

## INTRO

Ladies and gentlemen, 2009 looks like being the year of phenomenal speeches. Lochhead at Oxford, Obama in Washington, Withers in Aviemore?

I'm unlikely to revisit anything Mr Withers has said. Even if 'Jim the Spin' does claim to have had a hand in penning Barak Obama's inauguration speech.

However, I do want to return to our Cabinet Secretary Richard Lochhead's address at the Oxford Farming Conference in January. In it, he offered Scottish farmers a new contract with society to deliver clear outcomes in the interests of Scotland. A contract that would recognise the fundamental role of farmers and land managers in managing and utilising in the public interest, Scotland's biggest asset - the land.

We warmly welcome the Cabinet Secretary's offer but I am reminded of the line that a verbal contract isn't worth the paper it's printed on. We need to see the contract in black and white and we need it to take shape in the next 12 months so that Scotland's farmers and growers can move forwards with confidence.

Today, I want to set out what the terms and conditions of what that contract should be, both in terms of what it needs to deliver and what we would commit to deliver in return. I envisage a contract with five key parts.

### **PART ONE - STABLE AND SUSTAINABLE MARKETS**

First and foremost, every one of us would prefer our business to be operating against a backdrop of stable and crucially sustainable markets.

In stark contrast, we are in a time of unprecedented economic turmoil in nearly every commodity market in the world.

The unthinkable melt down in the world's banking system has had a profound effect on our economy, and on the ability of individual businesses to access vital working capital.

Rather than Westminster attempting to wring every last penny out of beleaguered consumers, it would be more effective to encourage their employers to retain workers who in turn will have the cash in their pockets to spend.

Tax incentives to this effect would help small businesses to stimulate the recovery along with a genuine commitment to sweeping away the raft of legislation that hangs heavy round the neck of every business. That would do more to deliver for our economy than the ill-judged reduction in VAT.

The financial crisis has only heightened the pressure that supermarkets have brought to bear on their suppliers.

When branding is held up as the route to adding value and returning more from the market place, what message is sent out by the UK's biggest retailer when they are prepared to sell fresh milk at 25p a litre - a price lower than what it costs to produce the milk on the farm?

In reality, it is all part of the continual, relentless drive by retailers to show the public who can provide them with the cheapest shopping basket in town. Rest assured, this has not been funded out of the goodness of the retailers' hearts or out of their own profit margins.

To some EDLP means every day lower prices. We need to ensure that EDLP doesn't mean every day less processors or every day less producers.

A consequence of having the most developed retail sector in Europe, if not the world, is that processing and manufacturing have been forced into considerable consolidation in order to meet the retailers demands for greater volume at a lower price.

For us, as food producers, our main route to market is now in so few hands that the failure of any of those processors would have significant ramifications for the farmer suppliers and for the availability of food for consumers.

Robert Wiseman Dairies new Bridgewater plant in Somerset is world class. It effectively replaces several hundred small dairies if you were to go back far enough in time. All of these were routes to market which we have now lost.

I am not suggesting for a second that large scale efficiency is not the future, but it comes with an enormous responsibility and Governments must be alive to what is happening within the food supply chain.

Farmgate prices reached higher peaks in Europe during 2007/8 than they did in the UK, yet UK food price inflation has been running at twice that of other EU countries during the same period.

What better demonstration could there be of the dominance of the UK retailer delivering for no one but themselves?

The recent Chatham House report:  
"Food Futures: Rethinking UK Strategy" points the way forward.

It clearly explains that a complicated list of factors will impact on the global food system in the coming years: population growth, nutrition, energy requirements, land availability, water availability, labour and climate change.

The report recognises that the combined effects could create constraints on food supply and that the UK can no longer afford to take its food supply for granted. This independent think tank states, and I quote, that "a food crisis in the UK is not unthinkable."

Supply chain relationships will take on new importance.  
And in plain black and white, the report states: "Retailers in particular will need to adapt their practices to alter the balance of risk and reward throughout the chain."

A message that all parts of the supply chain deserve a fair slice of the cake is surely one that Governments can support and look to deliver.

The Competition Commission's examination of retailer practices is now a year old yet there has been little meaningful progress made on its key recommendation regarding the creation of an Ombudsman for the sector.

As the four major retailers continue to publicly state their opposition to an ombudsman, the mistreatment of suppliers has reached new levels.

Every other major industry has an independent policeman. We have four supermarkets that sell 80 percent of the food and drink in this country yet there is no independent check in the system.

Should we not learn a lesson from the banking fiasco??? If you allow powerful players to operate without sufficient regulation, the world comes tumbling down on the ordinary consumer.

The Chatham House Report also highlights low global food stocks and the risk from speculators along with the highly wasteful nature of our food consumption in the developed world, all as factors affecting market stability. These issues must be addressed

The size of the Global economy is around \$70 Trillion US Dollars. The size of Global speculation through derivative trading and hedging etc, is around \$600 Trillion US Dollars.

On waste, in the UK we throw away around a third of all the food purchased, and the Shanghai restaurant trade alone, discards over 1000 tonnes of food waste per day. Room for improvement then.

So if part one is a stable and sustainable market, part 2 must be

### **A NEW SUPPORT STRUCTURE**

Part of any new contract will also need, out of necessity, to look at the way in which support is delivered to our sector.

Over decades, EU policy has transferred much of the price that consumers pay for their food away from the till and has instead collected it through their taxes. Farmers deliver many so called "non market benefits" to society, which will always require a "non Market" System of payment.

Most farmers would dearly love to be operating in a market place which properly rewarded them for the true value of what they produce, but realistically even that remains a long way off.

In the meantime, it was music to our ears to hear the Cabinet Secretary publicly state in his recent Oxford address that: "Given the national importance of agriculture, public support for farming is wholly justified and will be essential in the years ahead especially given the unique challenges faced by Scottish farmers."

That view is welcome but is in stark contrast to the stated position of Treasury on CAP.

The ongoing debate surrounds what shape that support will take in the future.

Working alongside our Cabinet Secretary, who in turn worked with Hilary Benn, we returned from November's CAP Health check with what can only be described as a good deal for Scottish farmers and growers.

The funding stream for the Scottish Beef Calf Scheme was retained, with flexibility that the scheme may run beyond the life of the current CAP package.

No Scottish farmer will pay more modulation than had been previously agreed, with the rates of modulation paid by farmers across the EU coming closer to our own.

The threat of a huge cap being placed on the support given to Scotland's largest farm businesses was all but removed. In addition the demise of set aside and the future demise of the milk quota regime were both confirmed.

However, the health check poses a dilemma for the industry. The Article 68 measures allow for sector specific envelopes to be created but funded from all single farm payment recipients.

NFUS continues to view this principal as a dangerous one. Our membership have no appetite for this kind of redistribution, and having won the battle on keeping a lid on modulation, it would seem perverse to then opt for a measure which would effectively modulate all SFP to fund another specific scheme.

The Health Check outcome is still fresh in our minds, but securing a CAP that works for Scotland from 2013 onwards will be the next challenge.

At NFU Scotland, that debate is already under way. We have met with commission officials to discuss our initial thinking and, more importantly, we have been privileged yet again to meet with the EU Commissioner, Mariann Fischer Boel to discuss the way forward.

We look forward to the Commissioner taking up our invitation to come to Scotland this spring to continue our discussions.

What will our industry look like in 2013? There will have to be some tough talking and hard decision making if we are to preserve the current fragile farming structure seen the length and breadth of Scotland.

We are undoubtedly at a tipping point. The unrelenting decline in our livestock numbers will need to be halted and our growers will need to see profitable returns on cereals, potatoes, vegetables and fruit crops if we are to retain the core of primary production needed to support our wider ambitions for Scottish food and drink.

Decisions cannot wait until 2013 and the Scottish Government has it within its gift to address some of these issues. The time for decision making is in the next few months if the Scottish Government is to send out a clear signal to the industry that it is valued and see real change delivered during this current administration.

First and foremost, governments need to recognise that the biggest benefit to the public from Scottish Farming plc is the continuing production of safe, wholesome, affordable food. For that to be secured in the future, we need to establish a link between support from the public purse and activity on the farm.

This will not herald the return to the old-style headage payments but must seek to ensure that those producing food, and generating environmental, social and economic benefits in the process are rightly rewarded while those receiving support and delivering nothing in return see their funding reduced or removed.

This is an issue that the vast majority of our membership wants to see resolved as a matter of urgency. There is no easy solution to it but we are determined to sit down with Scottish Government and other stakeholders to find the answer.

NFU Scotland's own "manifesto for the hills" offers the Scottish Government some solutions. Launched four months ago, the manifesto is making genuine progress in promoting a revised Rural Development Programme that will better deliver for Scotland's farmers and seek to address the dramatic decline in Scotland's livestock numbers.

We are not asking for new money, we are simply asking that the way in which the SRDP pot is currently spent be revised to help keep farmers farming and deliver greater social and environmental benefits.

The first plank of our manifesto is now in place with funding for the beef calf scheme guaranteed. The second plank of a beefed up package of Land Managers Options is now with Scottish Government for consideration. The list of measures currently available under the LMO scheme is restrictive and unpopular with only one third the eligible businesses in Scotland taking up the options.

A new package of more relevant measures, better targeted at farmers coupled with at least a doubling of the on-farm level of funding will reinvigorate the scheme and make LMOs accessible to all in Scotland.

We have consulted widely on this issue and NFU Scotland's policy staff have pulled together a package on new LMO measures that we would want to be incorporated into any new contract with our industry. Policy staff will be available throughout the conference to discuss our proposals.

One scheme that clearly delivers for Scottish farmers and ticks all the right boxes as far as the Scottish Government is concerned is the LFA scheme.

Yet this scheme is under scrutiny both at a Scottish and European level. The whole debate on the future of LFA support must be about creating a system that reflects economic activity, as well as reflecting peripherality and geographic disadvantage.

In reality, the debate on LFA cannot be about satisfying just ourselves that the money is going to the right places - it is the wider public we must satisfy. If we lose sight of that we will ultimately jeopardise future funding for everyone in every part of the country.

In publishing our Manifesto for the Hills in September 2008, we asserted that fiddling with one single policy tool was never going to provide the solution urgently required.

NFU Scotland is convinced that a principal element of a revised SRDP package must be increased funding for both enhanced Land Managers' Options (Tier 2) and a re-focused LFASS - not simply moving money around the country in an arbitrary fashion.

The real issue on redistribution is not about moving money around within LFASS, but is all about better utilisation of funds within the SRDP.

While we welcome the Cabinet Secretary's review of the SRDP in general, and the review of the Rural Priorities scheme in particular, there is a sense of urgency if changes are to be in place for 2010.

Changes must revolve around the need to underpin Scotland's rural businesses with easily accessible, non competitive schemes that will better deliver for all Scottish farmers, crofters and growers.

So with the right support structure in place we can move to Part three:

#### **A NEW REGULATORY ENVIRONMENT**

I spoke at the beginning of the continuing need to address the regulatory burden facing our industry, and indeed many other sectors of our society. A new regulatory environment may at last be on the horizon.

I believe the change that we have long called for is finally being delivered across organisations like SEPA, with the Scottish Government's commendable SEARS project beginning to bear fruit.

Many of those who imposed or enforced regulations in the past had been so busy being obstructive that they had forgotten how to be helpful.

My predecessor, John Kinnaird, in his review of the Agricultural Subsidies Appeal process hit the nail on the head when he called for a culture change in the way Scottish Government and its officers engage with farmers. Sadly, gone are the days when the man from the department was viewed as part of a farm business's trusted team of advisers.

We need a return to more carrot and less stick.

NFUS were very supportive of the establishment of SEARS, the partnership of nine public bodies set up to co-ordinate enforcement and remove the need for more than 2000 on farm inspections.

For those sheep producers with dip disposal licences, the creation of SEARS will have already saved your business £90 a year. We will look to SEARS to deliver much bigger and more meaningful savings for industry in the months and years ahead.

We also need a working environment that allows our industry to operate on the same footing as all others.

The agricultural wages board was designed for significantly different times in farming. It fulfilled its purpose then but it has been superseded by more modern employment legislation and is no longer required.

It is time for Scottish Government to grasp the nettle, recognise the growing irrelevance of the wages board and let employment in the agricultural sector move into the 21<sup>st</sup> century.

The jingoism around British Jobs for British Workers must not result in new immigration restrictions that could strangle those parts of our industry that have always relied on seasonal staff from overseas.

There has been little appetite from UK workers in the past to take on seasonal jobs in our soft fruit and vegetable sectors. The recent rise in unemployment is unlikely to change that.

There is no immediate prospect of seeing Sir Fred Goodwin and Sir Tom McKillop on the back of a broccoli rig – although many would pay what little money they have left from their RBS shares to see just that.

Of course Brussels increasingly drives the regulatory environment in Scotland.

Sheep traceability and electronic ID, Water Framework Directive, Integrated Pollution Prevention and Control, Nitrate Vulnerable Zones, Soils Directive.

Further ahead, there could be a renewed challenge to our ability to move livestock within Scotland and the UK as transport regulations once again attract the Eurocrats attention.

Our producer survey on sheep traceability has clearly shown that producer tolerance is wearing thin of EU regulation that fails to take into consideration Scottish circumstances or offer flexible and pragmatic application.

Within sheep producers, there is a real appetite for action and demonstration and we may well find ourselves on the streets shortly.

We have asked Hilary Benn to back up his words on sheep traceability with actions and put his hand up in the Council of Ministers to say no to these unworkable sheep identification proposals.

If he does stand by the UK's sheep farmers, then our chances of turning round the sheep tagging regulations will increase several fold and the ball will be placed back into the European Commission's court.

The way in which Europe arrived at its recent decision on Plant Protection Products was so flawed, that every sector of society throughout Europe should sit up and take notice.

Emotion and not science drove this agreement.

Our reaction to the pesticides proposal, the way we secured the support of our Scottish politicians, our engagement with other unions and stakeholders, the important role of our Brussels office and the lobbying effort in Brussels and Strasbourg was enormous.

The workload required to water down the worst of the legislation was colossal and a very significant learning experience for staff and officeholders.

Our reaction to the pesticides threat clearly maps out what a farming union like ours can achieve if it puts in the necessary effort, preparation and resources.

Because of the implications for food production, we owed it to all our members to fight the pesticides proposals to very last and I am extremely proud of our work.

I already mentioned the need for more carrot and less stick. How ironic that the new pesticides regulations will make the growing of carrots in Scotland extremely difficult if not impossible in the future.

Any new contract between Scottish Government and its farmers needs to learn from past experience. While farmers are happy to play their part in delivering an acceptable level of welfare and environmental protection, it must not be at any cost.

The unilateral ban on sow stalls in the UK created a huge distortion in production costs and ultimately saw our markets for pigmeat filled by imports from European countries that are still using stalls to this day.

Supermarkets that once turned their backs on UK produce for cheap, imported pork and bacon have now been shamed by a combination of industry pressure and celebrity chefs into eventually doing the right thing by pig farmers. A number – the co-op and Sainsbury's have now committed to UK pigmeat – but we need the rest to follow on.

Part 4 our new contract must be a meaningful

### **HEALTH AND WELFARE PARTNERSHIP**

In the past decade, dealing with animal health and welfare issues has become part and parcel of producing livestock – we have had two FMD outbreaks, Avian influenza, Newcastle disease, Bluetongue and the legacy of BSE all to contend with.

While Defra ploughs on relentlessly with its own cost dumping agenda, we welcome our Cabinet Secretary's commitment to work within a more realistic European timeframe on the issue.

This responsible approach owes much to the constructive stakeholder culture that has developed in Scotland and now provides the platform for how we take forward animal health and welfare in this country.

One of the architects of that culture, our Chief Vet Charles Milne is moving to head up the FSA in Scotland and we wish him well in his new post – the livestock industry owes him an enormous debt of gratitude.

Under Charles' watch, we can be extremely proud of the responsible way in which Scotland has tackled the huge threat posed to our lifeline livestock industry by Bluetongue and the way in which Scottish producers have so far kept to their part of the deal.

Scotland's compulsory vaccination campaign against strain 8 of the virus is well underway, vaccine uptake is ahead of expectations and vaccination is due to be completed by the end of April.

Our calls for a voluntary ban on imports from mainland Europe are being heeded, but there is no room for complacency.

Those who continue to import animals into England can make all the promises they want about the protection measures they have put in place. In truth, they are importing against the expressed wishes of their neighbours, their farming representatives, their breed societies and their Governments.

They set a poor example because safeguards on imports have broken down numerous times in the past year and they will break down again in the future. Scotland remains Bluetongue free, England and Wales recorded no active disease last year, yet Europe has now reported four separate strains of the disease and is failing to control Bluetongue in an effective manner.

Scotland has one chance to remain disease free. We need Europe to put more robust measures in place to help protect us but our destiny is largely in our own hands.

The Scottish Government support for a year one Bluetongue vaccination programme must be the envy of many in the UK and Europe.

It is absolutely essential from an animal disease point of view, as well as being a legal requirement, that all susceptible animals over 3 months of age are properly vaccinated before the 30<sup>th</sup> of April 2009.

Devolution of the animal health policy has had an important role to play in Scotlands' ability to tackle diseases such as Bluetongue, bovine TB – even FMD.

However, the negotiations on returning the budget for animal health and welfare issues to sit beside the policy have stalled. Finances remain within the control of Defra and unless resolved soon, Scotland's share will be from a rapidly diminishing pot.

In the last few months we have seen the cost of testing fallen stock and older food chain cattle for BSE passed in full to the industry despite such measures being both an EU requirement and necessary for guaranteeing food safety. As such, the cost should have remained with Defra.

Scotland is both willing and able to run its own affairs on animal health and welfare and this impasse on funding must be resolved for any new Scottish Animal Health Partnership to take its place in the new industry contract.

Part 5 of our new contract throws the ball firmly into the Scottish Government's court. It must be braver on **POLICY DIRECTION AND COMMITMENT**

Perhaps the greatest challenge is to turn the ambitions we have for Scottish food and farming into a reality.

That will take some strong decision-making on behalf of our politicians and a need to prioritise what is ultimately in the best interests of the whole of society.

We will give strong backing to Scotland's food and drink strategy, but seek reassurances that this strategy will not be undermined by other policy objectives.

Tackling Climate Change is a responsible course of action for the industry to be considering.

Indeed, much good work in terms of reduction in greenhouse gas emission and carbon capture is already going on in farming circles with little credit being given.

It is likely that the Kyoto target of 12.5 percent reduction in GHG emissions from 1990 levels by 2012 has already been met by agriculture, through increased livestock and arable farming efficiencies, reductions in inputs and higher yields per animal and per Hectare. Scottish Government's own targets of a 50 percent reduction in greenhouse gas emissions by 2030 and 80 percent reduction by 2050 are world-leading in their ambition.

Scottish Government must know that farming is prepared to play its part but we will not be the fall guy for society at large, and nor should Scotland be the fall guy for Europe or the world.

The delivery of Scottish Government's own Climate Change agenda is a good example of conflict and contradiction.

A Climate Change policy built around putting 25 percent of Scotland under trees; planting that may ultimately take place on land currently being used for food production, will undermine the Scottish Government's own ambitions to drive forward its strategy for Scotland's Food and Drink and sustainable rural economies.

Establishing a commercial forest involves two weeks of planting, two weeks of harvesting and thirty years in between where the forest's additional contribution to a rural community's well being is virtually non-existent.

Government must be braver when considering the technologies that our industry is likely to require in order to remain competitive in the years ahead. Scottish Government support for research and development has helped keep our institutes at the vanguard in world terms.

Those institutes are ideally placed to decide which technological advances will help Scottish farmers in the future.

The Scottish brand trades on its 'Quality' image but quality is a moveable feast, and what was regarded as quality 10 years ago, may not be regarded as quality now.

Equally, in 10 years time it is certainly possible if not highly likely, that quality will be regarded as GM production with low or zero pesticide requirements, lower fertiliser requirements, higher yields and lower carbon footprint.

If this is indeed the case, then we in Scotland must have within our armoury, the ability to implement science which is home-grown and owned by society, rather than that which has been developed abroad with commercial gain for individual companies.

As an industry and as a nation, we owe it to future generations to continue research in all areas of science, to allow us to make informed choices in the future.

So those are the five parts of a contract that we, as the largest onshore manufacturing sector in the country, require to create a sustainable future.

Of course, in return we must deliver the works. We must make a renewed commitment to quality, efficient production, which respects the environment and underpins communities.

We need to be honest with ourselves about where we fail as an industry as well as where we succeed. We have much room for improvement in terms of co-operation and marketing. If we do not strive to be better tomorrow than today then we will fail.

But this industry has always risen to a challenge and we will do so again. Society is demanding of us and so it should be.

Today we offer up our side of the deal and if politicians, the supply chain and consumers commit to their side of the contract, then a long and successful future for our industry is secured.

Thank you.