

WEDNESDAY 11 MARCH 2009

Present

Arran, E of
Brooke of Alverthorpe, L
Brookeborough, V
Caithness, E of
Cameron of Dillington, L
Dundee, E of
Jones of Whitchurch, B
Livsey of Talgarth, L
Palmer, L
Ullswater, V (Chairman)

Memorandum submitted by Scottish Government

Examination of Witnesses

Witnesses: **Mr David Barnes**, Deputy Director, Agriculture and Rural Development Division, Scottish Executive and **Mr Willie Towers**, Soil Scientist with the Soils Group at the Macaulay Institute, Aberdeen, examined.

Q535 Chairman: Good morning Mr Barnes. I think you are pretty familiar with most of the faces round this table but certainly welcome and to Mr Towers as well. As you know, we are nearing the end of our inquiry into the Less Favoured Areas scheme. Just to explain that this will be a formal evidence gathering session; a note of it will be taken and a transcript will be provided for you in a few days' time so that you can go through it and make certain that any figures or anything you might have supplied are indeed the ones you would wish to put into the report. This session is also webcast, so I am afraid it is on the record all the time, although we have little evidence that anybody actually sees or listens to it. Thank you very much indeed for coming. Is there anything you would like to say to start with or shall we go into the questions?

Mr Barnes: There are a couple of things I wanted to say by way of introduction. Perhaps I should introduce our team to begin with. I have had some dealings with the Committee in a previous incarnation. My name is David Barnes. I met the Committee before in my previous job working at the UK Government Office in Brussels. Since September I am now Deputy Director at the Scottish Government responsible for agriculture and rural development policy. My colleague Willie Towers is from the Macaulay Institute and he is giving the Scottish Government technical advice on LFA issues, in particular on the redesignation. By way of introduction I just wanted to say two very short things. The first was to thank the Committee for this opportunity to come to give evidence. LFA is a very important issue for Scotland and therefore we think your work on the subject is on an important issue and we are very grateful to have this opportunity to talk in a bit more detail. Secondly, I just wanted to reiterate, as we said in our written evidence, where Scotland is in the policy cycle on LFA policy. Our current LFA support scheme expires at the end of 2009. This was deliberately designed in the expectation of new rules from 1 January 2010, which it is now clear will not come into force. It was designed that way for that reason. We therefore have to do something to have a new scheme from the beginning of 2010. We carried out a public consultation at the very end of last year and we are still deliberating on the decisions to be taken as a result of that. I wanted perhaps pre-emptively to apologise to the Committee. I am very happy to talk about the direction of travel of policy in Scotland but if there are aspects which relate to specific decisions about the detail of the future scheme, it may be that I have to say that at this stage Ministers have not yet taken decisions on that. The timescale we expect for that is that it may be May before we publish our decisions. The reason for that is that we want to tie in our deliberations on LFA with some wider work that we are doing on our rural development programme.

Q536 Chairman: Thank you very much for that. Perhaps I could start the questions. Could you begin by outlining for us what you see as the rationale for LFA payments? What is the public supposed to be paying for through this scheme? What types of disadvantages should farmers be compensated for? Do you expect them to deliver economic and social as well as environmental benefits in return?

Mr Barnes: In order to be completely accurate I am going to quote the rationale for LFA support in Scotland as it is set out in our Rural Development Programme and therefore approved by the European Commission which certainly does talk about economic and social aspects as well as environmental. The formal rationale says “The objective of this measure” LFA support “is to compensate land managers in LFAs for the particular disadvantages that they face and thereby sustain farming and crofting in these areas and the associated economic, social and environmental benefits that are dependent on continued active land management in these areas. It is only through sustaining farming and crofting activity and by retaining land managers in Less Favoured Areas that there can be effective uptake of agri-environment measures and delivery of environmental benefits associated with active management of land for agricultural production”. So LFA support for us has an underpinning role. It sits, perhaps I could say, between the single farm payment and more targeted agri-environment measures. We have a happy coincidence that the active farming we are wishing to support through the measure delivers environmental benefits through grazed habitats, which create habitats for birds and so on, which also create the landscape which is of great value for tourism in Scotland. The same activity also creates the social and economic benefits which we are looking for. It is underpinning support to keep active farming present in Scotland’s LFA without which it would be impossible to deliver the environmental, social and economic benefits.

Q537 Lord Brooke of Alverthorpe: Thank you for the very helpful evidence which you submitted to us. May I stay on the same subject and maybe then refer specifically to your paragraph 10.1 where you start to set out reviews on the strengths and weaknesses of the LFA scheme so far? You talk about it providing, as you see it, underpinning support in Scotland. Where do you see it really differentiating from what you have just described as the scheme above and the scheme below?

Mr Barnes: I guess we would say that the philosophy is about a level of geographic scale and a level of targeting of the outcomes that we are seeking to achieve and therefore the activities that are needed to deliver them. The single farm payment has a geographical coverage which is countrywide and a set of outcomes associated with it which are pretty generic. They are the basic continuing existence of farming plus the rather broad-brush benefits which the cross-compliance rules are aimed to deliver. LFA support sits on top of that, is more targeted geographically in that it is limited to the LFA of course though, in Scotland's case, that does mean 85 per cent of the land area.

Q538 Lord Brooke of Alverthorpe: The handicaps.

Mr Barnes: Yes. It is more targeted in terms of the benefits it is looking to achieve because it is specifically saying that these are areas in which extensive, grazed livestock systems are the norm and they are delivering a number of things. They are delivering particular habitats which are of value for Scotland and more widely for wildlife. I am told that 50 per cent of Europe's bird species are present at one time or another in the year in Scotland. So we have important habitats, we have landscapes and 72 per cent of tourists coming to Scotland said that the landscape is a factor in their decision to come. Increasingly we are aware of soil carbon in Scotland's LFA. Scotland has more than half of the UK's soil carbon and therefore the issue of increasing carbon sequestration and, conversely, avoiding carbon release is increasingly rising up our agenda. These are a slightly more targeted set of outcomes but still

relatively broad and on a broad geographic area. We then have two tiers above that. The next tier up is known in the Scotland Rural Development Programme as Land Managers' Options and this is a means of delivering agri-environment support which requires the farmer to say "Okay. The geographic level of my individual holding means I can undertake these activities which will deliver these specific outcomes the Scottish Government are looking for" which might be a particular kind of grazing management. This is not unique to the Less Favoured Areas so it might be in an arable setting, sowing a wild bird mixture, over-wintering and so on. That is the next layer up and there is a further layer above, which I would call the very specific. In our rural development programme it is known as Rural Priorities and this is a competitive scheme. The farmer has to put together a specific project. For instance, if a farmer has a Site of Special Scientific Interest on his holding then this would be the mechanism through which he would reach agreement with the authorities that would say "In the public interest we would like you to manage this valuable site in this particular way and we will compensate you for that through payments". That is where a LFA scheme fits in as the second, coming from the bottom, of four levels of geographic scale and targeting.

Q539 Lord Brooke of Alverthorpe: So you would say it should be including specific environmental benefits as well and not just the physical handicaps.

Mr Barnes: Yes indeed; yes. One area on which there was a strong consensus in the views coming through our consultation exercise was that simply being the land manager of a piece of land which is disadvantaged should not qualify one for payments. The justification for spending public money is that the management of that land delivers public benefits, habitats, landscape and so on. In the Scottish situation those benefits will not be delivered unless the land is actively farmed, which in our setting means grazed. Therefore when we talk about specific environmental benefits, what we were meaning was that if you do not manage the land, you are not delivering the benefits and you should not get support. If you are actively

farming the land, grazing the land, then you are delivering the outcomes we are looking for and you therefore deserve public support. I can see that it could be that our written evidence might have inadvertently been a little misleading. By using the word “specific” I can see that that might have implied slightly more targeted.

Q540 Lord Brooke of Alverthorpe: I was going to refer you on then to your paragraph 5.2 where you talk about the declining numbers of sheep which are being farmed and the beef which are being farmed and the logic of what you are arguing is that in those instances they should no longer be eligible for payments.

Mr Barnes: This is an issue which we are looking at very actively and it is very easy to state what should happen in an extreme case. We are finding it quite a challenge to work out the way forward on less extreme cases. The extreme case would be where land is completely abandoned and no longer farmed. That means that the habitat will change and in that circumstance we would clearly say Less Favoured Areas support should not be given. However, we may be slightly straying on to what I was planning to say under some of the later questions. What we think we are seeing in Scotland is an extensification of production, a generalised reduction in stocking density, more so than a complete abandonment. It is easy to say, on a holding which in living memory has always carried 2,000 ewes, that if that goes from 2,000 ewes to zero, that land is no longer being actively farmed and therefore support should not be given. However, if the stocking goes down from 2,000 ewes to say 600, it is quite a fine judgment as to whether that represents effectively abandonment of part or all of the farm or whether it represents a sensible consolidation of the business. Certainly farmers say to us that in the 1990s, with headage payments under the Common Agricultural Policy, there was an incentive to keep as much stock as they could; as long as it could walk they kept it and got paid for it and that was a rational response to the policy environment of the time. However, they tell us, in doing that they probably got to a point where the flocks were so big

they could not manage them as well as they might. By cutting back numbers, they can do a better job and their lambing percentages can go up. It might be that a drop in breeding flock size does not transmit into a corresponding drop or at least not as big a drop in kilos of lamb produced. If in addition the kilos of lambs that are produced are of better quality, they better meet the market spec, then it could be that the farm income has gone up despite the breeding flock size going down. So there are some complex things at work there. It is a big challenge for us and I hope I have demonstrated that if we do not know what the magic answer is and we are having to continue to work on it, it is because of some of those complexities.

Q541 Lord Palmer: May I ask a quick supplementary to which I should know the answer as I live on the outskirts of the Lammamuir Hills? What happens, for example, to somebody who is getting an LFA payment and suddenly puts up a huge wind farm?

Mr Barnes: That is a good question.

Q542 Lord Palmer: Can you let us know?

Mr Barnes: I will. I will look into it. I presume that part of the land which is still farmed will still qualify for LFA support but I am happy to look into that and revert to you.

Q543 Lord Livsey of Talgarth: You talked about the reduction of ewes on farms and extensification of grazing. How much is this a reflection of the farm structure in the Highlands, say, and the Borders where there are not many people?

Mr Barnes: Sorry?

Q544 Lord Livsey of Talgarth: Disregarding the crofter issue, the impression I gain, having lived in Scotland twice, is that in terms of numbers of people in the farming community the population is not very dense and there seem to me to be very few people engaged in farming in certain parts of Scotland, which means the farms are larger, et cetera.

Mr Barnes: Yes, Scottish farming has what one might call polarised; certainly in the uplands it has a polarised structure. We have a very important crofting sector with, for the UK, very small holdings indeed, quite often on a scale where farming is not the sole activity of the crofter. It is quite standard practice for the crofter to be working in other ways, contributing to the community through those other activities. At the other end of the scale, we have some very large holdings indeed; tens of thousands of hectares with stocking densities which are extremely low, reflecting the very low quality of the land. Yes, we do have an unusual and rather polarised set of farm structures. I suppose that means that the farmers in question will react in different ways to the similar challenges that they face, by which challenges I mean the increasing competition on the market, potentially reducing public support over time as Europe reduces the CAP budget. It may be that for a crofter the sensible response is to review the balance between farming and non-farming activity. It may be that for a large specialist sheep-holding the answer is to look at economies of scale, growth in scale, or alternative business opportunities such as wind farming. Scotland has a high proportion of Europe's potential wind energy. Yes, it may be that the response is that at the different ends of the farm structure similar challenges are faced but the business response might be a different one.

Chairman: Perhaps we should tackle abandonment head on.

Q545 Viscount Brookeborough: What sort of detailed evidence can you point to that would indicate that the LFA payments actually prevent some abandonment in disadvantaged areas? Accepting that we are really in the first generation of those farmers which have been affected by it and their willingness to continue farming is very much because it is the life they have always known and as that generation either dies off or ceases to farm, do you think that the LFA payments will encourage inheritance if you like?

Mr Barnes: Certainly I have mentioned some of the factors that we think we are seeing. It is a complex area. One must not forget the global background to this. Sheep production, almost

everywhere it exists in the world, is seeing reductions in stock numbers. Global competition is high and that naturally makes it quite difficult to isolate the impact of a particular instrument from the other factors which are in play. We have strong evidence that livestock numbers are going down; whether it is the Scottish Government's own census figures or reports from, for instance, the Scottish Agricultural College or the Royal Society of Edinburgh; we have consistent and strong advice that stock numbers are coming down.

Q546 Viscount Brookeborough: And still continuing to go down.

Mr Barnes: Yes, as of the last census continuing to go down. If one looks at the long-term trend, stock numbers now are roughly where they were before the headage payments. In other words, there was a fairly stable long-term position, there was an increase in stock numbers because of the factors I mentioned earlier, the headage payments. With decoupling, it was always likely to be the case that numbers would come down because the incentive to keep maximum number of stock was removed and so to some extent that decline was to be expected. Sheep numbers in particular are roughly where they were pre-decoupling, but it would be a brave person who made a prediction about whether we have simply been seeing a correction after the headage payment period and now we are back at long-term equilibrium or whether because of the wider factors we would see a continued decline, certainly the Scottish Government's approach is to assume that we need to take action for hill farming.

Q547 Viscount Brookeborough: But we are seeing an increase in price.

Mr Barnes: We are seeing an increase in price and that brings in the kind of profitability versus volume numbers which I was talking about. I should say also that the picture is slightly different as between suckler cows and sheep in Scotland. There has been a reduction in suckler cow numbers as well but the rate of change has been less marked than in the sheep sector. I mentioned the anecdotal evidence that we have and certainly, when talking to

individual farmers we are told of instances of entire flocks being dispersed; only as we sat in the corridor, my colleague Willie gave me another example. On the one hand that would suggest that abandonment is taking place. However, if we look at the number of applications we had for LFA support in Scotland, they actually went up in 2008 compared with 2007. We had just under 12,500 applications in 2007; we had nearly 14,000 in 2008. That may be partly as a result of some red-tape-reducing measures we have taken in Scotland to try to make it easier for those who are eligible for the payments to access them. Again it is difficult to isolate one factor from another. Certainly that tends to suggest that the anecdotal evidence about abandonment is not being fully borne out in the statistics. That might mean, for instance, that the farmers who say to me that the neighbouring land to their holding has been abandoned and it causes them problems because their hefted flock now disperses more widely than it used to so gathering is more difficult than it used to be, that what is perceived as complete abandonment by the neighbours is actually just a real significant reduction in stocking rate but not complete abandonment of the land. When we are talking about land quality whose carrying capacity sometimes has to be expressed in terms of head of livestock per tens of hectares, the animals are already pretty thin on the ground, so to go from very thin indeed to even thinner can be quite difficult to detect. So we do have some lack of clarity. Certainly we will continue to look at the evidence and try to improve the statistics. For instance in the latest census data we aim to look at the number of holdings with sheep to see whether that has gone down. What we can say - and again we are slightly straying on to later issues about farm incomes - is that without LFA support payments there would have been a greater decline in that activity. There is a requirement in our LFA support that the land has to be actively farmed and therefore that does create an incentive. There is a consensus view, at least within Scotland, that in the absence of LFA support the downward trend would have been steeper.

Q548 Viscount Brookeborough: If you do come across abandonment and therefore you are saving payments, will you have the ability to redistribute that to the people who are on the margins of giving up and therefore help persuade them or will that money simply disappear?

Mr Barnes: It certainly will not disappear.

Q549 Viscount Brookeborough: Go back to Europe.

Mr Barnes: No; no indeed. There have been European support schemes which have said they will fix an estimated payment rate based on the size of the budget and the number of people they expect to apply. They will then see how many people actually apply and they will adjust the payment rate up or down in order to make sure we fully spend out the budget, no more, no less.

Q550 Viscount Brookeborough: So you could have a higher LFA payment than I do in Northern Ireland.

Mr Barnes: That system has applied to some schemes. But that is not the system we are applying to LFA support in Scotland. What we have done is fix the payment rates; they are differentiated according to land quality, indicators of fragility and so on. We have had a fairly stable population of applicants and through that we can predict with a reasonably high degree of certainty that expenditure is going to be in the region of £61 million per year. That is the budget which sits in our Rural Development Programme for the LFA support. If there were to be more applicants than expected, we could end up spending more than £61 million. That would simply mean that less money was available for other parts of our Rural Development Programme. Conversely, if we were to see a decline in applications, then we would be underspending our budget and indeed in 2007 the outturn was under £60 million compared with an expected budget of £61 million. If that were to be the case, we would then have a choice to make. Would we want to increase payment rates in order to rise back up to the full

budget of £61 million or would we want to deploy the money released in that way elsewhere in the Rural Development Programme? In 2007 there was a slight underspend; in 2008, with the increase in numbers which I have already mentioned, we do not think we are heading for any underspend. For the time being that appears to be a hypothetical point but that is what would happen in the circumstances.

Q551 Viscount Brookeborough: Do you have a graph running for longer than two years on the number of applications?

Mr Barnes: I do not have the numbers with me but I am happy to write. It has been fairly stable. We tend to talk of approximately 13,000 LFA holdings in Scotland but I am happy to write with the precise numbers.

Baroness Jones of Whitchurch: Do you have any statistics on what land has been abandoned? I realise that it is a complex thing to measure but there must be some way of saying you know now that has gone to bracken, there is no livestock there at all grazing. Do you have any idea what the proportion is?

Q552 Chairman: Or forestry perhaps as an alternative.

Mr Barnes: We would distinguish between forestry and land abandonment because one is a productive, indeed desired, change of land use and the other is perhaps a withdrawal. We are talking about parts of the country where it has traditionally been the norm for agricultural activity not to be universally present. If I might reflect a bit on my personal experience, moving from a UK and England-based career to now arriving to work in Scotland, I really have found the situation to be very different indeed. The assumption that one might take in England, for instance, that if there is land which can be farmed it will be farmed, does not hold in Scotland because the quality of some of the land really is so poor indeed that whether it is farmed or not is not a given. We do not have good data because we have this

contradiction. We have anecdotal suggestions that land abandonment is happening but we have Single Farm Payment and LFA support applications holding up. What we suspect we may be seeing is transfer of entitlements. Single Farm Payment is bigger than LFA support; it is over £400 million for Scotland as a whole and it is over £200 million for the Less Favoured Areas in Scotland. Under our historic model it is legitimate for a farmer to take on a new piece of land elsewhere in the Less Favoured Area, transfer his Single Farm Payment entitlement. If he chooses a piece of land which is of lower quality, the level of farming activity which might be required would be lower and it is said to us by some that this means that farmer can continue to receive the same level of payments for doing “less”. Similarly, provided the new land is in the Less Favoured Area then LFA support would be payable as well. It may be that what is being perceived as abandonment is transfer of entitlements from one place to another. Where we think we are seeing that is where one would expect it, in the most disadvantaged, least productive parts of the country, in other words the furthest north and west parts of Scotland. However, it is unclear for those reasons. We may get some slightly better data from early 2010. The reason I say that is that we are about to introduce a change into the rules of our LFA support for 2009. Until now there has been an assumption that an entire farm will be either farmed or not farmed and therefore the applicant has been required to confirm that yes, he is indeed farming the holding and therefore he is delivering the grazing which gives the desired outcomes, environmental and other and therefore he qualifies for support. It was an all or nothing question for the entire holding which, for many years, has worked perfectly well because that is how farming practices went. What we are going to do from the 2009 LFA support onwards is ask that question, not at the level of the holding but at the level of the individual field. Anecdotally we are hearing suggestions that farmers are pulling back. If they have a holding which has a certain amount of improved grassland, in-bye land and a large amount of rough grazing, it is being suggested that farmers

are withdrawing from the more distant parts of the holding, reducing their stock numbers and running a smaller flock that can be run on a sub-area of the entire holding. If this is the case – and the evidence is only anecdotal – and if this means there are ungrazed areas, then those ungrazed areas are not meeting our criteria for support and we wish to stop supporting them or invite the farmer to return to grazing them in order to deliver the outcomes we are prepared to pay for. From this year onwards we shall be asking farmers parcel by parcel to confirm that they are indeed actively farming the land to deliver the outcomes that justify payment.

Chairman: We are at the risk of getting slightly sidetracked by the particular LFASS when we should be concentrating a little bit more on the European review of the scheme, so I would ask members of the Committee perhaps to keep their questions and supplementaries more to the European scheme.

Q553 Earl of Arran: Turning to the subject of designation criteria, on the one hand you are saying that more locally based biophysical criteria are needed for the designation of intermediate LFAs. On the other hand, the Commission is probably going to propose a harmonised set of common biophysical criteria. Are you any closer to resolving the issues with the Commission such as cool, wet and maritime climates? How is your negotiation of that going?

Mr Barnes: I am going to hand over to my colleague Willie, who not only is the technical expert on the detail but who has been involved in our discussions with the Commission.

Mr Towers: The initial criteria were very much biased towards continental Europe, particularly Mediterranean Europe where the climatic factors were heat stress and moisture stress which I am sure you all know is not really an issue in large parts of Scotland and Northern Ireland as well. I and technical colleagues from England, Wales and Northern Ireland and the Republic of Ireland have been road-testing these criteria, through negotiation and both formal and informal lobbying with the JRC, the research arm of the Commission.

We are on the way to persuading them that an extra criterion to look at climatic wetness rather than climatic dryness should be included in the final communication from the Commission. I should say that by road-testing the criteria in Scotland, much of the current LFA would remain LFA but in that part which does not there are some real anomalies which really have to be addressed. I should say that the Earl of Caithness has one of the areas where these anomalies do occur, where land side by side would become either LFA or non-LFA. We are making good progress in negotiating a more sensible outcome for Scotland in terms of the EU biophysical criteria. It is good to see both the technical experts and the Commission being flexible to our arguments, just producing good evidence really.

Q554 Baroness Jones of Whitchurch: On the issue of socio-economic factors, you indicated earlier that you still saw a role for those in the payment system. How do you think that is going to work now? The Commission are not putting so much emphasis on socio-economic indicators. How would you best see those being captured and paid in the future?

Mr Barnes: If we go back to the EU legislation on which we have to work, the basis for LFA support is the existence of natural handicaps. So that has to be our guiding principle. Poor land quality is undoubtedly a natural handicap, a natural disadvantage and nobody would argue with that. The issues people talk about as socio-economic issues are not necessarily a uniform group of issues when one compares it with that issue of natural handicap. What I mean by that is, for instance, remoteness - these are general issues, not specific to Scotland - I can see that one might argue remoteness is a natural condition and therefore it might count as a natural handicap, whereas I can see that some people might argue that low population density is a social, a human characteristic and not a natural handicap. The kind of issues which often get lumped together as socio-economic will not necessarily all fall in the same sense when judged against the requirement in the legislation to work on the basis of natural handicap. As it happens, for Scotland there is an enormous overlap between the land quality

and other indicators such as remoteness and low population density. So to some extent it is a moot point for Scotland. We have designated our LFA on the basis essentially of land quality. The designation pre-dated the Macaulay Institute's land classification but has since been broadly vindicated by that classification. Broadly speaking, the lowest quality, as one goes down the gradient of land quality, also tends towards the most remote and the lowest population density parts of Scotland. Broadly speaking, there is no conflict for us between socio-economic and land quality. Certainly we value the social and the economic benefits. Having said that broadly speaking there is a coincidence, that does not mean it is the case throughout Scotland. Caithness is again an example, Orkney is another example, where the land quality is certainly poor, undoubtedly it is less favoured and should be in the LFA but it is land which is of less poor quality than most other land in Scotland of a similar level of remoteness, if I might put it that way. Therefore, what Scotland will be looking for from the new system is one which gives us sufficient flexibility to be able to deal with those cases, Orkney and Caithness as examples but not necessarily limited to them, to deal with them in a way which is appropriate, which is fair, which recognises their land quality and their remoteness but is fair to them and is fair to the rest of Scotland's LFA as well. If we secure that outcome then I am not sure that we have a firm position on whether this should be done through the designation or through the calculation of the payments. Certainly our existing designation was done essentially on land quality and our presumption going forward is that is what we will be dealing with. For us this is not purely an environmental scheme; there are social and economic benefits which we are looking to achieve as well.

Q555 Earl of Caithness: Just a supplementary on designation. Is there a concern either for the Scottish Government or the farmers and crofters to move from having one LFA system at the moment to possibly submitting claims or applications for claims under articles 18, 19 and 20 rather than just 19 as I think is true at the moment?

Mr Barnes: Yes, there is certainly an issue. Currently Scotland's entire LFA is designated under the intermediate classification. We do have areas which could qualify to be classified as the mountain LFA status or the other, what is often called the island LFA status. There are some stakeholders who may have thought that there would be pots of money available, if Scotland changed to use the different classifications, which we could exploit and we are not currently exploiting. That is not the case. Were it to be the case I am sure Scottish Ministers would be very keen to consider whether to change designations and exploit those resources, but it is not the case. Nor is it the case that the fact that maximum payment rates are higher in the other two designations would make a difference in the Scottish situation because our decision on payment rates is based on a limiting factor of the money available to us not the maximum limits in the legislation. For those reasons it is an issue which comes up when I talk with stakeholders, but the way I put it to stakeholders is that at the present time we see no benefit from using the other classifications even though we could, but since there is no benefit we see no reason to change. If there were to be benefit in the future, then of course we would reconsider and one of the potential benefits might be that, depending on how the negotiation Willie referred to finally pans out, if there were to be parts of Scotland which we firmly believe deserve to be in the LFA, but if those areas fell out of the intermediate LFA at the end of this negotiation and if we could bring them back into the LFA by utilising, for instance, the mountain classification, then we absolutely would look at that because we would be moving then from a current position of no benefit, changing to a position where perhaps there is benefit from changing. In a future situation, if there were potential benefit, we would certainly look at the issue.

Q556 Chairman: Or correcting a detriment if Orkney, which you mentioned, was difficult under article 19, but could be moved to the islands one in order to retain it within the scheme.

Mr Barnes: Indeed although, and one cannot predict the future, if the future were to be similar to the present the limiting factor is our budget resources rather than the legislation. It might or might not be a fruitful avenue for the future.

Q557 Earl of Dundee: On the Commission's eligibility criteria framework you mentioned that you want to keep room for manoeuvre. How general would you like this framework to be so you can then remain sufficiently flexible?

Mr Barnes: Our bottom line is that we want to support active farming and I have already set out that the rationale for that is that it is active farming that delivers the grazing, that delivers the benefits for which public spending is justified. We are very happy with a set of criteria which say that if you farm you qualify for support, if you are not farming you do not. The reason we are keen on flexibility is simply that we have such contrasting situations in Scotland. To take again a couple of specific examples, we have a farming system in Orkney as I have described. For its geographic location Orkney has some relatively good land, land classification four, so clearly poor land in LFA but it has some classification four land in addition to some very poor classification six, poor rough grazing land and therefore it has a farming system which fits in with that scenario. If one looks at the Western Isles, they are completely different. All the land is essentially in class six and therefore the farming system that has developed there is designed to cope with that geographic situation. If one begins to try to set detailed criteria to cover a variety of farming systems, the risk is that inadvertently one does things that one does not mean to. That is why we are in favour of flexibility. I should say that I think we think that in Scotland we are doing a reasonably good job so far. I know one of the reasons the Commission is having to look so hard at LFA policy is that there have been strong criticisms in the past, including from the European Court of Auditors, suggestions that in some parts of Europe the spirit of the LFA support system has not been adhered to by some authorities. We think in Scotland we have been pretty straight with the

system. We have designated the area based essentially on land quality. We have set up a system that we believe delivers the right level of payments in relation to the right kind of activity, subject of course to the consultation I have just mentioned. In effect we are saying we have a system which can always be looked at, can always be improved, but fundamentally it is not broken and therefore, if the Commission does think there are some parts of Europe that it needs to focus on and tighten up on, rein in a bit, we would like to think that Scotland would not be in the Commission's firing line because we have tended to act in a scientifically robust and justified way up to now.

Q558 Earl of Dundee: Following that, perhaps you would take the view that Scotland's contribution within the European Union, Scotland's contribution within the United Kingdom to other Member States is to demonstrate how a form of constructive and pragmatic flexibility can work.

Mr Barnes: On behalf of the Scottish Government I am flattered, in fact on behalf of the Scottish Government and Scottish researchers I am flattered. I can only agree with that suggestion. I do think that we have some fantastic scientific expertise in Scotland, in particular on the land use side. This is reflected by the degree to which authorities in other parts of the United Kingdom draw on Scottish technical expertise. So if we can in our modest way contribute to the better development of European policy, then we would be extremely happy to do so.

Q559 Earl of Dundee: At the same time do you see any risks which Scotland might live to regret from adopting too much flexibility?

Mr Barnes: It is true that flexibility is a double-edged sword. Let me give an example and I certainly would not wish to suggest we know what the answer is. Let me give an example to illustrate this. We have carried out a consultation exercise, we are deliberating about what to

do next and one of the things we are looking at is the way in which our rules require farmers to be actively producing in order to justify the payments. We do not have stocking density limits in our system. We have a system which says if the number of stock on a farm comes down dramatically, then the computer tells the local officer to go and inspect that farm. The local officer inspects and is asked to make a judgment about whether the land is actively being farmed or not and he is invited to make that judgment not on the basis of a fixed stocking density written in a table, but on the basis of his professional judgment, traditional practices on that farm, what the neighbours are doing and so on. That gives a high degree of flexibility but it puts quite a lot of pressure on the local staff who are having to make those professional judgments. Therefore, we wanted to look at that system and try to take a view on whether it should be changed. In my discussions with the National Farmers' Union Scotland, I asked them whether it would be easier for everybody, the farmers, the authorities, the local officers carrying out the inspections, if we were to fix quantified minimum stocking densities in order that everybody knows where they stand. Above the line would be active farming; below the line would be not active farming. I said clearly one could not set a single figure for the whole of Scotland; that would be meaningless because of the variation in ground quality. At what level could one do it? Would one carve up Scotland into regions, would one have to go down as far as parishes? The answer I got from farmers, from practitioners was that even within a parish the variation in land quality is so great that a minimum stocking density for a parish would be meaningless and indeed even within a holding, bearing in mind some of these holdings can be tens of thousands of hectares, even within an individual holding to say that this is a stocking density for the whole of this holding, above this is farmed, below this is not farmed, does not fit in with the farming reality in Scotland. We are saying that we need flexibility to deal with situations like that, but I am certainly not sitting here today saying we know the answer, we have worked it out and this is what to do. It is precisely the kind of

issue that we are wrestling with as we decide on the basis of our consultation exercise how to go forward, looking for a compromise between something that is clear for both authorities and farmers, effective on the ground, but also simply administratively possible. It is not easy.

Q560 Earl of Caithness: Given two statements you have made, firstly that the pot of money is limited and that LFA is geared towards extensive grazed habitats as the norm - I think is what you said - is there a case for excluding certain types of farming practices? Do you envisage in the proposals the Commission are likely to put forward or have put forward in their consultation paper that certain parts of Scotland which currently get LFA status will not get it?

Mr Barnes: If I may answer the second part of the question first, the way in which LFA has been designated in Scotland to date is really rather detailed. We do not simply have a single boundary. I suspect you probably know a lot of this already but for the benefit of the Committee, we do not simply have a single boundary and everything within the boundary is Less Favoured Area and everything outside is not. We have gone down to the level of individual fields, individual land parcels. Within the general boundary of Less Favoured Area in Scotland, if there are fields where the land quality is such that, for instance, that land could support arable production, serious lowland-type arable production, or indeed dairy production, then we have designated those as non-LFA. We have spots within the general LFA boundary which are designated non-LFA because the land quality is too good. Similarly the other way round in the non-LFA area, if we have little pockets of land which are of sufficiently poor quality that we believe they should be classified as less favoured, then we have classified them as less favoured. We have spots in both directions: spots of non-LFA within the LFA and spots of LFA within the non-LFA. It follows, having done the exercise to that level of detail, that we think we have done it right and therefore we would hope that the outcome of the redesignation is broadly speaking an unchanged pattern of land designation in

Scotland. We shall have to see how the negotiation pans out. There are not significant areas in Scotland which we think are wrongly designated and that we are looking to move in one direction or the other. In terms of farming practices, we already have rules about excluding dairying. We already have rules on arable. The only, not change but tightening we are looking for there is this link with activity. For us, simply having some land in the LFA is not enough to justify the payments; we are looking for active farming. I do not know whether this meets your definition of a farming practice but for us a farming practice which consisted of not farming the land is what we want to exclude from the system.

Q561 Earl of Caithness: I was more concerned at the other end with the land which is currently LFA around the Moray Firth and Buchan lowlands, but you have got it down to that detail.

Mr Barnes: We even have holdings which are split. Because it has been done at individual parcel level, we have holdings which have some land in the LFA and some not. It would be an arrogant person who sat and said we have it all absolutely right, there is no case for anything to change. But to a very, very large degree we do think we have got it right. We have put a lot of time and effort into doing it and trying to be very objective and scientific about it. It would be foolish to rule out any change, but we do not anticipate large change.

Mr Towers: Some of the farms on the Moray Firth are very, very sandy with very close structured soils so there are serious constraints, despite the fact the climate is nice.

Q562 Lord Cameron of Dillington It is good for growing carrots on.

Mr Towers: That is true; as a cash crop but it does limit your flexibility.

Q563 Lord Livsey of Talgarth: You have partly answered this question. What proportion of an average LFA farm income does the LFASS payment make up? How does this compare

with the proportion of income that is drawn from the Single Farm Payment and from other income sources? I assume you conduct what is widely known as a farm management survey of farm incomes in Scotland. Does this vary on an individual farm basis or is it a common fact?

Mr Barnes: I have already mentioned the orders of magnitude of Less Favoured Area support and Single Farm Payment in the Less Favoured Area - £61 million approximately for LFASS and about, depending on the exchange rate, £220 million plus for the Single Farm Payment for the Less Favoured Area's share of Scotland's Single Farm Payment. Already you can see that Single Farm Payment is three to four times as big as Less Favoured Area support. At the individual farm level I have some figures here; if the Committee would like more detail I am happy to write with that. If one looks at the total gross income of the farm, income from the market plus support payments, for specialist beef holdings in the LFA Less Favoured Area support is about seven per cent of the total income. For specialist sheep units it is a bit higher; it is about 12 per cent and for mixed cattle and sheep units obviously it is in between the two, it is about 8.5 per cent. For Single Farm Payment, the pattern is a little bit different because under our historic model beef producers tend to get a relatively high Single Farm Payment level and therefore Single Farm Payment as a proportion of the gross income is about 30 per cent for the specialist beef units in the LFA and only 27 per cent for the specialist sheep units and again, logically enough, for the cattle and sheep units it is in between the two; it is about 28 per cent. So Single Farm Payment is bigger than Less Favoured Area support. If you add the two of them together, you are getting to the region of 40 per cent of the gross income of the farm that is coming from those support payments. That is gross income without any account taken of production costs. When one does bring costs into the equation, the simplest way to sum up the position is to say that if it were not for Less Favoured Area support and Single Farm Payments, then the average Less Favoured Area

holding in Scotland would have a negative income. There are differences between the average and the top third and there may be some in the top third who are breaking even without support. But the generality is that these are holdings which are reliant on that support in order to keep them in the black.

Lord Livsey of Talgarth: Thank you. You have just answered my supplementary question.

Q564 Lord Cameron of Dillington: In the final paragraph of your submission you quite rightly state that because it is Pillar 2 Member States apply different funding to LFA payments. Spain for instance has huge areas, a low proportion of LFA payments applied; Scotland with a large LFA area applies rather a larger amount. Does this matter? Does this distort the internal market? Is there a subtle hint that you want to see LFA payments go to Pillar 1 in this statement?

Mr Barnes: There might have been a different subtle hint in our evidence. We think it does matter but the issue we think it relates to is not where LFA payments should sit, Pillar 1 versus Pillar 2. We think the issue is about how Europe decides on the allocation of Rural Development Budgets between the Member States. I am sure the Committee is familiar with the rather messy basis on which the Rural Development Budget is carved up in Europe, essentially based on an historic reference period but affected by rather ad hoc changes which were made in 2005 in the endgame of the budget negotiations. Whatever the reason, whatever the background, the outcome is that the United Kingdom and therefore Scotland do very badly out of the European Rural Development Budget. It is an issue for Less Favoured Area support, but for us it is an issue for the entire Rural Development Programme that it cannot be right that the amount of resource available to different Member States is so arbitrarily decided. We certainly hear continuously from colleagues from Northern Ireland about the comparison they see between the resources available through their Rural Development Programme versus those which are available to farmers just over the border in

the Republic of Ireland. Yes, we think it matters, but it matters not just for Less Favoured Area support, it matters more widely for the Rural Development Budget. It would be very welcome to us if there were any prospect of seeing this situation redressed before 2013, before the next budget period begins. Certainly we take every opportunity, as I believe do the United Kingdom Government, to make it known that we are dissatisfied with this situation. If it is not possible to make any progress in this budget period, certainly we would be looking for a better, more objective and fairer system of allocating the budgets in the next EU budget period, 2014-2020.

Lord Brooke of Alverthorpe: May I just make a declaration of interest for the sake of any confusion? I work with Accenture PLC which delivers the Single Farm Payment System. I do not have any dealings with what they do with it, but for the sake of any confusion I declare the interest.

Q565 Chairman: Finally, I wonder whether you could explain to us whether you feel that any cross-compliance which is required for the payment of a Single Farm Payment is any more onerous for those receiving LFA, the special scheme in Scotland. One or two witnesses have pointed out that this could be the situation and as you have explained the Single Farm Payment on an historic basis is often lower in the LFA areas is there a conflict there?

Mr Barnes: We do not have any evidence, whether it is through our consultation exercise or whether it is through less formal contact with our stakeholders. I have certainly not heard suggestions from Scottish upland farmers that they find cross-compliance disproportionately difficult to comply with when taken in relation to the size of the payment. It is not an issue which has been actively raised with us. Of course the good agricultural and environmental conditions element of cross-compliance is not identical in different parts of the United Kingdom or in different Member States. I do not know whether that might explain; if there were to be differences in the evidence from witnesses from different parts of the UK for

instance perhaps that might be an explanation for that. Having said that, we certainly do plan to look at the Single Farm Payment and the model we apply in Scotland. The historic model was chosen when the Single Farm Payment was introduced but the CAP health check gives those of us who are on the historic model an opportunity to revisit that and certainly we are looking to do that. Later this year we are planning to engage with stakeholders, maybe hold a formal public consultation exercise to look at the future of the Single Farm Payment in Scotland and whether to move away from the historic model. If one were to move from the historic model, it is a pure matter of arithmetic that for the moment the Single Farm Payment is concentrated in the most productive parts of the country. That is logical; that was the basis on which the historic model was calculated. Therefore, as a pure matter of arithmetic, one could say that a move away from the historic towards a flatter rate system in Scotland would inevitably represent a redistribution of support towards the least productive, less-favoured area part of Scotland. Let me emphasise that I am not putting that forward as a policy position of the Scottish Government because we have not yet begun to engage with stakeholders and begun to make up our minds. But were one to change from the historic model, as a pure matter of arithmetic the direction of the redistribution would inevitably be in that direction.

Q566 Chairman: Thank you very much indeed for the very clear evidence that you have given us and the very good answers you have given to all our questions and to our supplementaries. Because Scotland is so much covered by LFAs it has been of great interest to us to hear how the scheme has been running in Scotland and obviously there are things to be learned from your evidence. Thank you very much indeed to both of you for coming down and sparing the time to give us such good evidence.

Mr Barnes: Thank you. I have noted two issues on which I promised I would come back: the wind farm point and the long-term numbers of LFA claimants. I will write to the Committee with those details.¹

Earl of Caithness: May I add one thing to that? In your evidence paragraph 5.1 you give statistics of 58 per cent and 76 per cent. Could you put a date on those and what a comparison would have been ten years earlier please?

Lord Livsey of Talgarth: It is a privilege to have somebody from the Macaulay Institute here today. I wondered whether we could get something in writing as to how far you have got in trying to negotiate on a European basis a more objective system of assessment of LFAs based on soil classification. It seems to me that could be a key to an overall European change perhaps.

Q567 Chairman: If there is anything you feel you could add to it we would greatly welcome it.

Mr Towers: I will bring you up to date with where we are with the Commission on that.

Chairman: Thank you very much.

¹ Annex