but we do not have responsibility for anything further out than that. Although I would be very happy to continue discussing the matter, the Environment and Rural Development Committee has a huge workload and therefore I would be in favour of referring the petition back to the European and External Relations Committee for it to pursue.

Mr Mark Ruskell (Mid Scotland and Fife) (Green): Unlike Richard Lochhead, I am not particularly sympathetic to the petition's aim of

withdrawal from the common fisheries policy. However, I recognise that 250,000 people signed the petition, which is a huge number, and we have a responsibility to deal with the issue that it raises.

Although the committee has done a great deal of work on fisheries, a short evidence-taking session would enable us to produce a report that drew on some of our previous work; we could then draw a line under the issue. It is important that we do some limited work on the petition, although I acknowledge Ted Brocklebank's point about the workload of the committee. A limited, short inquiry is all that I would support doing on the petition.

11:15

Nora Radcliffe: If we read the petition, we can see that it does not fall within the committee's remit. It asks for

"the Scottish Parliament to use its influence to return control over its fishing industry to Scotland."

That is not within our remit. It is ultra vires, so we should send the petition back to the European and External Relations Committee. If we want to do something on the protection of the fishing industry and the recovery of stocks, that is a completely separate issue that might well fall within our remit. The petition is nothing to do with us.

The Convener: There seems to be a range of views in the committee. Having listened to them all, I suggest that, as we have done quite a lot of work on this issue, rather than reinventing the wheel and making the petitioners feel that nothing is happening, we pass our last report and its recommendations back to the European and External Relations Committee. We have dealt with the issue before.

I take Mark Ruskell's and Ted Brocklebank's points that we have a very busy agenda and that we have picked up a lot of on-going fishing issues over the past couple of years. Richard Lochhead has raised quite a few of them himself.

The petition should not be kicked round the Parliament, but it should be dealt with properly. As Nora Radcliffe says, given that the petition is about the control of the common fisheries policy, it comes under the remit of the European and External Relations Committee. I therefore suggest that we send the petition to that committee with the work that we have done previously on this issue, and let that committee get on with it. That might not be agreeable to everyone; if people are not happy, we can put it to the vote and then we will know where we stand.

Richard Lochhead: On a point of clarification, the petition asks for the Scottish Parliament to

"use its influence to return control over its fishing industry to Scotland."

Although, as things stand, it might not be within the legislative competence of the Scottish Parliament to withdraw Scotland from the CFP, it is definitely within the Parliament's remit to use its influence. The people of Scotland expect the Parliament to use its influence to stand up for Scottish interests, or at least to listen to a plea from the 250,000 Scots who have signed a petition that I would imagine is the biggest to have been presented to the Scottish Parliament. For that reason, we should take the petition a bit more seriously. If we were to refer it to the European and External Relations Committee—

The Convener: No. It is not about whether we refer the petition to the European and External Relations Committee. That committee has asked us for comments.

Richard Lochhead: Well, the phraseology that is being used by members is that we should get the petition back to the European and External Relations Committee and let it deal with it. I would accept that only if we recommended that it should carry out an inquiry.

The Convener: We will just have to go to a vote. The European and External Relations Committee has not referred the petition to us; it has asked for comments. Perhaps we could also send the *Official Report* of this morning's discussion, but I stick with my suggestion that we should pass our previous work on the issue to the European and External Relations Committee. That does not mean that the Parliament is not dealing with the petition; it is making sure that the European and External Relations Committee, which deals with the relationship between Scotland and the UK and the European Union, gets it back, with our comments in the light of our previous work. Everyone will be able to look at the *Official Report* and see the different views that have been expressed. Can I put that to the vote and see who is in favour of that proposal?

Richard Lochhead: Just for clarification, what kind of comments will be we sending back?

The Convener: The specific comments are mentioned in paragraph 9 of the petition cover note. When we last looked at issues facing the Scottish fishing industry, we carried out some consultation, including discussions with the Cod Crusaders, so we have covered this ground.

I am just going to put it to the vote.

Richard Lochhead: Presumably the contrary position is that we do a limited inquiry, as per Mark Ruskell's suggestion.

The Convener: There is an option to do a limited inquiry. What was your proposal?

Richard Lochhead: I started off by saying that there should be a joint inquiry with the European

and External Relations Committee, but I am happy to pursue Mark Ruskell's suggestion that this committee should do a limited inquiry.

Mr Morrison: I have a contrary view and Nora Radcliffe articulated it very well; the petition has nothing to do with us. Not only is it procedurally bonkers, it is environmentally bonkers and, as you have clearly outlined, convener, we should return it to the European and External Relations Committee with our existing body of work. As you have properly suggested, we should immediately go to a vote. That would prevent any further posturing.

Mr Brocklebank: Can Mr Morrison clarify what is bonkers?

Mr Morrison: I said that it is procedurally and environmentally bonkers.

Mr Brocklebank: Are you suggesting that the views expressed in the petition and by many of the members here are bonkers?

Mr Morrison: I suggest that it is bonkers to claim that we can withdraw from the common fisheries policy. I also think that it is environmentally bonkers—

Mr Brocklebank: That just does not stand up. Of course it is possible to withdraw from the common fisheries policy.

The Convener: Okay; please speak one at a time and through the chair. I am going to put my suggestion to the vote because I suspect that if I allow this discussion to go on any longer, tempers will rise further and we will not make any progress.

The question is, that we send our comments back to the European and External Relations Committee as requested, along with the recommendations that we made and the report that we produced when we last considered the issues facing the Scottish fishing industry, which includes evidence from the European Commission, the Scottish and UK ministers responsible for the issue, the Cod Crusaders and many other parties. Is that agreed?

Members: No.

The Convener: There will be a division.

FOR

Boyack, Sarah (Edinburgh Central) (Lab)
 Brocklebank, Mr Ted (Mid Scotland and Fife) (Con)
 Macmillan, Maureen (Highlands and Islands) (Lab)
 Morrison, Mr Alasdair (Western Isles) (Lab)
 Radcliffe, Nora (Gordon) (LD)
 Ruskell, Mr Mark (Mid Scotland and Fife) (Green)
 Smith, Elaine (Coatbridge and Chryston) (Lab)

AGAINST

Lochhead, Richard (North East Scotland) (SNP)

The Convener: The result of the division is: For 7, Against 1, Abstentions 0.

That will be recorded in the minutes for everyone's satisfaction. Members' comments will be recorded in the *Official Report*.

The next item on the agenda is our food supply chain inquiry. We will have a short suspension while we are waiting for the ministers to come from the Cabinet meeting. I clarify for members of the public that we will start again at 11.30 exactly. If we can get the ministers here faster than that, we will do so, but we should kick off again at 11.30.

11:21

Meeting suspended.

11:30

On resuming—

Food Supply Chain Inquiry

The Convener: I welcome the Minister for Environment and Rural Development and the Deputy Minister for Enterprise and Lifelong Learning. We are very glad to have you with us this morning. If you read the *Official Report* of last week's meeting, you will know that we had a heated but useful round-table discussion with a range of participants, including representatives of farming, food production, the retail industry, consumers and the co-operative movement. We discussed some pretty difficult issues. We are keen to get your take on what more we can do to help our Scottish rural and farming communities to provide good, high-quality and affordable food. Would either of you like to kick off with a few introductory comments before we ask the questions that we have prepared?

The Minister for Environment and Rural Development (Ross Finnie): We have with us from the Environment and Rural Affairs Department Gerry Smith, David Henderson-Howat, who is head of policy in food and agriculture, and Elizabeth Baird, who is responsible for food-related matters.

We recognise that the inquiry is important. It deals with a matter that has exercised the ministers in our department for some time. We also recognise that we need a functioning food supply chain. As you acknowledged when you established the inquiry, some acute tensions exist. For example, some producers have serious worries about the dominant role of supermarkets in the supply chain, and the growth of the dairy sector is constrained by decisions that the competition authorities take. As you will have gathered from last week's evidence, there is no question but that the issues are complex, and I am sure that the committee will address them in its report. I know that you have heard a lot about the milk industry and about the difference between the farm-gate price of around 18p per litre of milk compared with the supermarket shelf price of around 50p per litre. There is a need to consider not only the size of the differential but the cost structure of the businesses that process, distribute and sell milk. We will not do our primary processors any favours if we do not understand the realities of the marketplace.

In that context, we must also understand the complex interaction between global supply and demand for dairy products and the domestic liquid milk market. Less than half the milk that is produced on Scottish farms goes into the liquid milk market. Much of the rest goes into commodity

markets, such as skimmed milk powder and commodity cheese and butter, where it is traded on international markets. As raw milk can be switched easily into and out of those international commodity markets, the liquid milk market cannot be ring-fenced.

The realities of the international marketplace also underline the importance of allowing our dairy sector to grow through vertical and horizontal integration so that it can compete successfully at a European level. While there continue to be examples of integration, mergers do not always go smoothly. Although matters of competition are reserved, it is no secret that I have been extremely concerned about some of the decisions that have been taken in respect of the Scottish industry.

Co-operation is an important feature of well-functioning food chains. We continually emphasise that message, and I am pleased to note that it was discussed at your meeting last week. There are good examples of co-operative and collaborative food chain working. Taygrow Produce Ltd is a group of potato growers that works with the potato packing company Taypack Potatoes Ltd to ensure that it provides the volumes that its supermarket customer requires. At Highland Grain (Marketing) Ltd, a group of 80 malting barley growers work together to trade directly with their distiller company. The beef producers' group MacDuff enables the butcher PR Duff to guarantee supply. Those are but three examples. Co-operation encourages a short supply chain, allows better communication among producers, processors and customers and creates more certainty by allowing the links in the chain to work together to meet market demands.

Timely transmission of market information through the supply chain is vital. We will be promoting further collaboration and the strengthening of links in the supply chain in the updated agriculture strategy.

Supermarkets are a major partner in many trading relationships in the food supply chain. They provide choice for Scottish consumers and a vital market for Scottish producers. In the paper that we submitted to the inquiry, we used the example of Tesco, which is the largest butcher in Scotland, with nearly 25 per cent of the beef market. Thus, supermarkets enjoy considerable bargaining power with many of their suppliers and there is an onus on them to use that power responsibly. Furthermore, supermarkets need their suppliers, and there are many examples of successful long-term relationships. At the same time, suppliers need supermarkets, which are and will remain the primary interface with retail customers.

I use my regular meetings with major retailers and other businesses in the supply chain to

emphasise how much importance we attach to sustainable food chains, with healthy trading relationships between suppliers and retailers. The agri-food sector faces many challenges with demanding trading partners, discerning consumers and international competition. We are working with the industry to meet those challenges. I look forward to taking further questions on the important issues that the committee is investigating.

The Convener: Thank you. I invite the Deputy Minister for Enterprise and Lifelong Learning, Allan Wilson, to make his opening remarks.

The Deputy Minister for Enterprise and Lifelong Learning (Allan Wilson): The committee is concentrating on the place of agriculture in the food supply chain and on the joint importance of agriculture and food and drink for rural development. The importance of the sector is emphasised by the fact that food and drink manufacturing employs one in five manufacturing employees. It has a gross output of approximately £6.5 billion a year, and contributes approximately £2.8 billion to exports.

The importance of the sector is reflected in the fact that the Scottish Enterprise clusters and industries review confirmed food and drink as one of six national priority industries that should have the greatest economic impact for Scotland. Scottish Enterprise and Highlands and Islands Enterprise—through their local enterprise company structure—support businesses in many sectors, including food and drink, through financial support and business advice on marketing, innovation and strategy.

The Executive also supports companies through regional selective assistance. Since 2002, £20 million of grant assistance has contributed to projects worth more than £100 million and to the planned creation or safeguarding of more than 2,100 jobs in the food and drink sector.

The Scottish food and drink programme concentrates on helping the industry to achieve growth and increase productivity through cost efficiencies, adding value and exploiting premium growth market opportunities. Companies that may be competitors in business take part in such activities because they recognise that there are areas where they can all benefit by sharing knowledge and good practice.

The Executive's programmes to support the overall economy also benefit the food and drink sector. We are committed to aligning the business rate poundage to that in England and Wales. More than £3 billion will be invested in transport infrastructure to allow businesses to get their goods to market, to get people to their place of work and to facilitate increasing tourism. The

promotion of enterprise and manufacturing to schoolchildren is being developed to address the image of the manufacturing industry. The modern apprenticeship programme has been extended to those over 25 years and the skillseekers programme has been re-engineered to meet better the needs of employers and employees. The Scottish manufacturing advisory service will soon be introduced and will provide direct support from industry experts working in and with companies to address productivity and business improvement issues.

I am encouraged by the drive and commitment shown by the Scottish food and drink industry strategy group, which I know is working with everyone involved to improve cohesion in the industry and to ensure that there is common ownership of a shared vision for the sector's development. I am sure that industry and government will continue to play their respective parts in supporting a sector that is very important to the Scottish economy, not least because of the number of our fellow citizens who work in it and who benefit from its employment and economic opportunities.

The Convener: Thank you. I will open up the discussion to members' questions and comments. Everyone wants to speak, but Richard Lochhead caught my eye first.

Richard Lochhead: The crux of the issue that the primary producers—in other words, the farmers—have raised is that the supermarkets might be abusing their power and are certainly making their lives very difficult. They are not getting a fair return on every pound that supermarket consumers spend. Indeed, representatives of the milk sector have stated that in many cases they cannot even meet their production costs from the return that they receive.

As a result, the farmers—certainly those to whom I have spoken—seem to feel that although they are getting a lot of tea and sympathy from ministers, it is hard to pin them and the Scottish Government down about whether they have been asking supermarkets to give those in the food supply chain a fairer deal and about the discussions that they have had with the relevant ministers at Westminster. What message have ministers given to the supermarkets and to what extent have they conveyed it through face-to-face meetings with the heads of the supermarkets that operate in Scotland?

My second question, which might be more for Ross Finnie, is whether there have been any meetings with Gerry Sutcliffe MP, the Department for Trade and Industry minister with responsibility for fair trading issues, who met the National Farmers Union yesterday to discuss this very matter.

Ross Finnie: I am interested to find that, at the outset of this very important inquiry, Richard Lochhead assumes that supermarkets are the sole cause of the problems in the food chain. I am not suggesting that supermarkets do not contribute to the problem, but I would like to see the evidence that the committee has received that shows that the problems in the Scottish milk sector are entirely attributable to them.

I have had conversations with leading supermarkets, major processors, such as Arla Foods and Robert Wiseman Dairies, and the Milk Development Council. I have not had direct discussions with Gerry Sutcliffe, but I have had—and am having—extensive conversations with Lord Willy Bach, the minister in the Department for Environment, Food and Rural Affairs, and others about elements of competition.

It is critical that we examine the dairy sector's hugely complex structure and the forces that drive it. As I said in my opening remarks, liquid milk accounts for only 44 or 45 per cent of the milk price; the rest of the price is down to the commodity markets. On any morning, anyone can look on the internet and find out the price at which milk is being traded. The industry is fundamentally right to point out that, until there is a better balance between the situation with regard to the raw milk price and the ability to sell milk for value-added products, it will be at the mercy of commodity prices. The matter is very complex, and one cannot simply point a finger at the supermarkets alone.

Despite the discussions that I have had, I am still unclear about transparency in the food chain itself. For example, last year, the Asda milk contract came up for renewal. I have no answer for this, but when the contract was won by Arla Foods, which was in competition with Robert Wiseman Dairies, 2p or 2.5p disappeared from the price. Some months later, the Tesco contract came up for renewal, and Wiseman won it back from Arla. The issues were no doubt to do with volumes for efficient manufacturing. Again, about 2p to 2.5p disappeared from the price.

11:45

There is no evidence to show whether pressure was being directly applied by the supermarkets. There is certainly no evidence to show whether there was any collaboration or collaborative discussion between the primary producer and those processors. It is all very well to say to us, "Gosh, you should have been sorting this matter out," but I suggest to the committee that its inquiry is very important because the matter, while being hugely complex, has at its heart an imbalance in the Scottish milk industry, and perhaps in the UK industry, with the absence of a vertically integrated

industry in which milk can be sold for value-added products. In that regard, the attitude of the Competition Commission to the issue has been profoundly unhelpful. In order to invest in a more vertically integrated food chain, liquidity and financial strength are required. If a small part of Scotland is going to be declared a separate market for a product that is traded across Europe and internationally, I do not understand how progress can be made.

Richard Lochhead: I am wary of turning our inquiry into an inquiry into the milk industry, although that industry is perhaps one of the better illustrations of the problems that the committee is trying to wrestle with. There is the general issue of supermarkets controlling such a large share of the market. The committee has received evidence about supermarkets changing their orders at very short notice and about the primary producers struggling to cope with those changes and the lack of a sound basis to their contracts. That makes it difficult for producers to plan ahead. It has been put to us that that illustrates the large degree of power that the supermarkets have in the marketplace, which allows them to act in that way, with the primary producers generally having no option but to give their business to the supermarkets. I am trying to pin down whether the minister agrees with that description of the situation.

Ross Finnie: We need to consider the situation sector by sector. I do not know whether the committee has received any evidence from the beef sector, for example. To my certain knowledge, it has a number of very important contracts with a range of major supermarkets, which clearly specify that they require high-quality Scotch beef that has been born, bred and reared in Scotland at prices that reflect market conditions.

I am also aware that, across the growing season in the fruit, vegetable and horticultural sectors, there have been complaints about variation in contracts and contract demands. That variation makes things difficult for agricultural producers and brings us back to the question whether the supermarkets are exercising undue power or whether we have done enough to promote and encourage more collaborative food chain working. That is a big issue.

I am aware that the Scottish Agricultural Organisation Society has tried in its work to assist primary producers in improving their knowledge and understanding of such relationships. In my discussions with major retailers, I have tried to make it clear to them that while it is all very well for them to function as enormous combines, with vast numbers of people who deal with contracts of various levels of complexity, they are interfacing with people at the end of the chain whose basic

skills lie in agriculture and primary production. There is a real mismatch in relation to important business information.

We cannot generalise about the issue. We cannot consider specific sectors of agriculture and then say that, across the piece, there is absolute evidence about the supermarkets' role. I am not saying for a minute that they are the easiest organisations to deal with; there are issues that need to be addressed, but you cannot simply point a finger at the supermarkets and say that they are the cause of all the problems.

The Convener: To follow up on the point that Richard Lochhead made, although the evidence that we took did not suggest that there had been a problem in every farm in Scotland, it indicated that there were specific problems, especially in the vegetable industry. Practical examples of that were presented to us. Although the point was made that that did not characterise the relationship between farmers, producers and retailers overall, it was a significant problem for the farmers affected. A farmer who thinks that they have agreed a contract and, on that basis, works to produce X amount of goods at X price, but who is offered a much lower price when they come to sell those goods to the supermarket is stuck because, at that stage, there is not much point in having a pile of rotting vegetables on the farm and no money coming in. Farmers in such a position have very little choice—they have to get the goods off the farm, so they might as well sell them for much less money. That is not a satisfactory position to be in, but the last thing that those farmers want to do is to complain to the supermarket, only to be told that it will get the produce from somewhere else. In addition to the big-picture discussion—

Ross Finnie: I agree with that. We have been looking at how we can assist in the development of best practice. It is undoubtedly true that a number of fruit and vegetable suppliers have found contractual relationships difficult and that those relationships militated against their being successful. On the other hand, potato production is a segment of the market in which a great deal of work has been done to improve collaborative working among the grower, the processor, the packer and the supermarket. Arrangements have been established that have narrowed down the areas of variation within such contracts. Several potato producers have made significant progress on the total volumes that they will supply and on the de minimis prices at which they will sell, which has narrowed the variation in those contracts.

We must improve best practice on more effective collaborative food chain operations and extend it throughout the Scottish agriculture industry. We are being assisted in our work on that by the Scottish Agricultural Organisation Society.

Mr Ruskell: I return to Richard Lochhead's opening question, which was about the position that the Executive has been taking with UK ministers. What is your position on how the Office of Fair Trading operates in relation to food supply chains and what improvements to the supermarket code of conduct do you think are necessary? For example, do you believe that the code of conduct should be extended to apply throughout the food supply chain?

Ross Finnie: You have asked two separate questions. I have made my position on the OFT's view of the market absolutely clear. In food and agriculture—and probably in other sectors, too, but that is the sector for which I have particular responsibilities—I find it difficult, as I said in my opening remarks, that the competition authorities can define the market narrowly in Scottish terms when the production and supply companies operate in a market that is at least Europe-wide, and probably wider. If one is trying to control competition, that ought to be done at a European level, at least. That issue forms part of the discussions that I am having with Lord Bach and, in turn, with Mr Sutcliffe. It may be that the issue is statutory.

Given that four or five organisations now have such a predominant share of the market, there is obviously a concern about the power and influence of the supermarkets. However, as I said in my remarks to Richard Lochhead, the complexities of the situation mean that it is difficult to establish whether the problem is with the supermarkets or whether there is a failure of communication among the processors. It is difficult to go round waving a flag and asking for the OFT to come down hard on the supermarkets because they are abusing their power when the evidence suggests that, up and down the food chain, abuses are going on between the supermarkets and the processors that may be separate from those that are taking place between the processors and the primary producers. There is not always a relationship between the primary producer and the supermarket. We must sort out that situation, but we must first obtain clear evidence—the committee might be able to do that—that would enable us to present a case on such abuses, rather than to make a general assertion that the supermarkets, which are easy to kick, must be to blame.

Mr Ruskell: You are correct in saying that there is a great deal of complexity in the supply chain, and you seem to suggest that extending the code of conduct throughout the supply chain would make sense.

Ross Finnie: To be honest, I am more attracted to the idea of looking at the food chain as a whole rather than simply coming to the automatic

conclusion that once we sort out the supermarkets, we will have sorted out the food chain. The work that we have done and my limited attempt to understand the food chain across various sectors of Scottish agriculture suggest to me that the issue is more about looking at the food chain as a whole than picking on a particular element of it.

Mr Ruskell: One of the problems that was raised about the operation of the code of conduct was that farmers and processors want to remain anonymous when they make complaints. I notice that your Liberal Democrat colleague at Westminster, Andrew George, has been calling for a food trade inspector in the OFT to investigate individual cases. Do you support that? Will you lobby Mr Sutcliffe on that issue when you next meet him?

Ross Finnie: As I just indicated, I am more inclined to look at the food chain as a whole. I have not talked about this in great detail, but we have been looking at ways of bringing greater transparency to the process, and that is really what we need. One tends to need regulators—people who can dig under things beneath which no one knows what is happening—when there is a lack of transparency. Having a regulator to look at the food chain might improve transparency, but we would have to discuss the idea of having a regulator that operates across the UK, otherwise, it would not work. We also have to work much harder to get the links in the food chain working with one another so that we do not have processors picking off prime producers, prime producers feeling that they have been excluded and deals being done between producers and the final link in the chain—the supermarkets. The end result of such a scenario is that there are not many winners and a great many losers.

I do not have a fixed view on the idea of having a regulator. I am in discussions on the matter, although, instinctively, I am not keen on having numerous regulations and hordes of inspectors. Nevertheless, I am increasingly concerned by how the food chain is not delivering. We have to look at all parts of the food chain and we have to segment it into different forms of produce.

Mr Ruskell: I would like to hear Allan Wilson's view. From an enterprise perspective, what kind of improvements should there be in the supermarket code of conduct? Should it be expanded? Do you agree with the Lib Dem idea of having food trade inspectors? Is there agreement between you and Ross Finnie?

Allan Wilson: Mr Finnie and I have a long record of working in partnership together on those matters and I look forward to continuing that relationship in my present post.

If you do not mind my saying so, you are being a bit naive. You would expect me to say this as a member of the Labour Party and of the Co-operative Party, but my view is that the solution is to develop a more collaborative and co-operative supply chain so that the difficulties of producers, suppliers and distributors can be eradicated and there is common cause. We commissioned research from Scottish Enterprise into the generality of the issue. The evidence suggested that, in several sectors, co-operation and collaboration among producers, suppliers and distributors are on the increase. However, in a competitive economy, the relationships between those parties are extremely complex and, at times, difficult.

The job of my department and of Government generally—Mr Finnie's discussions with his UK counterparts and others are a case in point—is to make it easier for that collaborative, co-operative supply chain to function effectively in the interests of not just the producer, but—dare I say it—the consumer. That is important. However, if you do not mind my saying so, you underestimate the complexities of the challenge.

12:00

The Convener: One point that was forcibly made to the committee was that although there is a lot of support for co-operative work—we saw evidence of some excellent on-going work—people wanting to collaborate have been made to take a cautious approach. Vertical integration that could have taken place has not yet done so because of the interpretation that has been made of what the OFT would say. Given the establishment of the co-operative development agency and the fact that we are keen to develop co-ops in Scotland—some have been set up in the farming sector—is there a role for the Executive in considering the co-operative development side? The evidence that we have received is that more could be done to make a case through the UK competition authorities.

Allan Wilson: That is a fair point. Richard Lochhead's criticism of us is wholly misplaced and not reflective of what we have done. From speaking to producers from both a constituency and a ministerial perspective, I know that the dairy sector recognises that Scottish ministers have been engaged in tackling its problems. I often met producers and others during my time in the Environment and Rural Affairs Department. We have been proactive in discussions with colleagues in Westminster and elsewhere in furtherance of those interests.

We are in the process of establishing a new agency that will be designed to extend the principles of co-operative development. The co-

operative sector is growing, which is a testimony to the success of our efforts in the area. We take a positive approach to co-operation and collaboration in all economic sectors.

The Convener: We may need to come back to that because we have strong evidence that we are going in the opposite direction, particularly in relation to milk.

Ross Finnie: I am not so sure. We have to be careful about generalisations.

The Convener: Last week, the committee received specific evidence in writing on that.

Ross Finnie: On milk.

The Convener: Yes.

Ross Finnie: Sorry, but in your opening remarks you did not say to which sector you were referring.

The Convener: The point relates particularly to the milk production sector, but it has also come up in other discussions.

Ross Finnie: I understand that, but there are many complexities to the issue. In December, the price for milk that was available ranged from 17.3p to 23.4p per litre. One difficulty for the primary producer co-operatives is that the price that they were offering was at the bottom end of that price range. We can look at improving how co-operatives work, but it is not right to suggest that co-operatives are offering the best price in the market.

The Convener: The specific point is that the industry wants more co-operative working.

Ross Finnie: Sorry, that is different; that is to do with collaboration.

The Convener: That is in addition to promoting co-operatives in the industry. However, people have been explicitly prevented from integrating vertically. We will leave the point for the time being, but other members may come back to it.

Mr Brocklebank: From listening to the evidence given to us by farmers and producers in recent weeks, there is no doubt that certain sectors genuinely believe that the Scottish farming industry is in crisis, particularly in milk and red meat, for which farm-gate prices are lower than production costs. That point was made by witness after witness. With the decoupling of EU farm payments and the disappearance of the incentive to produce goods at a loss, what does the Minister for Environment and Rural Development see as the long-term future for the farming industry? Many of the people to whom we spoke believe that it does not have a future.

Ross Finnie: For the long term, over the next 10 or 12 years in which there may be some form

of support, we must create an industry that can survive without subsidy. That is a challenge that we have singularly failed to address over the past 25 years; rather, we have assumed that the industry would continue to receive subsidies. We must create an industry that can produce and receive a price in an unsubsidised market. We must look on the current subsidy as assistance to the industry in getting to that point, rather than continuing to use it to distort market signals and as an income supplement. That is a huge challenge.

I listened carefully to the evidence about the market price, but I do not remember all who appeared before the committee. I return to the idea that the industry is in crisis. In the milk industry, there are many reports of huge reductions in the number of farms and huge reductions in the number of animals, but the total amount of milk that is supplied has not hugely reduced. Because of a combination of Scotland acquiring additional quota and of great improvements in genetics and lactation, the total amount of milk that we produce has not reduced. The balance of supplies raises issues for us as a country.

We must be careful about saying that we are all in crisis and that everything has collapsed. Huge changes have taken place in the milk market. We must examine how the primary producer operates, which is hugely efficient in some sectors, and we have above-average farm sizes for Europe, which also make us more efficient. However, we must also do what the committee is doing in its inquiry, which is to consider how we relate primary production to the other end of the food chain.

Mr Brocklebank: The point was made to us that although dairy farmers in some parts of Scotland can get out of milk production and into something else, there is no alternative in large parts of south-west Scotland. Farmers have put in new plant and can do nothing else, so they produce milk in the traditional way, but the price continues to reduce. We heard evidence that a supermarket could raise the price by 2p a litre, but by the time that filtered down to the farm gate, farmers would receive less than they did before the supermarket raised its price. What do you say to farmers who are in that position? They ask us what we can do about that; we ask you as the minister.

Ross Finnie: That describes why we have a structural problem. I believe and have said for two or three years that there is a serious structural problem, because 45 per cent of milk production goes into liquid milk, whose price is variable, and 55 per cent goes into pure commodity trading. We can contrast those percentages from farmers in the United Kingdom and particularly here in Scotland with those of their competitors in Europe, where far greater amounts of milk go into added-

value products. Our European competitors are attracting higher prices for bigger percentages of the X million litres that they produce, because a larger percentage of their production goes into added-value products.

That goes back to the question that the committee is much exercised by—how do we obtain the liquidity to invest in integrated production if the OFT continues to take the view that anything that looks as if it might interfere with more than 25 per cent of the market is breaching the competition rules? That means that we are not competing openly and fairly with the rest of Europe. Unless the mix of where income is derived from changes, difficulties will exist, because of international trading. Across the piece, the traded price in the commodities is no different here. No one is squeezing prices here differently from those in the rest of Europe. The price differential, even in raw milk, is not great. The big difference is the percentage of milk that is going into added-value products.

Mr Brocklebank: As the minister with responsibility, what can you do about that? That is the question that farmers ask.

Ross Finnie: As a great promoter of private enterprise, you will agree that the interest is in what the sector and the private investors are doing. I do not run businesses. I am surprised that you as a Conservative do not understand that, but I am always surprised at these evidence sessions.

Mr Brocklebank: What is the climate that you can produce?

Ross Finnie: The issue is vertical integration. That is the one matter on which I am wholly at odds with the OFT's interpretation of what constitutes a market for milk, because it is demonstrable that greater clout is needed to enter new markets and to achieve vertical integration. I have been on about that issue for some time.

The situation is difficult. A recent small takeover, which involved a loss-making company in a very small part of Scotland, was referred to the Competition Commission. I made it clear at the time that I did not understand the logic or rationale behind that referral.

Nora Radcliffe: I wholly endorse the minister's view that if firms are operating in a global marketplace, competition rules should be applied in that light.

This question is for Allan Wilson. We heard evidence about farmers being tied into long-term contracts without any guarantee on prices. What business advice, information and support are available to farmers to help them to get contracts in areas where the risk is not all on the one side?

Allan Wilson: Agricultural businesses, like other businesses, are entitled to take advantage of the

advice services of the enterprise networks at a local level. A lot of good work is being done in areas such as Dumfries and Galloway to improve the management of local agricultural businesses and to ensure that they are equipped with the necessary skills to negotiate what is a complex marketplace.

I agree fundamentally with what Ross Finnie said. There is a widespread appreciation in the sector and in the industry more generally—and, indeed, across all sectors of industry—that, in order for primary producers to maximise the value of their product, they need to add value along the supply chain. That point is well understood in the industry, contrary to what Ted Brocklebank and others have said. From an enterprise perspective, our job is to facilitate the process. If we can do so by helping vertical integration, that is something that we should do.

Nora Radcliffe: There is a perception that the local enterprise companies sometimes do not view agriculture as a business—which it patently is. There has perhaps been something of a disconnection there in the past. Are you doing anything proactively to facilitate those connections?

Allan Wilson: At a strategic level, there is very good co-operation and collaboration between food and drink industry clusters and Mr Finnie's department and officials in the development of agricultural strategy. Agricultural business support is integral to that process. I have no doubt that the enterprise networks are working effectively at a strategic level with their counterparts in the Environment and Rural Affairs Department. At a local level, I know that a lot of good work is being done by local enterprise companies in areas where there is a particular synergy with the sector, for example in Ayrshire and Dumfries and Galloway. That depends on the LECs. We would be happy to discuss that point with the enterprise networks to ensure that they are wholly attuned to the needs of agricultural businesses. I have no evidence to say that they are not.

Maureen Macmillan (Highlands and Islands) (Lab): We have heard evidence about the importance of the Executive supporting Scottish farming through public procurement. That support is given to an extent—it is there at local government level and at grass-roots level, with small primary schools sourcing eggs locally, for example. However, we need to look more widely than that. How are you making progress in public procurement to ensure that, throughout government, from top to bottom, when food is sourced, it is sourced locally, or at least sourced from Scotland?

12:15

Ross Finnie: Our hands are not entirely free in that respect. If I have read this correctly, there are two areas where we can make specifications for Scottish produce. It is possible to specify things with protected geographical indication status. That covers a limited, but quite important, range of products, including Scotch beef and lamb, Arbroath smokies and one or two others. Secondly, we can specify to the fruit and vegetable industry that we wish to have fresh seasonal produce. Generally, European competition law does not allow specification, depending on the size and scale of the contract. We have tended to specify with regard to other value and quality issues for national health service and other larger contracts. We can specify to a limited extent, but we cannot specify that all produce must be Scottish.

Maureen Macmillan: Wearing your environmental hat, could you include a clause on food miles?

Ross Finnie: Not at present.

Maureen Macmillan: Is there any way of negotiating the inclusion of a clause on food miles?

Ross Finnie: Food miles are increasingly on the environmental agenda across Europe. However, I am not aware of any specific proposals in any dossier that would lead to what you suggest in the immediate future.

Maureen Macmillan: That is a great pity, because taking account of food miles is an obvious way of helping the local farming industry and addressing the environmental aspects of transport. I am surprised that nothing on any agenda anywhere deals with that.

Ross Finnie: You say that you are surprised, but Mediterranean countries are able to supply fresh fruit and vegetables for much longer, sadly, than producers in Scotland can—we get the occasional bad day that seems to interfere with a long growing season—so there is absolutely no pressure from those countries for action on food miles; in fact, the position is quite the reverse. Those countries have developed industries to supply from February right through the season to September and October. I do not necessarily support that, because the attached costs are an issue. However, there is no support for what you suggest from the Mediterranean states.

Allan Wilson: I do not want you to think that no effort is being made to encourage greater co-operation between those who procure contracts for primary produce and suppliers. Scottish Food and Drink is organising several regional forums to bring together suppliers and contractors to ensure

greater co-operation. There are several concrete and positive examples of that in my own neck of the woods in North and East Ayrshire. For example, local suppliers have been encouraged to supply for school meals on the Isle of Arran. A lot of good work is being done within the confines of the legislation to which Ross Finnie referred to ensure that local suppliers and their fresh local produce are given prominence in the contracting process.

Maureen Macmillan: Do contracts have to be small scale before such procurement is permissible? Is the problem with large-scale contracts? If so, is there any way that we can get round the European procurement rules by breaking down large-scale contracts into small-scale ones, so that one local authority does not contract for all its school meals but the contracting is done on a school-by-school basis?

Allan Wilson: Do we not do that already? Local authorities, rather than the Scottish Executive, are responsible for procurement. However, there is a lot of good practice that we are working on rolling out. I quoted the Ayrshire examples to ensure that other local authorities take up that good practice and roll it out.

Maureen Macmillan: I hear what you say, but at what level do we come up against European procurement rules?

Ross Finnie: We will have to come back to you with the threshold, as I do not have it to hand.

The Convener: That would be interesting because it would give us a sense of the kind of local market that is being operated. We would also be able to see what scope there is for creative thinking. Local food produce that is sent miles away is an issue that has come out strongly in discussions. We have all talked about excessive food miles even though it is an avoidable problem. We are not saying that we will never import anything. What we are talking about is where good local food produce is not being used in local schools or hospitals. The committee would be interested in any analysis that the Executive has carried out on developments in the sector.

Rob Gibson: We are at the stage at which focusing on finding solutions for producers and the food industry must come back into play. There are contradictions between the outlooks of food producers and the food industry. Although adding value is important, selling more processed food is not necessarily good for people's diets. The Executive must take on board the idea of creating a sustainable structure for our food producers that involves consumption and distribution. Can the ministers share with us any suggestions on how they might achieve that?

It must be remembered that the competition acts prevent competition because they do not allow new producers into the market. In Denmark, France, New Zealand and the United States of America—the biggest free market of them all—new producers can easily enter the market because of proper agricultural co-operative organisations. Can common agricultural policy moneys be used as a short-term means by which to build up the vertical integration that has been spoken about already?

Ross Finnie: Which CAP money?

Rob Gibson: I mean the second tier of CAP money for rural development.

Ross Finnie: Within the current rural development regulation of the CAP, 10 per cent is applicable within the competition element. I suspect—considering the allocations of funding that are specified within the regulation—that the bit that would have to apply for such purposes would be the competitive element, which does not amount to a large sum. Realistically, we have to consider more whether we are allowed to do that and to lever in private capital rather than just assume that we will have access to CAP moneys. I accept that there is an issue about achievement of greater vertical integration not just in the milk sector, but across agriculture in Scotland.

Processed food per se is not necessarily bad, but the content of some processed foods could be hugely improved to make them more nutritious and to remove the elements that do not fit into a healthy diet. We should not be overly critical of the important processing sector, in which the agricultural sector must position itself as the primary cog. We have some small and medium-sized processors that compete reasonably successfully in the food sector, but they need more encouragement. The marketing and processing grant scheme that is operated by the Executive is directed specifically at encouraging small and medium-sized new entrants and developers within the food sector.

Rob Gibson: Processors' raw ingredients are the important element, which is at the heart of the question about whether there is a future for domestic production. Your answer to the question may relate to whether we are prepared to accept a reduction in the production of raw ingredients to the point at which we become less self-sufficient in food. That is what will affect producers, so we are looking for a way through this.

Are you prepared to get vertical integration higher up the political agenda by ensuring that there is a European policy on agricultural co-operative organisations? Some countries have very successful co-operatives because they have been involved in co-operatives for many years.

How are we going to get that up the Scottish and UK policy agenda? The Competition Commission and ministers seem to be reluctant to allow it any importance.

Ross Finnie: There are two ends of the chain. Do not expect consumers to be overwhelmed by labelling that tells them that produce is high quality: outside the store, consumers will tell you that they want high quality and that they want this and that, but most of their choices inside the store are based on price. We want Scottish produce to be sold in a high-quality niche market, but there is a price attached to that. It will be difficult to educate consumers that spending a few pence more is worth their while. We should be careful about simply concluding that the solution is vertical integration: we could keep producing more quality Scottish produce, but more Scottish consumers will have to feel that it is worth paying a small premium to support Scottish industry. Labelling issues will also arise.

We have been asked about vertical integration and collaborative chains, and that is what we are working on. I have referred to the Scottish Agricultural Organisation Society; we fund that society substantially so that it can continue its collaborative and co-operative work.

Rob Gibson: You give it £300,000.

Ross Finnie: Okay—Rob Gibson might want to nationalise the organisation.

Rob Gibson: No.

Ross Finnie: Okay. We are providing funds for people to run a consultancy business that produces plans that lever in private sector funding to improve the collaborative chain. That seems to me to be a worthwhile buck to spend.

Rob Gibson: What about the European level? Is there a way of—

Ross Finnie: The problem is that the Europeans look at us somewhat askance. They are doing things; their competition authorities are not sitting on them.

The Convener: We might want to reflect on that when we draw up our report.

Allan Wilson: It would be remiss of me not to point out that the public subsidy that has been called for to support vertical integration of the dairy sector—or any other sector—would have to comply with the state-aid regulations that are set across Europe in order to provide competition that benefits consumers.

The Convener: We might want to reflect on that, too. We have heard much evidence on the issues and we have previously recommended that rural development money should be spent on local producing and finishing so that we add value to

the rural economy. The Executive could pump-prime that through European funding. We have also talked about food co-ops. There is therefore a big agenda for the committee to reflect on after the ministers have gone.

I want to ask more about labelling. I think that it was Richard Lochhead who told the story of going into a shop to buy Scotch beef and finding beef from somewhere else under a big sign for Scotch beef. Labelling is a real issue. Ross Finnie said that consumers will say before they go into a shop that they would like to buy high-quality Scottish food, but that as soon as they get into the shop, they go for the cheapest product. How can we get it across to people that, when they buy Scottish food, they pay a good price for high environmental standards and high animal welfare standards? Those things cannot be guaranteed for goods from every country. How can public information campaigns get the message across that we have very good produce that hits the buttons that most consumers want it to hit?

12:30

Ross Finnie: As you know, we are concluding our consultation on the standards that are to be set in restaurants and other premises where labelling can mislead consumers. The most obvious example is beef. Many establishments describe their beef accurately as Aberdeen Angus beef, but what they do not tell you is that it was produced in Brazil. That is ever-so-slightly misleading, so we are going to tackle it.

I would like to say a word about the promotion of the industry. I am very encouraged by the example of beef, which is one of the largest elements of our raw-material supply. Quality Meat Scotland has done work over the past two years and has spent much more of its marketing profile to promote beef as a quality product; we have to encourage that in other sectors. It may be that in reviews of how we restructure the levy bodies that are used to support the various food sectors, attention should be given to sectors other than the beef sector. We should consider the quality, value and animal welfare standards of Scottish produce.

The committee might find—this has been my experience—that apart from in bodies such as Quality Meat Scotland, we are not great at understanding the marketing element of Scottish produce. We cannot assume that just because the people in this room are wholly persuaded that Scottish produce is of a high quality that the general consumer has got that message. The industry groups need to promote their products highly visibly in a marketplace that has become much more marketing driven and marketing oriented.

The Convener: The evidence from the Consumer Association is that consumers in Scotland trust their farmers. If that trust exists, we should make the most of it by ensuring that people buy what is being produced. Perhaps we can return to that.

Alex Fergusson (Galloway and Upper Nithsdale) (Con): I have listened with great interest to the questions and the answers. Disappointingly, I disagree with very little that the ministers have said.

I welcome both ministers' strong support for the long-held Conservative policy that vertical integration holds the key to many of the problems that we have been talking about, particularly in the dairy sector. I hope that I can be forgiven for concentrating on that sector—the minister will be aware of the importance of dairy farming in my constituency. I accept what Allan Wilson said about milk-producer representatives possibly understanding what the Executive is trying to achieve, but I am not convinced that individual producers do.

The minister said that much of what we are discussing is already being done in Europe. I accept that, but that brings the focus back to the Office of Fair Trading's position. One thing that has not come across to me today is just what steps the Executive, through its ministers, is taking to create the optimum conditions for securing the status of our dairy farming industry. Could you expand on that?

Ross Finnie: Lord Bach—the minister at DEFRA—and I almost accept that previous efforts have not been successful, so we have been reviewing the evidence of cases over which we did not agree with the OFT. We have tried to produce more information on the very European nature of the milk trade, and to assemble that information slightly differently. We are trying to test with Department of Trade and Industry and OFT ministers how we will position it. We have had several meetings, but there is always a great mystery about how, in the final analysis, the OFT defines the market. We are progressing with evidence and discussions, and Willy Bach is seized with the point—there is no disagreement between us—that we need to present the evidence differently.

There is always concern that someone in the middle market will be squeezed and that we will be deprived of our milk supply. We have to get evidence. Apart from anything else, the market here is very different, which concerns me. We are trying to protect our market which is much more dependent on fresh milk, unlike other markets in which there is ultra-heat-treated milk. Why are we not allowed to compete in the areas that are competitive? We are pressing ahead in that

regard, and I have been very much encouraged by the support that Lord Bach is giving to the project.

Alex Fergusson: Can you give us even the vaguest timescale for when some changes might come about?

Ross Finnie: No. There is a hint that some legislative change might be required, and that the definitions of “market” under competition law might be part of the problem. It might be that, historically, it has always been interpreted consistently.

Allan Wilson: It would be wrong simply to focus on the regulatory side without pointing out that it is also a matter of brand development, raising consumer awareness and stimulating market growth domestically. One of the high-level strategic objectives of the Scottish food and drink strategy is to improve individuals’ skill levels, whether that is in negotiation, brand development or market analysis. The people who are involved in those processes, at any part of the chain, should be up to their tasks and should be developing brands and promoting greater consumer awareness of the benefits that accrue from buying Scottish and from supporting the Scottish food and drink industry.

The Convener: We have explored many issues this morning. Mark Ruskell has one more supplementary question that he promises will not inspire the entire committee to come back in for another go.

Mr Ruskell: Heaven forbid.

We have talked a lot about horizontal and vertical integration and co-operation, which are obviously extremely important. Last week, a witness from the Scottish Agricultural Organisation Society said that it was a “no-brainer” to suggest that we need more co-operation. Is not it slightly naive to think that we will achieve the turnaround that we are all looking for by pursuing co-operation without also addressing transparency in supply-chain regulation? In particular, I am thinking about the experience in European countries where, despite the fact that they have had some co-operative, horizontal and vertical development, there have still been issues surrounding the transparency of their supply chains and the deals that are struck between different parts of the chain. Do we not need to strike a balance between those two things?

Ross Finnie: I have not suggested that we should simply go down one route. Collaborative and co-operative working is very important and I do not think that we have pushed far enough in that regard. I am absolutely clear about the relationships up and down the chain. As I think I said in my opening remarks, it is very important that those relationships become more transparent.

Mr Ruskell: Is that something that you will push with the OFT?

Ross Finnie: Yes, in the sense that—to respond to one of your earlier questions—although I have not come to a final view, I am attracted to the idea of considering transparency up and down the food chain, rather than simply pointing at bits of it and saying, “You’re responsible for this.” I am not sure that the evidence supports that.

Earlier, I cited the example of how the two milk contracts were negotiated last year. More transparency in that would help us to understand the pressures in that sector. To use the example of Wal-Mart, which owns Asda, and looking at the Milk Development Council’s figures for the price of milk, it is clear that the Americans are not saying that they get milk much cheaper in America, so it has to be cheaper here. The Milk Development Council’s figures do not support that. What and where are the pressures? I wholly agree that transparency in the food chain would be hugely beneficial. Collaborative working is another issue, and the regulatory framework that would underpin that is a third element.

The Convener: Thank you very much. We have bashed around many of the issues that we have heard about in evidence over the past few weeks. Our next task is to decide on our conclusions and recommendations. I thank the ministers for coming. I ask members to stay for a couple of minutes longer to deal with agenda item 4.

Item in Private

12:39

The Convener: Item 4 is on how we will conclude our food supply chain inquiry. We have just completed our final oral evidence session. At our next meeting we must consider how to take the inquiry forward and what we think about the evidence, and come to our conclusions. I suggest that we hold that discussion in private—obviously our final conclusions will be made public. We have received a lot of evidence, so we should sit back and reflect on what we will do with it next. Are members content to consider the evidence that has been received today in private at our next meeting?

Nora Radcliffe: I will need to read the *Official Report* to refresh my memory. Did we ask the minister to clarify a couple of points and to give us factual information that will be useful for us in coming to our conclusions?

The Convener: He said that he would provide us with one or two bits of factual information. You got a commitment out of him today on procurement.

The Parliament is in recess next week, so I hope that the clerks will have time to pull together the evidence. The Scottish Parliament information centre paper was useful in concentrating minds on difficult issues that we might want to raise or questions that we might want to pose. Are members happy to come back to the matter in two weeks?

Richard Lochhead: There may be scope to have one more evidence session.

The Convener: We have not programmed another evidence session, so we would have to come back and discuss that suggestion. I suggest that we do that in private when we come back after the recess. That would be our normal practice.

Richard Lochhead: Does such a discussion have to be in private?

The Convener: That is my recommendation. I suggest that if we discuss witnesses or whether to open up the inquiry further we should do that in private. That has been the committee's normal practice.

Richard Lochhead: Okay. I do not understand why, but if it is the committee's normal practice—

The Convener: We have agreed to date that we would have two evidence sessions. We have now had those two sessions, so to do something different would mean revisiting a previous agreement. If we wanted to have extra evidence

sessions with specific witnesses I assume that we would want to discuss names; the convention is to do that in private.

Richard Lochhead: Okay. For clarification, will we discuss in public our reflections on the evidence that has been received so far before we come to conclusions or take further evidence?

The Convener: No. I recommend that, as normal, we meet in private first and then put decisions on the record. If we want to change course on the inquiry, we will obviously have to put that on the record in public. The approach that I have outlined is what we have done with every other inquiry.

Richard Lochhead: Okay. I just thought that this was a good opportunity to reflect on the need for more evidence, but if there will be a further discussion that is fair enough.

The Convener: Okay. Do members agree to have the follow-up discussion in private?

Members indicated agreement.

The Convener: The next meeting will be on 22 February.

Meeting closed at 12:42.

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