



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

# RURAL AFFAIRS, CLIMATE CHANGE AND ENVIRONMENT COMMITTEE

Wednesday 26 March 2014

© Parliamentary copyright. Scottish Parliamentary Corporate Body

Information on the Scottish Parliament's copyright policy can be found on the website - [www.scottish.parliament.uk](http://www.scottish.parliament.uk) or by contacting Public Information on 0131 348 5000

---

**Wednesday 26 March 2014**

**CONTENTS**

<b>DECISION ON TAKING BUSINESS IN PRIVATE .....</b>	<b>Col. 3465</b>
<b>COMMON AGRICULTURAL POLICY AND SCOTLAND RURAL DEVELOPMENT PROGRAMME 2014 TO 2020 (IMPLEMENTATION).....</b>	<b>3466</b>

---

**RURAL AFFAIRS, CLIMATE CHANGE AND ENVIRONMENT COMMITTEE  
9<sup>th</sup> Meeting 2014, Session 4**

**CONVENER**

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

**DEPUTY CONVENER**

\*Graeme Dey (Angus South) (SNP)

**COMMITTEE MEMBERS**

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

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

- David Barnes (Scottish Government)
- Dr Jenny Johnson (Scottish Natural Heritage)
- Richard Lochhead (Cabinet Secretary for Rural Affairs and the Environment)
- Drew Sloan (Scottish Government)

**CLERK TO THE COMMITTEE**

Lynn Tullis

**LOCATION**

Committee Room 2



**Scottish Parliament**  
**Rural Affairs, Climate Change  
 and Environment Committee**

*Wednesday 26 March 2014*

[The Convener *opened the meeting at 10:02*]

**Decision on Taking Business in  
 Private**

**The Convener (Rob Gibson):** Good morning and welcome to the ninth meeting in 2014 of the Rural Affairs, Climate Change and Environment Committee. I remind everyone to switch off their mobile phones et cetera, as they can affect the sound system.

Agenda item 1 is a decision to take business in private. Does the committee agree to take in private item 3, which is consideration of evidence on the common agricultural policy and the Scotland rural development programme, and item 4, which is consideration of a draft response to the Standards, Procedures and Public Appointments Committee for its inquiry into the legislation process?

**Members** *indicated agreement.*

**The Convener:** Does the committee also agree to take consideration of our work programme in private at our next meeting?

**Members** *indicated agreement.*

**The Convener:** That is excellent.

**Common Agricultural Policy and  
 Scotland Rural Development  
 Programme 2014 to 2020  
 (Implementation)**

10:03

**The Convener:** Agenda item 2 is an evidence-taking session with the Cabinet Secretary for Rural Affairs and the Environment on the Scottish Government's implementation of the common agricultural policy and the Scotland rural development programme from 2014 to 2020. We welcome the cabinet secretary, Richard Lochhead, and his Scottish Government officials: David Barnes, deputy director, agriculture and rural development, and Drew Sloan, chief agricultural officer. We also welcome Dr Jenny Johnson, policy and advice manager, Scottish Natural Heritage.

Good morning, Richard. Do you wish to make an opening statement?

**The Cabinet Secretary for Rural Affairs and the Environment (Richard Lochhead):** Thank you very much, convener.

Good morning, committee. It is good to be here to discuss the implementation of the new common agricultural policy from 2015 to 2020, which is a huge issue for our rural communities and farming in Scotland. I do not have a written statement but I would nevertheless like to make a few opening remarks.

I expect that the committee will be pretty familiar with the journey that we have travelled to get here. The CAP regulations were adopted in December 2013 and published by Europe in January. The Scottish Government approached the negotiations wanting the best outcome for Scotland. Given the distinctive nature of Scottish agriculture, we have always sought the ability to tailor to a reasonable degree how we implement the policy to take account of our distinctive geography, with its different sectors of uplands and lowlands, islands and the mainland, our climactic conditions and our additional challenges.

We now face the big challenge of implementing pillar 1 and pillar 2. The consultation on the future of pillar 2, which is the rural development programme, has closed and we are currently considering the responses that we have received. I extended the consultation on pillar 1, which relates to direct payments, by two weeks, because it would have made no difference to the overall timescale, and given some of the debates that are going on around the country, I believed that taking an extra couple of weeks would be worth while. The consultation now closes on Friday. However,

on Monday, I will be having a public meeting in my constituency with local farmers, and I might take into account what they say, too. Throughout the whole of April, there will be dialogue with all sectors and trade associations; I hope to take decisions throughout May and June; and by the end of June, we will be in a position to announce what the implementation of the new CAP will be in Scotland.

In the negotiations, we pursued certain issues with which the committee will be familiar, including how we bring new entrants into the policy. New entrants into agriculture were, in effect, frozen out of payments under the current CAP. It was a big controversy; everyone accepted that the situation was unfair and untenable and that we had to ensure that new entrants were catered for in the new policy. Not only that, but it was accepted that people entering agriculture over the period of the next policy should not face the disadvantages that new entrants faced during the period of the existing policy. We want to ensure that there is a mechanism for supporting new entrants throughout the period of the new policy. We are pleased that we have achieved that and that we have taken big steps forward in that respect.

Another issue is the need to tackle slipper farming in Scotland. Although an enormous proportion of payments do not go to slipper farmers, the presence of such farmers and the fact that payments go to some farmers who are not particularly active have been controversial.

Having negotiated the Scottish clause, we are now looking at how we implement it. As members will know, we have had various discussions with the European Commission about how we interpret the clause and put it into detailed rules in the new policy, and no doubt the committee will want to touch on that issue in our conversation.

The big picture is that, with the move from historic to area-based payments, there are going to be radical changes to the implementation of the policy in Scotland that will impact on many recipients throughout the country. I do not like the phrase “winners and losers”, but because of the transformation from historic to area-based payments, there will be differences in the payments that many farmers receive.

The break with production and headage payments will be taken forward. I should say, however, that Scotland will have the historic payments system for an extra few years. Other countries will move to area-based payments earlier than us, but the fact is that these changes will be quite stark for many recipients in Scotland. I am determined to link support to activity as much as possible, and we are looking at how to mitigate the impact of reductions in payments on genuinely active farmers. That is at the heart of how we will

take forward the policy and will no doubt be at the heart of our debate today.

My overall objective is to ensure that Scotland remains a food-producing country, that our farmers and crofters are able to produce the raw materials that underpin a very successful food and drink industry and that they can put food on our tables. We must also take into account the need for modern societies to address issues such as food security; as that issue will only become greater in the decades ahead, Scotland should be at the forefront of that particular debate. Parallel with that is the need to address the big challenge of producing food sustainably and minimising the impact on our environment. After all, we want to produce more food for future generations in the decades ahead.

Farmers and crofters look after our landscapes and put food on our tables, and we want that to continue. Moreover, we want to ensure that the new CAP supports that activity and that pillar 2 supports wider rural development as well as environment and forestry measures. There are big challenges in that respect.

We have not yet finished our consultation, but I will go as far as I can today to indicate what I think is the direction of travel in various areas. However, because we are still in the middle of the consultation, I cannot, as the committee will understand, make final decisions on many issues.

I look forward to this morning's discussion and members' questions.

**The Convener:** You have decided to transfer 9.5 per cent of the pillar 1 budget to pillar 2. Given that Scotland has the lowest pillar 2 budget per hectare in the European Union, why not transfer the full amount to boost that budget as much as possible?

**Richard Lochhead:** Because of the timescale that was laid down by Europe, one of the earliest decisions that I had to take was on the rate of transfer from pillar 1 to pillar 2—and, indeed, vice versa. As you have said, I have announced a 9.5 per cent transfer from pillar 1 to pillar 2. Because our pillar 2 fund is, as you have rightly pointed out, the lowest in Europe, I did not think that there was any case for transferring from pillar 2 to pillar 1. Likewise, as members will all know, our pillar 1 budget is also the lowest in Europe. It has been the third lowest under the present CAP, and it is now certain to be the lowest overall in Europe for the next CAP, which we are discussing today.

I received representations to maximise the transfer from pillar 1 to pillar 2, but because the pillar 2 budget—which is very important—and the pillar 1 budget are both low, I felt that I could not make the maximum transfer. Some people have been arguing for a full transfer but, because of the

difficult budget decisions that we already face on pillar 1, I felt that taking the maximum out of pillar 1 for rural development would place at a disadvantage the many farming enterprises that are reliant on direct support through that pillar.

In striking a balance between the representations on maximising the transfer and the representations on minimising the transfer as well as taking into account the fact that our pillar 1 budget is already too low and the impact of maximising the transfer on farming businesses that are reliant on direct support from pillar 1, I have settled on the figure of 9.5 per cent. Given that people on both sides of the debate are very unhappy with the decision, I might have got it right.

It has been a difficult decision. However, to be fair, although the representations that I have received suggest that some people are not satisfied with it, many people accept that a fair balance was struck.

**The Convener:** Andrew Midgley from Scottish Land & Estates gave the committee evidence in support of the 9.5 per cent transfer from pillar 1 to pillar 2, and he said that he believed that the matter could be revisited at the earliest opportunity, which he reckoned was 2016. Are you minded to review the level of transfer at any time in the near future, once you have made the final decision?

**Richard Lochhead:** We cannot divorce that question from the overall debate about budgets. If the budgets were to change over the next CAP period, there would clearly be some grounds for reviewing the situation. At the moment, I have not taken a decision about reviewing the transfer rate and have no specific proposal to review it, but I have not ruled that out.

It is important to understand what the regulations say, and perhaps David Barnes can remind me what they say about when we can notify people of any review.

**David Barnes (Scottish Government):** First of all, the convener mentioned the final decision, as in the initial decision. As the deadline for that has passed—it was the end of 2013—the cabinet secretary's decision of a 9.5 per cent transfer is no longer subject to final confirmation; it is the officially notified position.

Secondly, it is not that the cabinet secretary would be free to review the transfer rate whenever he chose; the regulations provide a one-off opportunity for a review, but only to put the rate up. In other words, if the cabinet secretary were to take that opportunity, he would be able only to increase the transfer; the option to reduce the rate of transfer is not permitted under the regulations.

**The Convener:** Have you had any recent discussions about the matter in Brussels, cabinet secretary?

**Richard Lochhead:** About the transfer rate?

**The Convener:** About transfer rates.

10:15

**Richard Lochhead:** No, I have had no discussions specifically on revisiting the transfer rate with Brussels, because we have the option to return to that at a later date. As the decision was taken only in the past two or three months, it would be premature to start raising the matter in Brussels, especially given the number of other issues that we have raised with Brussels over the past few months. It has been more of a priority to iron out issues such as slipper farming.

With regard to the decision on the transfer rate, the message that I have tried to convey to the industry and the committee in the past is that we should not look at pillar 1 and pillar 2 as being unrelated. They are both funding pillars that benefit Scottish agriculture. It is not that, as some people have tried to portray it, pillar 1 removes resource from agriculture and puts it into other sectors in pillar 2; around two thirds of the pillar 2 funding benefits Scottish agriculture, not least the less favoured area support scheme payments, which, at a third of the budget, comprise the biggest element of pillar 2. To fund LFASS, which has a value of £65.5 million a year, and ensure that it is sustainable, we need the transfer from pillar 1.

**The Convener:** Indeed.

**Graeme Dey (Angus South) (SNP):** Just for clarity, is it the case that, whatever is transferred from pillar 1 to pillar 2, it can and normally does attract match funding from the Scottish Government? If so, has a decision been made on the extent to which you will match fund the transfer?

**Richard Lochhead:** Yes, in that there is match funding for pillar 2. The transfer figure is, of course, just a proportion of the budget; it is not money for specific purposes. It ups the budget for pillar 2, which we can allocate according to the consultation that we have held. Given that we set out in the consultation our support for the continuation of LFASS, I think it unlikely that the consultation will persuade us not to do so, although we are taking into account the responses that we received.

The different rates of match funding change for different budget headings under pillar 2. We will be match funding—there is money available in the Scottish budget for that. I think that the figures are mentioned in the consultation document.

**Graeme Dey:** What I am driving at is whether more of a modulation would have had significant potential financial consequences for the general Scottish Government budget, because you would have had to find more money from that to match the transfer figure. Is that the case?

**Richard Lochhead:** Theoretically, because we will have six years or so to put the pillar 2 budget through, the rates of what we call down from Europe—the European element of the fund—can change from year to year, which means that what we take from the Scottish budget to put into pillar 2 can also change from year to year. It is a lot easier to look at it as a six or seven-year budget rather than as an annual budget. Therefore—to answer your question—there is not a direct correlation.

**The Convener:** We will move on to the transition to area-based payments.

**Angus MacDonald (Falkirk East) (SNP):** Good morning, cabinet secretary.

As you will be aware, concerns have been raised about the transition from historic to area-based payments, although it is fair to say that a range of views have been submitted to the committee. You will also be aware that the Pack report recommended that the transition to area-based payments, with additional coupled payments, should be introduced “as soon as possible”. In our round-table discussions, the committee heard that there is absolutely no appetite for the Irish tunnel approach. Why, then, should the move to area-based payments not be made straight away?

**Richard Lochhead:** That question relates to one of the big decisions about implementation: the pace of transition from historic to area-based payments between 2015 and 2019-20.

The first principle is that we must have a transition, because basing payments from 2015 onwards on activity levels as far back as the 1990s, when farmers received headage payments, is indefensible. As time goes on, the more untenable the position becomes. Those activity levels influenced the historic levels of payments, which were decided in the early 2000s for the current CAP, and farmers are still receiving those historic payments in 2014. To cut a long story short, I think that, if we simply allow the transition to go on, we could find ourselves in the early 2020s with farmers receiving payments based on activity that they were carrying out back in the 1990s. As I have said, that is completely untenable.

We have three options. We could, as Angus MacDonald has suggested, have an overnight transition; we could have a slower transition over the course of the new policy period; or we could take the Irish tunnel approach, in which there

would be no full transition by the end of the policy period. In the consultation, I proposed the middle option of using the current CAP period as a transition period, and we would not go beyond that to ensure that everyone would be on a level playing field by 2019.

Why should we not go for an overnight transition? The fact is that we in Scotland have been slower in moving from historic to area-based payments, and the steep decline in payments will be acute for many recipients in Scotland. The situation will vary from farm to farm across Scotland, but, in theory, we could reduce payments overnight to active farms by 30 or 40 per cent, or perhaps more. That would be disruptive, and it could harm Scotland’s food production levels. We are, for example, very reliant on the beef sector. As members will know, we have 27 per cent of the United Kingdom’s beef herd in Scotland, so it is disproportionately important to us.

We must think about those decisions in the context not only of the primary producer, but of Scotland’s ability to produce food and all the auxiliary industries that employ people in our communities, such as the livestock haulage sector and the meat-processing factories. If we were to inflict a potentially huge hit on farming businesses and production was severely cut overnight, that would have a big economic impact as well as an impact on the critical mass that we need in Scotland to produce food, including red meat products in the livestock sector. I am trying to take all those issues into account, which is why I went for that particular option in the consultation.

**Angus MacDonald:** Thanks, cabinet secretary. That option certainly seems to me to be the best one, and the majority of respondents seemed to think that.

I want to move on to the new payment system that is due to be introduced. As we know, the new payment system that was introduced in England between 2005 and 2012 created a few difficulties, to say the least. The House of Commons Select Committee on Environment, Food and Rural Affairs described the saga as

“a catastrophe for some farmers, and a serious and embarrassing failure for Defra”.

What preparations have been made by the Scottish Government rural payments and inspections directorate to introduce the new payment system? Are there any lessons that we can learn from the fiasco down south between 2005 and 2012?

**Richard Lochhead:** The situation south of the border was well documented. The first lesson that we should learn is to understand that we must be on top of the situation to avoid some of the pitfalls

that other countries have experienced in implementing the transition from historic to area-based payments, so we have a team in the Scottish Government that is working hard on the new system. We are rebuilding the information technology systems, which is a huge and very costly exercise, but because we are implementing the changes, we have to do it, as we have a very old IT system.

Work is already under way to prepare for the new system, but it is clear that, until the final decisions have been taken and we know what they are—we had to wait for a long time to get the regulations from Europe to understand where the boundary was for what we could implement in Scotland—we cannot design the full system. We are confident that it will be ready in time for 2015. We recognise that we face a huge challenge and that the more complex we make the decisions, the bigger the challenge will be in having the system ready in time. That is at the back of our minds.

I know that some stakeholders and commentators have accused me of basing the policy on what is easiest to implement, but that is not the case. We will do what is right for Scottish agriculture, but of course we must take into account the practicalities of implementing many different, complex regulations in Scotland. Therefore, as we discuss all the options that stakeholders want us to discuss, we have to bear in mind that some will have more impact than others on our ability to deliver in time. We have to take that into account, but it is not the deciding factor.

All that I can do is assure the committee that we are throwing everything at the new system and that we are confident that it will be ready in time for 2015. We have more than a year to get the forms out for people to apply under the new system and then we have until December 2015 for the payments to be issued. We are working flat out on that.

**The Convener:** I want to ask about direct payments to new entrants, young farmers and activity issues. How will the Government define activity to stop payments going to slipper farmers?

**Richard Lochhead:** One of the most controversial aspects of the current CAP has been the making of payments to farmers who have reduced their activity dramatically—indeed, some would class them as having, in effect, become inactive—over the past few years. As you know, in common parlance we refer to farmers who are not particularly active but who nevertheless collect payments as if they were active farmers as slipper farmers. They can do so because of the loopholes in the system that was introduced under the existing CAP a few years ago.

The biggest loophole allows farmers to keep entitlements to payments that they receive for past activity on good-quality land, which were quite high payments, and attach those entitlements to cheap land that they rent in other parts of Scotland. That gives them a double benefit. First, they receive payments based on past activity on good land but attach those entitlements to cheaper, rented land. They make a profit and meet the minimum activity levels for that rough grazing land, wherever it may be in Scotland. The second benefit is that, as they still own the land to which the payments were originally attached, they can rent it out for a good rent because it is good-quality land, so they continue to get income from that as well. That is a rough guide to the problem that we have had under the existing CAP.

Given that we have new entrants who are genuinely active and who do not receive any payment, that is an appalling state of affairs. We have payment going to inactive farmers while we are denying payment to active farmers. That is untenable, which is why we fought hard for the Scottish clause to give us the ability to define activity better, to put regulations in place and to freeze out what we would regard as inactive farmers so that they do not receive payments.

Moreover, the fact that we will have more than one payment region in Scotland under the new CAP means that transferring between regions will not be allowed. That will be an extra barrier. There will be the barrier of putting new activity levels in, which I will refer to in a second, and the other barrier of not being able to transfer payments from good land to poor land. If Scotland is divided into different regions, people will not be allowed to transfer between regions, which we hope will prevent what has been happening in the past.

However, we recognise that, as in all walks of life, there will be people out there who try to work their way round the regulations and to maintain payments for engaging in as little activity as possible. That is why it is really important that we put in some robust definitions of activity.

We have been negotiating with the European Commission on the detail of implementing the Scottish clause. We will use clauses in the regulations to do two things that the commissioner told us that we can do when we met him a few weeks ago, one of which is to provide for activity on the land through the establishment of livestock units. If a farmer does not stock the land with livestock, we have to give them an alternative way of keeping the land in good condition, but we have the ability to set the bar so high in that regard that a farmer would be unlikely to go for the option of not keeping livestock.

We believe that putting those activity criteria in place and making the threshold quite difficult to

achieve for farmers who choose not to have livestock will help to freeze out inactivity and slipper farming. That is our proposed way forward. We are still working on the detail. People will have different views on where the activity threshold should lie, but we are confident that we have a way forward to freeze out inactivity.

10:30

**Alex Fergusson (Galloway and West Dumfries) (Con):** Good morning, cabinet secretary.

Given the stage that we are at, I understand that you might not be able to say a lot about this. However, I presume that there comes a time when, in negotiating a degree of activity that a farmer has to be engaged in before they can attract a subsidy, there is a danger that that will be conflated with productivity. I presume that the difficulty at European level is how to balance those two. Are you reasonably satisfied that the way in which discussions are going means that the level of activity that you will be able to reach agreement on will be robust enough to ensure that it constitutes genuine farming as opposed to a way round the rules?

**Richard Lochhead:** Alex Fergusson makes a very good point. At the heart of the issue is the inability to attach payments or to link them directly to activity. The reason for having the debate in the first place is that we cannot simply say, "You have to keep X stock on your land to receive payment," because that would be a headage payment, which is not permitted. The reason why we are moving from headage payments to area payments, or from historic payments to area payments, in the first place is to break that link. An area payment depends on the area of land that someone has as opposed to the livestock that they keep.

In relation to how a farmer keeps the land in good agricultural condition and shows that they are active in doing so, we are saying that they can use grazing as a way of doing that. Of course, that means that they must have livestock, so you are right that we have to be careful that we do not step over the mark and have too clear a link between livestock kept to achieve the grazing to keep the land in good agricultural condition and the level of payments received. That is therefore a criterion rather than something that involves a set figure, but we have to use some kind of formula, because most people would agree that keeping one sheep on 10,000 hectares is not activity. It will not be a straightforward formula per se, as that would amount to headage payments. We are having to have come up with a formula that is reasonable and which means that, to qualify for farming payments, a farmer will have to be involved in a certain amount of grazing activity and have

sufficient livestock units across the area of land to achieve that and thereby keep the land in good condition.

**Alex Fergusson:** So activity is likely to be measured by the condition of the land rather than by the number of livestock on the land.

**Richard Lochhead:** Yes, but farmers will have to have livestock, because if someone has several thousand hectares of hill land in Scotland, the only way in which they can be active as a farmer on that land and keep it in good grazed condition is to have livestock. Livestock is therefore clearly part of the solution, but how we interpret the regulations will be very important, because if payments are deemed to be headage payments, they will not be permitted.

I must clarify that, for that approach to be possible, we must give farmers an alternative. They must keep the land in a certain condition. Our advice from the commissioner was that we must be careful in how we use the keeping of livestock as a criterion for meeting the right conditions to be deemed active. The way round that is to give the farmers an alternative that does not involve livestock. We have therefore put it to the commissioner, who has said that it is perfectly feasible to do this, that we have something that is easy to achieve, which is for a farmer to have livestock to be deemed active, but that there has to be an alternative that does not involve livestock, which is difficult to achieve.

That is why, in reality, we are trying to put in place a system whereby, to be deemed active, a farmer has to have livestock on their land, because the alternative would be so difficult to achieve that they would not do it and would therefore be deemed an inactive farmer. However, to stay within World Trade Organization rules, we have to give them an alternative that does not involve livestock.

**Alex Fergusson:** Good luck with that.

**Richard Lochhead:** As you can understand, the issues that we have to deal with in the CAP are very complex, but I hope that my response makes sense and provides reassurance that we have found a way through this, because the alternative is to reward inactivity. We have to define activity somehow.

**The Convener:** Were headage payments not simple?

The reference year for determining the eligible area for basic payments is likely to be 2015. What is your view of the argument that people are paying higher rents for grass leys and so on so that they can hold on to an extra bit of land and can therefore qualify in 2015? In the light of the argument of Roger McCall of the new entrants

group, why not agree on some means to interfere with such practices? Jonnie Hall from NFUS suggests that 2013 would be a better time to look at payments per applicant for active farming.

**Richard Lochhead:** That is a good question about how we allocate entitlements in 2015 and who should receive them. Of course, here we are in 2014, and many people in the farming sector are looking forward to 2015 and trying to work out what will be to their best advantage and how they can qualify for maximum payments. Quite understandably, people will take advice from agents and others about how to maximise their payments in 2015, and that will influence their rent agreements and their decisions about whether to let land this year, because they will wish to pre-empt any decisions that are taken about implementing the CAP in 2015.

We are thinking very seriously about the issue but, as members can imagine, there are pros and cons to picking 2015 as opposed to 2013 as the date for deciding who controls the land, and vice versa, because there are many different circumstances out there. A genuine farmer might expand his business between 2013 and 2015, so if we were to choose 2013 as the effective qualification date, that farmer would complain that he would be disadvantaged as, although he was an active and genuine farmer, he might not get entitlements on the additional land that he took on between 2013 and 2015. We would probably argue that he should not be disadvantaged.

Likewise, there could be an opposite situation in which a tenant farmer or someone who has an annual seasonal let is being disadvantaged, because there is an incentive to take land back in hand to make sure that, by 2015, it is in the hands of those who used to let it out so that they can qualify for an additional payment in 2015. That will disadvantage those who want to rent the land.

There are myriad circumstances out there. We are trying to balance the pros and cons of 2013 versus those of 2015. Drew Sloan has been looking at the issue in detail. Our minds are going back and forth on this all the time because of the pros and cons of each date and what they mean for people in different circumstances.

Drew, do you want to say a bit more about the choices that we face?

**Drew Sloan (Scottish Government):** Yes. The regulation makes most of this clear. Entitlements will be allocated to the land that is controlled in 2015, but there is a clause that means that a limit can be placed on the number of entitlements to the land declared in 2013, so one of the challenges is that it is not linked to the exact piece of land that the tenant is renting; it is decided purely on the basis of what is held in 2015, with a

cap on the number of entitlements that any individual can get if they choose to invoke the 2013 land-declared rule.

As the cabinet secretary mentioned, although we have heard from many stakeholders who see the issue from one angle and who want to know why we are not going out and doing that now, we need to look at the whole situation. It is not about an individual piece of land. There will be many consequences and ways around the rules, so we might not be able to stop the behaviour that we would think the obvious decision would stop. There is also a whole load of added complexity for someone who invokes the 2013 land-declared rule rather than making a clean start in 2015.

The situation is still very much in the balance. The consultation is out there, and I would ask everyone who is thinking about this to think about the unintended consequences and every situation that could pertain. There is not a link to a particular piece of land. We cannot pinpoint who had control over that piece of land in 2013, and that really opens up the question about what is the right solution.

**Richard Lochhead:** I would be grateful for the committee's views on what is an extremely complex issue. I look forward to the committee's report in anticipation that you will have the answer.

**The Convener:** The new entrants group is clearly interested in having new farms for people to move on to, and I welcome the Forestry Commission's setting up a new entrants unit near Halkirk in Caithness in my constituency, but we would need dozens of those to be able to meet demand around the country. It is the one matter in which the Government can intervene directly to help.

In the meantime, young farmers who are getting into farming are due a top-up. How does the Government plan to implement the young farmer top-up and how many young farmers will get a top-up?

**Richard Lochhead:** I will step back from the question for a second or two. Many farmers are understandably concerned by the reduction in the payments that they expect to receive under the new common agricultural policy. There are several reasons for that. First, there is the overall budget situation. If we have a smaller budget, clearly payments will be smaller.

Secondly, there is the fact that new entrants are coming on board. It is a new policy and therefore the new entrants have to get a fair share of the payments, which means that less is left in the pot for existing farmers. Finally, there are some mandatory deductions as part of the new policy, and the young farmer provision that the convener refers to is one such mandatory deduction. The

budget has to cater for that mandatory deduction, which is another reason why other farmers' payments will go down slightly.

There are a few options in the policy for how to implement the young farmer top-up. The one that we have proposed in the consultation, and which I have been thinking about, is a top up of 25 per cent of the average payment within the region. That is the option that we favour for the top-up to young farmers. David Barnes has been discussing the four options, so he might say a bit more about why we chose the 25 per cent option. There has been a big debate about that.

**David Barnes:** Perhaps the simplest thing to do is refer the committee to the direct payments consultation paper, in which question 49 asks about the young farmer top-up. The four options are summarised in the text that comes immediately before question 49.

It is probably fair to say that this is one of those areas in which Europe put an unnecessarily complicated set of options in place because some member states wanted specific things. In essence, the first three options would place a limit on the number of hectares for which the top-up is paid. The approach that is suggested in the consultation paper is that, if paying the top-up is a good thing, it should be proportionate to the size of the business. Option 4 is the one in which the size of the top-up would depend on the overall size of the business, and therefore it is the option on which question 49 seeks stakeholders' views. As with everything, the decision on that will not be finalised until after the consultation.

**The Convener:** We move on to payment regions.

**Jim Hume (South Scotland) (LD):** I remind everybody of my entry in the register of interests.

Concern has been raised regarding rough grazing. The NFU Scotland stated that if the €25 per hectare rate that is suggested in the consultation remains, that might decimate farming in a large proportion of areas. The Scottish Crofting Federation was also concerned about that and said that the measure could lead to land abandonment, which seems to be fairly dramatic and concerning. What is the cabinet secretary's view on the rough grazing payment system? Should we have two rough grazing regions or just one?

10:45

**Richard Lochhead:** That is another big issue that is being debated in Scottish farming. We are moving from historic payments to area payments and we have the option of paying different amounts in different parts of the country, so the

question is how many rates we should have and what the rates should be. Clearly, the amount of the payments is a fundamental point, so the issue is causing a lot of debate. The mere fact that we are moving from historic to area-based payments will shift support payments around the country and around sectors, which is why the issue is so fundamental.

Clearly, as we take forward the debate about how to implement the policy, we have to decide on a couple of things. First, to what extent should we support production? Of course, production is higher on good land so, if we were to support that land, we would be saying that the aim of the policy was to support productive agriculture. Alternatively, should we say that there is less need for support for good land and more need for support for poorer land? That would mean our giving more or equal emphasis to maintaining agricultural activity in areas of poorer land, thereby getting all the associated environmental benefits and other public goods.

Whichever of those two aims is emphasised will influence the payment rates. If the emphasis is to be on supporting productivity, we would support activity where production takes place in order to ensure that it continues; the payments would go to those areas. If it is felt that we should put more money into areas where the land is poorer and the challenges are greater, that will influence the payment rates in the other direction.

We have taken those elements into account and the balance that we have tried to achieve in what is proposed in the consultation is—in moving from historic payments to area-based payments—a shift from payments to better land to payments to poorer land. That is partly because the areas of better land attracted the highest headage payments in the past, and therefore received the highest historic payments—they will take more of a reduction in the move from historic to area-based payments—and partly because we understand that we have to support areas of poorer land.

Although there will not be a huge shift of funds from the productive land to the less productive land under the move to area-based payments, there will be a shift. Most of the crofting counties would gain. However, clearly the argument from the crofters is that the €25 per hectare or the rates that are proposed do not go far enough, because the bulk of the support will still go to the areas of better land. That is a legitimate debate to have. The other side of the debate would be to ask why on earth we would want to put more money towards an estate of 20,000 hectares that is not particularly active, if the idea is to support activity and production.

That is the dilemma that we face with regard to choosing the rate, and the number of regions. If we were to choose a rate that favoured crofters and increased the rate for rough grazing—in respect of the question that Jim Hume has just put, they want a higher rate for poorer land—that would also benefit the massive landowners who have tens of thousands of hectares that are not very active. We could, in theory, take that decision. However, as you can imagine, the fallout from that would be substantial.

Those are the issues that we are taking into account as part of the consultation. We have invited people's views on the number of regions and on the payment rates.

The final point, of course, concerns the number of regions. If we were to split Scotland into two regions along the lines that Jim Hume has suggested, people who have a bit of rough grazing and a bit of better land would be penalised by a low rate, because they are quite active. Therefore, there is an argument that we should separate the better rough grazing, where livestock is kept, from the really poor rough grazing, where there is less activity and less livestock. The challenge that we face in relation to that suggestion is where to draw the line. The land would have to be inspected and the farmers would have to decide what they want to put forward as the better rough grazing as opposed to the poor rough grazing. Of course, if they were caught out by the inspectors, there would be all that to contend with. The onus on the farmers and on the compliance authorities would be more complex with more regions. We have to take such issues into account.

However, the pros may outweigh the cons. There could be a good argument for directing more support towards genuine activity on the many livestock farms that use what we classify as rough grazing, but which is a bit better than the land in the mountains. Those are the sort of factors that we are taking into account.

**Jim Hume:** I appreciate that, and I am aware of all the complexities of the issue. It was brought up in relation to our sheep and cattle: our good Scottish lamb and good Scottish beef are mainly produced in areas of rough grazing. There has been concern that areas in which there is very little activity would be overcompensated and that other areas would be undercompensated—areas where people do not have options to plant grain and so on.

You mentioned crofting. Patrick Krause from the Scottish Crofting Federation stated that it

“just does not make any sense”—[*Official Report, Rural Affairs, Climate Change and Environment Committee*, 26 February 2014; c 3342.]

that 90 per cent of the budget is being spent on supporting farmers with better quality land and that only 10 per cent is being spent on supporting farmers with poorer quality land. Can you comment on that?

**Richard Lochhead:** As I said in my original comments, those are the policy aims; we have to work out where we want the emphasis to lie in terms of actual implementation of the policy. Every regulation that we implement has an outcome, so we are trying to look at the outcomes that we would achieve from implementing policy in different ways. One choice that we have is about the rates that we pay for each parent region, and another is about how many parent regions there will be. We have to look at the outcomes.

We have already discussed the need to link support to genuinely active farming—as far as we can within the rules. That is a clear issue that we face. If much of the activity in Scottish agriculture is happening on one type of land and we want to link payment to activity, clearly that type of land will attract a lot of financial support.

Of course, the parent regions are not the only tool in the box; we have the coupled support and we have the definition of activity, in the first place. We are trying to look at the matter as a whole. The crofting communities receive LFASS payments, which are protected. Crofters who keep cattle will benefit from the Scottish beef calf scheme. Over and above that is the debate about the parent regions. We have to look at the matter in the round.

**Jim Hume:** Thank you. I think that that leads on to the next question, which is on coupled support.

**The Convener:** It probably does.

**Alex Fergusson:** As the cabinet secretary rightly suggested, one of the tools in the box that may help to address some of the difficulties is coupled payments. You have already said that 8 per cent of the pillar 1 budget will be used for coupled support to continue the Scottish beef calf scheme. I might come back to that in a minute, if I may.

As regards rough grazing—the sheep sector in particular—there is now the possibility of an extra 5 per cent for coupled payments that could be directed towards the sheep sector, which might help to solve some of the difficulties that we have spoken about. Can you expand on that and on what your thinking is on use of that extra 5 per cent? Are you able to say that we will definitely be able to employ an extra 5 per cent for coupled payments?

**Richard Lochhead:** The Brian Pack report proposed, given the importance of the livestock sector to Scotland and the need to support

genuine agricultural activity, that we seek to use up to 15 per cent of our overall budget for coupled support schemes for beef and, potentially, for sheep.

Generally, in Scotland we agreed—the Government, stakeholders, and I hope most of the political parties—that we should consider continuation of coupled support schemes and seek further coupled support because it is a means of supporting livestock production with a link to supporting activity, to some degree. That was, therefore, what we tried to negotiate with the UK Government and in Europe.

Members will be familiar with the well-rehearsed arguments why the UK Government was not keen on coupled support. Its original position was that there should be zero per cent coupled support. We in Scotland did not want less coupled support—we wanted more. The UK Government position then changed to 5 per cent because it became very clear from other member states in Europe that the UK was going to be outvoted. It tried to limit coupled support to 5 per cent; the final deal, of course, gave us 8 per cent.

During the consultation, I said that if we were to have 8 per cent as the regulations allow, we anticipate that we would use it all for the beef sector. However, as a result of the overall impact of the budget changes and the move from the historic payment system to area-based payments in the beef sector, we are looking for other ways to help the sector. In addition, we are looking at linking payments to genuine activity in Scotland, which would also support the sheep sector.

We wanted to get as close as possible to the original 15 per cent that we wanted in Scotland, and we asked the UK Government to allow us to use more of the UK's flexibility, as we did with the current CAP policy, because the UK Government refused to negotiate more than 8 per cent for Scotland. We feel that the UK Government should now allow us to have more than 8 per cent, using the UK flexibility, so we have asked to be allowed to use 13 per cent, which is the maximum that any other European country would have. It would be great to have 15 per cent, but it has been difficult enough for us to persuade the UK to go above zero per cent. My view is that we should at least match the best that any other European country has: 13 per cent, which is what I have asked for.

The UK Government has given out many mixed messages on the issue, and there is a lack of clarity. We got the message that there was no appetite for supporting more coupled payments in Scotland than in the rest of the UK, but at the point when the UK Government took the decision not to pass on the conversion uplift to Scotland, it indicated that it was willing to go further than 8 per cent—perhaps up to 10 per cent. Since then, the

UK Government has signalled that it has not ruled out going up to 13 per cent, but it has made it clear to the Scottish Government that there will, if it goes above 8 per cent, be strings attached.

We have tried to find out the details of those strings. Owen Paterson has said that he does not want an increase in coupled payments to increase production in Scotland; I am trying to work out what that means. He has also said that we would have to take responsibility for any disallowance, and for other issues around misuse. Those are my words, not his. We do not understand quite what he means. I assume that he means that we would have to carry liability for anything that went wrong with using coupled payments that resulted in penalties or disallowances. I would have expected that to be the case anyway, but apparently that is a string. We are trying to understand the situation better.

Owen Paterson has also said that we would have to go to Europe to ask for permission. I have said to the UK Government that it is a UK internal decision and not a European decision, but the UK Government has maintained that it is a European decision and that we would have to go to Europe. As the committee will be aware, I, along with George Eustice, who is a parliamentary under-secretary of state from the Department for Environment, Food and Rural Affairs, spoke to the relevant commissioner at one of the councils a few weeks ago. The commissioner gave us a verbal green light and reiterated that it is—as I thought—an internal UK matter. He is content for Scotland to use 13 per cent coupled support if the UK is happy to do that internally. He is interested only in ensuring that the UK, as a member state, does not breach 8 per cent.

That response was slightly contrary to the UK Government's belief that we had to get specific permission from Europe, but we went through the rigmarole and got that verbal commitment. However, the UK Government has still not given us a commitment to use the 13 per cent, because it now wants from the commissioner written confirmation reiterating what he said to us at the meeting.

I am slightly concerned about that, because I think that the commissioner will begin to lose patience with the UK, and our stock of goodwill is in danger. However, we are still demanding that the UK Government take the decision to support 13 per cent. If the UK Government wants written confirmation from the commissioner, it is up to it to do so, but the decision is an internal one. The UK Government should just say to us that it is at least willing for us to have 13 per cent if it gets the written permission from the commissioner, but we do not even have that yet.

In other words, there are two separate decisions. The UK could say to us, "If we get the go-ahead from Europe, we are willing to go with 13 per cent." That would at least let us know that we would get 13 per cent, but it is not even going that far yet, which is frustrating. I am concerned that the UK keeps going back to ask the commissioner to reiterate what he has already said, which is causing him to lose patience. However, we are where we are, and at some point soon I will have to take a decision.

**Alex Fergusson:** To put it simply, if you get the extra 5 per cent, what are you going to do with it?

11:00

**Richard Lochhead:** I took a long time answering your latter question about whether we are going to get the extra, which is fundamental. The other fundamental question is what we would do with it.

As I said at the beginning, if there is 8 per cent we will use it for beef, but if there is more than 8 per cent we will have a consultation and discussions with the industry to gauge people's views. The National Sheep Association and the National Farmers Union wrote to me calling for a sheep scheme if we get 13 per cent. There are various factors that have to be taken into account in deciding which livestock sector to support with coupled payments.

Coupled payment schemes require a lot more bureaucracy for the Government and the producer. For instance, if we have a sheep scheme, it requires more inspections than a beef scheme does. I can ask Drew Sloan, who heads up the compliance arrangements, to comment on that. We carry out 3 per cent inspections under the beef scheme, and we anticipate that the figure would have to rise to 10 per cent of farms being inspected if we had a sheep scheme. As you know, there are issues of compliance, penalties, bureaucracy and red tape.

We also have to ask ourselves about the purpose of the coupled scheme. With beef, we can construct a good argument for a coupled scheme, because of the various costs involved and the time taken to rear beef. Likewise, sheep farming is a vital livestock sector in Scotland, and if we want to keep sheep on the hills in certain parts of Scotland there is an argument for a coupled scheme. However, different factors have to be taken into account, notwithstanding the extra bureaucracy, the potential penalties for infringement, and the inspections that would have to be carried out.

As I understand it, the sheep sector did not want a coupled scheme until the 13 per cent was an option, and I know that there are still various views on that in the sheep industry, even if we could use

13 per cent of the budget. We therefore still need to iron out the debate with the sector to determine the best option for Scotland.

Would you like Drew Sloan to add something about the implications of having a sheep scheme as well as a beef scheme?

**The Convener:** Yes, please.

**Drew Sloan:** As the cabinet secretary says, the outcome for the industry and what we are trying to achieve must be the ultimate goal. I should point out that the decisions will be taken with the knowledge of what the consequences would be for inspections. The committee is well aware of what farmers think of some of the inspections that we have to do.

For sheep, there are a variety of issues that we may or may not be aware of. The first is that we currently inspect, by regulation, about 3 per cent of sheep holdings, but it is likely that, under a coupled scheme, that would go up to 10 per cent of claimants, with a minimum of about 5 or 6 per cent of the sheep themselves. That is the balance. There would therefore be a significant increase in the number of sheep inspections that we have to do. Different rules also apply: the basic cross-compliance—the 3 per cent that we regulate just now—is done under certain regulations, while coupled schemes have separate inspection regulations, because the money is directly linked to the inspections.

The committee will also be aware of audit issues with some of our cross-compliance inspections, one of which is sheep. We currently have a disagreement with the Commission about our interpretation of the regulation, and we have been taking legal advice on whether we should go to the European Court of Justice. Another EU audit mission is planned for this spring, and my concern is that, if we are unsuccessful in winning our legal case on the regulation regarding sheep inspections, the complexity of sheep inspections as we currently know them will also go up.

I am making people aware that they have to go into such schemes with their eyes open. A sheep inspection regime of increased complexity could be coming, and if we decide proactively to double inspections that is something that people might want to know about before any decisions are made.

The cabinet secretary rightly mentioned that there is a difference between cattle and sheep inspections under the regulations, which allow us to reduce from a 10 per cent inspection rate under coupled schemes back down to 5 per cent for cattle when there is an approved animal database. The British Cattle Movement Service database, which tracks animals at an individual level, is currently deemed to be approved. We also have a

sheep electronic identification—EID—database, and some people might propose that we could use it to reduce the 10 per cent inspection rate for sheep to 5 per cent but, to my mind, that database is quite some distance away from being approved and being used for tracking all individual sheep in the country.

There are choices to make, and the industry would have to do something proactively to mitigate the situation should such a policy choice become a possibility or be chosen.

**Richard Lochhead:** I have an important point to add—I will come on to the main point in a second, but I will make a secondary point first. The majority of beef producers have sheep as well, and we should take that fact into account when we are thinking about how to use the budgets. There are specialist sheep producers, who will not necessarily have cattle, and if there was no sheep scheme they would not benefit. However, there are many mixed farming enterprises in Scotland, so the resource would still be going to the same farms—not in all cases, but in many cases.

I come now to my main point. We spoke earlier about how many payment regions Scotland should have. The debate was about whether to have two or three. We have said that we are open to considering a third region. That is a big subject of debate. To recap, one reason why there is a debate over having a third region is that the low payment rate for the rough grazing region would be deemed to be too low and undercompensation for livestock producers who use rough grazing. The type of land that we are speaking about largely involves sheep. Therefore, the sheep coupled support scheme that many people want and the third region for which where is an argument are linked to the same outcome and generally support the same people. It is important to lay down a marker that it would be extremely difficult for the Government to implement both a third payment region and a coupled sheep support scheme, because they are targeting the same outcome of supporting sheep producers in certain parts of the country.

Finally, I note that the phrase “implementation suicide” was used earlier about trying to implement a third region in Scotland, with all the extra bureaucracy and hassle for the many sheep producers that it could entail, as well as a coupled support scheme for sheep. It would be extremely foolhardy to try to implement both those things at the same time, together with the implementation of the new CAP, which is already going through—and bearing in mind the move from historic to area payments and all the changes that that entails. We should bear that point in mind as we proceed with the debate.

**The Convener:** We should ask two or three more questions on pillar 1 before we move on to pillar 2.

I would like some clarification on which countries get 13 per cent coupled payments. Which countries get more than 8 per cent coupled payment, which we are planning for at the moment?

**Richard Lochhead:** I am not sure that I have a list of countries in front of me. David Barnes may recall them, and I could invite him to speak in a second.

Generally speaking, there are two tiers of countries in the negotiations. There are those countries with a lot of dependency on livestock sectors and with a history of using coupled support schemes; and there are countries such as the UK and perhaps Sweden, which try to avoid using coupled support schemes. That could be for ideological reasons: they might believe in the free market rather than coupled support, which is viewed as an extreme form of subsidy. They therefore do not have a history of using such schemes as they are ideologically opposed to them.

Of course, even though Scotland is part of the UK, is dependent on the livestock sector and has a history of using the beef calf scheme, the UK Government took a different view and was content to be in the tier of countries that is allowed to use only 8 per cent, because it wants to dissuade sectors in the UK from using coupled support schemes, as it does not believe in them. We lost out because of that.

That is an example of the distinction between Scottish agriculture and agriculture in other parts of the UK and, importantly, between agricultural policy in Scotland and agricultural policy in the rest of the UK. Because the UK and not Scotland is the negotiating party in Europe, the UK minister calls the shots. Of course, he was looking for zero per cent coupled support, so 8 per cent is probably 8 per cent more than he wanted.

**The Convener:** We turn to greening.

**Graeme Dey:** The committee has heard appeals that the Government should not gold plate the planned greening measures. On the other hand, Scottish Environment LINK suggested that, because of the resistance to equivalence measures, in reality we will end up with

“little more than greenwash if we are not careful.”—[*Official Report, Rural Affairs, Climate Change and Environment Committee*, 5 March 2014; c 3406.]

How in practice will you deliver on your commitment to ensure that every farmer acts greener as a result of the reforms?

**Richard Lochhead:** I said throughout the negotiations that I am in favour of three things in the greening debate. The first is that the CAP across Europe should be greener, as there are many examples of agricultural practices in Europe that should be tackled because of their impact on the environment. Secondly, I said that I would like Scottish agriculture to become greener over the course of the CAP. My third point was that the definition of greening should take into account different circumstances and priorities in different countries. Tackling monoculture in eastern Europe might be one thing, but the solution for that should not be imposed in Scotland, where we have different challenges. Those were the three key messages that I conveyed during the CAP negotiations.

Thankfully, as the negotiations went on, some of the original greening proposals, which would have caused real problems for Scottish agriculture, were watered down, changed or adapted. That has been helpful, but we still have to implement the greening proposals as they stand. I want Scottish agriculture to become greener, but I want to ensure that what we implement and how we implement it is practicable and appropriate for Scottish circumstances. Clearly, how we do that is part of the consultation.

On pillar 2, we have added more resource for agri-environment schemes and raised the prospect of carbon audits for every farm in Scotland. When I talk about greening, I am thinking about carbon reduction and the importance of climate-friendly farms. The issue is not just about tackling monoculture in eastern Europe; it is about reducing carbon use. That saves money for farms and makes them more efficient in their carbon and energy use, so there are great benefits to be had from trying to get all our farms in Scotland on to that agenda. From that perspective, we will have a greener agriculture sector in Scotland over the next few years, as we tackle carbon emissions and have green farming. I also want a much stronger green brand for Scottish produce. All those issues are wrapped up in the debate, and we will pursue them with the industry.

We are working with the industry on the three specific proposals for greening under the CAP. On the input from stakeholders about gold plating, which Graeme Dey mentioned, if we do not implement the three options, particularly the three-crop rule, we will have to introduce equivalence measures that achieve the same outcome in a different way. It is challenging to find equivalence measures that are not bureaucratic, are not gold plating and are not difficult to implement. That is part of the debate that we are having. We are considering the potential to introduce an environmental certification scheme for which

farmers could apply, rather than go down the road of the three specific measures. That would be a kind of equivalence measure, but we have to understand what such a scheme would mean and work with the industry to define it.

That is all up in the air just now, because we are having the discussion with the industry. The last thing that we want to do is to say that the three options that we have from Europe are too difficult and we are not doing them but then come up with something that is much more difficult to implement, much more bureaucratic and potentially gold plated. We have to be careful on that.

11:15

**Graeme Dey:** Perhaps I can develop my point with reference to the fruit and vegetable sector. As William Houstoun of Angus Growers told the committee, anyone benefiting under the intensive fruit and vegetable scheme is required to make year-on-year environmental improvements and that, as suppliers to Sainsbury's, his company has signed up to that organisation's 2020 target, which demands a 20 per cent reduction in emissions by 2020. That shows that there is already good work going on in certain sectors.

However, Mr Houstoun expressed concern that the combined requirements of the fruit and vegetable scheme and the potential requirements of pillar 1 greening would make it quite difficult to manage the productive area of a fruit farm, and that it would be challenging for his sector to meet the cropping requirements. He suggested that a better approach would be to be

"very green in some areas of the farm"—[*Official Report, Rural Affairs, Climate Change and Environment Committee, 26 February 2014; c 3349.*]

while farming intensively but responsibly in others. Are Mr Houstoun's concerns justified and might his suggested solution be workable and worth considering?

**Richard Lochhead:** I will look closely at the representations that you have received from the soft fruits sector and the wider potato and vegetables sector, but I will first say that we should in any case be reducing pesticide use and finding better ways of growing crops and getting better yields in a sustainable way. It is in our economic interests and the interests of customers—that is, retailers—for the sectors to do these things anyway. It is a win-win situation, and I want to support it in any way I can through pillar 2.

The greening proposals in the regulations will, with the crop diversification provisions, the three-crop rule and so on, potentially affect potato and other vegetable crops. I hope that the impact will

not be huge, but the potential for such impact exists.

I also point out that, as soft fruits are not deemed an arable crop under the regulations, I would be surprised if the sector were affected by them. I will double-check that but, on the face of it, the sector should not be too concerned. Of course, Mr Houstoun might have discovered something out there that I am not aware of but which would affect him, and we will obviously look at any such issue in implementing the regulations.

**Graeme Dey:** That would be useful. It would certainly offer some reassurance to a sector that has expressed certain concerns.

**Claudia Beamish (South Scotland) (Lab):** Good morning, cabinet secretary. Taking a step back, I have to say that I am heartened by your comment that one of your priorities is to green Scottish agriculture, but how can that be achieved more broadly under pillar 1? The money is obviously coming from Europe to support farmers and it presents us with an opportunity to move forward with not only the three greening criteria—or, I hope, their equivalents—but the environmental certification scheme.

I note from the evidence that we have had that some have begun to shy away from the carbon assessment because of weather and other issues. However, might it be possible to make that assessment at least voluntary, if not mandatory, to drive forward the essence of good practice that will not only save money for farmers but help to tackle climate change and meet the EU's criteria for climate action and sustainable farm management?

**Richard Lochhead:** I am attracted to the idea of every farm in Scotland carrying out a carbon audit over the next CAP period—the sooner that happens, the better. However, given the number of farms out there, I cannot really indicate a timescale for that.

As I have already said, this is a win-win situation, and I would be very surprised and disappointed to learn that any farmer in Scotland was reluctant to carry out a carbon audit. As you will know, we have established a number of monitor farms for climate change purposes. They have come out with some really good statistics that show how both carbon and costs are being cut, and they have now signed up to the idea of climate-friendly farms. There are really hard benefits to be had not only for the environment but for the economy.

As for how we can use pillar 1 to green farming in Scotland, we will obviously have to make some decisions about the greening proposals. If we wanted to tackle climate change through, say, the certification scheme, we would have to look at, for example, the use of nutrients on our grassland.

We would have to take some specific decisions such as, for example, whether to prohibit ploughing on environmentally sensitive grasslands or outside the Natura 2000 sites. We would also have to decide what kind of areas would qualify as ecologically focused areas; that is one of the three greening measures in pillar 1. We would also have to decide how to keep land in good agricultural condition, and there is the option of using the regulations for greening measures such as field margins.

There are a number of options. Some will go almost as far as the non-governmental organisations want, and others might entail additional complexity or bureaucracy—and we will have to be careful about that because farmers and businesses will not want to have more of that. We have to strike a balance, and we are looking at a number of options.

**Claudia Beamish:** I hope that it is encouraging that some of the Rural Affairs, Climate Change and Environment Committee went to see the green cow initiative. We also saw the possibilities of carbon assessment being done online and not taking up an enormous amount of a farmer's time annually. That was quite encouraging, and it might be somewhere to start.

**Richard Lochhead:** I have made the point several times before that the industry cannot agree with Government and make the key point for the future of food production in Scotland that we want to sell ourselves to the rest of the world as sustainable and green food producers, if we are not green and sustainable. We have to put our money where our mouth is and walk the walk as well as talk the talk. I hope that we can work in partnership with our agricultural sector in the coming years to make sure that that happens.

**The Convener:** Cara Hilton has what is possibly the final point on pillar 1 and the capping of payments to individual farmers.

**Cara Hilton (Dunfermline) (Lab):** The capping of payments to individual farmers could be quite difficult to enforce, and some farm businesses might be split to avoid the cap. I appreciate that the question is part of the on-going consultation, but how are you minded to cap payments and ensure that the cap is properly enforced?

**Richard Lochhead:** Forgive the cliché, but my position is that I have not ruled out capping. I have some sympathy for capping payments, but I also have some concerns, and you have outlined some of the reasons for those concerns. I would find it really helpful to have the committee's views on the issue of capping.

A good point to make is that the CAP regulations will impact on the size of payments in two ways. The first is degressivity, which means

that it is built into the regulations that we have to reduce payments to certain farmers over a certain level. You could call that capping if you want to, but it is a reduction of payments. We had the original debate on capping in Scotland before the regulations were passed by Europe, but now that we have the regulations the reduction has to happen. It is not a cap per se; it is a degressivity in that payments will be reduced if a farmer receives more than a certain amount. That is one way in which payments will be kept lower.

Secondly, the fact that we are moving from historic to area payments will cut down on some of the big payments that have hit the headlines in recent years. The headlines are commanded by farming enterprises that have built up big track records on headage payments, bought more entitlements on top of that and therefore received big single farm payments. That approach will be cut down significantly by moving to area payments.

If I was to show you the 2015 top 10 single farm or basic payments—or whatever you want to call them—under the new system and compare them with what was in the headlines of the farming press in 2013, you would see that the payments are much smaller and go to different people. I cannot actually show you that because we have not taken the decisions yet, but I am pretty certain that that is what we will find.

I appreciate that people have concerns about capping; those concerns are understandable and I share them. Anyone who is concerned about high farming payments not being justified in this day and age will find that there are changes in the pipeline that will tackle some of their concerns.

That does not remove the need to make a decision on capping. If someone got £10 million before but gets only £2 million in 2015—I am plucking those figures out of thin air—that would not remove the need for a cap, as they should perhaps be getting only £1 million. We, as a country, might want to take the decision that no one should get more than £X, £Y or £Z. The capping debate is still to be had, and a decision must be taken. Nevertheless, I put that in the context that people will be pleasantly surprised by what those who received big payments in the past, which commanded the headlines, will receive in the future.

There will still be a top 10 or top 20 of recipients but, as I said, they will be different people. The more that we move to area-based payments, the more that the people who benefit will be those with the most land. However, there will still be a need for a capping debate.

**Graeme Dey:** I recognise that it is a difficult question to answer, but in stakeholder evidence

sessions it was suggested to us that, if a cap of €150,000 was introduced, on the basis of the old system it might affect around 60 businesses all told. There was a separate claim that such a cap might save €20 million, which could go to pillar 2 and give it a small boost. Do you recognise those figures?

**Richard Lochhead:** I thought that it was important to make the points that I have just made because, given the debate in Scotland about capping and the size of payments—I am not talking about the committee, which will have had a lot of foresight in looking at such things—I wanted to place on record the fact that the system is going to change, as I have just explained, for a couple of reasons. The figures that you have just mentioned relate to the current CAP, and I cannot say whether they are exactly right. I identify with the thrust of what you are saying, but the system will change, so you are comparing apples with pears.

**Graeme Dey:** At the risk of labouring the point, do you have a ballpark figure for the number of businesses that might be affected by the new cap?

**Richard Lochhead:** No, I do not. When the capping debate takes place, we must think about outcomes. If the payments were linked to activity or food production—however you might describe it—a farmer who keeps 1,000 head of cattle would get a bigger payment than a farmer who has 10 head of cattle. The cap must be outcome based. If we, as a country, make the decision to support food production, a bigger farmer who is more productive will get a bigger payment. We must be outcome focused and understand that that is justified because we, as a country, are getting a return from supporting that enterprise. We must be outcome focused and not necessarily set specific figures.

I intend to look at the big picture and work out the extent to which the recipients of the funding are productive and the extent to which that funding can be justified in the public interest. We must make our decision on that basis.

**Claudia Beamish:** How do the potential redistributive payments that are highlighted in the consultation fit—or not fit—with capping? It has been highlighted to me by some local farmers in South Scotland that Scotland could use up to 30 per cent of the direct payment ceiling to top up basic payments for the first 54 hectares. It has also been highlighted that, in the view of some, that mechanism would redistribute funding from larger beneficiaries to smaller beneficiaries. There has not been much discussion about that—certainly, not in the evidence that I have seen, unless I have missed it. Can you say anything about that?

**Richard Lochhead:** I think that it was the French who mooted having the redistributive payment in the regulations, which would mean not having to use the degressivity clause. Degressivity, or the reduction of direct payments, applies only where the redistributive payment is not used.

As you say, the redistributive payment would give a higher payment for the first X number of hectares. We have done some analysis of the impact on Scottish farming of using that mechanism. The analysis is quite detailed and I do not want to go through it in detail with the committee but, as you can imagine, some areas where there are smaller farms and smaller enterprises would benefit because, under the redistributive mechanism, the weight of the payment goes to the first number of hectares.

Clearly, it is necessary to look at the impact across the whole of the country. All that I can say is that we have asked for views on the measure as part of the consultation. As with most of the measures, there would be winners and losers; the outcomes would vary and there would be unintended consequences. We have certainly not ruled out using it. There would be some advantages for smaller producers; in other parts of Scotland it would be pretty irrelevant; and for some parts of Scotland there would be unintended consequences. It is a case of using it or not using it; it would not be possible just to use it for certain farms in certain regions of Scotland. We must be careful to understand the impact that the redistributive mechanism would have.

As you can imagine, the modelling involves a lot of detail. I do not want to spend hours going through the detail of it, but I think that David Barnes has some figures that he would like to refer to.

11:30

**David Barnes:** As the cabinet secretary said, we have done some modelling. We have shared papers on the issue with our stakeholder group, and they are on the Scottish Government website.

The best way to summarise what we have found is that the outcomes that have been obtained from the modelling are what common sense would lead us to expect. The redistributive mechanism would move money modestly from larger holdings to smaller holdings, which would have consequences for the different regions of Scotland, depending on their pattern of holding size. Those stakeholders who believe that a desired outcome is the concentration of money on smaller farms would say that that was a good thing.

There are other stakeholders, such as stakeholders who have an interest in a particular

sector, who have wondered whether the mechanism would, coincidentally, give a particular outcome for a particular sector. Generally speaking, the modelling has suggested that that would not be the case. The mechanism tends to affect all big farms evenly and all small farms evenly, regardless of whether they are livestock—beef and sheep—farms or arable farms. In other words, for those stakeholders who have an interest in helping a particular sector, it does not seem that it would achieve that.

**The Convener:** We will go back to coupled support on the pillar 1 side, on which Alex Fergusson has a final question.

**Alex Fergusson:** I am grateful to you, convener.

My question relates to an issue that is a very big one in my part of Scotland. On the beef calf payment, one question that is being consulted on is whether payment should continue to be restricted to three-quarter-bred beef calves or whether it could be diluted—if I can put it that way—to cover half-bred beef calves. That is a huge issue in my part of Scotland. Can you comment on your thinking on that at this stage, or is it too early to do so? If it is too early to do so, I will accept that.

**Richard Lochhead:** I am just calculating who is in your constituency and working out in my mind whether I am going to disappoint you or make you happy.

**Alex Fergusson:** There are a lot of dairy farmers in my constituency.

**Richard Lochhead:** That is what I was working out.

I have made no secret of the fact that I would be highly reluctant to dilute the beef scheme and to depart from supporting three-quarter-bred animals. I am listening carefully because, as you know, there has been quite a vigorous debate in the livestock sector about whether the dairy sector should benefit. I have made no secret of the fact that we have built up the Scotch brand and must do what we can to protect it. We need to be extremely carefully about diluting the beef calf scheme, because people would argue that it helps to support the Scotch brand, which we must not weaken.

In the consultation, I gave a nod towards keeping the status quo, whereby three-quarter-bred animals benefit, but a variety of views exists.

**Alex Fergusson:** That is fine; thank you very much.

**The Convener:** If everybody is happy we will press on to pillar 2. Angus MacDonald has a question about the overall approach.

**Angus MacDonald:** The committee heard in evidence that stakeholders have a general belief that the SRDP should be about delivering transformational change and that, given that CAP support is declining, the SRDP should help farm businesses to adapt so that they can be sustainable with less public support.

However, quite a few witnesses, including Professor Bill Slee of the James Hutton Institute, believed that rather than bringing out transformational change, the SRDP would be “more of the same.” Andrew Midgely of Scottish Land & Estates said that there was a lack of vision about where we want to go.

What transformational change is needed in Scottish agriculture and how will the SRDP proposals deliver that transformational change?

**Richard Lochhead:** I believe that elements of the new rural development programme will be transformational to a degree, but it is difficult to say that the overall rural development programme can be transformational when the budget is so small compared to what other countries have. We have challenges with our rural development programme and the main one is the budget.

Other countries have secured major uplifts to their pillar 2 budgets—their rural development budgets. Their cabinet secretaries can go before their parliamentary committees and say that their programmes will be transformational because they have an additional few hundred million euros to invest. I do not have that, unfortunately, so I cannot make announcements about huge new agendas to support and transform our rural economy and agriculture. I will come back to that in a second.

However, some measures in the rural development programme can, in their specific areas, help on the path to transformation. As you will know from the consultation, we have put some emphasis on knowledge transfer, innovation and getting enterprises to work more closely and co-operatively.

We are helping our rural and agricultural enterprises to become more fit and ready to meet the challenges of the 21st century, make best use of technology, be innovative and work more closely with each other for various purposes—environmental, marketing or whatever. That will make our sectors more efficient and nimble and help them to adapt better to all the big issues that are out there in the 21st century.

I want our sectors to be more technologically advanced. I want them to rely on innovation and work with our scientific institutions to find the right answers to meet the demands of the marketplace in the 21st century, whatever they may be, including reducing carbon emissions and all the

other big issues that are out there. There are some good, new ways in which we can support that through pillar 2, but we have on-going pressures. We have legacy schemes to fund and a lot of the pillar 2 fund will go towards continuing some of the legacy schemes that are in place. We have the forestry budget to maintain and we have added some more money to agri-environment schemes, but the budgets limit what we can do there.

There is a bit of business as usual—I fully accept that—but there are some innovative measures in the rural development programme that can be transformational for certain sectors in Scotland.

**The Convener:** There are no further points on that, so we will move on to agri-environment climate activities.

**Claudia Beamish:** We have heard in evidence concerns about how the scheme will go forward. Davy McCracken of Scotland’s Rural College said that what is suggested is that the budget should be focused on areas in which the Scottish Government has a statutory remit, such as the water framework directive or the Natura 2000 obligations. He questioned whether the 2020 targets in the revised Scottish biodiversity strategy could be met by taking such an approach.

Further, Scottish Environment LINK said that, if we looked at the annual budget for the agri-environment schemes, the £10 million for new commitments was “a pittance”. I am quite aware that you work within the budget that you have got, but if we are to move forward in what you describe as a transformational way in the 21st century, big demands will be made of us as a country. Is there any way that the budgets within the SRDP could be looked at from the point of view of meeting our biodiversity, water quality and climate change targets?

**Richard Lochhead:** It is my intention to ensure that our targeting of agri-environment schemes is aligned with where the country has decided that our emphasis must be, be that water quality or biodiversity targets. We do not have a huge budget, so we have to better target what we do have. We have a lot of legacy projects, but we are injecting an extra £10 million into the budget.

I am looking at my figures and I think that I am right in saying that the legacy projects are about £30 million a year, although we have budgeted for about £48 million a year. I think that those are just the agri-environment figures. There are new projects that can be funded and I will ensure that we align that, as far as we can, with what we want to achieve in terms of our biodiversity and climate change strategies, as the committee’s witnesses suggested.

We have SNH with us, and it would be a pity not to allow Jenny Johnson to contribute to the proceedings at some point. I think that the committee was keen for SNH to be here, so I will invite Jenny Johnson to contribute in a second.

I want to labour the point about the budgets. Scotland has been in the EU for 40 years. The UK Government has negotiated on our behalf throughout those 40 years and we have ended up with the lowest pillar 2 budget throughout Europe on a per hectare basis and, generally speaking, on a cash basis, of most comparable countries. Therefore, we are very constrained in our options. Croatia joined the EU last year and I think has negotiated 20 times what we get per hectare. Croatia has gone in there and negotiated a budget that amounts to several hundred million more euros a year than we get in our pillar 2 and, on a per hectare basis, 20 times more. You could not make this up. It is very frustrating for me to have to go to Europe and sit with other countries who are winning bigger shares of the budget, when we have a Government that, despite our pleading with it to get us off the bottom of the league table, has not made it a priority in any shape or form. That is just pillar 2 that I am talking about. We have just been discussing the similar debates that we are having about pillar 1.

I would love to be able to say to the NGOs and the environmental lobby—because it is the right thing to do for Scotland—that we have the ability to up our investment in agri-environment schemes throughout Scotland. I have given you the figures that we have and we will do our best with them but, compared to other countries, we are just in a different place. It is a real pity. Scotland is a rural country with fantastic landscapes and a great natural environment, but we have the same environmental challenges that other countries have in the 21st century. We are making reasonable inroads into some of those challenges, but we could do with a lot more resources to tackle others. We just have to be as clever as we can be with the limited resources that we have.

**Claudia Beamish:** You have made that point, cabinet secretary. As a further point, working within what we have got, how much specific monitoring and assessment of the schemes that come forward and the expectations around them will be done, and has work been done on that already?

11:45

**Richard Lochhead:** This is a good time to bring in Dr Jenny Johnson, because our colleagues in SNH do that work on our behalf. I will ask Jenny to say a wee bit about that.

**Dr Jenny Johnson (Scottish Natural Heritage):** From the agri-environment perspective, SNH's view is largely focused on considering whether the new SRDP will deliver for a range of environmental benefits. Contributing to the Scottish biodiversity strategy is one of them; contributing to designated sites and to the other indicator in the national performance framework, terrestrial breeding birds, is another. Those are all very important priorities for SNH's focus.

However, we are not focused on agri-environment priorities only in the sense of birds, bees, butterflies, and so on. We recognise the budget limitations and the human component, and we support the Government's move to increase knowledge transfer and exchange, the LEADER scheme, co-operation and, particularly, advice in the agri-environment climate scheme. We are contributing a component to that scheme.

At this stage, it is difficult to say any more than that, as far as SNH is concerned, a lot of transforming is going on through the redevelopment of the previous SRDP into the new one. The targeting project that has been undertaken is comprehensive. It has involved a large number of stakeholders, some of whom were witnesses at the committee on 5 March. They will be aware that we will be restricting our measures within agri-environment and climate to specific areas to ensure that we target considerably better than we did the last time around.

We will also be including targeting criteria within the scoring and assessment part of the application. We have spent a considerable amount of time with the Scottish Government in ensuring that the measures options, as they are termed, within the SRDP are much more customer focused and are about delivering outcomes, and that they contain wording that people and staff understand, which will help us to deliver the outcomes. For example, eligibility is now a key factor that will help us to deliver the priorities that we are looking for.

There was a question about monitoring. There was a natural heritage monitoring project in the last round. It is clear that the environmental measures that we took in the last round are beginning to deliver. Evidence has come forth to show that the options we now have under agri-environment are delivering for a whole range of species. In some cases, the evidence is less clear, and we have looked very closely at one or two of the agri-environment measures for which there is less substantive evidence of delivery. We know that, in some cases, such as with farmland waders, there is a continuing steep decline. Stemming that decline is not a matter of removing the measures; it is more about ensuring that the measures are taken up together and in the right groups, that they are underpinned with good

advice and that they are implemented through collaborative approaches.

We are transforming the way in which we delivered the scheme the last time around and we will have the opportunity to deliver more priority outcomes. We will have more strategic targeting, an assessment and scoring system that will help us to deliver where we need to deliver, and we will ensure that the options are able to provide the range of tools necessary for species, biodiversity and habitat management in Scotland.

**The Convener:** Would it be possible to give us a breakdown, later, in simple tabular form of projects in the SRDP that have been approved by type, size and distribution, and the numbers that are legacy projects? I do not know whether those figures are readily available, but it would help us to see how agri-environment issues are taking their place in that work. We are talking about species of birds and so on, but we cannot take the time just now to identify in which parts of the country they are and to see whether the agri-environment schemes are attractive to people in various parts of Scotland. We have a responsibility for ensuring that those people get involved, because we know that some aspects of farming in some parts of Scotland can be less environmentally friendly.

**Richard Lochhead:** We will make sure that we get that information to you. I was just relieved that you used the word, "later." We will put it together in an easily digestible form, as that would be useful. We have considered similar information, but it would be good to make it as easy to understand as possible.

**The Convener:** That would be helpful, thank you.

Dick Lyle has a question about support for forestry.

**Richard Lyle (Central Scotland) (SNP):** Cabinet Secretary, I compliment you on your evidence this morning and offer my best wishes with regard to the hard tasks that you have over the next period. I concur with your statement that Scotland is getting a bad deal. I hope that, after September, we will change that.

There are various pressures on forestry. We have heard contrasting views about whether the amount that is budgeted for forestry is sufficient. I understand that Stuart Goodall argued that more funding is needed, as the amount that was proposed in the consultation was

"completely insufficient to deliver the Government's objectives for forestry"—[*Official Report, Rural Affairs, Climate Change and Environment Committee*, 5 March 2014; c 3395.]

and also that in the final programme there was a need to differentiate between investing in

productive forestry and other types of woodland creation.

To give you a contrast between those for and those against raising the amount of the budget that is devoted to forestry, I note that Jonnie Hall of the NFUS argued that the planting target should be reduced from 10,000 hectares a year to 5,000 hectares a year and that that could save around £16 million to be used for other SRDP measures to help farm businesses become more efficient. He also suggested that that would reduce the risk of woodland expansion onto better quality farm land.

How can the support for forestry in the SRDP ensure that the Government's objectives for forestry are met?

**Richard Lochhead:** Given the importance of forestry to the Scottish economy, I am determined that we will continue to support it through pillar 2 of the rural development programme. I have not seen the full analysis of all the responses that we have had to the consultation so far, but it is unlikely that I will be listening to those who want to transfer resource out of the forestry budget and into other budgets, particularly agriculture, given that agriculture and forestry are quite closely related and agriculture can benefit from forestry as much as other budget headings can.

The idea that the rural development programme, which already devotes around two thirds of its budget to agriculture activity, should transfer money out of the forestry budget to further increase that proportion is pretty unfair to people who work in forestry in Scotland, not least with regard to their efforts to achieve our climate change targets, in which forestry plays a key role.

We need to strike a balance. We have not increased the forestry budget for a number of years, but we have protected it—by which I mean that we have not reduced it. Although we would like to be in a position to increase it, we are unable to do so, for the budgetary reasons that we have already explored. However, as I said, we are protecting it and there will, in effect, be a rollover.

We have begun to get close to our targets for tree planting. There were some challenges two or three years ago, but we have approached our targets in the past year or so and we feel confident that we are in line to achieve them. Therefore, the last thing that we want to do is roll back the budget for that. Tens of thousands of people work in forestry in Scotland, which contributes hundreds of millions of pounds to our economy. We have to protect the economic contribution and the contribution to meeting climate change targets and biodiversity in our natural environments.

**Richard Lyle:** Thank you for that answer, which also deals with my next question.

After the recess, I intend to come off this committee, so I take the opportunity to compliment Richard Lochhead on how he conducts himself and fights for Scotland. I know about his commitment to the food and drink industry, and sympathise with him with regard to all the situations that he will face. You cannot please all the people all the time, although I am sure that you will try to do so.

**The Convener:** Thanks very much, Dick, but that is not exactly a question.

**Richard Lyle:** It was just a comment, convener.

**The Convener:** Indeed. Thank you.

We have a question about forestry.

**Jim Hume:** It is good to hear other members holding the Government to account.

There have been conflicts in several areas of land use, with forestry versus the usual agricultural activity. Part of the conflict and opportunities that have perhaps been missed have resulted from the fact that a large part of Scotland is tenant farmed. If tenant farmers plant trees, they may not be there in the 40 years that it takes to harvest them, and tenant farmers can perhaps be charged for dilapidation by landlords if they see land being taken out of normal agricultural use and trees being planted.

The issue has been discussed before around this table, but have ministers considered ways to address that, perhaps through forestry being considered as a tenant improvement so that, if forestry has been planted for seven years, a tenant could get its value as a seven-year-old plant, as is perhaps common with more traditional grass and normal crops? Have ministers considered ways of opening up the opportunities for perhaps small amounts of forestry to be integrated with the normal agricultural use of land?

**Richard Lochhead:** I am pleased to hear comments about the potential for integrating agriculture and forestry. There are mutual benefits from that, and it is heartening to see farming publications devoting more column space to it. Many people out there in agriculture are thinking about the benefits of forestry, which is a good thing, because integrated land use is the way forward as opposed to conflict between different land uses.

Jim Hume has reminded me to ensure that our agricultural holdings review group is looking at tenancy arrangements. It is looking at tenancy improvements in the round and what qualifies and does not qualify for them, but I will certainly ensure that forestry, which Jim Hume has quite rightly highlighted, is taken into account. We can see very clearly, as he outlined, why it is not necessarily in tenant farmers' interests to embrace

forestry if they will not see any financial benefit from it in the years ahead.

**Jim Hume:** Even if they are able to.

**Richard Lochhead:** Yes. That is a fair point, and I will ensure that the agricultural holdings review group takes it into account.

**The Convener:** We should probably remind the farming world that, as farming and forestry have been covered in the same department in the Parliament since devolution, perhaps it should realise that they are integrated, not separate. I make that comment out of frustration with the nature of responses to forestry, which we found shocking.

**Graeme Dey:** I think that the cabinet secretary said that he had managed to protect the forestry budget but that he would have liked to grow the budget. On that theme, Stuart Goodall said that he feels that £36 million a year is inadequate, not least because

“the forestry component”

has become

“a bucket for anything that is related to forestry”,—[*Official Report, Rural Affairs, Climate Change and Environment Committee*, 5 March 2014; c 3422.]

such as pests and tree disease. Do you accept that we are expecting the forestry budget to do more than it did in the past? Alternatively, we heard evidence from Patrick Krause that suggested that directing money away from forestry to peatland management might gain us a better return for the carbon reduction effort. There are two competing views. What are your thoughts on them?

12:00

**Richard Lochhead:** We have just discussed representations to the committee from sectors that want us to slash the forestry budget, while others say that it is too small and should be dramatically increased. We always face such difficulties when we have a tight budget. I am determined to ensure that we achieve a good balance in pillar 2, which is why I want to protect the forestry budget. I will not subject it to the significant cuts that some people would like.

As for demands on the forestry budget, if my memory serves me correctly, we were struggling not long ago to spend the budget, because of a lack of applications. A variety of economic factors influences the extent to which the forestry budget is taken up. As I have said, the position has—thankfully—largely improved over the past year or two and take-up has been greater. We are now much more likely to achieve our tree planting targets.

The situation looks better. I have no doubt that, if that continues, the demand on the forestry budget might be bigger and we might not be able to meet it. That would be a sign of success, because it would mean that everyone wants to plant trees and everything is going swimmingly. We will cope with that when it happens.

As members know from experience, it is always possible to shift budgets in the rural development programme. When demand outstrips supply, we always adapt and we deal with that if other budgets have spare capacity. We will keep our eye on that and keep the situation under review.

Forestry is becoming increasingly important. Graeme Dey mentioned that Patrick Krause talked about carbon reduction requirements. Forestry should not be and is not only a matter for the rural development budget; there are other incentives. If we had control of the tax system, we could look at using that. Carbon offsetting initiatives and other initiatives that we promote as other ways of financing tree planting are important, too. This is not just about the budget heading in pillar 2—the rural development programme; we must find other ways of encouraging investment in forestry.

**The Convener:** A number of comments have been made about LFASS being flawed and about the large part of pillar 2 that it takes. Stuart Goodall said that it could be seen as “pillar 1 in disguise”. Why do you propose to spend a third of the Scotland rural development programme budget on LFASS?

**Richard Lochhead:** Experience over the past few years has taught us that LFASS remains an important scheme for farming and crofting businesses in Scotland. It helps to inject investment into farming activity in parts of Scotland that have additional challenges. We must remind ourselves that 85 per cent of the areas in Scotland have less favoured area status, whereas the opposite applies south of the border, where 15 or 16 per cent of land has that status. That puts into context the scale of the challenges that agricultural activity in Scotland faces.

Scottish agriculture views LFASS as an important support mechanism. We are committed to that. The scheme might not be perfect and might require to be reviewed. We have said that now is not the right time to do that, because we are implementing the new common agricultural policy. The amount of work that would be involved in reshaping and redesigning LFASS at the moment would put us in an untenable position, so we could not do that and implement a new common agricultural policy. Under European rules or plans, we have until 2018 to review LFASS. It will happen, but we have until 2018 to do it, and there will be an opportunity to refine it and to target it better, if that is what is required, once the

new common agricultural policy has been implemented. That is the way forward, as we see it.

**The Convener:** I am trying to get an idea of an overall package that hill farmers and crofters could see themselves getting out of pillar 1 and pillar 2, and LFASS is the bit that they complain about most, because it is not targeted at the least favoured areas. You have told us that we are not likely to have a third section dealing with rough grazing, so how can LFASS be reconfigured? Will it actually move towards the least favoured areas rather than the less favoured areas?

**Richard Lochhead:** That was my argument about better targeting. One of the big debates just now is about the scheme being better targeted, and although I cannot provide all the answers, I acknowledge that there is a view that the scheme needs to be better targeted. We will undertake a review, but it will not happen now, for the reasons that I outlined earlier.

You mentioned a third region—I cannot remember exactly how you phrased it—and we are looking at that. Perhaps I picked you up wrongly, and in case there is any misunderstanding I should say that there are factors to be taken into account before we make a final decision on whether there should be a third region, but we have agreed to look at it seriously.

**The Convener:** I thought that I should probe along those lines.

Cara Hilton has questions on new entrant support and pillar 2.

**Cara Hilton:** The committee heard evidence that subsidising people to go into farming is expensive. For example, Professor Bill Slee told us that

“all the evidence ... indicates that it is extremely difficult to design efficient policies to get young people into farming when the costs of entry are very high.”—[*Official Report, Rural Affairs, Climate Change and Environment Committee*, 5 March 2014; c 3414.]

You hinted at the answer to my question in your introductory statement, but why, given the evidence that the policy is not efficient, is the Government going down the road of providing start-up grants to new entrants?

**Richard Lochhead:** I have always made it a priority to help new entrants, and we have undertaken a number of initiatives to encourage new entrants into the sector. On the positive side, there are new entrants who have come into agriculture over the past few years, and many of them have benefited in one form or another from Government support. However, on the negative side, there are still huge challenges in terms of the cost of land, access to land and tenancies, and the

cost of capital equipment and livestock. We fully accept that those challenges exist.

We felt that it was better to have some scheme rather than no scheme in the rural development programme, and there has been take-up. We have invested several million pounds over the past few years in a lot of new entrants, and when I have spoken to those new entrants they have told me that they found the help invaluable. It has made a difference, but I accept that making a transformational change for new entrants in Scotland and creating a new generation of thousands of new farmers will require radical solutions.

Our agricultural holdings review group is looking at the ability to create new tenancies and all the issues surrounding that, because getting a tenancy is usually the first rung on the ladder. Access to the single farm payment, or to the new payments through the new CAP scheme, is also important, because new entrants were frozen out in the past.

There are some good chinks of light, and we are doing new things with Government policy such as using publicly owned land for new tenancies. Reviews are under way, the new common agricultural policy will give support to new entrants, and our new rural development programme will continue to provide some support for new entrants. There are some things, such as the cost of land, that we cannot influence, but we are trying to help in any way that we can.

**Graeme Dey:** You may have answered my question already, but it would be good to get it on the record. During the evidence sessions, a question was raised about whether the €70,000 grant would cover livestock acquisition as well as machinery, equipment and upgrading of buildings. Can you confirm that that is the case?

**Richard Lochhead:** I ask David Barnes if he can remember whether livestock is included.

**David Barnes:** We will double-check and confirm the proposal in the consultation document. Of course, the consultation document is not the decision; in time, the cabinet secretary will sign off the decision, which may or may not be what was in the consultation document. We will get back to the committee to confirm what the proposal was. In due course, when the programme is finalised, that will become a decision.

**Graeme Dey:** That would be welcome, as that question was raised with us.

**Richard Lochhead:** You have put the matter on our radar.

**The Convener:** Claudia Beamish has a question on support for collaboration.

**Claudia Beamish:** At a previous evidence session, we heard about support for collaboration. It was highlighted that, in some people's definition, co-operation is a more clearly defined issue, but I do not want to nit-pick about it. We heard about support for flooding schemes, for instance, and other agri-environment schemes in which people are working together in the agriculture sector. James Withers of Scotland Food and Drink said:

"Agri-food co-operatives are the unsung heroes of the food and drink industry."—[*Official Report, Rural Affairs, Climate Change and Environment Committee*, 26 February 2014; c 3376.]

Stuart Ashworth sought clarification on whether the co-operation or collaboration measures were aimed only at co-operative landscape management or whether they could go beyond that. What are your thoughts on that?

**Richard Lochhead:** One of the key motivations for the promotion of collaboration in pillar 2 is action at the landscape scale. When I was on Lewis about four years ago, I met a group of crofters who had individually found it quite challenging to apply for support for some agri-environment schemes but had come together collectively and got support for a joint scheme. We want to promote such projects because, if we are trying to address a landscape issue and several players are involved in that landscape, it is much more effective to have everyone on board, working together on a jointly funded project, than to have one or two crofters or farmers pursuing individual schemes. We think that that is a way forward in addressing landscape issues.

On the point that James Withers raised about co-operation, we are doing our best to promote collaboration and co-operation through the food budgets, as many other countries have been much more successful than Scotland in producing farmer or food producer co-operatives. In Scotland, that has been a wee bit against the nature of too many food producers or farmers in the past, so it is not part of our culture to the extent that it is in other countries. However, that situation is now changing. The dairy sector, in particular, is considering such issues, and the dairy review addressed co-operation. In all primary production we need to support and promote co-operation and collaboration.

**The Convener:** There has been quite a bit of criticism from both the NFUS and the Scottish Crofting Federation of the proposal to extend the crofting counties agricultural grants scheme to small farms, which could amount to some 34,000 units in Scotland. The Scottish Government officials' analysis of the proposal seems illogical and disconnected. Do you agree that it would be easier to keep the CCAGS in the areas that are

defined for crofting in the Crofting Reform (Scotland) Act 2010?

**Richard Lochhead:** Yes.

**The Convener:** Therefore, the amount of money for the proposed scheme is the next issue that we have to look at.

12:15

**Richard Lochhead:** I met the Scottish Crofting Federation in the past 10 days, and it was understandably exercised about the issue. I think that there has been a slight misunderstanding over the issue but, when I looked at it closely, I could see exactly why. Therefore, I need to be up front and say that we have to sort it out. I can see the case for separating the fund into a small farmers fund and a continuation of the fund for crofters. I am inclined to do that, following the consultation on pillar 2, which is now closed. I will have to consider what the budget should be. However, I fully accept the concern that opening up the scheme to thousands of small farmers could in theory dilute it to such an extent that it lost its impact, and I do not want that to happen.

We will probably refine the small farmers fund to ensure that we target the right small farmers, once that fund is set up. Of course, I will have to take a decision on what the budgets will be. However, we are setting up the fund for a genuine reason, which is that there are small farmers who face similar challenges to those that crofters face but, because they are not in the crofting counties and are not crofters, there is not an easily accessible fund for them. We have to provide some support for them. That was the intention and sentiment behind the original proposal.

**The Convener:** I welcome your initial answer about the protection of the CCAGS for the crofting areas. It is a matter of land reform whether there should be one form of tenure for the small farmers and crofters who sit side by side, and that is under discussion through the crofting law sump. There are various tenures, which restricts the way in which we can think. Fundamentally, the point was made that you identified a 30 per cent increase in the funds but there was a 400 per cent increase in the number of potential recipients. Therefore, it will be of interest to the crofters to know how much of the 30 per cent increase will be targeted at crofting. We look forward to getting the answer to that as soon as possible, if you cannot give it now.

On the overall package for crofting, would you say that, given the discussion that we have had about the various crofting elements, crofters are not heading for a hit on what they get and that the various elements together will make a viable package?

**Richard Lochhead:** I am confident that there will be a good package of support for crofters. Although, as we have discussed, there is a big debate about whether the focus of farming funds should shift from the good land to the poorer lands, we have to take other factors into account. Whatever the result in that debate, I am confident that we will show that we are committed to crofting and that there will be a substantial array of support mechanisms for the sector so that it can continue to make a good contribution to food producing, caring for landscapes and our local crofting communities.

**The Convener:** We will move on to process issues.

**Nigel Don (Angus North and Mearns) (SNP):** I apologise to the committee and the cabinet secretary for my comings and goings over the past couple of hours, which were on other parliamentary business.

I turn to the rural regional delivery partnership and the processes whereby funds are applied for and eventually awarded. As I understand it, the proposal is that there will be two levels, with a cut-off point at £75,000 except for forestry. The cabinet secretary will be aware of the suggestion from the NFUS that there should be three levels, including a much lower cut-off point for applications that are dealt with locally. Can you add anything to what is in the consultation on how you are minded to proceed? Plainly, there is something to be said for having applications for small sums of money dealt with locally by people who know the local layout and how much sense those applications make.

**Richard Lochhead:** I have listened closely to views on the complexity of, and timescales that were involved in, applying to the rural development programme that we had from 2007 onwards, and I have therefore said that I am determined to simplify the process. The number of entry levels for funds is part of that. A fund for X will not have to go through the same bureaucracy, the long timeline or the process of checks and obtaining clearance from various levels of Government that happened previously. That will simplify the process greatly because, clearly, the smaller the grants, the more there are of them, so we can tackle a lot of applications if we raise the threshold of those who do not have to go through the long, drawn-out clearance process.

It is about simplification and about making the process easier. I am confident that that will definitely be the outcome. There is a debate about how many different levels of grants there should be and what length of process each one should go through. I remind the committee that even a grant of £5,000 or £10,000 is still a generous level of support that you or I cannot qualify for but which

farming businesses and rural businesses are able to qualify for through pillar 2. That is for good reasons, but it is public money, so we always have to strike a balance between ensuring that it is accounted for, audited and used for the right purposes and that there is a good outcome for the public purse from that investment, and not having a process that is overly bureaucratic and complicated. I think that we will be a lot further down that road of simplification and making things a bit easier.

**The Convener:** On the overall policy, you have given us various dates when we know things will start to kick in. Obviously, there are the payments from 2015 and new entrants will receive money at that point; there is the LFASS review in 2018; and the area-based payments proposals will be implemented the year after that.

There has been a bit of talk about the 2016 assessment of the budget allocations. How much comfort can be derived from the UK Government commitment to review in 2016 the CAP budget allocations—for the next CAP period, we can assume—when there is a whole range of practical imponderables, such as the lead partner in the UK opposing direct payments in principle; the UK general election in 2015, which could change the UK Government; and the fact that Scotland could be an independent country by then? Also, if the present UK Government is re-elected, it is committed to an in-out referendum. With all those imponderables, what store can we put on some people's backstop of this 2016 review of the CAP?

**Richard Lochhead:** I do not believe that there is any case whatsoever for placing any stock in the UK Government's commitment to review the budget allocations. You have very eloquently outlined some of the reasons why I think that that is the case. This was a decision that was taken in the past few months. It was the wrong decision not to give Scotland the convergence uplift of approximately €220 million. That money only came to the UK in the first place because of Scotland's low payments, so 100 per cent of it should have come to Scotland. That would have allowed us to have more of a budget to invest in the future of our rural economy as part of the process.

It is shameful that that did not happen. It is inexcusable and indefensible. I am really disappointed that the Scotland Office in particular did not stand up to DEFRA on the issue, especially given that Alistair Carmichael's own constituents in Orkney and Shetland are badly affected by this daylight robbery of Scottish agricultural funds. However, we are where we are.

The one remaining issue, of course, is that the UK Government is holding out the fig leaf of a review in 2016—it is a review; it is not a change to

the formula. The review could take one, two or three years. We do not know. What is important is that Owen Paterson has told me that the implementation of whatever the results of that review are—if it happens—will not occur until after 2020, within the next common agricultural policy after the one that we are discussing today. That falls into the new financial period, so the budget overall in Europe will be up for discussion, debate and negotiation, never mind the convergence uplift, which Owen Paterson says he may decide to change the internal distribution of in 2017 or thereabouts. That would not be implemented until after 2020 anyway. It is all very murky. It is a red herring as far as I am concerned.

I have a letter that Owen Paterson sent me on the decision about the convergence uplift. He says in the letter:

"In 2016 there will be a review of the functioning of the Multi-Annual Financial Framework. It is my intention, at the same time, to initiate a review of the internal allocation of UK CAP funds, aiming to conclude by 2017, to help inform our approach to domestic allocations for the next period."

He mentions "the next period"—in other words, post-2020—so the idea that we will get one penny of the convergence uplift money that is being kept back from Scotland between now and 2020 is a non-starter, which is a great pity.

**The Convener:** Thank you very much for that very clear set of answers.

**Richard Lochhead:** I mentioned Croatia earlier and I am sorry to labour the point, but I will just add that I asked for some information on Croatia—the new member state—and learned that its pillar 1 payments will overtake Scotland in 2017. Therefore, not only does a new entrant to the EU get 20 times what we get per hectare under pillar 2—it negotiated that with Europe—but its pillar 1 payments will overtake Scotland in 2017, as I understand it.

**Jim Hume:** On that point, it would interesting to know how long it was between when Croatia decided to join the EU and when it actually joined. Do we know that?

**Richard Lochhead:** My point is that Scotland is in the EU and the UK has been—

**Jim Hume:** No—I was asking about Croatia; I was not asking about Scotland.

**Richard Lochhead:** I do not see how that is relevant. The point is that Croatia joined the EU only last year yet its pillar 1 payments will overtake Scotland's payments by 2017. It joined only last year and already its rural development funds are 20 times the Scottish rate. It just shows how badly Scotland fares by allowing our negotiations to be carried out on our behalf by another Government that has different priorities—that is, the UK

Government—when we look at the contrast between Scotland's dire position and the position of the Irelands, the Denmarks, the Croatias and the Finlands.

**The Convener:** I do not think that there are any further points on that. You have made your point of view very clear.

I thank the cabinet secretary and his officials for their detailed answers. We will finish slightly earlier than I thought, remarkably, but that is only because we managed to get through pillar 2 more quickly than I had expected. We have received very detailed answers and we have a lot to mull over. I thank the cabinet secretary and his team for their contribution.

At our next meeting on 2 April, the committee will consider a petition on wild geese, its climate budget mainstreaming and its future work programme. We now move into private session, as agreed earlier.

12:27

*Meeting continued in private until 12:57.*



Members who would like a printed copy of the *Official Report* to be forwarded to them should give notice to SPICe.

---

Available in e-format only. Printed Scottish Parliament documentation is published in Edinburgh by APS Group Scotland.

All documents are available on  
the Scottish Parliament website at:

[www.scottish.parliament.uk](http://www.scottish.parliament.uk)

For details of documents available to  
order in hard copy format, please contact:  
APS Scottish Parliament Publications on 0131 629 9941.

For information on the Scottish Parliament contact  
Public Information on:

Telephone: 0131 348 5000  
Textphone: 0800 092 7100  
Email: [sp.info@scottish.parliament.uk](mailto:sp.info@scottish.parliament.uk)

e-format first available  
ISBN 978-1-78457-083-5

Revised e-format available  
ISBN 978-1-78457-097-2