

Briefing for the Parliamentary debate on the proposed reform of the Common Agricultural Policy 27th September 2012

Introduction

On 12th October 2011, the European Commission published its formal proposals for CAP reform covering the period 2014-2020¹. We are now in a period of protracted negotiation between the 27 Member States of the EU, the European Parliament and the Commission. Agreement on a final reform package is not expected until sometime in the first half of 2013 but could be delayed. The outcome of these negotiations will have a major bearing on the future of agriculture in Scotland – and hence on the environment.

Scottish Environment LINK is the forum for Scotland's voluntary environment organisations. Many of LINK's 30 member bodies have a particular interest in agriculture. ***We want to see a CAP reform which leads to more sustainable farming systems and practices and the enhanced provision of public goods and services from agricultural land management.*** LINK's view is that the only valid purpose of taxpayer's support for the agricultural sector is to secure the provision of those goods and services which the market fails to deliver.

The Scottish Government's Land Use Strategy commits it to: '*Use the Land Use Strategy Objectives to influence negotiations on CAP reform.*' LINK believes these objectives, which include a requirement for responsible stewardship of Scotland's natural resources, demand a radical overhaul of current CAP support regimes. The European Commission has made some proposals that could help to deliver a greener CAP but, as negotiations proceed, LINK is concerned that these proposals will be watered down. Below, ***we highlight those areas which the Scottish and UK Government's must support in the reform negotiations if a greener CAP is to be made reality.***

Pillar I and the Basic Payment Scheme

LINK supports the proposed move to a so-called 'regional model of support'; we consider that it has the potential to deliver an uplift in support for High Nature Value farming and crofting systems which, under the current historic model applied in Scotland, are financially disadvantaged. The historic model of support is clearly no longer tenable. The amount of support received by a farmer today is based on agricultural production and output in a historic reference period and bears no relationship to current activity or financial need. Currently, farmers in the most productive areas of the country with the greatest commercial opportunities – arable farmers in the east and dairy farmers in the south and west – who depend least on public support receive the highest levels. Conversely, farmers in the least productive areas operating in difficult climatic conditions and at a distance from markets – livestock farmers in the north and west – who depend most on public support receive the lowest

¹ http://ec.europa.eu/agriculture/cap-post-2013/legal-proposals/index_en.htm

levels. LINK believes this is not only a perverse distribution of public money but one which fails to secure the best provision of public goods and service such as the maintenance of wildlife and landscapes, clean water and soil carbon storage. Whilst all farming systems across Scotland have the potential to deliver such public goods to some extent, it is extensive livestock farming systems² in the north and west which are most closely associated with such goods currently. Moving to a regional model of support should, by its very nature, result in a re-distribution of support from more intensively farmed areas to less intensively farmed ones. However, much will depend on the implementation model adopted and this will be a decision for the Scottish Government in due course, once the overarching EU rules are adopted.

The Commission's proposals allow for a **transition period** in moving from historic to a regional model of support. A slow transition would fail in the short term to help the most economically vulnerable and environmentally important farming businesses and LINK therefore supports a relatively fast transition. It is notable that a significant number of respondents to the Scottish Government's recent consultation on the CAP reform proposals call for a quick transition to regionalised payments.

The reform proposals include a number of measures designed to ensure that payments only go to **active farmers**. The proposals state that no payments can be given where the amount of direct payments is less than 5% of the total receipts they obtained from non-agricultural activities or where 'minimum activity' is not carried out (to be specified by the Member State). Whilst LINK wishes to see payments supporting active farming, we believe the current proposals are unworkable and would require Scotland to put in place a highly bureaucratic and administratively costly system for little gain. If there is a need to ensure a certain level of activity or compliance to raise the bar on active farming, we advocate strengthening existing Good Agricultural and Environmental Conditions under the cross compliance system.

All farmers in receipt of direct payments are subject to **cross compliance** conditions – Statutory Management Requirements (SMR)s which are based on EU legislation and Good Agricultural and Environmental Conditions (GAEC). The Commission is proposing to weaken cross compliance by removing some of the SMRs relating to requirements under the Birds and Habitats Directives; this must be rejected. On a more positive note, there are proposals to include requirements relating to the Water Framework Directive and the Sustainable Use of Pesticide Directive, which should be supported. LINK also supports the proposal to include a new GAEC requirement for the 'protection of wetland and carbon rich soils including a ban on first ploughing'. The Commission proposals recommend a strengthened Farm Advisory service (for both cross compliance and in Pillar II) and we support a system where more pro-active advice can be sought and given.

Pillar I and the green payment

The European Commission has proposed that 30% of Pillar I (direct payment) support should be linked to new 'greening' requirements. Over the seven year period of the next EU Multiannual Financial Framework, this would mean that c.€95 billion would be allocated to the

² Such systems may include small scale arable cropping e.g. on the machair

green payment³; EU citizens have a right to expect this money to achieve meaningful outcomes. As nearly all farmers receive Pillar I payments, this could secure environmental improvements across almost all EU farmland. Many Member States, and MEPs, have rejected the Commission's proposals, calling instead for the flexibility to implement their own version of greening, including 'green by definition' status for certain farms types or farms in certification or agri-environment schemes. Most of these alternatives appear to be an attempt to weaken the greening proposal or to simply maintain the current status quo and should be rejected.

Instead, ***a clear and common framework for greening must be agreed and the individual measures designed to provide genuine benefits***. This can be done using the Commission's proposals:

- ***Ecological Focus Areas (EFAs)*** The Commission proposal that farmers will have to ensure that at least 7% of their eligible hectares is ecological focus area (EFA) is the most positive of the three greening components with the potential to deliver meaningful environmental outcomes. Some farmers' representatives have referred to EFAs as 'set-aside' since fallow land is included in the list of options; we believe this is a disingenuous and deliberately unhelpful interpretation of this measure. Rather than taking productive land out of production, LINK views EFAs as a means of supporting the maintenance of existing on-farm habitats that would otherwise be excluded from support. For example, hedgerows, field margins, small areas of scrub and gorse, small woodlands and unproductive field corners etc should all be eligible for support under this measure in our view. To this end, we believe that EFAs should not just apply in cropped areas but also to intensively managed grassland thereby bringing some livestock farmers within its scope. We consider that the vast majority of farmers in Scotland would easily meet such EFA requirements.
- ***Permanent pastures*** of high environmental value urgently need proper protection. However, the proposed definition and reference year do not differentiate between pastures of differing environmental benefit and may even incentivise their destruction. Instead, protection, and payment, must be targeted at semi-natural pastures of high environmental value and high input grassland should be subject to the EFA requirement.
- ***Crop diversity*** should be replaced with a meaningful crop rotation requirement which would deliver soil benefits and avoid the negative impacts that crop diversification would have on livestock farmers currently growing a small area of cereals.

The European Agricultural Fund for Rural Development

We support the Scottish Government's call for an increased share of rural development funds for Scotland and urge it to make the case for this based on objective criteria and not historic spend. To support this case, current domestic rural development spending must be maintained and ultimately increased, not cut as in the last and previous budget round. We call on the Scottish Government to support the proposal for voluntary modulation and apply it and reject 'reverse modulation'. We welcome the continuation of key measures such as agri-environment, forestry, organic farming and support to areas

³ Currently in Scotland, the amount of funding allocated to direct payments is c. £530 million – 30% of this amounts to £159 million.

facing natural or other specific constraints, in order to deliver environmental goods and services. The Scottish Government must clarify what bridging arrangements will be available if there is a gap between the end of the current Scotland Rural Development Programme (SRDP) and the start of the new one.

EAFRD – or Pillar II of the CAP – has a vital role to play in supporting and encouraging the delivery of public goods and services by agriculture. But EAFRD, as a whole, is severely underfunded in comparison to the environmental and social needs in rural areas. Scotland fares poorly in the allocation of EU rural development funds; the UK receives the lowest share of all EU Member States and within the UK, Scotland receives the lowest share of all four UK countries. LINK has long argued for a greater shift in resources away from Pillar I of the CAP and into Pillar II and for an increased share for Scotland of EU funds. In future, financial allocation of Pillar II funds to Member States is to be based on objective criteria and on historic spending patterns. We support the Scottish Government's call for an increased share of funds for Scotland and urge it to make the case for this based on clear and objective criteria and not on historic spend. Part of demonstrating this need, requires the Scottish Government to maintain domestic rural development spending under the current Scotland Rural Development Programme (SRDP) and not cut it as in the last and previous budget rounds. Cutting expenditure now sends the wrong signals to Brussels about the level of future need.

Whilst Scotland needs to make the case for an increased share of EU rural development funds, we are not optimistic that any new allocation formula will result in a significant uplift in funding, especially if current domestic expenditure is not maintained and ultimately increased. On this basis, we call on the Scottish Government to support the proposal for voluntary modulation – which will allow up to 10% of Pillar I funds to be shifted into Pillar II – and to make use of this option if included in the final reform package. Conversely, the proposal that certain Member States, including the UK, should be allowed to transfer funding from Pillar II to Pillar I – 'reverse modulation' – should be rejected outright.

The proposed EAFRD regulation sets six new priorities for rural development funding. We broadly support these priorities however, we have concerns that the introduction of new priorities e.g. for innovation, risk management in agriculture and moving to a low carbon economy will place additional demands on already overstretched budgets. Without new resources for EAFRD, we believe that Member States will be required to 'prioritise the priorities' and will be unable to deliver fully against EU objectives or to fully meet legal obligations such as those in relation to biodiversity or climate change.

The proposals maintain a number of existing measures such as agri-environment and forestry and introduce a number of changes. We support the on-going commitment to the agri-environment measure (now called agri-environment-climate payments) and the recognition of their role in climate change mitigation and adaptation, the protection and improvement of the environment, the landscape and its features, natural resources, the soil and genetic diversity. We welcome especially the intention that high nature value farming systems be given special attention. The requirement that Member States must allocate at least 25% of funding to these payments, organic farming and payments to areas facing natural or other specific constraints is

positive. We also welcome continued support for: Natura 2000 areas and to help meet the requirements of the Water Framework Directive; organic farming; forestry expansion and management; and, areas facing natural or other specific constraints in order to maintain the countryside and promote sustainable farming systems. The extension of payments for co-operation, for example for collective approaches to environmental projects and practices, is very positive and has the potential to support the delivery of ecosystem services at landscape scale. We also welcome the inclusion of Leader as a compulsory measure.

The introduction of a risk management measure to cover, for example, crop insurance, and of an income stabilisation tool, is much less welcome. If the aim of the BPS in Pillar I is to support farm incomes in the face of price volatility and help stabilise incomes, we see no reason why specific support for similar objectives should also be included in Pillar II, especially given the financial constraints it operates under.

If agreement on CAP reform is delayed, as looks possible, there is likely to be a gap between the end of the current SRDP and the start of the next. It is essential that the Scottish Government clarifies what bridging arrangements will be put in place in terms of on-going funding and priorities for funding. LINK considers it essential that continued funding is made available for agri-environment schemes, as a matter of priority. We understand that the Cabinet Secretary, Richard Lochhead, is due to make an announcement on this subject within the next few weeks.

The next SRDP for the period 2014-2020 is being developed by the Scottish Government within the framework of the proposed EU regulations and in consultation with relevant stakeholders. LINK members are engaging with the Government in this process and contributing ideas on the objectives and content of the programme. An accompanying briefing summarises LINK's views on the next SRDP.

Scottish Government implementation

Over the course of the next 12 months, negotiations will proceed on the European Commission's CAP reform proposals and the shape of the final package will become clearer. Whatever the EU framework adopted, there is likely to be a considerable amount of subsidiarity which will allow Member States (and regions within) to define the exact nature of the changes to take place. Decisions taken by the Scottish Government will therefore be the major determinant of the agronomic and environmental impacts felt in Scotland, within the broad scope of moving to a regional model of support, defining greening options and developing a future rural development programme. There will be considerable pressure on Ministers to maintain, as far as possible, the status quo in Pillar I by minimising redistribution and applying limited greening requirements. LINK calls on the Scottish Government to resist this pressure and to implement a reform that will enhance support to the most vulnerable and high nature value farming systems in Scotland and lead to greater sustainability elsewhere. Regarding Pillar II, there is likely to be broader and more unified support across all stakeholders for increased rural development funding and an SRDP that delivers clear outcomes. The demands on the next SRDP will be considerable however and LINK calls on the Scottish Government to prioritise the protection and enhancement of the natural and historic environment in the targets and measures selected.