The Committee will meet at 10.00 am in Committee Room 6.

1. **Declaration of interests:** Aileen Campbell MSP will be invited to declare any relevant interests.

2. **Decision on taking business in private:** The Committee will decide whether to take item 6 in private.

3. **Crofting Reform (Scotland) Bill:** Maureen Watt MSP to move S3M-06374—

    That the Rural Affairs and Environment Committee considers the Crofting Reform (Scotland) Bill at Stage 2 in the following order: Part 1 (with schedule 1 to be taken after section 1), Part 4, Part 2, Part 3, Part 5 (with schedule 2 to be taken after section 35) and the long title.

4. **Subordinate legislation:** The Committee will consider the following negative instrument—

    the Transmissible Spongiform Encephalopathies (Scotland) Regulations 2010 (SSI 2010/177).

5. **Scotland's Hills and Islands:** The Committee will take evidence from—

    Willie Towers, Principal Research Scientist, Macaulay Land Use Research Institute;

    Dr Tony Waterhouse, Head of Hill and Mountain Research, Scottish Agricultural College;

    and then from—

    Richard Lochhead MSP, Cabinet Secretary for Rural Affairs and the Environment, David Barnes, Head of Agriculture and Rural Development, Rural and Environment Directorate, Bruce Beveridge, Head of Rural
Communities, Rural and Environment Directorate, and Roy McLachlan, Assistant Chief Agriculture Officer, Rural Payments and Inspections Directorate, Scottish Government.

6. **Work programme:** The Committee will consider European aspects relevant to its future work programme.

7. **Scotland's Hills and Islands (in private):** The Committee will consider the evidence heard earlier in the meeting.

Peter McGrath  
Clerk to the Rural Affairs and Environment Committee  
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The Scottish Parliament  
Edinburgh  
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The papers for this meeting are as follows—

**Agenda item 4**

*The Transmissible Spongiform Encephalopathies (Scotland) Regulations 2010 (SSI 2010/177)*

**Agenda item 5**

SPICe briefing (private)

Written evidence

*Scottish Agricultural College report: Farming's Retreat from the Hills*

**Agenda item 6**

EU issues paper (private)

**For information**

Recent developments
Introduction
Up until 2007-8, the general state of the hill and upland farming economy in Scotland had been parlous, with at least a decade of low incomes and high subsidy dependence. This was the culmination of a very difficult period for red meat producers in the UK arising from the combined effects of the Bovine Spongiform Encephalopathy epidemic followed by two outbreaks of Foot and Mouth Disease and, in the latter part of the period, by a strong pound which made UK red meat exports less competitive. In the last two years since the RSE inquiry, there has been a major turnaround in red meat markets, the pound has weakened and a degree of optimism has returned to at least some parts of the livestock sector.

Towards the end of the period of low prices, changes in the way subsidies were paid from production subsidies to an ostensibly fully decoupled system (albeit one linked to historic entitlements) made it easy for farmers to de-stock land that was relatively difficult to farm. This followed an earlier policy change when the hill and upland livestock payments under LFASS were converted to area payments. The combined effect of these changes produced a great deal of concern about farming’s ‘retreat from the hills’ which is recorded in SAC’s publication and reflected in parts of the RSE report.

The RSE report is contextualised in concern about food security, growing population and pressures on energy supplies which, prior to the financial crisis and recession, had produced a high degree of market turbulence in the food sector and very high prices in a number of farm products. Food riots were occurring in some developing countries as stockpiling, export bans and speculative behaviour produced highly unstable food markets.

The global recession has taken the heat out of the rise in global commodity prices and cereals prices, which had been at all time highs a few years ago and have now fallen back to levels that often do not cover the costs of production. This is a clear illustration of the ‘up horn- down corn’ dictum. Insofar as there is a crisis in Scottish farming, it is now located much more in the lowground and arable sector.

The core messages from the RSE report
Although they face disadvantage with respect to farming and some other land uses, Scotland’s hills and islands provide some key ecosystem services for society as a whole, including renewable energy, a green infrastructure for tourism, opportunities for carbon sequestration and biodiversity and valued cultural resources, but a more co-ordinated and integrated approach is needed to create and sustain viable and vibrant rural communities in Scotland’s hills and islands.

The farm sector in the hills and uplands is heavily dependent on public subsidy. A combination of Pillar 1 and Pillar 2 support helps sustain upland communities but there has been a sustained decline in incomes from hill and upland farming and,
associated with policy change, a reduction in stock numbers in some areas. For historic reasons, Scotland receives the lowest rate of Pillar 2 spending per hectare of any EU country, which limits scope for application of wider rural development measures.

The economies of the Scottish hills and islands are by no means wholly dependent on primary land use. The primary sector provides jobs for less than 15% of the workforce in all Scottish hill and island council areas, but related food and forest processing locally increases its significance to a degree. Locally, it can be of particular importance for some communities.

Any significant decline in the land-based industries could have repercussions on the attractiveness of landscape and biodiversity as well as generating negative multiplier effects in local economies, but reverse migration has led to demographic and economic revitalisation of some quite remote parts of the Scottish hills and islands at a time when land based incomes have been in decline.

Whereas the RSE report promotes a holistic view of future rural development challenges in Scotland’s hills and islands, taking in, for example, the development of tourism and renewable energy, the SAC report is a more agriculturally centred analysis and prescription.

What has happened to the hill and upland farming sector since the RSE and SAC reports were published?

In contrast to the cereals sector, the red meat sector has experienced two years of strongly improved prices. This has benefited both lowground and hill and upland producers. Margins to farmers have improved significantly but are still insufficient to guarantee profitable production for many. Sheepmeat prices show marked seasonal tendencies due to the increased supply in the summer months. Beef cattle prices are much less seasonally variable.

The combined effects of a shortfall of supply resulting from de-stocking of some of the poorer hills and the reduced population of sheep (the UK sheep flock has fallen in size by 15% since 2004; Ireland’s in the same period fell by almost 30%) and the significant weakening of the pound against the Euro has improved the export market and led to a sustained increase in prices. In early 2010, prices of prime lamb have been around 425 p/kilogram dwt compared to 250p/kilogram dwt at the same time of year in 2007 and 2008. These prices feed back into the store sheep sector and prices and confidence have returned to the sector to a degree. Although a decline in ewe numbers occurred last year, the rate of decline has slowed significantly.

Stuart Ashworth of Quality Meat Scotland has showed unambiguously that the decline in ewe numbers is much greater than the decline in sheepmeat production. This indicates that substantial efficiency gains have been made as a result of sheepmeat production moving down the slope. The removal of sheepmeat production from remoter areas and poorer land has if anything had a beneficial effect on productivity and profit.
2008 and 2009 beef prices in the UK have been over 25% up on the comparable period in 2007. In general, there has been a positive shift in the share of the retail price going to the farmer in both beef and sheepmeat. Store cattle prices have held up.

Scottish Government estimates for farm incomes in 2009 show improvement in incomes for most in the livestock sector with the exception of hill sheep farms. It is not clear why these farms have made still made a loss. However, it is important to note that the incomes of mixed and livestock farms are still low compared to arable farms in Scotland.

Source: QMS website and The Scottish Red Meat Industry Profile 2007

Recent commentaries on the hill and upland sector report a very difficult spring with prolonged snow cover, difficult lambing weather and much higher feed bills. There can be little doubt that the increased feed bills will eat away at the recently improved margins. The continued low price of cereals and the fallback in fertiliser prices from the high levels of two and half years ago mean that some input costs have reduced. Although returns to hill and upland farmers have improved, the fundamental challenges of hill farming remain. These include:

- Limited room for manoeuvre in terms of farming systems because of binding biophysical constraints, which limit winter keep production capability;
- A dominance of store livestock production and difficulties of finishing livestock in the higher hills;
- Limited scope for technical innovations and relatively high labour requirements per unit output;
- A very wide spectrum of performance from the good to the poor; and
- Being at the ‘end of the whip’ in terms of prices received — that is experiencing considerable volatility compared to lowground farmers which makes it hard to plan.

The future

The LFASS scheme

The basis of the LFA support scheme is in a period of change. The existing area was delineated through a combination of an assessment of the limitations imposed by the harsh environment combined with social and economic factors such as peripherality and distance to market. However, a review of the scheme by the European Court of Auditors in 2003 identified inconsistencies across Europe and the Court recommended a review of the existing classification of LFAs as well as an overall evaluation of the aid scheme. There was a clear expression that the criteria to be used in delineation should be clear, transparent and objective and have wide applicability.

After an approach from the Scottish Government, the Institute examined the relationship between the Macaulay Institute’s Land Capability for Agriculture (LCA) system and the current LFA boundary. A good and logical relationship was found to exist with the higher classes, comprising the better quality land, predominantly excluded from the LFA. As the LCA system provides an objective basis for classifying land using biophysical criteria such as climate, topography and soils, this relationship was to be expected. Despite it appearing to meet the Commission’s desire that LFA should be delimited by biophysical criteria to the exclusion of economic and social criteria, the LCA option did not find favour with the JRC as a primary criterion but it is a tried and tested system but it could prove useful in ‘fine-tuning’ delineation.

The Commission and their scientific-technical support arm at the Joint Research Centre (JRC) in Ispra, Italy have recommended a method to identify Agricultural Areas with Natural Handicaps (ANH) – a new description of Less Favoured Areas - using common biophysical criteria and defined thresholds. The criteria are low temperature, heat stress, drainage, soil texture and stoniness, rooting depth, various
soil chemical properties, soil moisture balance and slope. Clearly, some of these have little or no relevance to Scotland and effort has focused on those criteria that do. The Institute has been acting as technical advisors to the Scottish Government in the application of these criteria and contributed to the written submission to the Commission in early March 2010 ‘Report on the testing of biophysical criteria for areas with natural handicap in the UK’, jointly authored by DEFRA and the three devolved administrations.

The value of the long term soil data funded by the Scottish Government and its predecessors over a number of decades has proved valuable in this policy driven application. However, of the nine criteria recommended by the Commission, the suggested temperature thresholds do not adequately delineate land that could reasonably be described as having ‘Natural Handicap’. Two measures of low temperature have been proposed; the Length of Growing Season and Accumulated temperature. The former identifies too little land with Natural Handicap (length of growing season is inappropriate for maritime climates such as Scotland) whereas the latter, using the threshold of 1500 day degrees has the opposite effect and identifies some highly productive land as having Natural Handicap, for example much of Strathmore and Angus and the Merse of Berwickshire. The maps below demonstrate these anomalies (maps a and b). If applied to the letter, an extra 5, 409 square kilometres could be designated as being ‘Less Favoured’ or having ‘Natural Handicap’ using this threshold. A third map demonstrates the effect of applying a lower threshold (1300) and when combined with the other criteria gives a reasonable fit with the current LFA boundary. It should be stressed that it is not the intention to achieve a perfect fit with the current LFA boundary; radically different methodology, criteria and data have been used in each case and it would not be possible even if it were desirable.

Discussions are ongoing with the Commission to achieve a realistic outcome for Scotland. This includes continuing discussions on an appropriate temperature threshold, the possible inclusion of Field Capacity Days (FCD a measure of climatic wetness) and the use of parishes rather than wards. The Macaulay Institute continues to act as technical advisor to the SG in these discussions, but any policy options or decisions lie outside our remit and authority.

Global drivers
Although the last two years of global recession have taken the heat out of the commodities boom, the longer term pressures will be for increased food demand to meet the needs of a growing and more affluent global population, at a time when food production in some parts of the world will be met with increased challenges from climate change. Increased affluence has historically been associated with increased demand for meat products, so a recession would have suppressed that demand. In practice, declining red meat livestock numbers in most of Europe have curtailed supply and, coupled with a weaker pound, export opportunities have improved, raising prices very substantially, as can be seen from the evidence made available by QMS.

The same expanding global population will be seeking new forms of renewable energy to substitute for what will almost certainly be diminishing stocks of oil. The hills and islands of Scotland have enormous natural advantages in renewable energy
production, but with modest exceptions, such developments have tended to be large scale and externally owned, thereby not rewarding the communities to any great degree in which projects are based, except during the construction phase.

The global recession and the need to scale back public expenditure have the joint capacity to make it more difficult to improve the situation in the hills and islands. The realisation of development opportunities does need public money, especially when so many of the values of the hills and islands are associated with public goods (such as biodiversity, carbon sequestration and landscape quality.

Conclusions
There remain substantial challenges to the sustainable development of hill and island areas of Scotland. The immediate crisis in hill and upland farming incomes has eased substantially, but the lack of a fully integrated rural development plan for Scotland (The Scottish Rural Development Plan is mostly about agriculture and forestry development not the whole rural economy) will continue to impede the achievement of sustainable economic growth.

There are significant uncertainties about the future of hill and upland farming because of its high level of dependency on public support. Both LFASS policy review at EU level and the way in which flattening of the Single Farm Payment will be implemented in Scotland have the scope to influence the wellbeing of hill and upland farmers.

The core message from the RSE report of the need for an appropriately funded, community-driven, integrated and cross-sectoral approach to the development of Scotland’s hill and island areas remains valid in spite of recent farm income improvements. The Pack report refers to the need for ‘transformational change’ in the farm sector. The RSE view was that such an approach was needed across all sectors of the hill and islands economy and it remains easy to concur with that view.
(a) Length of growing season across the UK; areas with values less than 194 are defined as having natural handicap.
(b) Accumulated temperature above 5 degrees Celsius across the UK; areas with less 1599 (8 in 10 years exceedance) are defined as Natural Handicap.
(c) Areas of ANH delineated at ward level at a 1300 day degree threshold and in combination with the other criteria.
(d) – Cattle

(e) - Sheep

(f) – Cattle

(g) Sheep

(d) & (e) Change in cattle and sheep numbers respectively between 1999 and 2007

(f) & (g) Change in cattle and sheep numbers respectively between 2007 and 2008
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.

Crofters Commission

The Minister for Environment has announced the re-appointment of the Convener and four Commissioners to the Crofters Commission. The Scottish Government press release can be viewed online at:

http://www.scotland.gov.uk/News/Releases/2010/05/07165022

Flood Risk Management Annual Report

The Minister for Environment has written to the Committee to announce the publication of the Scottish Government’s first annual report to the Scottish Parliament on the Flood Risk Management (Scotland) Act 2009. The Minister’s letter is at Annexe A and the report can be viewed online at:

http://www.scotland.gov.uk/Publications/2010/05/14113652/0

Scottish Natural Heritage

SNH has commissioned two reports - Report 311: Evaluation of the Eco Schools Biodiversity Module; and Report 361: Surveys of harbour (common) seals around Scotland. These reports can be accessed by using the links below:

http://www.snh.org.uk/pdfs/publications/commissioned_reports/311.pdf

European project on Ocean Acidification

EPOCA has published an introductory guide about the impact of climate change and ocean acidification on our seas. The report can accessed using the following link:

The Sea Fishing (Transitional EU Technical Conservation Measures (Scotland) Order 2010 (SSI 2010/100)

At its meeting on 14 April the Committee considered the above order and agreed to write to the Scottish Government for clarification of a reference in the Regulatory Impact Assessment which suggests that continuation of the Order for a period of 18 months will pose no additional costs on small firms or vessels. The Cabinet Secretary for Rural Affairs and the Environment has responded to this query and the letter is at Annexe B.

Annexe A

CORRESPONDENCE FROM THE MINISTER FOR ENVIRONMENT DATED 12 MAY 2010

Implementation of the Flood Risk Management (Scotland) Act 2009 Annual Report to Scottish Parliament

The Flood Risk Management (Scotland) Act 2009 came into force on 16 June 2009 and introduced a new and more sustainable approach to assessing and managing flood risk areas throughout Scotland.

Section 52 of the Act requires Scottish Ministers to lay before parliament an Annual Report summarising the activities and progress made by the principal organisations (Scottish Government, SEPA, local authorities, Scottish Water) towards implementing the FRM Act.

I am pleased to inform you that the first annual report will be laid before the Scottish Parliament today, and I have arranged for electronic copies of the report to be made available to members of the Rural Affairs and Environment Committee.

In preparing the report, we have worked closely with all organisations involved in implementing the Act so as to reflect the important work they have undertaken since the legislation was enacted.

Much has already been achieved to transform the aims of the Act into action, including:

- creation of network of stakeholder advisory groups to support implementation of the Act and sharing of skills, knowledge and expertise;
- increasing local authorities share of the Scottish Budget
- new flood warning systems for the rivers Dee, Don, Deveron and North Esk;
- investment in research to improve our understanding of different, and more natural approaches to tackling flooding.

These are important steps and I very much look forward to building on these achievements throughout the coming year.
The Sea Fishing (Transitional EU Technical Conservation Measures) (Scotland) Order 2010 (SSI No 2010/100)

I am replying to a letter of 21 April sent by your clerk to one of my officials requesting a response to questions about the above Scottish Statutory Instrument raised at the Rural Affairs and Environment Committee on 14 April 2010.

The reason that paragraph 6 of the Regulatory Impact Assessment relating to the Sea Fishing (Transitional EU Technical Conservation Measures) (Scotland) Order 2010 (SSI No 2010/100) stated that no additional costs applied was because these technical conservation measures were in force during 2009. Any extra expense to fishing vessels at that time was taken into account by the Regulatory Impact Assessment relating to the Sea Fishing (Specified Sea Areas) (Regulation of Nets and Other Fishing Gear) (Scotland) Amendment Order 2009.

You also asked what action I was taking to secure amendments to these transitional EU measures. Since the introduction of these measures, I have given high priority to convincing the European Commission of the need for an early amendment of the provisions of Annex III of the 2009 TAC Regulation, which were extended until 30 June 2011 in November last year despite opposition from the UK and Ireland.

I met with Commissioner Damanaki on 22 March to stress the need for high priority to be given to delivering alternative measures. My officials also met with senior officials of the European Commission in Brussels on Friday 30 April, when possible measures were discussed.

As a result of these discussions I expect to submit an official paper very shortly setting out alternative, but equally effective, measures to conserve West of Scotland fish stocks.

I hope this is helpful.