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Pàrlamaid na h-Alba

Official Report

RURAL AFFAIRS, CLIMATE CHANGE AND ENVIRONMENT COMMITTEE

Wednesday 5 March 2014

Session 4

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**COMMON AGRICULTURAL POLICY AND SCOTLAND RURAL DEVELOPMENT PROGRAMME 2014 TO 2020
(IMPLEMENTATION) 3393**

**RURAL AFFAIRS, CLIMATE CHANGE AND ENVIRONMENT COMMITTEE
6th 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:

- Roderick Campbell (North East Fife) (SNP) (Committee Substitute)
- Peter Cook
- Stuart Goodall (Confor)
- James Graham (Scottish Agricultural Organisation Society)
- Davy McCracken (Scotland's Rural College)
- Andrew Midgley (Scottish Land & Estates)
- Pete Ritchie (Nourish Scotland)
- Professor Bill Slee (James Hutton Institute)
- Vicki Swales (Scottish Environment LINK)
- Andy Tharme (Scottish Borders Council)

CLERK TO THE COMMITTEE

Lynn Tullis

LOCATION

Committee Room 2

Scottish Parliament

Rural Affairs, Climate Change and Environment Committee

Wednesday 5 March 2014

[The Deputy Convener *opened the meeting at 10:04*]

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

The Deputy Convener (Graeme Dey): Good morning, and welcome to the sixth meeting in 2014 of the Rural Affairs, Climate Change and Environment Committee. I ask members and the public to turn off mobile phones because leaving them in flight mode or silent mode will affect the broadcasting system. We have received apologies from Rob Gibson, for whom I am deputising. I welcome Roderick Campbell, who is Rob's substitute.

Agenda item 1 is consideration of the Scottish Government's implementation of the common agricultural policy and the Scotland rural development programme 2014 to 2020. This is the committee's second evidence session with stakeholders on CAP and SRDP. The meeting will be followed up with sessions later this month with the United Kingdom Secretary of State for Environment, Food and Rural Affairs, Owen Paterson, and the Cabinet Secretary for Rural Affairs and the Environment, Richard Lochhead.

First, I welcome our witnesses. I ask that we start by going around the table, so that everyone can introduce themselves.

Andrew Midgley (Scottish Land & Estates): I am the head of policy at Scottish Land & Estates.

Peter Cook: I am an independent economist and farmer.

Professor Bill Slee (James Hutton Institute): Hello. I am from the James Hutton Institute and am a rural economist.

Davy McCracken (Scotland's Rural College): I am a professor of agricultural ecology and the head of SRUC's hill and mountain research centre.

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

Cara Hilton (Dunfermline) (Lab): I am sorry for the late introduction—I had not realised that members were to introduce themselves, too. I am the MSP for Dunfermline.

Pete Ritchie (Nourish Scotland): I am a director of Nourish Scotland.

James Graham (Scottish Agricultural Organisation Society): I am the chief executive of the SAOS.

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

Roderick Campbell (North East Fife) (SNP): I am the MSP for North East Fife.

Stuart Goodall (Confor): I am from Confor, which represents the forestry and timber sector.

Alex Fergusson (Galloway and West Dumfries) (Con): I am the MSP for Galloway and West Dumfries. I draw attention to my entry in the register of members' interests, which shows that I own land in Ayrshire. I do not farm that land or benefit personally from CAP support. I add that I have recently agreed to chair the United Kingdom review of the voluntary code of conduct for the dairy industry.

Vicki Swales (Scottish Environment LINK): I am the head of land use policy for RSPB Scotland, but I am here representing Scottish Environment LINK.

Jim Hume (South Scotland) (LD): I am an MSP for South Scotland. I, too, draw attention to my entry in the register of member's interests, which sets out my farming interest.

Andy Tharme (Scottish Borders Council): I am the ecology officer at Scottish Borders Council. I am the project manager of its land use strategy pilot.

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

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

The Deputy Convener: I am the MSP for Angus South. As I have said, I will chair the meeting in the absence of the convener, Rob Gibson.

I very much appreciate the witnesses coming along, and we look forward to hearing their views. In the interests of making progress, if witnesses do not have a specific view to offer on a question, they should not feel obliged to contribute.

To start off the proceedings, I ask witnesses, as stakeholders, what they want and what they should get from the CAP, given the level of Scotland's budget and the competing demands

that Richard Lochhead must contend with. I open up that question to whomever wants to answer it.

Davy McCracken: It is worth pointing out that the SRUC is probably somewhat in the same situation as the Scottish Government. We provide services to the full range of agricultural businesses across Scotland. We provide research and advice to those businesses not only on how to increase their agricultural production, but on how to mitigate or enhance their impacts on the environment. Like the Scottish Government, the SRUC finds it difficult at times to strike a balance between all those issues. In short, we want to see a strong productive agricultural sector, but we should also take into account the need to help and advance our environment.

Vicki Swales: It is clear that the CAP's objectives have changed considerably over the years, from supporting food production primarily to a much broader set of objectives that recognise wider environmental and social issues. The CAP's purpose should be to support and encourage a farming sector in Scotland that is not only viable and competitive, but sustainable.

The CAP clearly has a role in delivering public goods; indeed, CAP payments are public payments for public goods. By that I mean that the funding helps us to have a countryside that is rich in wildlife, to manage our land, to store carbon, to meet our water quality objectives and to deal with issues such as flooding. The CAP plays a primary purpose in delivering those public goods.

Professor Slee: A couple of years or so ago, Brian Pack and the minister both used the term "transformational change". We could argue that the CAP—in particular pillar 2—should help to generate transformational change towards a more economically vibrant, resilient and sustainable Scottish agriculture sector. Our fear is that the CAP tends not to do that—it tends just to do more of the same rather than engender the transformational change that we should seek.

Stuart Goodall: The key message that I would like to get over is that we want the CAP and how it is implemented in Scotland to recognise that forestry is a key rural industry here. There is a direct impact through the limited amount of support from pillar 2 and through the way in which the CAP is delivered. It is extremely important that there is integration, so that farmers are given the opportunity to benefit from engaging with forestry.

On the current proposals, the key point that I will highlight is that the Government has ambitions for forestry, but the budget of £36 million has been the same since about 2007 and is completely insufficient to deliver the Government's objectives for forestry. We have new challenges—pests and disease in some tree species—but the intention is

to fund measures to tackle those out of the forestry pot. The forestry pot is too small, and it looks smaller by the year.

The Deputy Convener: We will deal specifically with pillar 2 later in the meeting.

Andrew Midgley: As has been said, the purpose of the CAP has evolved over time from supporting agricultural production to include the wider agenda on the environment and rural development. For us, the question is how we want to implement that and what we want out of it.

One thing that we lack is a vision of where we want to go. That relates to the point about transformational change. We want to support our agricultural businesses, but we also need to support delivery of public goods and we need to support our wider rural businesses. We need a broader strategy that identifies where we want to go; we can then use the CAP to help us to get there. At present, we tend just to continue to support what we have supported in the past. We have a general agenda of supporting agricultural businesses as well as delivery for environmental purposes and wider rural development, but we do not necessarily have the right mechanisms to do that.

Peter Cook: The question should be: do we want the CAP? It is public money, and there are lots of good uses for public money. It is not going to disappear, and we should use it as well as we can. We can do many good things on the environment, on carbon and on water, and to improve our competitiveness. The ultimate mark of a sustainable and competitive Scottish industry would be that we are able to do without the CAP, or with less of it. Usually in such debates, nobody says that. Part of the aim in spending the money should be to create an industry that does not, in the long term, need so much of it. Actually, I think that farmers would support that.

Pete Ritchie: Nourish Scotland would like transformational change with farming for public goods, as Vicki Swales said, and would particularly like recognition that food and farming have major roles in mitigating and adapting to climate change. That needs to be central to how we implement the CAP in Scotland. We need to send a clear message that the issue is not about having either production or environmental goods; we need to get away from the idea that there is real farming, which is about production, and then there is green stuff that we have to fit in somewhere. We need to change that rhetoric.

Most of all, Nourish Scotland wants to see farming for public health. We have in Scotland a complete disconnect between how we farm and what we eat, and we need to narrow that gap. A primary focus of the next round of the CAP should

be to look at measures—in particular, through pillar 2, because that is where we are going to have to end up squeezing these things in—to make our farming systems and our food systems healthier for people as well as for the environment.

10:15

James Graham: We would like to see a programme that drives and stimulates change, adaptation and innovation in the industry. I echo the point that perhaps the current emphasis of the CAP appears to be on supporting and sustaining what has been going on and what is on-going. Of course, we are very much concerned with utilising the full potential of co-operation among farmers and collaboration in food and drink supply chains in order to achieve economic, environmental and social benefits. It has been proved that that can be done, but we need an SRDP that supports that and stimulates momentum for change.

Nigel Don: I realise that the farming community was represented to a greater extent last week, but in the light of all those comments, do folk have any comments on whether enough has been transferred from pillar 1 to pillar 2 and on whether more should be in the SRDP? A separate but connected issue is how quickly we should be moving from the current historical payments of pillar 1 to area-based payments, which people have suggested will to some extent put more money up the hill and into the less favoured areas.

Vicki Swales: Scottish Environment LINK pressed for the full 15 per cent transfer from pillar 1 to pillar 2. We did not get a better deal from Europe but the Scottish Government had an opportunity to boost funding for pillar 2 to help to deliver some of the transformational change. It did not do that; therefore we have, in effect, sacrificed about £200 million that could have gone into the new SRDP and been spent on some really useful measures. That is a big problem, in itself.

Overall, in the longer term, we should definitely be moving more money into pillar 2 as the CAP is reformed. On the pillar 1 issue, whether the money will go up the hill is debatable, given the proposals that are currently on the table. Yes—there will be redistribution. Yes—in broad terms payments will move from intensive to extensive areas. However, the current proposed rates of €20 to €25 per hectare for the more marginal ground—the rough grazing—are problematic in terms of supporting our most economically disadvantaged but often most environmentally important farms.

On the transition time, we need to move quite quickly; this change has been signalled for a long time. We have known for a while that we have to move from the historic payments system. The Scottish Government took the decision to stick

with the system last time round. Farmers have known that the change is coming and to delay it further—through to 2019—is just putting off a change that absolutely needs to happen. We need fairer redistribution of what we have in pillar 1 to support the most economically disadvantaged but most environmentally important farms.

Andrew Midgley: Scottish Land & Estates would support transfer of funds to pillar 2. We want a very strong rural development programme, and we are interested in rural development in a wider sense. In this instance, however, we believe that context is everything. We believe that the pillar 1 changes will have a fairly wide-ranging impact that we need to be cautious about, so we were supportive of the 9.5 per cent transfer. However, the proviso was that as soon as the implications of the pillar 1 changes were more fully understood—once we knew how much land was coming in and the impact on businesses, which should become clearer from the first year of the scheme, because we will be able to work things out from there—we should revisit that decision at the earliest opportunity. The Scottish Government will have the opportunity to increase that rate come 2017. Our position was to support the Government because of the context of the changes in pillar 1.

On transition, again we are advocating the proposed route towards 2019 for the purposes of allowing businesses to change. Vicki Swales's point that people have known that change is coming for a long time is perfectly valid, but the fact that they have known it does not mean that they have prepared for it. Therefore, we need to make changes in pillar 1 in a way that is not so drastic that it has a highly detrimental impact on businesses.

Angus MacDonald: I wanted to pick up on Vicki Swales's point about rough grazing, but it might be better if I wait.

The Deputy Convener: We will cover that in a second, if that is okay.

Davy McCracken: I will answer Nigel Don's question, but before I do, I want to pick up on Andrew Midgley's comment about the need for a broader strategy.

If we are to achieve any vision for the CAP, it is worth remembering that, at the start of the process, the directorate-general for agriculture and rural development and the directorate-general for the environment got together. We should give them their due—what they wanted to achieve would, I suggest, have resulted in a broader strategy. That has not happened, for a variety of reasons that we will not go into. We are where we are.

On the question about the transfer from pillar 1 to pillar 2, SRUC is content with the proposed level of transfer but we would, like Andrew Midgley, like it to be reviewed at the next opportunity, in 2016.

It is important to recognise that we are in a highly complicated situation; there are strong interlinkages between pillar 1 and pillar 2, and decisions that are made within either pillar can influence what happens elsewhere. For example, decisions that are made on pillar 1 on greening—which I am sure we will come on to—are strongly linked to pillar 2 agri-environment decisions. There is the additional complication that, because of those interlinkages, other than the transfer, a number of spikes—known points—are not pinned into the ground, which would allow us to make informed decisions about what would it be best to do with some of the other aspects.

However, as I said, SRUC is happy with the 9.5 per cent transfer. Like Scottish Land & Estates, we want that transition to continue through to 2018-19, to give businesses the chance to adapt.

Professor Slee: From a research perspective, we consider maximising the transfer to be a good thing. It is clear that there is an issue with flattening and what it will do; there is some uncertainty about that. As we have a very small pillar 2, de facto a significant part of it—the less favoured area support scheme—operates rather like a direct payment and could almost be seen to belong to pillar 1. If we take that out of pillar 2, what is left for achieving transformational change is very small indeed. Therefore, any increase in that would be a good thing.

Pete Ritchie: If we have the objective of changing something, it makes sense to use a sharper instrument—in other words, pillar 2—to achieve that change, instead of relying on the blunt instrument of pillar 1, which involves no connection between the money that we spend and the public good. Maximisation of the modulation made complete sense to Nourish; we did not understand why that was not done, because moving the money to pillar 2 would have allowed the public good objectives to be achieved more effectively.

As far as the pace of change is concerned, Nourish supports change as soon as possible. If it is the right change to make, why not just make it? I run a restaurant business: when VAT went up, we just had to cope with it. Businesses will deal with the CAP changes. Some businesses would like the present arrangements to go on for longer, but if change is right, why not make it now?

The Deputy Convener: That is an interesting point; VAT increases are sometimes sprung on businesses on the back of a budget, whereas

agriculture businesses have known for many years about much of what is coming.

Jim Hume would like to tackle the issue of rough grazing.

Jim Hume: I want to pick up on what Vicki Swales said and the points that were made last week by the crofters' representative and NFU Scotland about the implementation of area-based payments in rough grazing regions.

A large part of Scotland is classified as RGR. Last week, we heard that to get the single payment—which I believe would be about €20 to €25 per hectare—it would be necessary to have only one sheep for every three hectares. That would lead to overpayments for scarcely farmed, highly inactive areas and underpayments for very active areas. Last week's witnesses even said that it would lead to land abandonment and decimation of productive areas. What are the panel's views on that point?

Vicki Swales: I will come back to that, as I raised the issue of rough grazing.

We are concerned from an environmental perspective, because large proportions of the rough grazing area are designated Natura 2000 sites under the European Union birds and habitats directive. There is a strong coincidence between the two. That is by dint of the farming systems that operate there, which in many cases are very extensive.

In relation to active farming, we know that there are about 750,000 hectares of designated land that are stocked below the rate of 0.05 livestock units per hectare—their stocking rate is around 0.02 or 0.03 livestock units per hectare. To some people, that might not sound like active farming, but it is. It is just very extensive, and it delivers a huge amount of environmental benefit. There are big concerns about the viability of the farm businesses in those areas, which already struggle, get a poor deal from pillar 1 and, arguably, get a poor deal from LFASS, because of the way that the scheme is constructed, with the money going to the better land within the LFA rather than the poorer-quality land.

We need to examine the matter seriously from an environmental perspective, never mind an economic and social perspective, and look at the impacts that there would be on the rural communities if farmers and crofters decide just to give up because it is not worth their while any more.

Davy McCracken: As we will highlight in our pillar 1 consultation response, which is not yet finalised, SRUC recognises that potential disparity and, from an economic point of view, we will

suggest that the rough grazing payment be split into two separate levels.

In addition, we recognise the points that Vicki Swales made about the wider public benefit that arises from some of the less intensively—or more extensively—stocked grazing systems. Over the past 20 years, SRUC has been integral in highlighting the fate of those high nature value farming systems in Scotland and all over Europe. A large proportion of what we have in Scotland would fall into that category.

I believe that, last week, the committee also discussed the potential to have an additional coupled payment directed to sheep systems. Although we support the change in the rough grazing payment, we would support and strongly encourage that additional coupling mechanism being examined closely to determine how, why and whether it could be used to help with some of the economic disadvantage in the areas that we are talking about.

Angus MacDonald: To pick up on Davy McCracken's point and Vicki Swales's earlier point, it was certainly claimed last week that there could be land abandonment, rural depopulation and a significant reduction in the numbers of store stock in the north-west of Scotland and the islands.

Jonnie Hall came up with the helpful suggestion that, although there would a reduction in the basic payment to €15 per hectare, a payment per ewe of about €30—those were just his figures—could be applied on the same ground, which would take us into the region of €45 per hectare for hill ground that has one ewe per hectare on it. Also, the NFUS proposed that, where there is a ewe per 5 hectares, the farmer would get €20 to €21 per hectare.

It is good to hear that Davy McCracken welcomes that suggestion. Do any other witnesses have a view on it?

10:30

Andrew Midgley: I am afraid that I must add a note of caution. There is an issue, and the question is how to deal with it. There is a really difficult balancing act to be performed. One way to respond to the problem would be to make the whole system more complicated—to create more regions and to establish differentiated coupled payments between sectors. Suddenly, the landscape would get more and more complicated. The principle should be one of simplicity, if at all possible. We are in danger of trying to come up with solutions for everyone.

There are going to be changes, and we have to accept that. That will be the consequence of the

changing nature of farm support. The question is whether we can implement it in a way that finds the right balance. There are tools in the box, and we are not yet entirely sure how things will pan out. The figures that we are discussing are related to the amount of land that might come in, which is not entirely clear. That will be related to the eligibility criteria that are applied, which include minimum stocking requirements and being an active farmer. All those things will have an impact on the sorts of figures that we are talking about.

We have to remember that the base payment could be enhanced in other ways, too, by way of coupled payments. My note of caution is that we should try to remember the need for simplicity. Otherwise, we will tie ourselves up in knots.

Peter Cook: I was going to say the same thing. What has just been described is a nightmare. There will be winners and losers, and we could all end up sitting here in future discussing what we did out of good intentions, but realising that we created another bunch of winners and losers and that, therefore, we needed to change the system again.

That is the great thing about the simplicity that Andrew Midgley has just talked about: it will at least allow folk to plan. From the studies that we have been involved in, we know that the problem in the north-west Highlands is a big structural one. It is not a question of having the folk to gather the sheep, and it is not just about the price of lambs; it is a much bigger thing. If we want to address the issues in that area, we need to consider a different set of things. Tinkering a wee bit and doing a little bit of this and a little bit of that could have a tiny effect, but it would just complicate the thing, and nobody would know where they stood.

If we lost all the sheep from the north-west Highlands, they would all be replaced if the rest of the sheep in Scotland produced 4 per cent more lambs. Strategically, therefore, the issue is not that important, but it is, of course, very important culturally. The answer for that area is to maintain the systems there through pillar 2. If we are talking about issues to do with culture and maintaining the environment and the look of the place, that is the public benefit. That is the way to do it; we should not try to tinker around with the pillar 1 area. That is my view, anyway.

Vicki Swales: I have identified a problem that relates to the need to retain farming in those areas for environmental reasons as well as for social and economic ones.

We would not necessarily advocate a return to coupled payments, which would just be going backwards and turning the clock back. I agree with Andrew Midgley that creating complicated structures, splitting regions and giving differential

payment rates is not the solution, either. We need to get the basic payment right and to ensure that it is in a simple form that gives an uplift to the farms concerned. That might mean overcompensating some farms, but it could ensure that farming is retained in the places where we want that to happen.

I also agree with Peter Cook. If we want to help those regions, the best way to do that is through pillar 2, by helping businesses to diversify and to explore other opportunities, and by helping rural communities more widely. I would not necessarily support the NFU's solution to the problem, which is, "Oh, let's just start throwing in much more pillar 1 subsidy in the form of coupled payments." I do not think that that is the answer at all.

Andy Tharme: I do not propose to give an official view on the land use strategy pilot, as that would not be appropriate. We are engaging with a wide range of stakeholders, many of whom are represented here today. There are a variety of views on the SRDP and CAP.

Perhaps there is an opportunity to reflect on what we have learned so far through the pilot process, which is now about halfway through. We are considering an ecosystem approach, which involves adopting land use strategy principles that reflect how ecosystems function and the services that the land provides. It also involves engaging people in decision making.

As part of that, we have engaged with a range of stakeholders. Part of the feedback that we have received so far has highlighted the role of rough grazing and how it can provide public good through carbon sequestration. We have been asked to consider that further as part of our pilot process. I thought that it was important to feed that in for consideration.

The Deputy Convener: We move on to the issue of greening measures and how they should be implemented.

Claudia Beamish: Thank you, convener. We seem to have moved on to the issue quite seamlessly. I would like to ask a specific question about the greening measures and a broader question about how pillar 1 can continue to integrate production and environmental issues in a way that is forward looking and transformational.

In relation to our climate and the geographical challenges that we face in Scotland, are the panel members reasonably content with how the greening measures are likely to be implemented? If not, what are their views?

As I said, we have heard about transformational change and how—I do not want to put the wrong words in people's mouths—we should not be talking about production and the environment

separately. For what it is worth, my view is that pillar 1 should have an integrated production and environmental system, and there are a lot of good examples of farms that work in a way that involves adaptation to climate change, climate change monitoring, biodiversity issues and water issues. Do the panel members have any broad views on the integration of production and environment in pillar 1, specifically in the face of the challenges for the three greening measures?

Davy McCracken: I might have said this before in the committee. I hold my hands up to being a member of a team back in 2007 that suggested some of the aspects that are now in the greening programme, such as the ecological focus areas and the diversification of crop measures.

From the Scottish perspective, it is important to highlight the fact that the diversification of crop measure was not one that we suggested, or one that we intended should be applied or should be mandatory at the wider EU level. That is the main one of the three greening measures that we agree is not necessarily relevant to Scotland. The way that it has been framed at the European level means that it is highly unlikely to achieve very much from an environmental or a biodiversity perspective. We would therefore be strongly supportive of finding ways of implementing that particular aspect of the measure without it having major impacts on the farm businesses that have to apply it.

Similar terms apply to the other two greening measures. As they are currently proposed at the European level, the ecological focus area measures do not go the full way down the line and get to the point at which, if they were applied, they would have environmental or biodiversity benefits.

To go back to one of the points that I made earlier, it all comes down to what decisions the Scottish Government makes, because it is now within the Government's gift to decide which aspects, habitats or features—call them what you will—to include in the greening measures, and, in relation to the permanent grassland, how rigorous or detailed the implementation should be. However, because the spikes are not there yet, it is difficult to answer your question in full.

You asked about how integrated agriculture and the environment should be. If we are to address our biodiversity, water quality and climate change issues, agriculture has not just a role, but a key role, to play. Agriculture and the environment have to be integrated in the future, not just to address environmental issues, but to ensure that our farming systems can remain productive while addressing those environmental issues. If we do not address them, they will come back and bite our farming systems on the backside in the future, if I can put it that way.

Vicki Swales: There is sometimes a view that Scottish farming systems are already quite green and that we do not need to worry too much, but unfortunately that is not the case.

We know that we face declines in farmland biodiversity; that we have water quality and diffuse pollution problems; that we need to reduce greenhouse gas emissions from agriculture; and that we need to think about how we use our land to deal with flood risk management, for example. The Scottish Government has set ambitious and laudable targets in relation to those things. If we are serious about meeting them, we need to use all the CAP and all the funding at our disposal to help us to do that. Therefore, we definitely need to look at both pillar 1 and pillar 2 to help us to achieve those targets.

In some respects, greening is a significant step in relation to CAP reform, but in other respects, it is perhaps a bit disappointing. From an environmental perspective, it did not go as far as we would have liked, but it is significant. It is in pillar 1 and the funding for it will represent around £130 million per annum, which is almost four times the agri-environment budget. It is incumbent on us to use that money wisely and to make it deliver real environmental benefit.

The rules that have been handed down from the EU are not entirely helpful. It has done what the CAP does in trying to come up with a common set of rules that apply across Europe to address certain problems but, of course, they do not. There are peculiarities and differences in different places that mean that those rules do not always fit very well.

To us, the best way to deal with that is to go down the equivalence route and introduce a national certification scheme. If we do that, we will have more options at our disposal, and we can tailor much better to the Scottish situation what is required from farmers. There can be a mix of the basic three measures—crop diversification, the permanent grassland measures and the ecological focus areas—but the additional options that equivalence gives are the way to go.

Discussions are on-going with the Scottish Government that Scottish Environment LINK is party to. We hope that something good will come out of them, but when we sit in those meetings, we hit the barrier of people saying, “Well, the rural payments and inspections directorate will not like this.” They say, “There are complications. It’s too difficult to administer. We can’t inspect that. We can’t verify that.” Some of those concerns are legitimate, but some of them reflect an unwillingness to look seriously at the scope of the measures and see how we can implement them. If the will exists, we can do that; if it does not, we will

not, and greening will be little more than greenwash if we are not careful.

The Deputy Convener: Thank you for that. I want to bring in Rod Campbell to highlight an example of the practical difficulties of importance to his constituency.

Roderick Campbell: Indeed, convener. Last week, we heard evidence from soft fruit growers that the requirements of the fruit and vegetable scheme under the CAP and the greening requirements under pillar 1 made it difficult to manage the productive area of fruit farming. It was suggested that a better approach would be to continue to operate intensively in some areas, but to be very green in others—in other words, to split things. I do not know whether those concerns are legitimate or whether the proposed solution of splitting things would work. Do the panellists have a view on that?

Andrew Midgley: I do, and I will come back to that issue. However, before I address it, I want to come back to Claudia Beamish’s questions. First, I will deal with the broader question on the degree of integration, and then I will talk about greening.

For quite a long time, there has been a debate about the best place for delivering public goods. The natural consequence of that debate was that more money should have been transferred from pillar 1 to pillar 2, but the debate was lost at the European level and the delivery of public goods stayed within pillar 1.

We are left with the consequence of that decision, which is greening, and all the accompanying problems. The answer to the question, therefore, is that pillar 2 is probably the best place to deliver for the environment, because that money can be targeted and delivered in a specific way to provide an outcome that we want. If we try to deliver a common policy and set out generic greening proposals for the whole European Union, we will end up with the problem that they do not apply everywhere and potentially do not deliver much in some places. As a result, my argument is that the logic still holds that pillar 2 is the best place to deliver for the environment.

10:45

We are where we are, however, and we have a set of greening requirements that we have to deliver. The position of Scottish Land & Estates, which is coherent with my comments about simplicity, is that, given that we have to implement those requirements, we should use the standard measures that Europe has given us while trying to use some of the flexibility that is available.

That brings me on to the problems faced by particular people. Some measures in the

regulations might help, and there is a suggestion that the Scottish Government might be able to accept ecological focus area requirements at regional level to allow people to work collectively. The consequence would be that an individual might not necessarily have to fulfil all the EFA requirements on their particular holding—they might be able to fulfil 50 per cent of them. As a result, the concerns in those sectors could be mitigated.

We perhaps already have the tools in the box to help to deal with the issue, but the question is whether we choose to take them up. Scottish Land & Estates is minded to support at least a consideration of using those tools in addition to the straight greening measures, because of the potential for people to work together to deliver enhanced environmental benefit within the confines of pillar 1.

Although there are potential wins through equivalence, and although we could come up with things that might work, I come back to the point about simplicity. We are still open-minded on that but, in the short term, I suggest that we get on with the three measures that have been handed down by Europe. After all, people need to plan fairly soon what they are going to do, and they need certainty, whereas the certification approach through equivalence might take time. However, we are not necessarily completely closed to the idea.

Pete Ritchie: Nourish completely supports Vicki Swales's argument that we should go for equivalence and develop our own approach. I know that that would be difficult, but we have world-leading science and we know a lot about the environment, biodiversity and climate change and about developing measures.

As a simple example, Nourish is keen to support agroforestry measures on pastoral and arable land, which would have all sorts of benefits and could be supported through the SRDP and the CAP greening measures. We need to grow more legumes in Scotland, and we need more home-grown protein so that we are not reliant on importing soya from Latin America.

We also need to pay attention to organic production, which is an obvious issue on which other European countries are moving quickly. For example, France, which is one of our key export markets, is doubling its area of organic production and aims to double its consumption of organic food. However, we are not really considering organic production as something that we could lead on.

Overall, Nourish believes that the advisory services, which are a key part of the political proposals, have an important part to play in the change. If we want the environment and

production to be more integrated, the advisory services are one of the key tools that we can use in that process. There has to be a clear mission statement. Productivity can be promoted in many ways, including through market measures, which mean that people get paid if they produce more. The advisory services need to help farmers and land managers to integrate the environment and production creatively over the next few years. That is where we need a transformative change.

Davy McCracken: I have two quick comments, after which I will come back to Roderick Campbell's question. The discussion and debate that we are having about greening echoes the discussion and debate about greening that is happening across Europe. To my mind, it throws up a bigger generic issue. In that discussion and debate, we seem to have forgotten the overall aims and desired outcomes of the greening proposals, and a lot of the discussion is about how we implement the proposals in a way that is less constraining on farmers and others. I suggest that the point about our forgetting the overall desired outcomes applies across the board to the discussions about the CAP.

A lot of the focus is not on what we want pillar 1 or 2 to achieve but on how we ensure that our farmers remain competitive. That is a danger, because we will be constraining ourselves in a structure for at least the next five or six years, if not the full seven.

I go to the same meetings as Vicki Swales does about greening and a variety of subjects and, like her, I accept that the RPID has concerns about the verification of aspects that might be brought into the greening process. However, as I have said in some of those meetings, it is important that we take a longer view and not just an environmental perspective on the benefit of bringing landscape features, for example, into the ecological focus areas. Mapping them would provide a wonderful resource that would, as Andrew Midgley said, allow us to decide the best place for delivering public goods. If we know what is in each field and the landscape context in which it sits, that is a great resource that can be used in the future.

I am not sure whether Roderick Campbell was suggesting that horticultural firms have said that they should do what they do and leave someone else in their region to meet the greening requirements. If that is what he was suggesting, I think that there would be a danger in that.

Roderick Campbell: I was not suggesting that. I was talking about a division of the land that those organisations have.

Davy McCracken: A number of people have addressed that by saying that we should use the equivalence approach to help farmers to meet the

requirements. As I have said, the additional environmental benefits that are gained from crop diversification will be neither here nor there.

The Deputy Convener: I will broaden out the discussion a little by asking whether a tangible measure of carbon footprint reduction should be introduced into the CAP payment system. That would allow us to use the SAC Consulting agricultural resource efficiency calculator, and we could reward or penalise farmers according to the progress that they made over a measured period.

The intensive fruit and vegetable scheme requires anyone who benefits from it to make year-on-year environmental improvements. Last week, William Houstoun from Angus Growers said that, as a supplier to one supermarket chain, Angus Growers has signed up to that chain's 2020 target, which demands a 20 per cent reduction in emissions by 2020. Do we need to challenge broader agriculture to engage better in the overall green agenda that we are asking pretty much every other aspect of Scottish society to engage with?

Professor Slee: We need to look to agriculture to do more to reduce greenhouse gas emissions. Progress has been made, and the research community has moved forward, but the Commission itself has not moved terribly fast. We need to move towards farm-level greenhouse gas budgeting. If we had a different pillar 2, we could deliver significant support to farmers to move towards such ends.

The latest consultation document on pillar 2 was not terribly revealing about exactly what measures are being invoked. We know that some farmers have already responded and, as Claudia Beamish said, there are fantastic examples out there of farmers, such as Roger Polson in Aberdeenshire, who has what he thinks is a greenhouse gas-neutral farm. It is a fantastic example of an approach that has been thought through and planned, but a lot of other farms emit a lot of greenhouse gases and there is no incentive to reduce those emissions. Pillar 2 could add quite a lot, but that is not the position at the moment.

Vicki Swales: An awful lot could be done to help farmers to reduce their greenhouse gas emissions, which would benefit their businesses. At a recent meeting that I attended at which results from the farming for a better climate initiative were given, we heard the example of a dairy farmer whose business saved £30,000 by reducing energy use and fertiliser use. That is a win-win. Why would a farmer not do that? Okay, that farmer needed help, information and advice to work out how to make that saving, but we should invest in that. We should not necessarily pay farmers directly for reducing their greenhouse gas

emissions; there is private benefit to that as well as a public good.

On the more general point about certain types of producers being affected by greening, the cabinet secretary said during a meeting that LINK attended that he wanted every farmer acting greener than before as a result of the reforms. We were greatly heartened by that comment, and we want to hold the cabinet secretary to it. Every farm and every area has the potential to be farmed in an environmentally sensitive way, to deliver environmental benefit and, because people are not unwittingly throwing away fertilizers and pesticides, to reduce costs to the business as well.

We do not support the notion of separating out production on the one hand and the environment on the other, or the idea that it is all right just to do some things in a little bit of Scotland. Nature and the environment do not work like that. Wearing my RSPB hat, I know from our direct experience of running a commercial arable farm in Cambridgeshire that we have not only increased wheat yields but doubled the farmland bird yield, as it were, by putting in place some simple, cost-effective measures that put habitat back into the farm while allowing the farmer to continue to farm commercially. There are lots of solutions, but farmers need to know that and need help to move to a more sustainable basis for their farming systems.

Andrew Midgley: I whole-heartedly agree that an important move needs to be made. Organisations such as Scottish Land & Estates are keen to do everything they can to help the industry move in that direction, and we are involved in a range of such initiatives. Admittedly, progress is slow, and there are examples of people flagging up win-win scenarios that make you wonder why those things have not been pursued. Of course, that takes us into the realms of the advice and support available for doing those things.

As an organisation, we steer clear of the big stick, because it is not a good motivator. If you start to link the delivery of direct farm support with a reduction in carbon emissions, you get into a complicated area that not only is difficult to administer but might move you away from the level playing field, because it also depends on what other countries in Europe are doing.

However, despite a set of issues in that respect that might not really help to get people on side and moving in the right direction, we see a great opportunity in having a much better valuation of the public benefit, which will ensure that the person running the farm business sees the benefit for them. We need to get better at highlighting that benefit in order to make this a purely business

decision; instead of the Government telling you that it is a good way to go, the market will do so.

The Deputy Convener: Presumably, if progress is not being made, there will come a point at which something will have to be done.

Peter Cook: I do not want to throw a cat among the pigeons but although it is common sense to say that reducing energy use comes down to energy use per unit of output, it is a partial thing and to design a policy around carbon is scary.

If you were to review the SRDP as it is written now, you would certainly not support hill sheep, because the amount of carbon required to produce a kilo of hill sheep is phenomenal. Instead, you would support pigs and intensive soft fruit production, because although they appear to use energy intensively, the amount of energy used per unit of output is tiny. You would certainly not support organic farming, because the amount of energy used per unit of output is phenomenal. Instead of using a small amount of chemical to control weeds, you have to run up and down with a tractor all day. Those are horrifying truths, and I am not very sure that you would want to design your policy around them.

Of course, carbon is only one reason for designing a system—and I would be careful about taking that approach—but it is interesting to review the SRDP on that basis.

The Deputy Convener: I must allow Pete Ritchie to come in. He is bursting to say something.

Pete Ritchie: I must respond to the slurs on organic farming. At last year's Scottish Rural University College conference on sustainable intensification, we heard that the world record wheat yield, recorded on a farm in Lincolnshire at 13 tonnes per hectare, had been measured in terms of greenhouse gas intensity per kilo of wheat. The researcher said that it was interesting that that was the best on the bar chart, but they had not looked at the organic farm next door, where, although the actual wheat yields were lower, the greenhouse gas emissions per kilo of wheat yield were lower than those of the world-record farm. I asked whether the researcher had counted the carbon sequestration and he replied that he had not.

Carbon sequestration for organic systems, in a meta-analysis of studies, is about 28 per cent above that for non-organic systems. I refute your statement about greenhouse gas emissions and organic farming.

11:00

Peter Cook: I will show you some more numbers, then. The point is that it is worth a

question. The question needs to be asked, and it never is. We assume that these things are built in to a feeling of "It must be good." We need to question these things. This is public money.

The Deputy Convener: We have a lot of other questions to cover. Richard Lyle will deal with capping.

Richard Lyle: I have been listening intently, and I am very impressed by the witnesses before us. I am also very impressed by the work that farmers do in Scotland. The problem is that it will become harder because, in the end, the money will go down and the jam will need to be spread more thinly. What do we do? How do we look at this? How do we improve the way in which we produce our food, whether it is organic or produced through traditional methods, to ensure that we get the best from our farmers and from the pot of money that is being reduced by another Government?

Should we set targets? Should we be asking whether there is a case for any additional capping of payments? Someone said earlier that we should be setting targets in order to improve what people are doing. Should everyone be set a target? There will be winners and there will be losers, and I am sure that the losers will not be too happy. The aim is to ensure that everyone is getting a fair crack of the whip, is working and is putting their nose to the grindstone so that we produce the best food in the world. Let us be honest: the best food in the world is produced in Scotland. Every farmer and every grower does a lot of good, but should we be setting additional capping of payments to ensure that everybody is doing their best?

The Deputy Convener: We took evidence from the NFUS last week that suggested that there are very few examples of farmers getting €150,000 in Scotland, for capping purposes. Could somebody address that in answering the question?

Pete Ritchie: The Scottish Government has been remarkably coy about how many people are getting those big payments, why they are getting them and what money would be available for pillar 2 if those payments were capped at €150,000, as Northern Ireland has done, where only four or five farmers are in that band. That information has not been given out as part of the planning for the different ways in which the money could move around. According to our estimates, based on the figures that we have, around €20 million a year could be moved into pillar 2 if the payments were capped at €150,000, at 100 per cent. That is not a huge amount but, given that there is not much in pillar 2 at the moment, every little helps.

Nourish Scotland's view is that the larger businesses that are getting those sorts of payments simply should not need that amount of public money without any obligations or

requirement to deliver public goods—or even a requirement to submit accounts—in order to keep their businesses going. If, by now, they cannot have viable businesses with that level of public subsidy, they are not as efficient and productive as the NFU sometimes likes to make out that such businesses are. We need to question whether any business needs that level of continuing subsidy.

Andrew Midgley: The Scottish Government released some figures. Those came to the future CAP stakeholders group in 2012, when some analysis was carried out as the debate was going through the European Parliament. The Government calculated that approximately 60 people would be affected. However, those figures are based on the previous level of payment, rather than on the future payment, as it is extremely difficult to work out how many people will be affected. We still do not know what the base payment will be, as that is related to all the other decisions that we have to make about coupling and so on.

You are right that the picture is not very clear, but things are of that order.

We would urge caution and suggest that there should not be capping. The move to a fairer system, as you suggest, is happening. I refer to the move to area payments. The question is whether you would cap initially. The returns from capping would decrease over time, as the move to area payments takes place. The question is whether to impose capping for a few years. Our position is that we should not do that.

The reason why we take that position is that the people who would be receiving that much support will probably be some of the biggest producers—they are big businesses and we would get into the law of unintended consequences. I understand the rationale behind the view that a lot of public money is going into one business, but we should put ourselves into the position of that business and ask what it will do, how it will think about the situation and how it will react. If a business that currently operates with a certain margin and includes in its calculation the support that it receives from the Government suddenly has that support reduced substantially, you push the business into deciding how it will reduce costs or make changes, which will ultimately impact on the supply chain or on people's jobs, because the business employs people.

The law of unintended consequences means that, when you think that a situation does not look fair and try to hit one person, you affect someone else. Bearing it in mind that we are moving to an area-based system over time and that the problem will be solved by the end of the period—large payments will still go to individuals, because there are people with large enterprises—we do not

necessarily want to create other problems in the short term.

The Deputy Convener: We need to make progress. Davy McCracken will be the last contributor on the issue.

Davy McCracken: I am not saying that the SRUC does not have a view but, unfortunately, having checked my notes, I see that we have not as yet formed a view on the issue. I assume that that is because some of my colleagues on the economic side are looking into the detail of the number of individuals and the level of funding that would be affected.

The Deputy Convener: We will move on to look at how new entrants and new sectors will be supported.

Nigel Don: Operating on the assumption that we need younger farmers to come in because we are all getting a year older with every year that goes by, how do panel members feel that the proposals before us will help new entrants to get in, or will they not do so?

Professor Slee: New entrants to farming are clearly very important. The research record on the ability to move young people into farming when the costs of entry are very high is not terribly optimistic. However, people will stay in farming into their old age if they can derive income from it, and that is currently the case. Quite a large part of the cost of entry into farming arises because of the embodied value of CAP subsidies. That is why the cost to enter farming is so high.

When my grandfather went into farming in the 1920s and 1930s, the cost of entry was very low and a lot of young people entered the industry. In fact, the grandchildren of some of those entrants are running farming empires in Scotland today. To subsidise people to go into farming will therefore probably prove rather expensive. Although it is rhetorically appealing, all the evidence—some major research was done in Ireland on exactly this problem a few years ago, and Peter Cook and I were involved in a study with the NFUS and the Tenant Farming Forum that looked at the issue a few years back—indicates that it is extremely difficult to design efficient policies to get young people into farming when the costs of entry are very high.

Nigel Don: I thank you for those comments. I do not want to prevent others from coming in, but I will come back in on Professor Slee's first comment. If farmers tend to farm into old age, does that perhaps mean that the farms become less efficient, because as we get older we become happier with what we have always done? Would it be fair to suggest that younger farmers are more likely to improve the effectiveness and efficiency of their farm in a way that their father or grandfather

would not, because he is comfortable doing what he is doing?

Professor Slee: I certainly think that well-trained young farmers coming into the industry who bring new blood and new ideas would be greatly beneficial. The challenge is to grant aid that.

In some ways, some of the older farmers who are farming less intensively are probably, serendipitously, delivering quite high levels of environmental good, or low levels of environmental bad, as they are applying fewer fertilisers and so on. People continuing to farm into old age is not wholly a bad thing, and it may be rather expensive to deliver the gains that you want by funding new entrants to the industry.

The Deputy Convener: It is worth noting that new entrants are not necessarily young entrants, given the nature of farming.

Andrew Midgley: There is a big package here, and we support what the Government is doing. It is trying to do everything within its power to help new entrants, and it is important that that is seen as a whole package, including access to pillar 1 and support through pillar 2. When all those things are put together it is a useful and important step, and that is a good thing.

There is a wider set of challenges for new entrants in accessing the industry and getting over the barriers to entry, not the least of which is access to land. The Government does not necessarily have the ability to influence that easily, but it should be commended for what it is setting out to do.

James Graham: Finance is one of the critical issues for new entrants. The changes in the banking system and the way in which banks operate, over the past five or even 10 years, have seen it become more difficult for young farmers to access conventional bank financing. In the past, the flow of money between generations happened through the intermediary of the local bank manager, but that no longer happens. That is partly why we are engaged in a knowledge transfer partnership to research whether a new farm-based, farm-owned savings and loan co-operative would be feasible and popular in Scotland. We are in the process of researching that.

The Deputy Convener: That is interesting.

Last week, we were given an example of a specific issue that new entrants feel that they have to cope with at the moment, which Nigel Don will address.

Nigel Don: Last week, the farmers suggested that it may be difficult to rent farmland this year and next year because the landowner might try to

hold on to it in order to gain CAP entitlements when the new system comes in. Can anybody tell me whether that is true? Given that we must have a reference year for the CAP, which year might that sensibly be?

Andrew Midgley: I think that that question is directed straight to me. When support is introduced through a system such as the CAP, that has an effect on decision making and people make decisions that are rational from the point of view of their businesses. Therefore, when we move to an area-based system, everyone will try to secure control of land so that it counts in their business—I do not think that we can get away from that fact. That is the reality of the system.

At the same time, it is important to flag up that there are wider agendas around the right to buy and the agricultural holdings review that are making landowners reluctant to let. As long as that remains the situation, there are highly destructive consequences for the rest of the industry. We need to move past those things, both of which have an impact.

For the reference year, I think that we should stick with the current proposals. I do not have a particular view one way or another.

The Deputy Convener: Do you accept the point that Jonnie Hall made last week, that landowning interests are taking land back in hand at the moment and are sitting on it so that they can draw down payments? He was quite specific and it would be good to get some clarity on that.

Andrew Midgley: The terms that are used are important. You used the phrase “landowning interests”, but any owner-occupier farmer is a landowning interest. It is easy for that phrase to be interpreted as meaning large landowners who are not farmers trying to get hold of land so that they can inappropriately access payments. I do not support the suggestion that that is happening.

People who farm and who are eligible for support will be trying to make rational business decisions and, as a result, everyone is trying to access land. That is the nature of the system. I suggest, therefore, that we avoid the sort of characterisation of landowners as people who are trying to do X or Y, because it simplifies things too much.

11:15

Pete Ritchie: I want to make a wider point about new entrants. Nourish Scotland would support having more small farms in Scotland, because we need a more diverse farming sector with more diverse models of farming ownership. We have gone down the road of having bigger farms that supply the supermarkets, but that is

only one route to market. We need a more diverse sector with smaller farms, particularly in the peri-urban areas that supply the cities, and a more diverse range of farming businesses.

Like James Graham, I think that alternative financial models utilising either local authority or third sector pension funds could be used to get people into farming. Given that land is not going anywhere, it is a reasonably good investment. We would like more broad-based investment in land; that land can then be rented to new tenants, who should be given a lot of support in not only production skills but marketing and co-operation skills.

Vicki Swales: I will make the very quick point that we need to be careful about the role of anecdote in all of this. There is an awful lot of anecdote flying around, suggesting that the beef sector will be hit, that it will all be a disaster and that farmers are doing this or that. We do not actually know what is going on; as Andrew Midgley said, we are in a period of huge uncertainty. People are trying to make logical, rational business decisions based on the evidence in front of them but until we pin all this down and get some final decisions it is going to be very difficult to know how people will react. In any case, we should be very careful about speculation and should always try to ensure that our views are as evidence-based as possible.

The Deputy Convener: Thank you for that comment. Alex Fergusson will now ask some questions on coupled support.

Alex Fergusson: First, I suggest that the outcome of this will be determined not by the decisions that are made but by people's reactions to and their business planning for those decisions, and I suspect that we will not know any of that for a couple of years until the new system—whatever it might be—has bedded in.

A lot of the general issues around coupled support have already been covered in response to Mr MacDonald's timely intervention, for which I will thank him later. *[Laughter.]* However, I also noted the point that Vicki Swales made—inadvertently, I think—in suggesting that with coupled support a lot of new money will in some way be thrown into direct subsidy. A coupled payment is not new money but, if you like, a redevelopment of existing pillar 1 support. If it is increased, it means that less money goes in some other direction.

If we accept that coupled payments exist, I want to move on to a topic that I raised last week. Vicki Swales has just suggested that the beef sector has always been deemed particularly vulnerable to changes in the CAP regime, and I do not think that anyone is of a different opinion this time around. The cabinet secretary has said that 8 per cent of

coupled support will go to the beef sector, the rationale being that such a move will preserve the sector at its current levels, if not help to expand the national beef herd. As I said last week, if you want to do that through a coupled support payment—say, through the beef calf scheme—is allocating a relatively large sum to a small number of calves born to any herd and then reducing those payments the right way to go about it? I cannot see how a regime in which the vast majority of payments will go to the fewest number of calves will encourage anyone to maintain or, indeed, increase their beef herd. Does anyone have any thoughts on that?

Vicki Swales: We need to be very careful about the purpose of coupled payments within EU rules, which make it very clear that this is about maintaining production. If the payments increased production, the payment rates would have to be reduced. Coupled payments are, therefore, not some panacea that will lead to an increase in beef production in Scotland. I do not have the wording of the regulations in front of me but they serve the specific purpose of helping particular kinds of farming systems in which there are particular economic, social or environmental problems.

There are some issues with the use of coupled payments in the current schemes. In broad terms, we do not support the idea of coupled payments—

Alex Fergusson: Sorry, as I said, I was talking about a situation in which we accept that they are there—for the purpose of this discussion, we have to.

Vicki Swales: The analysis that has been done historically on the Scottish beef calf scheme—there is no up-to-date analysis of the Scottish beef scheme—shows that it has not worked in that it has not prevented the decline in beef cattle numbers in Scotland. It is not serving even the purpose that Government wanted it to serve.

If coupled payments were to be used, we could construct something that was better targeted toward supporting more high nature value farming in the north and west of Scotland, which are particularly environmentally important. Overall, however, I do not think that there is a great deal of evidence that the scheme is achieving what Government wants it to achieve. It feels rather like turning the clock back to the old days of production subsidies.

Davy McCracken: My SRUC colleagues would support the 8 per cent voluntary coupled scheme going to beef farmers, but with the front-loading of it being decreased below the current level, so that a greater range of medium-sized farms would benefit. Unfortunately, they have not told me what they mean by medium. I assume that their view is

in line with your original question whether bigger farms can get some advantage from the scheme.

The Deputy Convener: Angus MacDonald has a final question on pillar 1, which will wrap up that discussion.

Angus MacDonald: I should perhaps have raised this point at the start of the proceedings. Before we go on to cover the SRDP in more detail, I would like to raise the issue of the Irish tunnel proposal. There has been some debate in Scotland and elsewhere about the Irish tunnel model, which is designed to substantially slow the pace of the transfer to area-based farm support payments. Clearly, there are a few disadvantages to that, not least the fact that, until 2020—which would be 20 years after the last reference period—the payments would still contain an element of the historic payments system. That cannot be good, in anyone's book. I would be interested to hear the panel's views on the matter.

Pete Ritchie: When you try to explain to people in the pub how the CAP works and you say that people are getting paid based on the number of sheep that they had in 1995, they say, "That can't be right." Then, when you say that that is right, and that people want to keep that going for another six years, they say, "Is this public money?" When you tell them that it is, they say, "How is that allowed to happen?" That is all that I want to say.

The Deputy Convener: You must drink in some interesting pubs if that is the topic of conversation.

Andrew Midgley: Pete Ritchie is absolutely right. We know that we have to move and that we have to get on with it. We can talk about the issues and debate the degree and the pace of transition, but we have to get to the stage at which we can break that link.

The Deputy Convener: Is that the generally accepted view?

Vicki Swales: Yes.

The Deputy Convener: I see that others are nodding.

Let us move on to deal with pillar 2. With regard to the SRDP funding and so on, what measures should be included in the programme? I would like to get a general feel of the views on pillar 2.

Davy McCracken: That is not an easy question to answer, because we are where we are with the level of funding that is available within pillar 2. There are many things within pillar 2 but, from an agri-environment point of view, it needs to be more targeted.

A lot of work is going on in the Scottish Government to determine how best we can target measures at where they would have the best effect—Vicki Swales and I are involved in that.

However, as we said in a meeting on Monday, we are not yet at the stage of knowing how best to do that or what the implications of doing that would be for the funding. There was some discussion about the fact that, although a range of potential measures are available to us, we might get to a stage at which, if we want to make the best impact with the measures that we have, we decide that we have to reduce the level of measures that we try to implement. That opens up another debate about how we go about doing that.

From an agri-environment perspective, it has been suggested that we focus on those areas in which the Scottish Government has a statutory remit, such as measures that help us meet our water framework directive obligations or our statutory Natura 2000 obligations. That is one view. Again, I do not have an answer, but I suggest that, having revised our Scottish biodiversity strategy and having targets for 2020 to achieve that, we will not achieve the full range of what we are trying to achieve in the strategy if we focus only on water framework and Natura 2000 objectives.

Vicki Swales: It is clear that, as Davy McCracken suggested, we have a limited budget and will have to cut our cloth according to our means. We could do many great things with pillar 2, but we need to be realistic. That is exactly why we have engaged in talking about targeting and more effective use of the money that we have.

Scottish Environment LINK's priorities for funding are the agri-environment climate measure, forestry grants, advice and knowledge transfer linked to that, the co-operation fund and LEADER, which takes a small amount of money but can serve a valuable purpose. Those are our top-line priorities for expenditure.

We have serious concerns about LFASS as it stands and the allocation of almost 35 per cent of the budget to it. It is not that there is no need to help some of the economically disadvantaged farmers—we discussed that earlier—but we could get the redistribution of support right in pillar 1 and reduce the LFASS measure in pillar 2, or even not have one, which would free up £65 million per annum to spend on a range of other things. That would be extremely helpful not only to the environment but to the farming community and rural areas as a whole.

Overall, the balance of the programme should be on delivering public benefit, not private benefit. There are elements within it that, to some extent, deliver a bit of both or deliver more private benefit. They help businesses to develop and diversify their income, for example, but the benefit of that goes directly back to the business. We need to use public money carefully in such situations. It may be appropriate to pump prime certain

activities or get them going, but we should certainly not see such funding as a long-term subsidy.

We reject the NFUS suggestion that pillar 2 money should be used to help those who are most affected by the impacts of pillar 1. Let us be clear about the objectives for the programme and what we are trying to achieve. It is not just about finding some solution to problems that were created by the move to regionalised payments.

The Deputy Convener: We will come on to the appropriateness of the allocations for the proposed measures. At the moment, let us deal with the general point of what measures should be included.

Andrew Midgley: There are lots of good things in the proposed SRDP, but there is a big issue with the allocation of the budgets. To be frank, it looks like a status quo SRDP; it is about maintaining the current activity. It is an extension of the current programme with a bit of modification of the process to try to make things easier and it lacks a real idea of what we are trying to achieve at the end of it. In effect, it is treading water. Overall, that is slightly disappointing. Having said that, we are in a difficult place with changes in pillar 1 and we have to be slightly cautious, so it is a slightly complicated message.

What could be different? If we are thinking long term about enhancing the delivery of public good and about the decline of direct support, we need to think about what our rural areas are like, what role farming plays in them and how we can support farming businesses to adapt to the new situation. We also need to think about what other things we can support in rural areas to help rural communities, rural businesses and the rural economy to develop.

We need a forward look to identify the sorts of rural areas that we want. That is not really what is in the SRDP. I would put in support for change for farming businesses and wider support for communities and rural businesses.

Professor Slee: It is worth looking back to the new EU regulation on support for rural development that was published just before Christmas. That talks about fostering knowledge transfer and innovation; enhancing competitiveness; promoting food chain organisation and risk management; restoring, preserving and enhancing ecosystems; promoting resource efficiency and transition to a low-carbon economy; and promoting social inclusion, poverty reduction and economic development in rural areas. If you hold up those objectives against what we have, you see that it is, as Andrew Midgley says, more of the same. It is almost as though

pillar 2 has not adapted to those new and perfectly reasonable European imperatives.

I go along with Vicki Swales and say that, if I look down the list, reasonable components to the programme are knowledge transfer and exchange, agri-environment and climate—I would argue for a significantly greater emphasis on climate—LEADER, co-operation, forestry and business development, where that is engendering transformational change.

11:30

Stuart Goodall: Unsurprisingly, I will focus on forestry. A lot of the issues that we are discussing about multipurpose land use to achieve benefits for production and the environment by hitting carbon targets can all be delivered through forestry. I also highlight a frustration that forestry is seen often as an alternative to farming, as if there is somehow a conflict between them and one should happen at the expense of the other. We talk to an awful lot of farmers, and we have members who both farm land and have forestry, who see how the integration of the two benefits the farming side. It is certainly not the zero-sum game that it is often presented to be; indeed, it is quite disappointing that that is how it is presented.

Having spoken to farmers in the north-west, I know that there is interest in how forestry can encourage people back on to the land as a way of giving them an immediate income and providing not only an improvement to production but a capital resource that will give them value for the future. We are not talking about the forests that were grown in the mid-20th century and that are often thrown back at the sector. The forests that we plant are designed to fit into the landscape and account for biodiversity. They are there for people and we work with local communities on the plantings. It is an opportunity for a win-win, which we see to be very positive.

Unfortunately, the forestry component of the SRDP is seen to be a bucket for anything that is related to forestry. It was principally set up to deliver core objectives, but anything that might involve a tree is now thrown in and funded from that pot. The funding is insufficient for those core objectives so, if more and more is thrown in, it will become even more unachievable for the Government to meet its objectives.

Davy McCracken: The SRUC supports the continuation of LFASS in its current form, particularly to help buffer the impact that the changes in pillar 1 will have on farm businesses, recognising that LFASS is important for a range of farm businesses. Having said that, we would also look to the introduction of the areas facing natural constraints designation in 2018. If that helps to

identify a greater range of grazing qualities in pillar 1, we recognise a potential opportunity to rebalance the amount of LFASS funding and put more of that support in pillar 1. However, that would depend on the development of the ANC process.

Peter Cook: The points have been made. A lot of very good measures have been chosen and the structure is no surprise given the budget constraints, the carbon targets and so on. As Bill Slee and Andrew Midgley said, it is meant to be a rural development programme, so where is the development? That is what stood out. I do not see anything in the programme that would be transformational. As I said in my opening statement, we are aiming for an industry that can, to a greater extent, stand on its own two feet. A lot of folk would say that the transformational change element does not have a high enough investment. That does not mean a huge capital investment scheme and heaps of sheds being built, but a targeted transformational change investment element would have been good.

The Deputy Convener: Given the budget, that would be challenging.

James Graham: I have three small points, the first of which is on food and drink business support. I want to emphasise how critical that is for our food processing sector, which has been under a great deal of pressure over the past few years. We are in competition to have processing facilities in Scotland.

I support the proposals for co-operative action, but the name that has been given to that scheme has caused some confusion in the co-operative business sector, which sees a co-operative as a business entity rather than as a collaboration that involves a wide range of stakeholders. Some businesses are mistaking what that scheme is about.

I was surprised that the budget for the knowledge transfer and innovation fund was not higher, because if there is one thing that we need to do, it is to initiate, stimulate, support and encourage more innovation, and the knowledge transfer and innovation fund seems to be the fund that has that purpose.

Vicki Swales: I want to come back on a couple of points, particularly the point about LFASS.

We see LFASS as problematic partly because it takes such a large share of the budget, which means that less money is available for things such as knowledge transfer, co-operation, advice and other things that really help, but also because of the way in which the scheme is constructed. I do not know whether members of the committee have ever delved into the scheme in any detail. The problem is a big one. Earlier, we talked about

breaking the link with historical production. LFASS embeds that link with historical production, because it has a complicated set-up that relates to grazing categories and production in the past. Although the scheme has been rebased on livestock figures in 2009, in effect it still targets the money where production was greatest, historically, in the less favoured areas.

The intention of that measure is to give compensation to the farmers who are in the most disadvantaged areas, where, because production is more difficult, they cannot have a higher agricultural output. Therefore, the scheme is doing the reverse of what it should be doing, but we will have to sit with it for the next four years or more until we move to the new ANC designation and, potentially, a new scheme. The big problem is that LFASS is not helping the farmers whom it was intended to help; it is simply skewing the money towards the more productive parts of the less favoured areas, as it has always done.

Andy Tharme: I highlight the fact that the land use strategy pilots in the Scottish Borders and Aberdeenshire are developing map-based decision support tools that could help to inform the targeting that is being discussed. Furthermore, they are being developed in consultation with local stakeholders, so there is local and regional input. Those tools will help land managers and communities to assess the balance of food production, forestry, wildlife benefits and flood protection when they come to make decisions, and they will they allow local priorities to be informed by what local benefits people think can arise.

A catchment-based approach is being taken. We are learning from and building on experiences in our region. The consultation on the SRDP mentions the Tweed Forum and the collaborative work that it has developed on issues such as natural flood management. We think that those two pilots will provide a platform that will help to inform the implementation of the next SRDP.

Angus MacDonald: I want to pick up on the LFASS debate. I am not quite sure what the criteria are for qualifying for LFASS. Is there an argument that LFASS or the ANC scheme should be targeted at smaller farms and crofts?

Professor Slee: I share Vicki Swales's reservations about LFASS as it stands. It is a very blunt policy instrument for the delivery of environmental gain and a very blunt instrument for the delivery of social support, yet it has often been argued that it meets both those criteria. If it were to be more targeted at smaller farmers, at least it could be argued that it might deliver that social purpose. As it stands, it is an extremely blunt instrument for doing what it does, and it soaks up a disproportionate share of the total pillar 2 package.

Andrew Midgley: The change to ANC is intended to flip the issue that Vicki Swales raised about most of the money now going to the better land. The money will be redistributed towards the poorer land and more peripheral areas, which may in effect deliver what you want to see without necessarily having to discriminate in terms of size.

Pete Ritchie: I echo the points that have been made about having a purpose for the use of this relatively small amount of money. It must be focused and we must ensure that all the bits are lined up: low carbon, resource use efficiency, enhancing natural capital and—in Nourish's book—connecting people to the source of their food more closely. In the earlier scheme, it was not clear that those bits were lined up, and there was not a common ethos, so the way in which applications are assessed will be hugely important, as will the way in which the advisory service and knowledge transfer service work, so that they are all heading in the same direction. It is important that there is a clear message about the direction of travel.

One small thing that Nourish has proposed is that farmers who want to get money out of the SRDP will need to have a resource use audit and a carbon audit of their farms as a condition of that.

The Deputy Convener: Talking about money, we need to look at the distribution of funds.

Cara Hilton: What are panel members' general views on how the funds should be divided between the measures in pillar 2? Vicki Swales has already talked about LFASS and I am particularly interested in people's views on the support levels for the scheme, as more than a third of the pillar 2 budget is allocated to the scheme, yet organisations such as the RSPB argue that it does not represent best value for public money and that it provides few environmental benefits. Should there be more investment in schemes such as LEADER that provide clear value for public money and more environmental benefits?

The Deputy Convener: I am sure that there will be many views on that.

Professor Slee: I have already pointed out that LFASS has a disproportionately large share. It is not transformational in what it is doing, it is maintaining the status quo and it does not even deliver those elements of social good or environmental benefit that we would be looking for. I would certainly be happy to see LEADER's funding enhanced and I would be happy to see collaboration enhanced.

We have not mentioned forestry much, because it is largely an agricultural audience that is around the table today, but there is no doubt that, in terms of climate change, forestry is the most efficient

way of sequestering additional carbon. Of course, we should not do it on high-carbon soils and we do not want to dry out peat reserves, but that is already factored into the equation. We should focus our efforts where we know we can get a social, economic or environmental payback, and I do not think that the new scheme offers enough in that direction.

The Deputy Convener: It is worth pointing out that the audience today is the committee, which is listening to the views of the panel and will take a much broader view than a purely agricultural one. On that note, I call Stuart Goodall.

Stuart Goodall: I agree with Professor Slee. Basically, LFASS is pillar 1 in disguise. It is disappointing, it is not delivering the principles of the SRDP, and it is crowding out opportunities such as the forestry sector, which can deliver far more and can allow farmers to diversify and Scotland to deliver some of its serious targets, such as the carbon target, which will be difficult to deliver. I agree with everything that Professor Slee said.

Andrew Midgley: Although I said earlier that it is disappointing that the proposed SRDP is treading water, I introduced a caveat relating to all the change in pillar 1. Scottish Land & Estates is trying to find a pragmatic stance. LFASS is obviously the one place where there is potential to move money to fund other things, but we would like to find a balance to ensure a degree of stability for people going through that change, and that is what LFASS could deliver even though everything else changes in pillar 1. We think that you need to maintain the majority of that support in the short term, while the change is happening, and think about it and reassess it quickly, as soon as you have a better picture of what the change will involve. However, even in the short term, when the vast majority of the stability is maintained, there is a small amount of wiggle room that would allow some funds to be released to other areas of the programme, which would help with delivering the wider agenda.

11:45

Claudia Beamish: I wish to throw into the discussion some questions that have been raised by groups such as the Scottish Wildlife Trust. Is the agri-environment and climate change fund within SRDP large enough? RSPB has highlighted its view that it is not.

I would also be interested to know whether £10 million is really enough for the new co-operation fund or co-operative fund—or whatever it is going to be called—in relation to the stated aims of SRDP for groups, partners, public bodies and farmers to collaborate in the scheme.

Davy McCracken: I reiterate what we said earlier. Although I have made the SRUC's position on LFASS clear, we recognise that, throughout the other aspects of the SRDP, the agri-environment included, the funds are not necessarily sufficient to do the bulk of what is meant to be achieved. That is why, in relation to agri-environment, I mentioned the need to make some hard choices as to what we can fund.

The same argument applies in that we recognise, welcome and accept the need for a greater advisory service, as everybody does. Is there sufficient funding? We recognise the value of extending support to small farms, but we question whether there is sufficient funding. What will be the impact of opening up that support? There are a number of areas—if not all the areas—within the current SRDP where funding is a major issue.

Vicki Swales: I thank members for the questions. I have had a good go at LFASS already, so I will not say any more about that, but it would be remiss of me not to make the point that Scottish Environment LINK has called for a minimum spend of £60 million per annum for the agri-environment climate measure. That is pragmatic. The fund that is needed to meet our biodiversity, climate change and water quality targets is more in the region of £400 million per annum.

We are a long way from making the kind of investments that we would need to make in order to meet our environmental targets. Any small increase would be very welcome. The current amount that is proposed in the budget is £355 million, which is about £48 million per annum. Of that, about £38 million is funding on-going commitments. That means that there is roughly £10 million per annum of new money to do new things—extra climate change work, extra work to meet water quality targets or extra work to meet biodiversity targets. That is a pittance; it is nowhere near enough, and we need to find a way to increase it.

The Deputy Convener: To be clear, you would need to fund that by taking money away from LFASS.

Vicki Swales: I think that we would. It is difficult to see where the money could come from. Once we get past the headings of LFASS, agri-environment and forestry—we support money going into forestry—we get down to funds of £10 million or £20 million. It is the big-ticket item that is soaking up 35 per cent of the budget.

We very much support the co-operative action fund, but I do not think that there is enough money. We could double the fund and still spend it very easily. Among the LINK partnership, we can see lots of ways in which the money could be used

really well: for putting in a facilitator, for bringing groups of farmers together to work towards meeting water quality objectives, biodiversity targets and other things, and for putting landscape-scale restoration and land management to really good effect. It could also be used for climate change outcomes.

We would support increasing the budget for advice, as we are concerned that £20 million is not enough. We called for quite an expansion in advisory services. We really need to help farmers to make the change. There is a huge amount of knowledge out there—knowledge transfer is another issue—and we need to get it through to people and help them along in the process. We are not making the investments that we need to make. Agri-environment funding definitely needs to increase.

Professor Slee: I will make two points. I support what Vicki Swales said. Co-operation and collaborative action at landscape scale offer enormous scope for improving water quality and increasing habitat connectivity.

To go back to Andy Tharme's points, I bring in the concept of ecosystem services. If we design schemes cleverly, we can stack the benefits of different ecosystem services, such as flood control, biodiversity management, landscape enhancement and recreational access. I point out that Wales, which has a similar livestock emphasis, has done away with the less favoured area scheme and replaced it with a more elaborate ecological land management scheme for climate change that will use the money much more effectively.

Angus MacDonald: I bring the panel's attention to the crofting counties agricultural grants scheme. We heard last week that the Scottish Crofting Federation and the NFUS are concerned about the new crofting and small farm support scheme potentially being opened up to all 34,000 units that are between 3 and 50 hectares. The NFUS confirmed that, although it would like the scheme to be opened up to small farms, that should be only to farms that are in the crofting counties. We also heard about an issue in Orkney where farms sit side by side with crofts and farmers cannot tap into the scheme.

I am interested in hearing how the panel members feel about that issue. How would you like the proposal to progress? Should the scheme be rolled out to all farms of under 50 hectares?

Davy McCracken: As I said, SRUC supports the general principle of bringing small farms into the scheme. We would not necessarily limit the scheme to farms in the crofting counties, but we have queries about eligibility. We want an active farming element in the eligibility criteria. Having a

size of up to 50 hectares is too blunt a measure; we would prefer an eligibility measure that is based on remoteness or access to markets. That relates to the justification, which we talked about, for opening up the support to small farmers.

Andrew Midgley: I will return to collaboration before answering the questions about crofting. I signal our support for co-operative action. It is difficult to answer the question whether £10 million is enough. The initiative is positive, but most of the money that will be spent under it will be drawn from other budgets. If co-operative action is to deliver an agri-environment benefit, the agri-environment budget will cover most of it. The £10 million funds the facilitation role of enabling people who want to work together to do so.

If the £10 million turns out not to be enough, can we change things so that we can continue to provide funding? We must try to have the flexibility to move money between budget headings, because some things are popular and deliver good results. We should not necessarily close the door on them because we have made a point at the beginning of saying that just a certain amount is available.

Our organisation supports the widening of the crofting scheme to small farms, but we pick up on the potential to use the “like economic status” criterion. The intention is to support a particular activity and the issue is how we capture that. The 3 to 50 hectare measure is blunt and does not necessarily enable a justification to be given, as some smallholdings could be intensive and might not be part of the target audience.

Pete Ritchie: Nourish Scotland very much supports the co-operative action fund. We would like it to be used to stimulate short supply chains and collaboration between producers and consumers, because those elements have cropped up in quite a lot of the EU conversations but have not been translated into our rural development programme.

We are very keen for local food economies to be supported through co-operative action leading to such an outcome. It is hard to see where, once the co-operation has been done, the money for some of these things will come from, because it is starting to get so tight in the other schemes.

Finally, on the small farm support scheme, Nourish supports the scheme’s extension to small farms, but it has to be about what the development will deliver in terms of carbon reduction, resource use efficiency, local jobs and local food, rather than it being a case of saying, “I want a shed.”

The Deputy Convener: Before we wrap up this section of the discussion, I will raise a point with Stuart Goodall.

Your submission states:

“The land which the over-whelming majority of new woodland planting will take place upon can hardly be described as ‘fertile’ for agriculture”.

I think that your suggestion is that the overwhelming majority of it would be in a different category. However, have there not been examples in recent years of prime agricultural land being purchased for the purpose of tree planting? Concerns were raised about that last week. Can you shed a little light on the balance that is struck?

Stuart Goodall: Certainly. The purchases have principally been made by the Forestry Commission Scotland on behalf of the Scottish Government as part of its repositioning programme. What we are focusing on to reach the 10,000 hectare target each year for 10 years—which is what the Scottish Government has signed up to along with farming unions and a number of organisations represented around the table—is overwhelmingly not about prime agricultural land. The planting that has taken place, following the purchases that I have mentioned, can be measured in tens of hectares, so it is very small.

I will make a couple of brief points. One of the bits of evidence that the woodland expansion advisory group received was that in a worst-case scenario—I underline the word “worst”—achieving the target of 100,000 hectares would reduce agricultural production by, at most, 2 per cent. I would argue that that does not take into account the point that if farming and forestry are integrated—rather than there being displacement, as envisaged in the scenario that has been outlined—such a reduction would not take place.

It was interesting to get some figures from my colleague who knows a lot more about the issue. Historically, forestry increased from about 8 to 15 per cent land cover in the mid-20th century, which was a huge expansion. During that period, the number of sheep also increased. It is therefore difficult to imply that this is a zero-sum game. We are not focused on prime agricultural land and we feel that an expansion of forestry would have a minimal impact on agriculture. If it is done sensibly through looking at things such as LFASS and making funds available for projects that integrate with forestry rather than push and crowd out forestry, there could be a win-win scenario, which we are currently missing.

Jim Hume: Stuart Goodall and I have talked about this issue previously. I would like him to consider the point that it is difficult for the majority of tenant farmers to invest in forestry. The tenant sector is obviously a large part of Scotland’s agricultural sector.

Stuart Goodall: Absolutely. That is an important point. We have had many discussions

over the years with the Scottish Tenant Farmers Association. There is a lot of support for taking up the opportunity to plant trees, because people see that it can be a beneficial land use for them, but the issue is how tenant farmers can come up with an agreement with their landlord that caters for the issues related to the future value of the trees that they plant.

As an organisation, we are so small that it is difficult for us to undertake the work ourselves, but we have been encouraging work to be done to come up with model agreements and so on. If we could make progress on that, it would be beneficial for both sides.

Jim Hume: We should perhaps have a word with Andrew Midgley at some point.

Could such planting of trees not be seen as a tenant's improvement? Given that a tree has a 40-year life, if the tenant does not stay for a very long time, they could get some value at their waygo.

Vicki Swales: I, too, was a member of the woodland expansion advisory group. There should not automatically be a presumption against the planting of trees on prime agricultural land. In some situations, there are very good reasons for doing so. For example, riparian planting can help water and flood risk management, and it can reduce diffuse pollution.

Much of our prime agricultural land is the land that is closest to centres of population, so there are access and recreation reasons why people like to go out into woodland. I do not think that we should have a blanket proscription of planting on prime agricultural land. There is sometimes an assumption that we should.

12:00

The Deputy Convener: Thank you for that contribution.

Let us move on to consider the application process and the assessment of applications.

Alex Fergusson: I do not know what anybody else has picked up over the past two evidence sessions, but I am not sure that there could ever be enough money in pillar 2 or CAP to satisfy all the demands that are going to be made of it. The truth is that we have less money to spread over a wider area of demand. That is not easy for anybody to grapple with. You have given us a huge number of questions to put to the minister when he comes before us in a couple of weeks' time.

Whatever the rights and wrongs of the ultimate package, there will be a process for application and for delivery of the available funding. You will all be aware that the proposal at the moment is

that applications for grants of under £75,000 should be dealt with locally, whereas those for grants over £75,000 should be dealt with nationally. We heard evidence last week from the NFUS in particular—which got a bit of sympathy—that that arrangement could be altered very much for the benefit of the smaller farms and crofters we have heard a lot about today.

The suggestion from the NFUS was that we should have a first level of entry for grants under £10,000 and another level up to £50,000, with grants over £50,000 being dealt with nationally. Without going into the details of £5,000, £10,000 or £15,000 here or there, do any members of the panel want to contribute on that point? Do you approve of that idea or not?

One of the genuine criticisms of the previous SRDP was about how incredibly difficult it was for smaller rural enterprises and businesses—not just farms—to access grants. It seems that the NFUS's proposal might address that in some way. I would be interested to hear the views of the panel.

Vicki Swales: I will answer the question wearing an RSPB hat, rather than a LINK hat. We potentially have sympathy with the NFUS view. We have concerns with the £75,000 threshold for a couple of reasons. The first is to do with the history of the previous programme and the problems experienced by smaller farmers in getting access. The £75,000 threshold seems quite high—and we might well have those sorts of problems again. Reducing the threshold would potentially be beneficial.

We also have concerns about the threshold from the perspective of the assessment and approval process. It would mean that things are all done at local level by RPID agriculture officers in the region. Our concern is to ensure that applications are approved by the most appropriate authority and by people with the expertise to do so. It should not be a matter of simply fast-tracking everything through an agriculture officer. I mean no disrespect to the officers on the ground, but they come from a certain background and they have certain knowledge sets. We would be quite concerned, for example, about agri-environment schemes simply going through that process and Scottish Natural Heritage not scrutinising them.

There are two issues. It is certainly worth considering a potential lowering of the threshold and perhaps banding within it.

Professor Slee: We recently evaluated the national rural network, which supports the delivery of the rural development programme. One of the things that came out of interviewing RPID officers was that, in their deliberations in the past, the old regional proposal assessment committees—the RPACs—had got much closer to the foresters and

to SNH personnel. At regional level, a healthy dialogue was emerging, with a more comprehensive, better view taken of the land resource and the decisions that were made.

We should be slightly cautious about reducing transaction costs. If we reduce transaction costs too much, we might reduce the benefits that could arise from the scheme. In principle, having a simplified system for smaller grants might be a good thing, but I share Vicki Swales's concern: the benefits that arise from a better understanding among local officers operating together might be lost if we have applications passing over only one desk.

Andrew Midgley: There are different issues to tease apart; one is the threshold and the other is the process. If the suggestion is that, underneath a certain threshold of, say, £10,000, the process is even simpler, that could get over one of the barriers.

It might be useful to go back to some of the lessons to be learned from the current programme. For example, I understand that CCAGS underspent its budget consistently and that that was to do with the intervention rate and the need to secure finance for the rest of the activity that was not being funded by Government. It was an issue of support. It was not only about the process, the administration or the ability to get in; there was a wider set of issues. Even if there is a different process, there will be an issue in securing finance to fund the rest of the work.

Another barrier was the process. If the threshold is £10,000 and the process is not different, it will not help. It will work effectively only if there is a different process. What is not clear in my head is whether that is possible. The Scottish Government now has a set of rules about the process being competitive and it has to ensure that the processes are adhered to so that the system can be audited. I have a question mark in my head about whether there is a real solution, because there will still be a process that requires fairly significant bureaucracy and administration, and that will be a barrier. There will also still be a requirement on applicants to part-fund the activity.

I am not necessarily against the proposed approach, and as an organisation Scottish Land & Estates would probably remain open to it. It is worth exploring rather than absolutely signing up to.

Davy McCracken: The SRUC supported the proposal to have a fast track and a more detailed process. We have not formed any view as to whether the figure should be £75,000 or lower. However, the issue is wider than just the application and approval process. Part of what we have discussed links back to the availability of

good local advice for the individual farmers concerned, so that they can put together a good proposal in the first place. That must be part and parcel of the whole application and approval system.

The Deputy Convener: We move on to the issue of the budget allocation decisions. We have had a good discussion about how we might better spend the limited budgets that we have, but I wonder about the panel's views on the budget allocation decisions made by the UK Government and the Scottish Government regarding transfers between pillars. Do you have any messages to inform the planned review of UK CAP allocations in 2016-17, bearing in mind that we will have the Secretary of State for Environment, Food and Rural Affairs in front of us next week?

Andrew Midgley: We would support the rest of the industry on the convergence uplift and the strong messages that can be given to the UK Government about delivering that benefit to Scottish farmers. It is a fundamental equality issue. I recognise that Jonnie Hall set out some of the complexities around that in his evidence last week, but I believe that it should apply in principle.

The Deputy Convener: Is that a generally held view?

Davy McCracken: I agree with Andrew Midgley. For whatever reason, we are where we are, and we need to look forward, learn the lessons as we go and make a better case with additional justification. We certainly support that approach as a way of getting a better balance, as we discussed.

Vicki Swales: There is an argument that the pillar 1 money should have come to Scotland, based on the way in which decisions are made on the amount of money that there will be and on the convergence.

That said, you cannot stop convergence at the border: if you sign up to the principle of convergence, you also need to sign up to the principle of convergence within Scotland, and that means a far wider redistribution of money and an evening out of support payments across Europe, between member states, within member states and within regions within member states. That is clearly not what is on the table at the moment, so the cabinet secretary might want to bear that in mind when choosing his tactics in future.

The issue is that, if Scotland had received a bigger share of the pillar 1 budget and had then modulated or made the budget transfer at 15 per cent, there would have been a much larger amount of money. We have not made that maximum transfer. If we were to do so in future on a bigger pillar 1 pot, that would be good for SRDP.

The Deputy Convener: I thank the panel members for their contributions, which have helped to inform the committee's deliberations. We appreciate you giving your time.

12:10

Meeting continued in private until 13:16.

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