

THE HIGHLAND COUNCIL
PLANNING, ENVIRONMENT AND DEVELOPMENT COMMITTEE

13 August 2008

Agenda Item	
Report No	

**FUTURE IMPLEMENTATION OF THE COMMON AGRICULTURAL POLICY IN
SCOTLAND: A Consultation Paper by Scottish Government**

Report by Director of Planning & Development

SUMMARY

This report introduces a Scottish Government consultation on the European Commission's recently published proposals for a "Health Check" of the 2003 Common Agricultural Policy (CAP) reform. Responses are sought by 5th September. A draft response is attached at Appendix 1 for consideration and approval. European negotiations on the CAP Health Check are expected to be completed later this year, after which the Scottish Government will consider how the outcomes will be implemented.

Some of the Commission's proposals may have a significant impact on agriculture in the Highland area and Members will wish to consider carefully the best way forward for the industry. The Council can expect further, more significant, change from 2014 onwards and so the draft response considers the longer term view (beyond 2014) as well as the specific questions asked. Copies of the consultation paper are available in the Members Lounge and from: www.scotland.gov.uk/consultations.

The report recommends that Committee:

- (a) Consider and thereafter approve the draft Highland Council response attached at Appendix 1 of the report, subject to any alterations agreed, and;
- (b) Seek further opportunities to engage with the Scottish Government on the implementation of emerging changes to CAP support.

1. Background

- 1.1 The European Commission (EC) published its initial proposals for the Health Check of the CAP reform in November 2007. The Highland Council responded to these proposals at the time. Subsequently, the EC published its draft legislative proposals on 20 May 2008.
- 1.2 The stated objectives of the CAP Health Check are to assess the implementation of the 2003 CAP Reform, and to make necessary adjustments to simplify the policy, to grasp new market opportunities and to prepare for new challenges (such as climate change, water-management, biodiversity and bio-energy). The draft legislative proposals that seek to achieve these objectives include:

- changing the cross-compliance requirements
- abolishing set-aside and set-aside entitlements;
- further decoupling of support payments;
- increasing flexibility in relation to the national reserve, transfer of payment entitlements, modification of entitlements and payment dates.
- allowing Member States who have adopted the historic model for Single Farm Payments (SFPs) to move towards flat rate payment entitlements from 2010 (with decisions being taken by August 2009);
- increasing flexibility in relation to the national envelope, for example by allowing the money to be transferred between sectors; used for restructuring and development programmes; and used for certain risk management measures;
- increasing compulsory modulation from 3% to 8%, with progressively higher rates for businesses benefiting from higher levels of SFP.
- setting a minimum threshold (of either €250, or one hectare) below which no payments will be made;
- simplifying and harmonising mechanisms for intervention in commodity markets;
- gradually increasing milk quotas as a prelude to ending milk quotas in 2015 and the abolition of private storage aid for cheese and the disposal aid for a number of other dairy products;
- changes to a number of small support schemes, including decoupling of the protein crop scheme and abolition of the energy crop scheme.

2. Longer-term considerations

2.1 While many of the CAP Health Check proposals represent rather detailed adjustments to the current CAP regime, a number are more significant in that they signal a change in direction as the industry moves towards CAP post-2014. There are clear signals that the EU wishes to:

- move away from the historic model for SFPs towards flat rate payments;
- continue to transfer money from Pillar 1 (SFPs) to Pillar 2 (Rural Development Programmes).

2.2 Looking ahead, two other important considerations are:

- the 2008/09 EU Budget Review: There is expected to be a fundamental review covering all aspects of EU spending for the period 2014 - 2020. Although spending on CAP is falling, in 2013 it will still represent 39% of EU spending. Thus, it is likely to come under close scrutiny and overall spending on CAP may well reduce further during 2014 - 2020;
- the outcome of current World Trade Organisation (WTO) talks: Timing remains uncertain, but it seems likely that the final agreement, while bringing benefits to the world economy as a whole, could further expose European agriculture to competition in global markets, for example by reducing tariffs. The EU has already committed to ending export refunds once overall agreement is reached in the talks.

2.3 Taken together, these pressures reinforce the importance of increasing the competitiveness and market orientation of European agriculture. This was a major objective of the 2003 CAP Reform

3. Highland agriculture post-decoupling

3.1 At the time, it was widely predicted that livestock numbers in the Highlands and Islands would fall significantly as a result of decoupling and the move to the Single Farm Payment. What is now causing major concern however is the speed of that decline, in both sheep and cattle numbers (Appendix 2).

3.2 Immediately prior to decoupling ewe numbers were declining in the Highlands at around 3% per annum. Post decoupling 2004 to 2006 they declined by about 4% per annum, but in 2006/07 the decline rate increased to over 6% per annum. The Highlands is witnessing an accelerating decline. The Highland sub-regions where decoupling has had the most negative impact in terms of active farming are actually declining faster e.g. Skye/Lochalsh/Lochaber at 8.22% and North West Highlands at 6.81% in 2006/07. Half the Scottish reduction in ewe numbers in 2006/07 came from the Highlands.

3.3 The position in the cattle sector was more stable but is now worryingly showing a similar pattern. In the pre-decoupling (2001-2004) and immediate post-decoupling (2004-2006) periods the rate of decline in cows is much lower than breeding ewes. But in 2006/07 the rate has increased sharply. It is worth noting the rapid decline of around 6% in NW Highlands, Shetland, Skye/Lochalsh/Lochaber, which is well above the Highland and Scotland average of 3%. As with sheep it is in these areas where decoupling has resulted in the sharpest decline in stock numbers. Natural disadvantage is also greatest in these areas and extensive High Nature Value (HNV) farming and crofting systems dominate.

3.4 It is vital that the accelerating decrease in stock numbers is addressed at the earliest opportunity. Maintaining stock in the fragile areas is crucial for social, environmental and economic stability. Further significant decline could lead to stock levels falling below critical mass in some areas and a collapse in infrastructure such as hauliers, marts, and feed merchants, which would make reversal extremely challenging.

4. Highland Council Response

A draft Highland Council response is attached at Appendix 1 for the consideration and approval of Committee.

5. Fit with the Administration's Priorities for Action

5.1 It is suggested that the Council's response to the CAP Health Check consultation contributes to achievement of the following Council priorities:

- Supporting enterprise and accelerating economic growth
- Maximising the benefit of European funding programmes
- Increasing the prosperity and wellbeing of people in the Highlands

6. Resource Implications

There are no resource implications arising from this report.

RECOMMENDATION

That Committee:

- (a) Consider and thereafter approve the draft Highland Council response attached at Appendix 1 of the report, subject to any alterations agreed, and;
- (b) Seek further opportunities to engage with the Scottish Government on the implementation of emerging changes to CAP support.

Signature:

Designation: Director of Planning and Development

Date: 5 August 2008

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Ref:

Background Papers

1. Scottish Government consultation – Future Implementation of the Common Agriculture Policy in Scotland: A Consultation Paper, June 2008.
2. HC Response: EU Consultation: Review of the Less Favoured Area Support Scheme (June 2008)

SCOTTISH GOVERNMENT CONSULTATION
FUTURE IMPLEMENTATION OF THE COMMON AGRICULTURAL POLICY IN
SCOTLAND

DRAFT HIGHLAND COUNCIL RESPONSE

Q1. What should be the rationale for Pillar 1 and Pillar 2 of the CAP from 2014 onwards?

While recognizing the significant cuts likely in the CAP budget from 2014 and the view of the UK Government that Pillar 1 payments should cease at that time, the Council take the view that there is still a sound basis for continuing Pillar 1 payments beyond 2014. Direct support to multifunctional agriculture, paid on an area basis and conditional on maintaining production activity is key to avoiding land abandonment and the consequent loss in agricultural production and the public goods derived from the associated land management. Freedom to farm 'yes' but the option to do nothing – 'no'. Direct payments linked to continuing production activity will help secure future food production in the region and maintain the public goods derived from multifunctional family farms. The present system of SFP favours the most competitive and productive units, which are best placed to change direction and adapt. To some extent this approach is fostering the abandonment of agriculture in the most marginal and least competitive areas. This must be addressed.

What are your views on the distribution of funding between Pillar 1 type measures (such as Single Farm Payments) and Pillar 2 type measures (such as those in the Scotland Rural Development Programme)?

Highland Council accepts the need for greater funding to be channeled through the SRDP and once bedded in, supports the longer term sustainability of these payments in terms of transparency and delivery of public goods. However the Council also sees the rationale for continuing to provide a base level of direct support payments focused to maintain production activity in the less competitive areas.

Q2. Assuming Pillar 1 type support remains, do you agree that there should be a move away from the historic model of Single Farm Payments towards flat rate payments?

'Yes'

If Yes, what are your views on

(i) the rationale for flat rate payments

It is widely accepted that SFPs will become more difficult to justify as the reference period becomes more distant. The highest payments also go to the most productive and competitive units which are the ones best placed to adapt while doing little to encourage the continuation of any activity in the more marginal areas. Flat rate payments linked to continuing activity and management are more equitable and defensible over time. Area based payments would also address the difficulties faced by new entrants gaining access to entitlements as the SFP would be linked to the land.

(ii) the basis for determining payments

It is accepted that there is a wide variation in land quality and farm types across Scotland and to simply divide the total payment by the number of farmed hectares is arguably no more equitable than the present system. It is however also important to recognize the problems in continuing to give the highest rates of payment to the most productive and competitive farms – cessation of activity in marginal areas. Highland Council recommends an area payment that is conditional firstly upon continuing production activity at a base level and secondly reflects the nature of farming and land type in that area. MLURI land capability and HNV maps could offer a useful starting point. Consideration of broad area types may link in to work as part of the LFASS review to better define and delineate categories of disadvantage.

(iii) the time-scale for change

The transition from historic to area based payments must be gradual to avoid the potentially damaging effects of dramatic redistribution. The Council would recommend the hybrid model phasing in of area based payments over a number of years as an increasing percentage of the total SFP with a target of 50% by 2013.

Q3. What are your views on the proposed changes to cross-compliance requirements? How should this be implemented in Scotland?

Highland Council welcomes simplification of GAEC by rationalizing the Statutory Management Requirements (SMRs) within GAEC and removing those covered by separate Regulations and Directives. The Council also welcomes the additional measures to protect and enhance water quality.

Q4. What are your views on the abolition of set-aside and set-aside entitlements ? Please explain what measures you think should be taken to maintain the environmental benefits of set-aside

Highland Council welcomes the abolition of set-aside but recommends that provision is made within the SRDP to allow for payment to ensure the continuing environmental benefits from field margins and buffer strips in particular. While accepting some margins may be protected by an enhanced GAEC the Council feels that a continuing payment is justified to recognise the high environmental value of these areas and ensure their continued environmental management.

Q5. What are your views on proposals for further decoupling of support ?

Scotland took the decision in 2003 to fully decouple support from production so this is really an issue for other Member States. It is worth noting however that in countries such as France who retained elements of coupled support, for suckler cows for example, that numbers have remained stable and not faced the rapid decline seen in the Highlands. Should re-coupling become an option it would be worth considering its application in areas of sectoral failure within certain regions.

Q6. What are your views on using the national reserve to give new entrants' access to SFP? How should "new entrant" be defined?

Current rules surrounding SFP make it difficult to construct a fair and balanced system to assist new entrants. Those who choose to 'retire' and not to farm can still activate their entitlements by acquiring 'naked' acres. This leads to complex issues such as business restructuring and farming family members claiming new entrant status when there is already SFP entitlement 'associated' with the holding. Highland Council recommends that payments should stay with the land and be available to active farmers only. The simplest way to address this is to move to an area based payment where the SFP would be available to the occupier of the land, thereby removing the need for a national reserve for new entrants.

Q.7. What are your views on proposals for increased flexibility in the use of the national reserve, simplification of payment entitlements, transfer of payment entitlements, the move to making payments twice a year; and clarification to the meaning of a farmer and to the definition of a "eligible hectare" ?

Highland Council recognizes the need to address the problems associated with an under-funded, ineffective national reserve and confusion over entitlement eligibility and transfer. The Council strongly supports the recommendation that businesses "whose principal company's objects do not

consist of exercising an agricultural activity” should no longer be entitled to SFP, and believes that, if adopted by Member States, this will go a long way to addressing these problems. It frustrating to many that recipients of SFP can currently chose not to farm and still receive SFP. This undermines the credibility and sustainability of SFP in the future.

The Council welcomes the proposal to include land afforested under the SRDP post 2007, as ‘eligible hectares’ for SFP.

Making payments twice a year should help cash flow issues but care must be taken to avoid significant increases in administration costs as a result.

Q8. What are your views on proposals for increased flexibility in the use of the national envelope? How should this increased flexibility be used in Scotland?

There is clear and urgent need to retain a viable livestock sector in the more fragile and remote areas of the Highlands and to address the haemorrhaging of stock from these areas. These are the areas where circumstances of poor land quality, climate and remoteness create the most difficulty in adopting the freedom to farm approach and there has been sectoral failure following decoupling. There is also a desire to support High Nature Value Farming (HNVF) in many of these areas.

Highland Council therefore strongly supports the opportunity presented under Article 68 (formerly Article 69) to develop a mechanism of support that achieves these dual aims. This is seen as critical to the Highland area and should be a priority in discussions. The potential additional funding via a more flexible Article 68 should be used to support livestock production in the more marginal areas of Scotland. This targeted support through pillar 1 combined with a reworked LFASS approach is essential to sustain activity in marginal areas.

Q9. What are your views on proposals for increasing compulsory modulation with progressively higher rates for certain businesses ?

Given that any increase in compulsory modulation should be largely off-set by a decrease in voluntary modulation in Scotland, the Council see this as neutral in terms of impact on businesses in the Highlands.

The Council considers that the progressively higher rates of modulation would disadvantage the larger than average (in terms of the EU) farmers in the Highlands and that ensuring payments only go to active farmers and moving towards an area based payment offer a better way forward in terms of equitable payments.

The Council accepts that under the proposed thresholds only a small percentage of farmers would be affected (less than 0.5%) by progressive modulation at the levels proposed but with the first 5% of funds secured returning to the EU and not the Member State the Council sees little overall benefit. In addition, once the principle and mechanism has been established a change in thresholds and banding to secure more funding could 'catch' significantly more producers in the Highlands.

Q10. What are your views on proposals for setting a minimum threshold (by level of SFP or area of holding) below which no payments are made ?

Highland Council accepts the need for a minimum threshold and would recommend this is set by area, i.e. 1 hectare, rather than the level of SFP in order not to exclude small croft businesses.

Q11. What are your views on proposals for simplifying and harmonising mechanisms for intervention in commodity markets ?

Highland Council supports the proposals, which are in line with a greater market focus.

Q12. What are your views on proposals for gradually increasing milk quotas as a prelude to ending milk quotas in 2015 and abolition of private storage aid for cheese and disposal aid for a number of other dairy products ?

The Council is concerned for the small number of milk producers remaining in marginal areas and considers that, as is proposed, provision be made through use of the national envelope to support these producers following the abolition of quota.

Q13. What are your views on proposals for changing a number of small support schemes, including decoupling of the protein crop scheme and abolition of the energy crop scheme ?

The two schemes that have been used in Scotland and are to end as part of further decoupling are the Protein Crop Premium (PCP) and the Energy Crop Scheme (ECS). Although these schemes do not generate significant sums in themselves they do still represent a positive cash flow to the small number of producers involved. In terms of the PCP the Council understands these payments will be available to producers through SFP but no longer linked to production of protein crops. For ECS it is considered that the market is rewarding producers and subsidy is no longer required. The Council accepts these arguments and that these schemes should end.

Q14. Do you have any other general comments or views?

Highland Council considers it vital that the proposals within the CAP Health Check are viewed alongside the review of the LFASS and future plans for the SRDP. This will ensure better targeting and use of what will be a shrinking budget and avoid potential pitfalls, for example, leaving LFASS alone to deal with declining stock in marginal areas.

Highland Council – August 2008

Appendix 2

Livestock Figures in the Highland Region 2007 provisional June census results update (Figures from SGRPID)

1. Breeding ewes

	2001	2002	2003	2004	2005	2006	2007	Annual % change 2001-2004	Annual % change 2004-2006	% change 2006/07
Shetland	176,863	164,464	160,620	158,578	147,978	138,290	133,493	-3.45%	-6.40%	-3.59
Orkney	57,198	55,488	57,363	56,178	58,209	52,846	49,297	-0.59%	-2.97%	-7.20
W Isles	130,308	124,531	121,247	113,259	108,357	98,392	91,408	-4.36%	-6.56%	-7.64
NW Highlands	112,849	107,730	103,928	100,235	99,354	90,114	84,372	-3.73%	-5.05%	-6.81
NE Highlands	95,503	90,330	89,320	88,487	88,582	83,989	80,334	-2.45%	-2.54%	-4.55
Skye, Lochalsh, Lochaber	227,574	218,179	207,716	201,147	193,671	178,122	164,588	-3.87%	-5.72%	-8.22
Moray Firth	103,926	96,163	93,420	91,806	91,148	87,781	87,176	-3.89%	-2.19%	-0.69
Argyll	281,035	274,519	269,867	262,293	252,201	241,908	225,580	-2.22%	-3.89%	-7.24
HIE	1,185,256	1,131,404	1,103,481	1,071,983	1,039,500	971,442	916,248	-3.19%	-4.69%	-6.02
Scotland	3,277,170	3,221,700	3,192,609	3,179,434	3,141,546	3,028,595	2,916,680	-0.99%	-2.37%	-3.84

Key points

- Immediately prior to decoupling ewe numbers were declining in the Highlands at around 3% per annum. Post decoupling 2004 to 2006 they declined by about 4% per annum, but in 2006/07 the decline rate increased to over 6% per annum. **We are seeing an acceleration of decline.**
- Most Highland sub-regions where decoupling has had the most negative impact in terms of active farming are actually declining faster e.g. Skye/Lochalsh/Lochaber at 8.22% and North West Highlands at 6.81% in 2006/07. It is these areas where a revised LFA scheme has the most vital role to play.
- Half the Scottish reduction in ewe numbers 2006/07 came from the Highlands.

2. Beef breeding cows

Total Beef Cows										
	2001	2002	2003	2004	2005	2006	2007	% change 2001-2004	% change 2004 -2006	% change 2006/07
Shetland	1,987.00	2,044.00	2,022.00	2,001.00	2,111.00	2,038.00	1,934.00	0.23%	0.92%	-5.10
Orkney	28,539.00	28,541.00	28,486.00	28,938.00	28,362.00	28,096.00	27,259.00	0.47%	-1.45%	-2.98
W Isles	2,930.00	2,952.00	2,854.00	2,895.00	2,886.00	2,873.00	2,870.00	-0.40%	-0.38%	-0.10
NW Highlands	3,997.00	3,815.00	3,716.00	3,724.00	3,912.00	3,631.00	3,415.00	-2.28%	-1.25%	-5.95
NE Highlands	19,830.00	18,811.00	18,926.00	18,963.00	19,358.00	18,532.00	18,154.00	-1.46%	-1.14%	-2.04
Skye, Lochalsh, Lochaber	11,481.00	11,393.00	10,885.00	11,102.00	10,361.00	10,401.00	9,765.00	-1.10%	-3.16%	-6.11
Moray Firth	22,406.00	21,498.00	21,600.00	21,868.00	21,553.00	21,253.00	20,876.00	-0.80%	-1.41%	-1.77
Argyll	24,246.00	23,403.00	22,844.00	23,297.00	22,958.00	22,251.00	21,300.00	-1.30%	-2.24%	-4.27
HIE	115,416.00	112,457.00	111,333.00	112,788.00	111,501.00	109,075.00	105,573.00	-0.76%	-1.65%	-3.21
Scotland	489,074.00	488,789.00	487,133.00	492,873.00	492,319.00	487,194.00	471,610.00	0.26%	-0.58%	-3.20

Key Points

- In the pre-decoupling (2001-2004) and immediate post-decoupling (2004-2006) periods the rate of decline in cows is much lower than breeding ewes. But in 2006/07 the rate has increased sharply.
- Note the rapid decline well above the Highland average in NW Highlands, Shetland, Skye/Lochalsh/Lochaber. As with sheep it is in these areas where decoupling has resulted in the sharpest decline in stock numbers. A well targeted LFA scheme can be effective in encouraging activity and generating public goods as a result. Natural disadvantage is also greatest in these areas and extensive HNV farming and crofting systems dominate.