

RURAL POLICY CENTRE CONSULTATION RESPONSE



The Future Implementation of the Common Agricultural Policy in Scotland

A Response from SAC Rural Policy Centre

SAC (Scottish Agricultural College) welcomes the opportunity to contribute to the debate on the future implementation of the Common Agricultural Policy in Scotland. SAC is an innovative, knowledge-based organisation that supports the rural sector through research, education and expert consultancy services. SAC wishes to see, and contribute significantly to delivering, a sustainable agricultural and rural land use sector in Scotland. This response addresses each of the questions posed in the consultation document in turn.

Q1. What should be the rationale for Pillar 1 and Pillar 2 of the CAP from 2014 onwards? What are your views on the distribution of funding between Pillar 1 type measures and Pillar 2?

Returning to first principles, agriculture and land management receive support and are regulated because the sustainable production of food and management of land cannot be left to the market alone. Governments intervene in the sector through the CAP to deal with various forms of market failure (such as when the market cannot secure food supplies, or when agricultural incomes become very low and threaten the sustainability of food production, or when food production generates negative environmental consequences). The CAP is therefore a tool for dealing with different forms of market failure and, given the importance of ensuring sustainable food production and land management, there will continue to be a role for government intervention in some form.

Given that the CAP is used to deal with different issues, two different 'Pillars' were created. Pillar 1 covered the traditional farm support measures (price support, supply management and headage/area payments), while Pillar 2 covered a suite of options for improving the competitiveness, environment and business diversity of rural areas. Crucially, it was acknowledged that while the majority of funding was initially channelled into Pillar 1, the long-term intention was to reverse the balance of the CAP from Pillar 1 to Pillar 2 by 2020. European food production would consequently become market orientated, with increased funding being channelled into rural development. More recently, however, the issue of food security has become increasingly important and securing food production will be a high priority.

In this context, if we assume that Pillars 1 and 2 remain, SAC believes that the current structure, with one pillar aiming to secure food production and another aiming to support rural development and environmental measures, provides a workable model.

Crucially, any future change in the structure of the CAP will require a robust evidence base to inform policy change. If there is a long-term intention to transfer funds from Pillar 1 to Pillar 2, it will be important to know whether Pillar 1 is

achieving its objectives; what the impact of Pillar 1 withdrawal would be; and what benefits enhanced Pillar 2 funding might deliver.

In terms of the appropriate distribution of funding between Pillar 1 and Pillar 2, SAC believes that funding should be based on need. Agriculture is not static and goes through continual processes of change. At one point in time the market may be depressed and support will need to focus on providing some form of income support mechanism for farmers. Equally, the environment faces changing pressures and at different times funds may need to be channelled to deal with specific issues. Simply putting a figure or percentage on the appropriate distribution of funds potentially limits the government's ability to deal with issues as they arise. The key to success will be greater flexibility (although building a system that allows such flexibility will be extremely difficult). Again, though, the implications of changing the structure of the support mechanisms and the funds that are channelled into different activities will need to be thoroughly researched in order to ensure the appropriate evidence base for policy change.

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/No If Yes, what are your views on (i) the rationale for flat rate payments, (ii) the basis for determining payments, and (iii) the time-scale for change?

Yes—the further we move away from the reference period that underpins the historic model, the more difficult it is to justify. In terms of the rationale for flat rate payments, one option is to conceive of the SFP as a safety net providing support where it is needed. An important element of this would be to clarify the objectives of Pillar 1, not least because the current lack of clarity makes it difficult to ensure public acceptance of agricultural support and easy for critics to question what the taxpayer is receiving for their money.

If a flat rate system were adopted, the payments could be determined regionally on the basis of the land capability classification i.e. there would be separate flat rates for different regions on the basis of land classification. Those areas with higher land capability would receive higher flat rate payments. This approach to payments would broadly mirror the current distribution of funding and therefore not represent a massive, and potentially disruptive, break from prior approaches. Any change to Pillar 1 would have to start in 2014 and be phased in incrementally to 2017.

It is important to recognise, however, that while moving to a flat rate payment might be seen as a progressive move away from the historic model, the flat rate system is not without its own practical and resource efficiency problems.

With respect to practical issues, manipulating an allocation system based on land classification may prove far more difficult than expected. Will it only apply to farmed land? A move towards a flat rate might also unintentionally create a situation whereby farmers could profit from selling their current entitlement, knowing that they will be reallocated entitlements under the new system.

The resource efficiency problems relating to a flat rate system are much more fundamental. Attaching payments to land capitalises support into land values (prices and rents). Not only does this mean that farmers often pass their SFP on to non-farming landowners, it also hinders structural change in agriculture i.e. a move toward more economic-sized units. In Scotland, unlike almost all other Member States, when decoupling was introduced the link between the SFP and land was essentially broken. Although a farmer needs “acres” to claim against their entitlement, the SFP basically goes to the farmer. Since the payment is not linked permanently to the land, Scottish farmers can sell entitlements to provide pension provision or provide capital to exit farming and start a new venture. Care is therefore needed in respect of the degree to which any future flat rate payment is linked to the land itself.

Other options have been proposed—such as a bond scheme—and Scottish Government could usefully explore the potential of such schemes for providing a better basis for managing the SFP post 2014. In essence, under a bond scheme the rights to future direct payments under Pillar 1 would be vested in a paper asset—the bond—which could be retained by the original owner or sold on an exchange. Such a scheme gives certainty about the future of direct payments and represents a fully decoupled approach that would be flexible and responsive to the market. It would also help address the enduring problems associated with the need to clarify the meaning of a farmer and the definition of an eligible hectare (Q.7).

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

SAC views these small changes as appropriate.

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.

The two obvious options—putting the set-aside measures into the SRDP or into GAEC—both appear to have significant disadvantages. On the one hand, if the set-aside measures are incorporated into the SRDP, then the impact will be limited because the options will be voluntary. The SRDP does potentially allow for targeting of specific measures through the regionalisation of priorities, but the optional and competitive nature of the SRDP potentially means that the geography of adoption of SRDP measures may not necessarily deliver the same benefits that were provided by set-aside. On the other hand, incorporating the measures into GAEC would create a very blunt tool for delivering set-aside benefits because they would apply to all farmers and not target those areas that enjoyed the environmental benefits of set-aside.

A different option, which would need further examination, would be to convert the current set-aside entitlements into some form of entitlement with environmental obligations. This would mean that the benefits of set-aside would be retained in those areas where set-aside was most prevalent. How such a scheme was

implemented would be crucial and it would be important to allow a degree of flexibility i.e. allowing farmers to choose how best to fulfil their obligations rather than imposing a blanket set of rules.

Another option that could be explored, as a potential measure under GAEC, is for a certain percentage of a farm to be managed in an environmentally sensitive way (similar to the Swiss 'Ecological Compensation Area' approach). This approach would give the farmer the flexibility to choose how best to manage their land whilst delivering environmental benefits. It would not be prescriptive in the sense of focusing attention on field margins or linear features but could include these measures with the choice of the most appropriate measures left to the discretion of the farmer in consultation with a conservation advisor. Further research to examine the degree to which such a scheme might work in Scotland is justified.

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

In broad terms, SAC believes that the principle of decoupling as a means of freeing farmers to react to the market is sound. There may, however, be situations where some form of coupled support is the best and most efficient way to deal with a particular problem. If the working of the market led to the collapse of the livestock sector in an area, coupled payments might be justifiable to ensure food supplies or to support the sector and ancillary industries in a period of transition. Similarly, coupled payments in specific areas might be a useful tool to achieve targeted environmental outcomes (for example, where destocking has produced negative environmental consequences). A recent report by SAC on 'Farming's Retreat from the Hills' has highlighted the potential economic, environmental and social impacts of the decline in livestock numbers in the hill and island areas of Scotland. There are potentially negative impacts on local communities of livestock depopulation and while there are a variety of ways for dealing with these problems, one option could be some form of coupled payment.

In the case of the Energy Crop Scheme, the improved market conditions for energy crops have removed the need for coupled support. In the case of the Protein Crop Premium, the small area of land and the small amount involved limit the impact of decoupling this payment, although it must be recognised that livestock farmers, especially in the pig industry, are suffering as a result of the EU restrictions on GM feedstuffs.

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

Assuming that agreement with other countries in the UK can be reached (so as to allow splitting the national reserve and retaining the SFP scale-back in Scotland), the national reserve could be used to give new entrants access to the SFP. If the SFP is altered from the historic system towards a flat rate system, new entrants would be able to receive the SFP by 2014 - 2017. Accordingly, the national reserve could be used in the interim as a means of bridging the gap to

the new system. Any interim measure, should not, however, be based upon allocating new entrants SFP 'entitlement'. The payment should be strongly linked to the definition of agricultural activity.

SAC believes that the negative impact on the wider industry, brought about by the necessity of reducing the SFP to release funds for new entrants, is outweighed by the positive impact for the industry that will come about by supporting 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”?

Increased flexibility in the use of the national reserve: Increased flexibility in the use of the national reserve is appropriate.

Simplification of payment entitlements: Simplification can only be positive.

Twice a year payments: Frequent payments would be welcome as they could create a better cash flow situation for farmers.

Clarification to the meaning of a farmer and to the definition of an “eligible hectare”: The definition of a farmer is crucially important as it determines who is eligible for support and some land managers engaged in sustainable food production have been excluded in the past. The current system is not wholly satisfactory because those who no longer farm can potentially rent unproductive hill land in order to activate their entitlement and payments. The definition of a farmer needs to be clarified or tightened so as to avoid these difficulties. However, SAC recognises that the current consultation involves only minor amendments to both the definition of the 'farmer' and an 'eligible hectare' and views these small changes as appropriate.

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?

SAC is supportive of the move towards increased flexibility in the use of the national envelope. The increased funds and the removal of restrictions on where the funds can be directed should allow Scottish Government to target funds at key issues and areas.

In line with the Commission's intentions for the national envelope, this increased flexibility could potentially be used to provide some form of additional support for livestock farmers and crofters in High Nature Value areas (large areas of Scotland could be classed as High Nature Value farmland). Recent work by SAC has highlighted the decline in livestock numbers and the potential impact on farming, biodiversity and communities. The greatest changes in livestock

numbers are taking place in those places that have the highest nature value, but which are also vulnerable to wider economic pressures.

The degree to which the national envelope should be used to target such problems will depend on the degree to which they are addressed through Pillar 2, especially agri-environmental support and LFASS. If they are addressed through other means, national envelope funds could be directed elsewhere.

It must be noted that the increased flexibility in the use of the national envelope has potentially redistributive effects. Money will effectively be taken from all SFPs and directed at specific sectors or areas with the result that while everyone contributes, only some benefit. Such a move will be popular with some, but unpopular with others. The key to using the national envelope in the most equitable and transparent way will be clarity of objectives. The objectives and priorities will have to be clearly determined before any national envelope funds are reallocated.

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

Progressive modulation will have only a limited benefit in terms of raising more funds for rural development measures, not least because larger businesses are likely to find ways of splitting in order to avoid the thresholds.

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?

SAC supports the establishment of a minimum threshold and suggests that a 1 ha area threshold is applied.

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

Intervention should serve as a safety net and not prevent farmers from responding to the market. As such, SAC supports the moves to simplify intervention.

Q12. What are your views on proposals for gradually increasing milk quotas as 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 increase in milk quotas represents a threat to UK farmers because an increase in milk production in other countries (esp. Ireland) could lead to an increase in milk products exported to the UK, putting downward pressure on price, especially for cheese. SAC understands, however, that if quotas are going to be abolished, then it is better to have a gradual increase rather than a sudden abolition. A gradual increase would minimise the risks of a distorted market in 2 or 3 years time before abolition and should help our farmers / milk companies get

a better idea of what milk production in other EU countries and exports to UK will be like.

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?

See Q 5.

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

No further comment.

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