RURAL AFFAIRS AND ENVIRONMENT COMMITTEE

AGENDA

12th Meeting, 2010 (Session 3)

Wednesday 12 May 2010

The Committee will meet at 10.00 am in Committee Room 2.

1. Decision on taking business in private: The Committee will decide whether to take item 5 in private. The Committee will also decide whether its consideration of the main themes arising from the evidence heard and a draft report on its inquiry into Scotland's Hills and Islands should be taken in private at future meetings.

2. Subordinate legislation: The Committee will consider the following negative instruments—

   the Beet Seed (Scotland) (No.2) Regulations 2010 (SSI 2010/148); and

   the Poultry Compartments (Fees) (Scotland) Order 2010 (SSI 2010/151).

3. Scotland's Hills and Islands inquiry: The Committee will take evidence from—

   Professor Jeff Maxwell, OBE FRSE, and Professor Gavin McCrone, CB FRSE, The Royal Society of Edinburgh;

   and then from—

   Jonathan Hall, Head of Rural Policy, National Farmers' Union Scotland;

   Dr Karen Smyth, Rural Development Manager, Scottish Rural Property and Business Association;

   Vicki Swales, Convener, Sustainable Land Use Task Force, Scottish Environment LINK; and Head of Land Use Policy, RSPB Scotland.

5. **Scotland's Hills and Islands inquiry:** The Committee will consider the evidence heard earlier in the meeting.

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The papers for this meeting are as follows—

**Agenda Item 2**

- The Beet Seed (Scotland) (No. 2) Regulations 2010 (SSI 2010/148) RAE/S3/10/12/1
- The Poultry Compartments (Fees) (Scotland) Order 2010 (SSI 2010/151) RAE/S3/10/12/2
- Extract from Subordinate Legislation Committee report RAE/S3/10/12/3

**Agenda Item 3**

- SPICe briefing paper (private) RAE/S3/10/12/4
- SPICe briefing paper RAE/S3/10/12/5
- Royal Society of Edinburgh advice paper - Implementation of the Common Agricultural Policy Health Check in Scotland RAE/S3/10/12/6
- Royal Society of Edinburgh advice paper - Future Support for Agriculture in Scotland RAE/S3/10/12/7
- Submission from the National Farmers' Union Scotland RAE/S3/10/12/8

**Agenda Item 4**

- Draft report RAE/S3/10/12/9

**For Information**

- Recent Developments RAE/S3/10/12/10
INSTRUMENTS SUBJECT TO ANNULMENT

The Beet Seed (Scotland) (No. 2) Regulations 2010 (SSI 2010/148) *(Rural Affairs and Environment Committee)*

1. This instrument corrects errors in the Beet Seed (Scotland) Regulations 2010 (SSI 2010/67) identified by the Committee. SSI 2010/67 was revoked the day before it was due to come into force and the new instrument came into force on the original intended date of 20 April 2010.

21 day rule

2. This instrument was laid before the Scottish Parliament on 14 April and came into force on 19 and 20 April 2010. It therefore did not comply with the 21 day rule as set out in article 10(2) of the Transitional Order (SI 1999/1096).

3. The letter to the Presiding Officer explained that it was necessary to maintain the date of 20 April for transposition as the instrument was the subject of correspondence with the European Commission regarding late implementation of Directive 2008/62/EC. While the Government wished to revoke and replace SSI 2010/67 to address the Parliament’s concerns with the drafting, it was necessary not to incur any further delay as explained in the letter.

4. The Committee is content with this instrument and with the reason given for the failure to comply with the 21 day rule (article 10(2) of the Transitional Order (SI 1999/1096).
Tom Edwards

This briefing has been prepared for Members of the Rural Affairs and Environment Committee. The briefing paper:

- Describes hill farming in Scotland and looks at evidence of a recent decline in sheep and cattle numbers on hills farms
- Describes the findings of the Royal Society of Edinburgh’s inquiry into the Hills and Islands of Scotland
- Sets out the main sources of Government support that are available for hill farmers
- Highlights the views of some stakeholders about the future for hill farming and the uplands
## CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXECUTIVE SUMMARY</td>
<td>3</td>
</tr>
<tr>
<td>HILL FARMING IN SCOTLAND</td>
<td>5</td>
</tr>
<tr>
<td>DECLINING LIVESTOCK ON HILL FARMS</td>
<td>7</td>
</tr>
<tr>
<td>IMPLICATIONS OF THE DECLINE</td>
<td>9</td>
</tr>
<tr>
<td>Environmental impacts</td>
<td>9</td>
</tr>
<tr>
<td>Socio-economic impact</td>
<td>9</td>
</tr>
<tr>
<td>THE ROYAL SOCIETY OF EDINBURGH'S INQUIRY</td>
<td>10</td>
</tr>
<tr>
<td>FARMING IN THE HILLS AND ISLANDS</td>
<td>12</td>
</tr>
<tr>
<td>SUPPORT FOR HILL FARMING IN SCOTLAND</td>
<td>12</td>
</tr>
<tr>
<td>THE SINGLE FARM PAYMENT</td>
<td>13</td>
</tr>
<tr>
<td>LESS FAVOURED AREA SUPPORT SCHEME</td>
<td>13</td>
</tr>
<tr>
<td>EU review of the LFA scheme</td>
<td>14</td>
</tr>
<tr>
<td>House of Lords EU Committee report</td>
<td>15</td>
</tr>
<tr>
<td>LFASS 2010-13</td>
<td>15</td>
</tr>
<tr>
<td>THE PACK INQUIRY</td>
<td>16</td>
</tr>
<tr>
<td>LAND MANAGERS OPTIONS AND RURAL PRIORITIES</td>
<td>18</td>
</tr>
<tr>
<td>STAKEHOLDERS' VIEWS ON HILL FARMING AND THE UPLANDS</td>
<td>18</td>
</tr>
<tr>
<td>SOURCES</td>
<td>20</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

Hill farms typically combine improved pastures and rough grazing on the open hill. The poorer weather and soils of upland areas mean that hill farms tend to be extensive beef cattle and/or sheep rearing enterprises, with some dairy farming. Under the Common Agricultural Policy (CAP), hill farmers in areas designated as Less Favoured Areas (LFA) are eligible for additional support payments. Around 85% of Scotland is designated as LFA.

In recent years, concern has been expressed about declines in sheep and cattle numbers on Scotland’s hill farms. Figures from the agricultural census show that the number of beef cows in the LFA have declined by 12% since 2000, and sheep numbers in the LFA have declined by 25%. Sheep numbers outside the LFA have also declined to a similar extent. Analysis by the Scottish Agricultural College has shown that in some areas sheep numbers have declined by as much as 60% since 1999. Analysis by RSPB Scotland over a longer timescale shows the UK’s sheep flock and cattle herd increased from the 1960s to peak in the 1990s, and, despite recent declines numbers, have not fallen to historic levels.

During the latter part of the 20th century livestock numbers in parts of the uplands were thought to be too high, resulting in overgrazing. This situation has now reversed in some areas, and problems of undergrazing are now occurring, which leads to changes in vegetation and upland wildlife. A particular concern is for High Nature Value farming systems, where grazing animals are important in preserving habitats that are rich in biodiversity.

The recent declines in livestock on hill farms are more a result of farmers scaling back production, partly in response to subsidy changes which occurred in 2005, than they are a result of farmers leaving the industry altogether. The reduction in livestock has reduced labour demand and the number of part time farmers is increasing. There has also been a long-term decline in farmworkers. Reduced agricultural activity could also have a knock-on effect on supply chain infrastructure, such as haulage companies, feed manufacturers, livestock marts and abattoirs. There is already evidence of this with the closure of a haulage firm and a mart in the Highlands. Such closures can result in a spiral of decline, where closure of supply chain businesses increases costs for remaining farmers, forcing them out of business.

It was against this backdrop that the Royal Society of Edinburgh established a Committee of Inquiry into the Hills and Islands. The Committee reported in September 2008. The report considers the rural economy of the hills and uplands as a whole: farming, crofting, forestry and sporting estate management; tourism, energy and food policy; and housing; transport, telecoms and public services.

The Committee of Inquiry found that hill and island areas are disadvantaged compared to lowland and more densely populated areas, but they provide vital environmental goods and services. Continuing financial and other support from government is needed to support hill and island areas, particularly for land management. The report concluded that the survival of hill farming depends on both a sustained upturn in prices, and the continued provision of public support.
The Single Farm Payment is the main means of supporting all farmers in Scotland under the CAP. Farmers in Less Favoured Areas (LFA) are also supported under the Less Favoured Area Support Scheme (LFASS). The Royal Society of Edinburgh’s analysis showed that Single Farm Payments were worth £220-250m per year to farmers in the LFA, while LFASS payments are worth c.£60m. Farmers are also supported by schemes under the Scotland Rural Development Plan, of which the main ones are the non-competitive Land Managers Options Scheme, and the competitive Rural Priorities Scheme.

Single Farm Payments were introduced in 2005, replacing previous sectoral subsidy regimes. Crucially, the payments are “decoupled” from production and farmers are not obliged to maintain previous levels of stocking and cropping to receive them. In Scotland the payments have been implemented on a historic basis, which means they are based on average receipts under the former schemes. Reform of the CAP is set to take place by the end of 2013. It is expected that as part of the reform all Member States will move to pay Single Farm Payments on an area basis. The Scottish Government has set up an inquiry into the future of agricultural support under the chairmanship of Brian Pack. One of the recommendations of his interim report was that area payments should be introduced in Scotland from 2014 onwards. The final report of the inquiry is expected in June 2010.

UK hill farmers have received additional government support since the 1940s. This additional support for hill farmers in LFA has formed part of the Common Agricultural Policy (CAP) since 1975. Farmers in LFAs were supported through annual headage payments per breeding ewe / beef cow under the Hill Livestock Compensatory Allowance (HLCA) from 1975 until 2000. Since 2001, support to farmers in the LFA has been paid on an area basis.

In 2003, the way the Less Favoured Area system is implemented across the EU was criticised in a report published by the European Court of Auditors (2003). Since then a review of the designation of LFAs has been initiated by the European Commission. The Commission’s proposals for new designation criteria were not agreed by the Council of Ministers in 2005. The Commission launched a consultation on a new set of common criteria for designating LFAs in 2009. The redesignation of LFAs has been considered by a House of Lords Committee. The Committee found that the criteria proposed by the Commission might not take into account the challenges of farming in the UK’s cool maritime climate, where it is an excess of water that creates the problem, rather than a shortage. Changes to the designation of LFAs are expected to come into place at the same time as the CAP reforms, from 2014 onwards.

Separately, the Scottish Government has been making changes to the way the LFA scheme will operate from 2010-13. It has increased payments to farmers in the fragile and very fragile LFA categories by 19% in 2009 and 38% in 2010¹. The Government has also updated the statistics on which LFA payments are based so that payments will go to active farmers.

¹ Taking advantage of the weakening pound which has increased the value of EU funds in the Scotland Rural Development Programme when converted from euros.
HILL FARMING IN SCOTLAND

Farming in upland Britain is often called hill farming. The higher rainfall and lower temperatures on the hills result in a shorter growing season. This, together with the generally poorer quality soils and the steeply sloping terrain limits the area that can be ploughed for cropping or intensive grassland management. This means that hill farms tend to be beef cattle and/or sheep rearing enterprises, with some dairy farming. A typical hill farm would have some flatter fields in a valley bottom grouped around the farmhouse and buildings. This better quality ‘in-bye’ land would be used to grow grass for conserving as hay or silage to feed to stock in winter, and would be used by cattle for summer grazing and by sheep at different times of year, e.g. at lambing time or during winter. The farm would also have some unimproved rough grazing on the surrounding hills which would mainly be used for sheep grazing. Hardy sheep breeds like the Scotch blackface, and cattle breeds like the Highland and the Galloway are capable of surviving on hill grazings all year round with limited additional feeding. Other cattle breeds would normally be housed in winter.

The Royal Society of Edinburgh (2008) described the structure of farming, and the production systems, in Scotland’s hill and island areas as follows:

The agriculture of Scotland’s hill and island areas […] is dominated by livestock production. Nevertheless, the agricultural land use of the area is extraordinarily diverse, as a result of major physical differences of geology, soils, topography and climate. There are also important differences in landownership and tenure in the area. Crofting tenure creates a distinctive structure of land use in the north and west, while to the east and in Orkney, Argyll, and on the better quality soils of Islay and Mull, farming predominates. In Highland Perthshire and in the Southern Uplands, there are no crofts and farms are generally quite large. The central areas of the highlands and parts of some of the Hebridean islands are dominated by sporting estates, which are based more on deer in the west and a mixture of deer forest and grouse moor in the east; game fishing can be important in both areas. In addition to areas that comprise Hills and Islands […], there are other parts of the LFA where the land is of better quality and the options for farmers are greater.

Livestock are predominantly sheep for store lamb production on the higher and poorer quality ground, where there is less capacity to produce winter keep, and cattle in larger numbers on lower ground, where that capacity is greater. In Orkney and Caithness, parts of Easter Ross, the Moray Firth and the Grampian Highland fringe, there is a significant amount of better quality land that can be ploughed, and there is scope for more intensive production systems. There is a second area of such land in the fringe areas of the Southern Uplands, and also in Islay and Bute, where there is a strong tradition of dairying. In such areas, better soils provide some opportunities to grow root crops and cereals that allow greater numbers of stock to be overwintered and cattle and sheep to be finished for market.

Under the Common Agricultural Policy (CAP), hill farmers in areas designated as Less Favoured Areas (LFA) are eligible for additional support payments. Around 85% of Scotland is designated as LFA, as shown in the map overleaf.

Figure 1 – LFAs and non-LFAs in Scotland
Map 3:
Less Favoured Areas and Non-LFAs

- Red: Severely Disadvantaged
- Blue: Disadvantaged
- Yellow: Outside LFA
DECLINING LIVESTOCK ON HILL FARMS

In recent years, concern has been expressed about declines in sheep and cattle numbers on Scotland’s hill farms. The chart below looks at the national picture, showing the total number of beef cows and breeding ewes in Scotland since 1982, using figures from the agricultural census.

**Figure 2 – Breeding ewes and beef cows in Scotland 1982 - 2009**

The chart shows that breeding ewe numbers rose during the 1980s to plateau around 4 million in the early 1990s. Losses during the foot and mouth disease outbreak of 2001 were not replaced, numbers then stabilised at around 3.25 million until 2005, since when numbers have fallen again, and are now around 2.75 million. The decline since 2005 coincides with the introduction of the Single Farm Payment, which removed the requirement for farmers to keep the same numbers of livestock as previously. The number of breeding beef cows increased from 450,000 in the 1980s to over 500,000 during the 1990s, and has since fallen back to around 450,000.

The table overleaf shows beef cattle and breeding ewe numbers from the agricultural census for less favoured areas (LFA) compared to non-LFA. The years chosen are the year before the foot and mouth disease outbreak of 2001, the year immediately prior to the introduction of Single Farm Payments - 2004, and the most recent year for which LFA and non-LFA livestock numbers have been published by the Scottish Government - 2008.
Table 1 – Cattle and sheep in LFA and non-LFA areas in Scotland

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<th></th>
<th>2000</th>
<th>2004</th>
<th>2008</th>
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<tr>
<td><strong>Beef cows</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LFA</td>
<td>434,106</td>
<td>411,494</td>
<td>380,457</td>
</tr>
<tr>
<td>non LFA</td>
<td>84,116</td>
<td>84,488</td>
<td>84,718</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>518,222</td>
<td>495,982</td>
<td>465,175</td>
</tr>
<tr>
<td><strong>Breeding Ewes</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LFA</td>
<td>3,380,948</td>
<td>2,932,228</td>
<td>2,531,846</td>
</tr>
<tr>
<td>non LFA</td>
<td>332,027</td>
<td>277,443</td>
<td>246,657</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,712,975</td>
<td>3,209,671</td>
<td>2,778,503</td>
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Sources: ERSA 2001, 2005 and 2009

These figures show a decline in beef cows numbers concentrated in the LFA, -12% from 2000 to 2008. Outside the LFA the numbers of beef cows have slightly increased. For breeding ewes, the percentage decline in numbers is similar for both LFA and non-LFA areas, at around 25% between 2000 and 2008.

The Scottish Agricultural College (SAC 2008) recently published an analysis which looked at beef cattle and sheep numbers nationally, regionally and at the parish level, and concluded that:

- Sheep numbers have declined dramatically since 1999, most notably in the North West.
- Many areas have seen a reduction of between 35 and 60 percent. Cattle numbers have also declined, although not so dramatically and not in the same areas.
- The reduction in sheep numbers is part of a process of down-sizing coupled with a number of farmers leaving the industry.
- The decline in cattle numbers in some areas is a combination of down-sizing and farmers withdrawing from production. However, in many areas the changes are due to an increase in intensity as some farmers have expanded as others leave the industry.
- Declines in livestock numbers appear to have accelerated after the introduction of the Single Farm Payment and the decoupling of livestock numbers from payments.
- The decline in livestock numbers is complex with a great deal of spatial variation even within single geographical areas (such as Highland).

Changes were also highlighted by the Committee of Inquiry on Crofting (2008) which found that:
Between 1982 and 2007 on holdings of less than 30 hectares in the crofting counties, the cropped area of land fell by 49%. The area of oats fell by 83%; potatoes by 79%, barley by 46% and stock feeding crops by 51%

Grassland for grazing increased by 47% and grassland for mowing reduced by 24% between 1982 and 2007

In the HIE area, the number of ewes dropped by 18% (from 1,185,256 to 971,442) between 2001 and 2006, representing 86% of the decline in overall Scottish ewe numbers and indicating a significant regional factor. There was an accelerated decline in numbers between 2006 and 2007 when they dropped by 6% in the HIE area (compared to 3.8% for Scotland as a whole) from 971,442 to 916,248

A paper by the RSPB Scotland (2009) presents an analysis of livestock numbers going back to the 19th century. This shows that numbers of both sheep and cattle remain historically high, having increased post war to reach a high in the 1990s.

**IMPLICATIONS OF THE DECLINE**

The implications of declining livestock numbers were considered by the SAC (2008). The report considers the environmental implications of reduced grazing; and the socio-economic implications.

**Environmental impacts**

During the latter part of the 20th century, grazing levels in parts of upland Scotland were thought to be too high, leading to heather loss and damage to other vegetation and soils. This situation has now reversed in many places, with little or no grazing by livestock, leading to problems associated with undergrazing.

Studies have shown that removing sheep grazing leads to changes in upland vegetation, which then has implications for other wildlife. For example, in the absence of grazing longer grass leads to increased abundance of field voles, which are an important food for predators such as birds of prey; stoats and foxes; while the removal of sheep leads to a reduction in carrion which is important for Golden eagles and crows and ravens. While this could be seen as one species losing out at the expense of another, of particular concern are the implications for “high nature value” farming systems (HNV). These are low-intensity farming systems where farming practices support a high biodiversity of species. In Scotland, the areas of HNV farmland coincide with the areas that are experiencing the greatest declines in livestock numbers, suggesting that the HNV farming systems in these areas are in decline. In particular, a reduction of grazing in systems that are already extensive could lead to a decrease in biodiversity (SAC 2008). The RSPB (2009) analysis suggests that the effects of livestock declines are likely to be most negative for birds in the Hebrides and Northwest Highlands.

**Socio-economic impact**

Research has shown the importance of agriculture in many rural economies and communities, either directly, or indirectly, through upstream and downstream linkages to other businesses. Declining production on Scotland’s hill farms could therefore have implications for the local economy and for local communities.
SAC’s (2008) research found that the reductions in sheep and cattle were the result of farmers downsizing rather than leaving the industry completely. This is backed up by data which shows the number of full time farmers and their spouses working full time or more than half-time is decreasing, while the number of farmers/ spouses working less than half time is increasing. As with declining livestock, the picture is not uniform, although parishes in the North and West are experiencing the greatest decline in full-time farm occupiers. As might be expected from downsizing farms – less stock means less labour required, data on the number of employees show a long-term decline. One consequence of declining cattle and sheep numbers is therefore a requirement for less skilled labour, which means core farming skills are in danger of dying out.

In terms of the wider impact on the rural economy, the SAC report said:

Reduced agricultural activity could also have a knock-on effect in terms of the loss of related supply chain infrastructure, such as cost-effective haulage and availability of, and potentially greater distance to, marts and abattoirs. Market and regulatory pressures on the infrastructure have exacerbated an already difficult operational environment for the businesses concerned. Casualties of the current situation have been Thurso Mart and more recently an Oban-based haulage firm that traditionally served the Inner and Outer Hebrides. A loss of infrastructure places greater pressures on existing producers and their viability, leading to more stock reductions, and in turn, further strain on the infrastructure (and so on). This situation is commonly referred to as a spiral of decline.

The potential effect of declining livestock on tourism is unclear. Research has shown that “scenery” is most often cited by visitors to Scotland as the reason for their visit, and there is a significant interaction between land-use and the scenery. However, isolating the contribution of a particular land use, such as hill farming, to the attraction of an area for tourists is difficult. The SAC found that there was a lack of sufficient research to show exactly what it is that visitors value about a particular landscape to allow the importance of different types of land use to be determined.

**THE ROYAL SOCIETY OF EDINBURGH’S INQUIRY**

The Royal Society of Edinburgh initiated an inquiry into the future of the hills and islands in Spring 2007 because of concerns about the future of farming in these areas, and the effect the decline of farming might have on rural communities. The inquiry was conducted by a Committee of nine members, chaired by Professor Gavin McCrone FRSE. The inquiry received over 80 submissions; took oral evidence from witnesses from 30 government, non-government and industry organisations; and inquiry members took part in a programme of visits throughout the Highlands and Islands, and also visited Ireland and Brussels.

The inquiry report was published in September 2008. The report considers the rural economy of the hills and uplands as a whole: farming, crofting, forestry and sporting estate management; tourism, energy and food policy; and housing; transport, telecoms and public services.

The report gave a concise overview of the hills and islands of Scotland:

The Hills and Islands of Scotland are in a state of flux. The decline of population that lasted from the mid-19th to the mid-20th century has been reversed. These positive demographic changes mask much variety, with some areas experiencing rapid growth and others significant decline. In the Hills and Islands natural resources are still the base on which the area’s prosperity rests. The traditional primary industries are economically less important than they once were, but the value of the land and water resources remains the foundation on which a range of economic activities are built. They also
provide a setting for a range of new activities and for those people who have moved into these areas to enjoy the quality of life it offers.

This social and economic transition has not taken place painlessly. Market forces, public policy and charitable intervention have shaped the way in which a range of social, economic and environmental factors have affected the region, sometimes consensually, sometimes in conflict. Significant changes in recent years have forced a need to rethink the future for these areas. Over all areas of policy and practice, climate change now casts its shadow. At the same time, major changes in the CAP have been implemented and others can be expected. The old model of forestry and its policy support system has been overhauled. Factors, such as the strength of the pound, the price of oil and the ‘credit crunch’, impact in particular ways on different sectors of the economy of the Hills and Islands.

The Committee of Inquiry concluded that hill and island areas are disadvantaged compared to lowland and more densely populated areas, but they provide vital environmental goods and services. Continuing financial and other support from government is needed to support hill and island areas, particularly for land management.

The report made 66 recommendations. Among the key issues identified by the report were that:

- The Government should develop a strategic land use framework to reduce land use conflicts [Since the report was published the Government has been preparing a land use strategy, which the Climate Change (Scotland) Act requires be finalised by March 2011].

- Scotland’s share of EU Pillar 2 (rural development) funds is too low, which seriously disadvantages Scotland’s farmers. This should be revised post 2013.

- Delivery of Scotland’s Rural Development Programme should be delegated to regional bodies which are able to take funding decisions [in the current programme applications are considered at regional level but final funding decisions are taken centrally]

- The Committee supported the Government’s target of increasing forest cover to 25% of the land area, but saw no prospect of it being achieved without measures to attract land out of other uses, such as a carbon trading scheme.

- Public support for tourism should be radically restructured with the establishment of new agencies and the transfer of powers and resources from existing ones

- Action is needed to provide local food processing facilities to support the development of local food

- The Scottish Government should have an explicit policy to achieve and maintain community viability in the remoter areas of the mainland and on the islands

- Specific support is required for regional development in communications technologies, education facilities, road, ferry and public transport, and affordable housing to improve demographic structure and stimulate environmental growth

- Transaction costs of doing business with public agencies must be reduced [in June 2008 the Scottish Government established Scotland’s Environment and Rural Services (SEARS) a partnership between nine public bodies which offer a one-stop shop to land managers.]
Public bodies that deliver policy seem to have become more rather than less centralised - Decision making and delivery of public resources should be shifted from the centre to the regions to help reflect the diversity and variety of Scotland’s hills and islands.

FARMING IN THE HILLS AND ISLANDS

The Royal Society’s report made the following assessment of farming in the hills and islands:

Farming in the Hills and Islands, at least in the greater part of the area, requires support if it is to yield a positive income at all; and without such support it could not continue to operate as it does now or provide wider public benefits. There is a serious income crisis and, despite recently improved market conditions, a more favourable exchange rate and the development of organic and local food, the overall financial situation is bleak. There are some opportunities to diversify, but these are limited and not available to everyone. The survival of this sector of farming thus depends both on a sustained upturn in prices and the continued provision of public support.

The report made some specific recommendations for changes to agricultural policy:

- Improving the funding for agri-environment schemes should be a priority for the Scottish Government in CAP reform, so that post 2013 all farmers would be able to participate in a scheme.

- The Scottish Government should plan for a change to the Single Farm Payment scheme to make payments on an area basis as soon as possible, and should consider doing so in phased steps before 2013. The inquiry said that a simple shift to a flat rate area-based payment would be “illogical and inappropriate”.

- A clearer definition of the public benefits which the Single Farm Payment delivers is needed. The Scottish Government should take steps to ensure that these benefits are fully understood by land managers and by the public, and that they are properly enforced.

- There should be a whole farm plan for each unit in receipt of subsidy which shows how public goods are being delivered.

- The criteria for support for land defined as Less Favoured Area should be changed to give greater emphasis to the delivery of environmental and climate change public benefits rather than solely agricultural production.

On Less Favoured Areas the report noted that European Commission officials had told the inquiry that they see a case for moving this to Pillar 1 after 2013, on the grounds that it is essentially an agricultural support measure, similar to SFP but for disadvantaged areas. The report also highlighted a study on the Less Favoured Areas Support Scheme carried out by the Macaulay Land Use Research Institute (MLURI) which found that livestock farming throughout the LFA was heavily dependent on the scheme and that where farming is a full time occupation, any reduction in payments would have greater impacts than where farming is part time.

SUPPORT FOR HILL FARMING IN SCOTLAND

The Single Farm Payment is the main means of supporting all farmers in Scotland under the CAP. Beef cattle producers also receive payments from the Scottish Beef Calf Scheme. Farmers in Scotland’s LFA are also supported under the Less Favoured Area Support Scheme.
(LFASS), which is discussed in detail below. Proposals for changes to both the Single Farm Payment and the LFASS are being considered by the Pack Inquiry whose interim report is described below (Scottish Government 2010b). The LFASS is one of the schemes under Scotland’s Rural Development Programme (SRDP). The programme also includes other schemes which farmers can apply to, of which the most important are the Land Managers Options Scheme, and Rural Priorities.

THE SINGLE FARM PAYMENT

The CAP reform of 2003 was the most significant reform of the CAP in a generation. It introduced the Single Farm Payment, which was ‘decoupled’ from production, meaning the link between payments and the number of livestock kept was severed. Instead farmers are required to keep their land in Good Agricultural and Environmental Condition (GAEC) in order to receive the payment. The 2003 CAP reforms allowed Member States an unprecedented flexibility in deciding how to implement them. Scotland chose to implement the payment on a historic basis, which means payments are based on the average of the amount farmers received under the previous schemes from 2000-02. In England, the Single Farm Payment has been implemented differently, under a so-called dynamic model, where the basis for the payments is progressively shifting from a historic basis, to an area based payment. In Scotland, the so-called “national envelope” provisions were used to create a Scottish Beef Calf Scheme, which gives a payment per head for every beef calf reared in Scotland, with a higher payment for the first ten calves.

During recent changes to the CAP made as part of the so-called Health Check, the European Commission and others have expressed the view that continuing to pay Single Farm Payments on a historical basis is politically untenable in the longer-term, because farmers are being paid for things they did in the past. This has given rise to widely held expectations that there will be a shift towards area-based Single Farm Payments following the next major reforms of the CAP, which are due to conclude by the end of 2013.

The Single Farm Payment is worth more than twice LFASS payments and agri-environment schemes combined to farmers in the LFA, as the analysis by the Royal Society of Edinburgh (2008) indicated:

It is difficult to estimate precisely how much of the SFP is paid to LFA farms, because it is paid at ‘farm business’ level and some farm businesses are partially in the LFA and partially outside.

Nevertheless, figures supplied by the Scottish Government for 2005 show that 47.5 per cent is paid to wholly LFA farms, 29.4 per cent to farm businesses partially in LFA and 23.1 per cent to non-LFA farms. It seems reasonable therefore to assume that some £220-250 million of the SFP is directed at the LFA as well as the £60 million of LFASS. Of the remainder, comprising some £49million in various agri-environment schemes, a substantial part also goes to the LFA, but it is not possible to divide it accurately. As explained in Chapter 1, the LFA covers parts of Scotland which are not strictly hill or island areas, so that these areas will receive less than the LFA as a whole. Nevertheless, the amount going to these areas must be substantial.

LESS FAVOURED AREA SUPPORT SCHEME

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2 The rules on the reforms were agreed in 2003, but were brought in by Member States between 2005 and 2007, in Scotland they were implemented in 2005
UK hill farmers have received additional government support since the 1940s. This additional support for hill farmers in LFAs has formed part of the Common Agricultural Policy (CAP) since 1975. Farmers in LFAs were supported through the Hill Livestock Compensatory Allowance (HLCA) from 1975 until 2000. The HLCA was an annual headage payment paid per beef cow or breeding ewe kept in the LFA. The scheme was thought to have resulted in overstocking in some areas, resulting in overgrazing, and so from 2001 onwards, LFA support has had to be paid on an area basis.

The scheme was changed in 2003. Instead of having different payment rates for improved grassland and rough grazing in different types of area, LFA farms were assigned into different payment categories based on their stocking densities. Very fragile areas are island areas within the LFA. Fragile areas are mainland areas which are more disadvantaged by higher transport costs due to their remoteness. All other LFA land is classified as “Standard” LFA.

**EU review of the LFA scheme**

In 2003, the way the Less Favoured Area system is implemented across the EU was criticised in a report published by the European Court of Auditors (2003). The Court found that the fact that over half of the EU’s agricultural area was classified as LFA, and the use of different criteria to designate LFAs in the Member States, posed a risk of overcompensating farmers. The Court called on the European Commission to review the scheme.

The European Commission began this process in 2005, when it presented its proposals for revising EU rural development policy from 2007-13. Some changes were made to the provisions on LFAs in the Rural Development Regulation, but Ministers decided to delay their implementation and keep the existing system in place until 1 January 2010. In the previous regulation, three types of LFA were recognised:

- Mountain areas (this also includes areas North of 62ºN)
- Areas with specific handicaps
- So called ‘simple’ or intermediate LFAs (all LFAs in Scotland are designated in this category)

The Commission had hoped to get Member States to agree on a new system for classifying intermediate LFAs, but the EU Agriculture Council did not agree with the Commission’s proposals. The Commission was asked to submit a report concerning the future payment system and the definition of Less Favoured Areas that would apply after 2010.

EU rural development regulations set out common rules for supporting farming in Less Favoured Areas. In accordance with these, the Less Favoured Area Support Scheme (LFASS) is one of several funding schemes in the [Scotland Rural Development Programme 2007-2013](http://www.gov.scot/Topics/Agri-Food/Policies/RDP/index) (SRDP, Scottish Government 2007). The Scotland Rural Development Programme provided for an interim LFASS to cover 2007, 2008 and 2009, with the intention that it would be replaced following EU wide changes from 2010.

The EU wide review expected to be completed in 2010 has been delayed. The European Commission (2009) adopted a Communication with proposed new criteria for classifying intermediate LFAs on the 21 April 2009. The Commission has identified eight soil and climate criteria as a basis for objectively and clearly classifying LFAs. The eight criteria are: low temperature, heat stress, soil drainage, soil texture and stoniness, soil rooting depth, soil chemical properties, soil moisture balance and slope. However, before presenting a legislative proposal, the Commission stated that it “needs more data to assess their feasibility”, and is
asking Member States to provide simulations using national data to show how the proposed criteria might work.

The communication asked Member States to send their simulations to the Commission by 21 October 2009. The next step is that the European Commission will produce a legislative proposal, which is expected in the first half of 2011. The intention is that the new system would be in place in 2014.

**House of Lords EU Committee report**

The Environment and Agriculture Sub-Committee of the House of Lords European Union Committee (2009) conducted an inquiry into the review of the LFA scheme, and reported in June 2009. The Committee supported the idea of moving to common criteria for classifying LFAs, and also the use of physical criteria related to soil and climate, rather than any socio-economic criteria. However, the Committee expressed reservation over whether the criteria chosen by the European Commission adequately reflected the challenges of farming in the cool maritime climate of the British Isles. The Committee’s report explained that:

> The Macaulay Land Use Research Institute, UK Government and Scottish Executive argued that the criteria should include “field capacity days”, a measure which reflects the wetness of the climate and the period of time that the field is at field capacity (the maximum amount of water that a particular soil can hold). This, in their view, would more effectively take into account the specificities of the UK and Irish maritime climate than the soil-water balance criterion proposed by the Commission.

The idea behind the field-capacity days measure is that it would reflect the ability to cultivate soil and land capability, because farmers cannot drive tractors on their land when the soil is waterlogged, because that could damage the soil permanently. The Committee’s report also highlighted a potential effect of removing socio-economic criteria:

> A final twist in the debate was rehearsed by several of our Scottish witnesses. It was anticipated that application of the biophysical criteria could lead to the exclusion from the scheme of parts of Scotland, such as areas around Caithness and Orkney, which continue to face the permanent disadvantage of being situated far from their markets, and whose land, while of poor quality, is of less poor quality than most other land in Scotland. One solution, advocated by the NFUS, would be to apply socio-economic criteria. Another option, highlighted by the NFUS, Scottish Executive, Scottish Crofting Foundation and Scottish National Heritage, would be to explore the possibility of using Article 18 of the Rural Development Regulation to designate mountain areas and Article 20 to designate islands as areas with specific handicaps. Whilst this would appear to solve the potential problem for Orkney, it might not be sufficient to capture all areas currently designated as LFA.

**LFASS 2010-13**

Expectation that the changes to LFA support at EU level would be delayed led the Scottish Government (2008) to publish a consultation paper on options for the LFASS from 2010-13. The consultation sought views on options for a second interim scheme, and on how to respond to possible changes in European legislation. This consultation ran from September to December 2008. Consultation responses were published in February 2009 (Scottish Government 2009b).

The options in the consultation were broadly:

1. to continue the 2007-2009 interim scheme with no significant changes
2. to create a closer link with livestock-related activity, but in a way that did not create a direct link with current levels of production. The government argued that this scheme could help deliver environmental benefits from LFASS and address other concerns such as problems facing new entrants and others taking on land that did not attract LFASS in 2006 and the loss of the cattle-“top-up” link. The previous scheme rewarded the environmental and socio-economic benefit of maintaining cattle in LFAs, and encouraged beef production. However, this option would increase complexity and administrative costs.

The Cabinet Secretary for Rural Affairs and the Environment, Richard Lochhead MSP, made a statement to Parliament on government support for agriculture and food on the 10 June 2009 (Scottish Parliament 2009a). One of the elements of the statement was to announce additional support for farmers in the LFA. The Cabinet Secretary announced that payment rates for farmers in the fragile and very-fragile LFA categories would be increased by 19% in 2009 and 38% in 2010, a total of £15 million additional spending over two years. This increase has been made without reducing spending on other schemes under the SRDP because the weakening pound has increased the value of EU funds in the SRDP when converted from euros (Scottish Parliament 2009b). The Cabinet Secretary also announced that the stocking levels used to determine the payments under the scheme would also be rebased, to ensure a link between payment and activity. The Less Favoured Area Support Scheme (LFASS) payments for 2007-09 were calculated on certain frozen LFASS 2006 historic values, including grazing categories. For LFASS 2010, it is the intention to rebase using 2008 data, so that payments go to active farmers. The Government has set up an LFA technical working group which it has consulted on changes to the regulations. The precise detail of how the rebasing is to be done is still being worked on with the technical working group. The group’s next meeting is on the 21 May 2010. Changes would come into effect for the LFASS 2010 payments which will be made towards the end of the year. New regulations will be needed to give effect to the changes.

THE PACK INQUIRY


The interim report suggests radical changes for the future delivery of agricultural support in Scotland. Thus far, the discussion has centred on the future for Single Farm Payments (SFP), but in its final report the Inquiry also hopes to address the future for Less Favoured Area support, and the future of the Scotland Rural Development Programme.

The inquiry considered 3 options:

1. Continuing with the status quo – Single Farm Payments made on the historic basis\(^3\), and retention of the Scottish Beef Calf Scheme [SFP to beef producers are top-sliced and the money is used to pay a headage payment on beef calves, up to a ceiling per farm].

2. Continue with SFP on the historic basis plus greater use of flexibilities provided by the CAP health check to address the negative impacts of decoupling [i.e. equivalents to the Beef Calf Scheme in other areas]

3. Move towards Single Farm Payments on an area basis, rather than a historic basis.

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\(^3\) This means payments are based on the amounts farmers received under previous schemes in a reference period 2000-02
The advantage of option 1 is stability, but it does not address inactivity; does nothing to halt declining livestock numbers; and does not give payments to new entrants.

Four options were presented for greater use of measures under option 2, not all of which could be funded by the amount available, so there would have to be a choice between them:

- Suckler cows in the LFA receive a payment of £150 per head up to a maximum of 40 cows
- Extend the Scottish Beef Calf Scheme to include dairy beef, intended to encourage more beef production
- Offer a £30 per beef cow payment for eradication of Bovine Viral Diarrhoea
- A headage payment of £15 per lamb tagged in NW Scotland

On option 3, the inquiry has taken as read that there will be no move towards area payments in Scotland before 2014. One proposal had been to move gradually towards area payments so that the SFP was 50% historic basis and 50% area basis by 2014, a so-called hybrid. England chose to introduce the Single Farm Payment this way from 2005 onwards, and the ensuing IT problems are one of the reasons for the serious delays in making payments which followed the introduction of the system.

The inquiry considers it would be best to move to area payments in Scotland in one step, whilst recognising that this would cause serious winners and losers issues. The interim report proposes that area payments should be linked to the Macaulay Land Use Research Institute’s Land Capability Classification, with higher payment rates per hectare for more productive land. Two thirds of the SFP fund would be used for area payments. The remaining third would be used for top-up payments to farmers for measures such as animal health; optimising energy and fertiliser use; reducing greenhouse gas emissions; and for sectoral support as per option 2.

The inquiry proposes that for livestock farmers, a minimum stocking density should apply to receive the payment. Below this minimum no payment would be received. The rationale for this is that support should go to active farmers, to maintain the “engine room” of Scottish agriculture; in particular to maintain beef production; and because of food security considerations. It was acknowledged that farming’s role in supporting biodiversity is not prominent in the report. The assumption is that maintaining production will ensure that farming continues to deliver the non-market benefits anyway. The level of stocking density proposed could pose a problem to crofters and farmers in some areas, who were not inactive, but who could not keep greater stock numbers because of the poor quality of their land.

On LFAs the interim report says:

> With eighty-five per cent of Scotland's utilisable area being designated as "other less favoured area" [under EU regulations], the future shape of support for these physically disadvantaged areas is crucial to Scotland's wellbeing.

At present, LFASS is distributed under Axis 2 of Pillar 2 [i.e. under the Rural Development Programme], but in these proposals (in which 'Pillars' have no role) LFA payments are presented as distinct because although much agricultural activity in the LFA can contribute to environmental objectives, LFA payments are not simply agri-environment payments. As stated earlier in the report (p. 19), where agri-environment payments cover the income foregone and costs incurred linked to specific environmental commitments going beyond the mandatory baseline, LFA payments compensate for the natural disadvantage by covering the additional costs and income foregone related to the
natural handicap. As such, and for the sake of clarity, it is suggested that LFA payments be viewed as distinct.

Beyond this broad point, it is considered inappropriate to comment further at this time as various discussions are currently ongoing to revise the payment base for the 2011 scheme year to better reflect activity. It is intended to make recommendations on future support for the Less Favoured Area in the final report building on the current work being carried out between officials and stakeholders.

The final report of the Pack Inquiry is expected to be published in June 2010.

LAND MANAGERS OPTIONS AND RURAL PRIORITIES

Land Managers Options and Rural Priorities are included in Scotland’s Rural Development Programme.

Land Managers Options are a set of 22 measures from which land managers can apply for funding for a range of options up to a maximum per business based on the area of land managed. The scheme is non-competitive and is open to all land managers in Scotland.

Rural Priorities offer 75 different funding options for farmers and land managers, including nearly 50 agri-environment options. The scheme is administered regionally, and each region has determined the priorities for funding in its area. The scheme is competitive, and awards are made in funding rounds by scoring applications against a number of pre-determined criteria.

The operation of these schemes was the subject of an independent review by Peter Cook, which reported in June 2009 (Scottish Government 2009c). The Scottish Government announced its response to the review in a statement to Parliament on the 10 June 2009 (Scottish Parliament 2009a).

STAKEHOLDERS’ VIEWS ON HILL FARMING AND THE UPLANDS

The National Farmers Union of Scotland (NFUS 2008) produced a “manifesto for the hills” which set out its views on how the decline in hill farming should be addressed. The NFUS’ proposal contains three interlinked elements:

1. While the Scottish Beef Calf Scheme on its own is not enough to retain cattle in the hills, it makes a contribution, and should be retained

2. LFASS payments should be re-based so that support only goes to active farmers. Environmental options should also be available e.g. for keeping cattle; or for moving animals off sensitive areas in winter. Fragility markers (standard; fragile; very fragile) should be retained, but anomalies should be corrected, e.g. including dairy farmers who are currently excluded from the scheme.

3. Land Managers Options should be improved. The allowance per farm for the options should be increased. NFUS suggested 10 additional options including: reseeding grants; bracken control; support for shepherding; support for hill grazing to manage vegetation; and grants for maintaining and improving fences and dykes.

Responding to the European Commission’s consultation on LFAs, the Scottish Rural Property and Business Association (SRPBA, 2008) described what it saw as the approach to addressing the decline in hill farming:
a) redefinition of LFAs to reflect areas that face a true physical and climatic handicap. The redefinition should address the European Court of Auditors’ concerns over the classification of LFAs.

b) identify the real monetary value of public goods. Basing payments on income forgone is not sufficient to keep people farming in LFA areas, or to maintain environmental benefits or public goods. Understanding the true monetary value of public goods, e.g. stone walls, clean drinking water, biodiversity must be costed if we are to achieve the true price of the provision of goods.

c) recognition of the complex and interdependent linkages between environmental management, provision of public goods and socio-economic issues. SRPBA believes that the provision of socio-economic, environmental management and public goods outcomes should all be considered within the redefined LFA. These factors are interdependent. If we cannot sustain a viable farming community to manage the land, we will not be able to achieve environmental management or public good benefits.

RSPB Scotland (2009) states that it “believes that the way funds are currently distributed through the existing agricultural schemes does not adequately reward land managers who provide public goods” and presents map-based analysis which shows a disconnect between the areas which receive the highest Single Farm Payments and LFASS payments and the areas where livestock losses are of greatest concern from a biodiversity point of view. It says that it would like to see:

a dedicated system of support for High Nature Value (HNV) Farming systems built into future reforms of the CAP. In the shorter term, Scotland could move towards a better system of support for livestock farming and the environmental and other public benefits it provides through:

- Changes to Less Favoured Area Support Scheme (LFASS) so it targets support at the areas that need it most, and the farming and crofting systems which deliver the most for wildlife and the wider environment
- An area-based Single Farm Payment (SFP) that redistributes support to the hills and islands
- Suitable Rural Development Contracts (RDC) Rural Priorities and Land Managers’ Options measures, which are fully funded, suitably targeted and possible to access no matter the size of the area managed.


Scotland’s Environmental and Rural Services. Available at: http://www.sears.scotland.gov.uk/


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1. NFU Scotland accepts the opportunity to give both oral and written evidence to the Rural Affairs and Environment Committee’s inquiry on Scotland’s Hills and Islands. NFU Scotland understands that the purpose of this inquiry is to consider the issues arising from the Royal Society of Edinburgh’s report *Scotland’s Hills and Islands*.

2. Given the primary interests of NFU Scotland, and the significant agricultural and policy developments since the publication of the Royal Society of Edinburgh’s report in September 2008, this submission and the oral evidence to be presented on 12 May focuses on the importance of extensive livestock farming and the future policy developments that will have a major influence on its future. These matters are critical to Scotland’s hills and islands.

**Background**

3. Hill farming and crofting in Scotland is at a crossroads. Livestock producers are questioning their future in an industry marked by poor market returns and increasing input costs. This poses a question for policy-makers and the industry itself. Do we simply accept this decline in agricultural activity as an inescapable consequence of market forces? Or do we recognise the social, environmental and economic benefits delivered by the industry and seek innovative solutions to secure its future? NFU Scotland believes that the potential harm to the rural economy and countryside of a continued downturn in hill farming demands action to secure its future.

4. The number of livestock on Scotland’s hills is in decline. This decline in livestock numbers has implications for local economies, communities, the environment and the red meat supply chain. The problem has been acknowledged in a number of recent papers. Notably a paper by the Scottish Agriculture College entitled ‘Farming’s Retreat from the Hills’ brought together some of the evidence on what is happening to livestock numbers at the national, regional and local level. A report for Highlands and Islands Enterprise (HIE) highlighted that the rate of decline in the number of ewes in the HIE area between 2001 and 2006 was more than twice the Scottish average.

5. The Committee of Inquiry on Crofting (the Shucksmith Report) identified similar trends and highlighted the lack of available labour that is leading to a decline in the use of hill grazings. And the Royal Society of Edinburgh inquiry itself highlighted the impact of agricultural policy reform on communities, the maintenance of environmental quality and the prospects for economic development in Scotland’s hill and island areas.
6. Hill livestock production is currently financially uneconomic and the majority of farms can not survive without the support payments they receive, primarily in the form of the Single Farm Payment (SFP) and the Less Favoured Area Support Scheme (LFASS). Farming in the hills has always been challenging, but with the break in the link between support payments and livestock numbers there is no longer the same requirement to keep livestock.

7. Ideally the market price would be sufficient to make production profitable. However, this is not the case and in the short term at least there is unlikely to be a sufficient increase in the market price for cattle and sheep to offset the spiralling input costs of feed, fuel, fertiliser and labour, as well red tape, to make active livestock farming economically viable. Longer-term, there are no signs that the market will be able to adequately reward the environmental and social goods delivered by active agriculture.

8. Scotland’s society and its leaders could accept the decline in livestock numbers and consequences for rural economies, environments and communities - putting it down to market forces. Or policy makers, political leaders and the livestock industry could unite to intervene. NFU Scotland believes that it is both vital and urgent that more deliberate steps are taken to halt the decline and prevent the loss of many facets of rural Scotland by using the policy tools that are currently available to Scotland.

The Importance of Active Livestock Farming in Scotland’s Hills and Islands

9. Livestock farming has traditionally formed the backbone of local economies and communities across Scotland. The landscape and biodiversity associated with livestock farming depends on viable sheep and beef units, and grazing management in particular.

10. Farming and crofting play a vital role in many rural economies either directly, through employment, or indirectly, through the way that farm businesses are linked to other businesses in an area. Changes in agricultural production, especially in remote rural areas – where agriculture plays a more prominent role in the economy – can have significant implications for the local economy and for local communities.

11. Farmers in hill and upland areas, as elsewhere, must be rewarded for the public goods and services they provide if they are to be secured in future. Some suggest this can be done through agri-environment payments and other elements of the Scotland Rural Development Programme (SRDP). Whilst the current agri-environment schemes do have a role, they are not the answer. This is because payments in these schemes are based only on costs and income foregone, they do little to support the farming systems that produce these goods and services.
12. Equally, for livestock farmers and crofters to continue to be in a position to deliver wider, non-market benefits, their core business must be viable. In the face of inadequate market returns, agricultural businesses will not be viable and there will not be the required land managers, breeding livestock and systems of production in place.

13. Loss of livestock activity is having a significant impact on the already fragile economy of much of rural Scotland. In addition to which, the loss of the less tangible environmental and social co-products associated would be detrimental to other rural economy sectors and wider social interests.

14. Livestock farming in Scotland’s uplands and remoter areas is a complex business that helps support a wide range of businesses and services, including local butchers, farmers markets, livestock markets, abattoirs, meat processors, vets, animal feed processors, and agricultural merchants. Livestock farming plays a pivotal role in the local economy of much of rural Scotland.

15. The true multiplier effect of farming in such areas, where no comparable user of inputs and generator of outputs exists, can not be over-estimated. The economic prosperity of most livestock farming areas of Scotland will continue to rely on the financial viability of farming businesses.

16. Rural tourism opportunities provided throughout Scotland’s hills and uplands are hugely significant for the Scottish economy as a whole, and local communities in particular. Yet, this tourism and recreational activity is highly dependent on the open, grazed landscape created by the upland farming systems. It is highly unlikely that these benefits would continue in their desired state without farming because it is the livestock management that produces and maintains the landscape, largely through grazing.

17. Maintenance and enhancement of the rich and varied environment associated with livestock farming areas continues to depend on viable sheep and beef units, and grazing management in particular. Against a background of declining livestock activity, such areas will revert to more and more extensive land use with declining management inputs, most notably working capital and labour. This may prove to be economically rational decision, but it is unlikely to yield a comparable level of environmental benefits as current or traditional practices do.

18. In addition, the agricultural land management in Scotland’s hills and islands is also very important for species of birds such as corncrake, lapwing and curlew, and for the iconic golden eagle and white-tailed sea eagle. Scotland’s hills and islands require livestock grazing to sustain the delicate balance of plant, insect, bird and other animal species which make them unique.

19. Scotland’s livestock farming areas typify a cultural landscape – managed environments that support vital habitats and their fauna as well as sustaining jobs and incomes to the benefit of rural economies and local
communities. In addition, a thriving grazing livestock sector requires the skills, knowledge and experience of farming and crofting communities.

20. Culturally, farming and crofting plays a fundamental role in the life of many remoter rural areas, not least through a strong link between individual farming families, their land and their way of life. The strong sense of community, the specialised system of hefted flocks, and the high nature value of these areas produces a range of direct and indirect benefits for all.

21. Livestock farming ensures that numerous Scheduled Ancient Monuments and other landscape features, such as dry stane dykes and vernacular buildings, are positively managed and actively used. Scotland’s hill and island areas are highly regarded by those who visit them and help define the cultural identity of Scotland.

The Future of the Single Farm Payment

22. In its response to the interim report from the Inquiry into Future Agricultural Support for Scotland, led by Brian Pack, into the support arrangements for Scottish farming, NFU Scotland has acknowledged the flaws in the current system and proposed solutions that are better focussed on activity for the future. Continued public support through the Common Agricultural Policy (CAP) remains justified and that such support must be focussed on productive agriculture and delivered to the individual undertaking that agricultural activity.

23. The CAP, and the Single Farm Payment (SFP) Scheme that delivers support payments to farmers in Scotland, is scheduled for reform from 2013 onwards.

24. NFU Scotland accepts that the current SFP system of support in Scotland is flawed. The most notable and unacceptable flaws are the exclusion of new entrants from the current system and that payments in Scotland are being made to some individuals who are contributing nothing or very little to Scotland’s agricultural output. There is a real desire amongst farmers that these anomalies must be addressed as soon as is practicably possible. The Pack report clearly outlines that, regrettably, there are no meaningful or practical means by which these problems can be sorted under the current rules. Therefore attention must be focussed on the rules for CAP post-2013 to ensure these flaws are dealt with from day one of a new scheme.

25. That new scheme must be focussed on productivity and that those actively engaged in farming are the beneficiaries of the public support available. NFU Scotland accepts the current EU debate presumes a transition to an area-based model. Any change brings the risk of destabilising farm businesses; therefore a transition period to an area-based system post-2013 is essential to allow Scottish farmers to adapt to a new system.
26. To ensure active producers are the main beneficiaries of public funds, NFU Scotland also supports the ability under the new rules to undertake a one-off updating exercise looking at the activity taking place on every farm. Doing this would capture the activity of new entrants to the industry in any successor scheme and, at the same time, exclude the inactive from it. This would create a stronger platform for the move towards the area-based system.

27. The area payment system that the transition period would move towards must to recognise that there are distinct differences between priorities for the livestock and cropping sectors. Therefore a ‘one-size-fits-all’ model is inappropriate. A simple area payment system cannot meet the objective of supporting productivity in the livestock sector. Therefore, whilst there are some reservations, a Top-up Fund (TUF) for the livestock sector, as discussed in the interim report, must be explored. For the cropping sectors, a TUF is far less desirable and has less relevance and a simpler, one-payment vehicle for delivering the SFP will have more merit.

28. The debate taking place in Scotland at this time will help distil just what the industry needs from the CAP. At the same time, the CAP reform process is still at a relatively early stage, and a ministerial agreement is not due until at least late 2012. Therefore, both industry and Scottish Government negotiating positions must be ‘light on their feet’ to deal with emerging issues that are likely to appear in the future.

The Immediate Future of the Less Favoured Areas Support Scheme (LFASS)

29. All hill farms and crofts in Scotland remain vulnerable, regardless of their location. An absolute priority for NFU Scotland in 2010 and beyond is to ensure that LFA support delivers. The principal concern is to ensure that the LFASS is targeted at active units in general and the most vulnerable hill units in particular, regardless of their location in Scotland.

30. The Scottish Government has increased the payment rates in the Fragile and Very Fragile areas by 19% for this year and a further 19% for the 2010 scheme, to be paid early next year, compared with LFASS in 2008. The problem with the 38% increase in the payment rates to the Fragile and Very Fragile areas is that the Scottish Government has taken a very blunt regional approach to distributing the money and that does nothing for those active hill units in the Standard area.

31. NFU Scotland is not seeking to impact on that existing commitment – and openly welcomes it. However, the Union has prioritised work to ensure that the LFASS in 2011 clearly reflects activity on all LFA hill farms and crofts, including those in the Standard area, and rewards those who are delivering the benefits derived from keeping cattle and sheep in these disadvantaged areas.
32. NFU Scotland proposals, currently being considered by the Scottish Government, would deliver an uplift in LFASS payments, from 2011, for those actively farming the more disadvantaged land in the Standard area and help maintain the increases in payment rates for the Fragile and Very Fragile areas beyond 2010.

33. This would be achieved by moving monies from the inactive to the active, and not by shifting funds either from region to region or from sector to sector. Recycling money from those who are inactive in order to raise the payment rate in the Standard area for those on the more disadvantaged land will aid those hill units that have so far missed out on any additional assistance.

34. Under this NFU Scotland proposal, new and variable, but as yet to be determined, minimum stocking densities would be set for each of the existing grazing categories (A, B, C and D). This would free up further funding to enable an increase in the payment rates for those on the poorer quality A and B land in the Standard area.

35. NFU Scotland’s proposal for LFASS seek a more equitable deal for all Scotland’s LFA livestock farmers and crofters. NFU Scotland has regularly met with both the Scottish Government and the EU Commission in an attempt to secure an approved modification to LFASS for 2011.

36. With the support of the Scottish Government, modelling work has been undertaken to see if better targeted LFASS payments can be achieved and what consequences might result. It is evident from the Scottish Government’s own modelling that there is huge scope to redistribute funding within the existing LFASS budget. This would be as a result of the 2009 re-basing exercise (updated stocking densities and livestock ratios) and the introduction of variable minimum stocking requirements to reflect land quality.

37. Achieving a successful outcome necessarily involves engaging the EU Commission, to ensure the required revisions gain approval this year. NFU Scotland is committed to securing a modification of the existing LFASS so funds can be scaled back from those who have significantly reduced or stopped keeping livestock. This would allow the payment rate to be raised in the Standard area for those hill units that have so far missed out on any additional assistance.

38. In addition, the NFU proposal to set variable minimum stocking densities would address the perverse situation caused by the recent re-basing exercise carried out by the Scottish Government. The omission of ewe hogg replacements from stock numbers has resulted in many hill units on the poorest land across Scotland struggling even more to meet the existing minimum stocking requirement in this year’s LFASS.
39. This has to be addressed to prevent a perverse situation that could penalise those with the most limited farming options. It is those kinds of units that LFASS is intended to support. So the introduction of variable minimum stocking densities to reflect the type of farming systems that different land qualities can support can also sort out that nonsense.

National Farmers’ Union Scotland
5 May 2010
Introduction

1. This report covers the work of the Rural Affairs and Environment Committee during the Parliamentary year from 9 May 2009 to 8 May 2010. This reporting period has been another busy and active year for the Committee which has seen it consider a wide range of issues across its remit and travel to various parts of Scotland.

Bills

2. The Committee scrutinised three pieces of Scottish Government legislation this year: the Marine (Scotland) Bill, the Crofting Reform (Scotland) Bill and the Public Services Reform (Scotland) Bill, as well as undertaking follow-up work on the Climate Change (Scotland) Bill introduced in the last reporting year.

Marine (Scotland) Bill

3. The Committee was designated lead committee on the Bill, which set out a new planning system for the sustainable management of Scotland’s seas, and revised the law on seal conservation. During May, June and September 2009 the Committee heard evidence from stakeholders and from the Cabinet Secretary for Rural Affairs and the Environment.

4. As part of its scrutiny of the Bill the Committee undertook fact-finding visits to Peterhead, Aberdeen, Oban and the Solway Firth during May and June 2009. The Committee also held an external meeting in Kirkcudbright to take evidence from local people, including representatives of the Solway Firth Partnership.

5. The Committee’s Stage 1 report was published in October 2009. A number of the recommendations in the report, such as a duty to protect and enhance Scotland’s seas, and provisions to add conditions to licences to prevent the unnecessary or inhumane killing of seals, received wide support and formed the basis of amendments to improve the Bill at Stages 2 and 3.

6. The Bill attracted a large number of amendments on diverse ranges of matters – from surfing to renewable energy – with the Committee considering over 300 amendments at Stage 2. A further 124 were lodged at Stage 3. The
Committee held three meetings at Stage 2 of the Bill in November and December 2009. The Bill passed Stage 3 in February 2010 and received Royal Assent on 10 March 2010.

**Crofting Reform (Scotland) Bill**

7. The Committee was designated lead committee on the Bill which was introduced in December 2009.¹ In order to gain insight into the distinct challenges facing modern day crofting in different parts of the Highlands and Islands, the Committee undertook fact-finding visits to the Western Isles, Caithness and Sutherland, and Shetland. The Committee also held external meetings in Thurso and Lerwick during February and March 2010, both of which included an "open mike" element allowing members of the public to express their views directly to the Committee.

8. As well as the two external meetings, the Committee held four evidence-gathering sessions in Edinburgh. The Committee published its Stage 1 report at the beginning of May 2010, agreeing that the Bill should proceed but calling for clarification or change on a number of key issues.

**Public Services Reform (Scotland) Bill**

9. The Committee was designated as a secondary committee on the Bill and was specifically charged to scrutinise the proposals to transfer the functions of the Deer Commission for Scotland and the Advisory Committee on Sites of Special Scientific Interest to Scottish Natural Heritage. The Committee took evidence during September 2009 and submitted its report to the Finance Committee in October 2009. This included recommendations on the terms of the transfer of functions to SNH as well as on the broad order making powers in the Bill.

**Climate Change (Scotland) Bill**

10. Following on from its work last year scrutinising proposals on waste management contained in the Bill, the Committee lodged an amendment to require the Government to consult fully before introducing new laws on matters such as recycling or plastic bag levies so as to ensure that they work effectively. This was agreed to by the Parliament.

**Inquiries**

11. The Committee’s main non-legislative work this year was its work on the EU Fisheries Council and reform of the Common Fisheries Policy (CFP). It also scrutinised the Scottish Government’s draft budget and published its report on the pig industry.

**Fisheries**

12. In October and November 2009 the Committee undertook its annual scrutiny of the Scottish Government’s position on proposed fishing quotas in advance of negotiations at the EU Fisheries Council. In November 2009 the Committee held a roundtable discussion on reform of the CFP, hearing evidence from a number of

¹ The Committee gratefully acknowledges the assistance of its adviser, Mr Derek Flyn in dealing with the complexities of crofting law.
representatives before publishing its report. This called for radical reform of a system that was seen as inflexible, over-politicised and short-termist.

2010-11 budget scrutiny
13. The Committee reviewed the Scottish Government’s Rural Affairs and Environment budget during September and October 2009. The Committee’s report was submitted to the Finance Committee in November 2009.²

Pig industry
14. In April 2009 the Committee undertook a short inquiry into the challenges facing the pig industry in Scotland. The subsequent report was published in June 2009, calling for targeted assistance to help the recovery of the industry following a number of recent setbacks.

Subordinate legislation
15. The Committee scrutinised 56 Scottish Statutory Instruments during the year. 51 were negative instruments and five were subject to affirmative procedure. The Committee also considered and approved two Scottish Government codes of practice, one on the welfare of dogs and the other on the welfare of cats.

Legislative consent memorandum
16. The UK Flood and Water Management Bill contains provisions to allow the UK Government, via the Environment Agency, to put in place a regime for reservoir safety risk management, including for the Scottish portion of any cross-border reservoirs. The Committee considered those provisions and, in January, reported to the Parliament endorsing the proposals.

Equal opportunities
17. The Committee ensured that equalities issues were embedded in its methods of working and that the Parliament’s guidance on these issues was followed. For example, the Committee considered and reported on whether gender equality had been suitably accounted for in proposals setting out the franchise for elections to the Crofting Commission under the Crofting Reform (Scotland) Bill.

Meetings
18. During the year the Committee met 31 times. Three meetings were wholly in private, with the rest being either wholly, or partly, public. The meetings taken in private were to consider draft reports.

19. All meetings were held in the Scottish Parliament, with the exception of a meeting held in Kirkcudbright in June 2009, which was primarily to take evidence on the Marine (Scotland) Bill, and meetings held in Thurso and Lerwick in February and March 2009, which were mainly to discuss crofting reform.

² The Committee gratefully acknowledges the assistance of its adviser, Professor Kenneth Thomson.
RURAL AFFAIRS AND ENVIRONMENT COMMITTEE

RECENT DEVELOPMENTS WITHIN THE COMMITTEE’S REMIT

Note by the Clerk: Each time an agenda and papers for a meeting are circulated to members, a short paper like this one will also be included as a means of alerting members to relevant documents of general interest which they can follow up through the links included.

**Water Environment and Water Services (Scotland) Act 2003**

The Scottish Government has published its seventh Annual Report on the progress of implementing the Water Environment and Water Services (Scotland) Act 2003. The report is available in hard copy from the clerks on request and can be viewed online at:


**Rural Development Contracts Regulations**

Members will recall that at its meeting on 24 March the Committee considered the Rural Development Contracts (Rural Priorities) (Scotland) Amendment Regulations 2010 (SSI 2010/87). The Committee agreed to make no recommendations on the instrument but to seek clarification from the Scottish Government on issues surrounding anaerobic digestion. The response from the Government can be viewed online at:


**Brussels Bulletin**

The monthly Brussels Bulletin, produced by the Parliament’s European Officer, contains an update on proposals to revise the Common Agricultural Policy. The Bulletin is available online at: