

# **INQUIRY INTO FUTURE SUPPORT FOR AGRICULTURE IN SCOTLAND**

## **NESAAG submission to Pack Review Team**

In June 2009, the SG announced that an Inquiry Team led by Brian Pack would be set up to make recommendations to the Scottish Government on how financial support to agriculture and rural development can best be tailored to deliver the Scottish Government's purpose of sustainable economic growth.

The initial phase of public engagement by the Pack Team is designed to gather written evidence from interested organisations and individuals that will be analysed and used to identify key issues for inclusion in the Inquiry's Interim Report

This response to that invitation comes from North East Scotland Agriculture Advisory Group (NESAAG), a cross-sectoral partnership drawn from the public and private sectors comprising three local authorities, Scottish Enterprise and HIE Moray, agriculture, forestry, food safety and environment agencies, private and industry bodies including academic and research institutions and industry and farming sector representatives.

### **Overarching principles**

1. There should be a shift away from the historic basis for SFPs. An area-based system is inherently less arbitrary but the entitlement should be attached to the responsible person and not the land to avoid legal complexity and distortion of the land market.
2. With a smaller CAP budget possible, better targeting is required; this redistribution will be painful in certain quarters and appropriate transitional arrangements will be required, possibly including ring-fencing of regional shares to avoid damaging consequences for producers and processors.
3. The new arrangements should be as simple as possible.
4. Incentives to retain and enhance rural production capacity should continue to be utilised to ensure the industry can respond to future opportunities. This includes skills.
5. Payments should be closely linked to measurable outcomes arising from agricultural activity.
6. Revisit the original concept of Land Management Contracts.

**Please illustrate your ideas, as best you can, with examples or other evidence.**

- 1. How can financial support to agriculture and rural development be best tailored to incentivise delivery of the Scottish Government's purpose of sustainable economic growth?**

A1. The term 'sustainable economic growth' can be interpreted in a number of ways. In the context of an enterprise-orientated definition, NESAAAG believes that the key to rural sector economic growth is to boost inherent productivity through innovation and diversification, and by adding value throughout the supply chain – in particular by concentrating on those sectors for which Scotland is already recognised (e.g. Scotch beef brand) which can be readily and effectively marketed and contribute towards SG's ambitious growth targets for Scotland's food industry. Such an approach will require innovative and market-leading rural sector businesses and their suppliers/producers to be actively supported and encouraged.

Scotland is already recognised for its agricultural Research and Development output but NESAAAG believes that more needs to be done to improve technology transfer and knowledge uptake by industry to achieve its full economic potential.

A broader definition of sustainable economic growth gives equal billing to social, environmental and economic factors and recognises the clear need to use public funds to correct market failure which fails to reward adequately the provision of public goods such as sound environmental management, progress towards climate change targets and maintenance of the landscape and recreational space (e.g. access to the countryside including woodland walks).

In this broader context, NESAAAG believes that the primary challenge lies in identifying, prioritising and quantifying the public goods provided by the sector and setting out a clear basis for delivering both targeted economic support to industry and also rewards to land managers for delivering environmental and social benefits. Irrespective of the ultimate balance which is struck, public money should reward only active land management and active provision of public goods. See A.10 below for a suggested mechanism based on the original concept of Land Management Contracts.

## **2. How can support be best directed to ensure high productivity from Scotland's natural resources bearing in mind challenges such as the loss of biodiversity?**

A2. NESAAAG's view is that higher productivity from Scotland's natural resources can be readily achieved by adopting best practice across the sector to raise standards. Arguably the technical performance of beef and sheep enterprises in Scotland have not improved significantly for 20 years, and disease status has definitely declined.

Much technical improvement can be achieved without any adverse environmental or biodiversity impact and many technical and efficiency improvements (e.g. use of new clovers instead of manufactured nitrogen

fertilisers) will have direct environmental benefits.

Scotland is very well served by its knowledge infrastructure but the industry has been slow to implement beneficial practices and techniques. Exemplar/benchmarking initiatives such as Monitor Farms have successfully promoted adoption of best practice through collaboration and co-operation and should be expanded.

Environmental priorities should be targeted in vulnerable areas where biodiversity losses would be damaging.

In particular, NESAG believes that combining funding for productivity and environmental goals in one on-farm contract could do much to ensure the two goals are compatible in practice – see comments in A10 below.

### **3. How can support be best directed to help deliver the Scottish Government's targets on Climate Change?**

A3. In considering how best to direct support to meet climate change targets, NESAG cautions the SG to avoid narrow and simplistic assessments of GHG emissions and sequestration, as the consequences of changes to farming activity can be far-reaching.

For example cattle systems have a poor carbon footprint, due partly to methane production when compared to (for example) pigs. However, if we stop keeping cattle and instead switch to pigs this would lead to a disastrous release of carbon as huge areas of grassland are ploughed to produce more grain for the pigs.

The Scottish Government needs therefore to be able to evaluate new carbon scenarios when climate change incentives are being proposed, the consequences of which may extend far beyond the accounting of carbon within sectors or enterprises.

Further work is therefore needed to establish objective co-efficients for carbon emission and sequestration rates across a range of activities (and change of activities; see above) to help inform policy-makers and ensure SG support delivers an improvement in the sector's carbon footprint.

Notwithstanding the above complexities, NESAG is confident that progress to meet climate change objectives can be met painlessly and profitably by extending the uptake of readily available techniques such as minimum-till and GPS-targeted inputs in the arable sector, thus demonstrating that business efficiency and lower emissions often go hand in hand. Improving animal health standards (see A2 above) in the livestock sector can also contribute, as can better use of animal processing co-products – an under-utilised resource

at present – to manufacture alternative fuels and generate power.

Credits could be incorporated into individual farm Land Management Contracts to reward actions which achieve carbon balance improvements in addition to other, multiple benefits. The upsurge in interest from the sector in renewable energy diversification projects also needs to be sustained and encouraged.

Scotland's forests currently make an enormous, but presently unrewarded, contribution towards national carbon sequestration. NESAAG believes it is essential to devise and implement a validated carbon trading mechanism to supplement CAP resources available to SG to help meet current forest expansion targets. A clear statement of intent backed up with action is also required here as a great deal of capacity has already been lost from the indigenous forest nursery and establishment sector in response to very low levels of afforestation. A minimum three-year lead time is required to reverse this trend. Explicit planting targets for both native woodlands and productive (commercial) forests are needed within the overall woodland expansion policy to meet both climate change objectives and to generate high quality timber for indigenous processing. More also needs to be done to incentivise higher-quality restocking of forests, though the restrictions on using EU funds for this are recognised.

**4a. How might Pillar 1 funds (i.e. the Single Farm Payment in Scotland) be best distributed in future, for example between regions of Scotland and/or land types, in order to contribute to the Government's purpose and vision?.**

A4a. NESAAG supports a move to a regionalised or area-based Single Farm Payment scheme which would be more transparent and less arbitrary and discriminatory than at present. Ideally, NESAAG recommends that the entitlement should attach to the claimant and not the land itself to avoid unnecessary legal complexity (and distortion of the land market). If this gives rise to new entrant issues in future, these could be addressed through creation of a new National Reserve.

There is a valid argument for ring-fencing regional shares of SFP as part of the transitional arrangements to avoid damaging consequences for local producers and processors.

Though there is a presumption that future Pillar 1 payments are likely be redistributed away from relatively intensively farmed areas (towards more extensive farming systems), all will depend on the criteria which are used to define public benefit. High-quality land in close proximity to large settlements potentially offers a wider and more accessible range of public benefits if appropriately managed.

**4b. Should this redistribution start as soon as is practical (i.e. ahead of the post 2013 reforms being known) to enable a long change over period?**

A4b. The NESAAAG view is that it is important to have both a clear vision of where we are going and a sufficient transitional period to allow the industry to adjust. The redistribution will probably necessitate further work on SG administrative IT systems. Change should not be initiated until appropriate systems, support and training are in place.

**5. What, if any, conditions should be attached to Pillar 1 payments in the future to secure public benefits commensurate with those payments?**

A5. At present, the public are not at all clear what the SFP is being paid for.

NESAAG considers that future Pillar 1 payments must be tied to much clearer public benefits such as active land management which incorporates better environmental stewardship (strengthened GAEC) and a commitment to best practice to help achieve climate change targets. As discussed above, best practice is likely to be consistent with improvements in output productivity.

**6. What should the relationship between Pillar 1 and the Less Favoured Area Support Scheme be?**

A6. If SFP is converted to an area-based payment, NESAAAG believes that there is an opportunity to integrate LFASS into a single, more efficient delivery mechanism with a more holistic outlook. Current moves to target a greater proportion of LFASS funds towards the most vulnerable areas in Scotland (to combat abandonment) could adversely affect relatively productive upland farms with high nature/scenic value in Aberdeenshire and Moray, e.g. Upper Deeside, Upper Donside, Glass, Tomintoul, Glenlivet and elsewhere. An integrated SFP/LFASS system could help maintain farming activity and ensure delivery of environmental public goods in all areas.

**7. How should payment levels reflect farming activity?**

A7. The basis for land management payments under Pillar 1 must be the provision of public goods which in virtually every case will necessitate

meaningful and continuing farming activity.

NESAAG's view is that SG officers will need to make regular checks to ensure that farming activity and desirable outcomes are sufficient to maintain entitlement, but we accept that annual assessments are not desirable due to the administrative burden and the risk of re-inventing headage payments (which would not be WTO compliant).

**8. Should future schemes cater for agricultural holdings currently outside the Single Farm Payment scheme and for new entrants to farming?**

A8. NESAAG believes that all agricultural and related activity on land defined as an agricultural holding should benefit under the Single Farm Payment subject to meeting minimum holding size criteria and the relevant conditions on environmental management and the provision of public goods. This will enable new entrants and previously excluded sectors (deer farming, horticulture) to benefit.

**9. It is generally expected - due to pressure on the EU budget – that the Single Farm Payment budget will be much smaller after 2013. How should the prospect of diminishing budgets be factored into future schemes?**

A9. A smaller budget will require prioritisation and more effective redistribution of the available cash, which will be painful, and NESAAG believes it should therefore be phased in over time. Better targeting and clearer links with public benefits should however make the remaining funding more defensible and more productive in terms of achieving national goals.

Notwithstanding the inevitable pressure on future budgets, the rural sector has a vital role to play in achieving European climate change targets, food security, biodiversity, maintaining and improving water quality and the landscape, and sustaining vibrant rural communities.

NESAAG believes it is vital that the Scottish Government makes very strong representations to DEFRA (which will be negotiating on behalf of the whole of the UK) that drastic cuts to the CAP budget would be very short-sighted environmentally and also run the risk of undermining the largest manufacturing sector left in the UK. (See A12. below)

**10. In an ideal world what should the future balance between Pillar 1 and Pillar 2 of the CAP in Scotland be?**

Q10. Our view is that we need to be ready to deal with whatever balance between Pillar 1 and Pillar 2 appears after 2013. The assumption is that more funds will shift to Pillar 2 to meet public benefit criteria and/or that Pillar 1 funds will have to meet criteria increasingly similar to Pillar 2. However, we understand Pillar 1 funds are acceptable under world trade negotiations, especially if the historic nature of the current regime ends and is replaced by payments not related to the scale of past or current levels of farming activity but more explicitly to services of obvious social and environmental value.

Using the original LMC model as an illustration, under Tier 1 we would envisage a continuing (but smaller than current) level of Pillar 1 payment to an individual farm in return for GAEC/cross compliance/maintenance of activity.

This would be regionalised and in some areas may include extra support through an article 68-type measure. Pillar 2 support might include an enhanced Tier 2 menu scheme but driven by an overall farm business and environment development plan, and then competitive Tier 3 enhancements.

Pillar 1 and Pillar 2 need to become part of an overall policy and Land Management Contracts with individual businesses might be one way to achieve this. And it would be cheaper and simpler, if the contracts are negotiated for a 5 year period.

Such contracts might include specific public benefit provisions (e.g. flood management contingency plans on land upstream of settlements prone to flooding).

**11. Should future support be targeted to encourage transformational change to agricultural businesses, collaboration and engagement between businesses in the different stages of the production chain, and if so how?**

A11. NESAG believes strongly that support to encourage transformational change, collaboration and engagement is essential for the future well-being of the industry. NESAG considers that the budget should be at least a third of Pillar 2 resources. The schemes to achieve this already exist; they just need improvement and simplification.

**12. What should the Scottish priorities be in future negotiations on agricultural support schemes with the United Kingdom authorities and at EU level?**

A12. NESAG believes there are two clear priorities for the above negotiations:

a) A clear emphasis on economic output and maintaining capacity (including retention of skills) as well as other public goods. Volatile food production in a “dangerous” world is not an excuse for maintaining support where it is now, but it is a reason for protecting the capacity to increase production if required. The Food and Agricultural Organisation (FAO) recently reported that it expects the world population to increase from the current 6.7 billion to 9.1 billion by 2050 and has called for food production to increase by 70% over the next 40 years. The EU must play its part.

b) The ability to have flexibility within the new regime to target support at fragile regions – very important for Scotland whose geographic and social characteristics are quite different to England.

**13. Do you have any other relevant evidence on issues which relate to the questions above or additional issues relevant to the future support of agriculture?**

A13. The current structure of the SRDP is extremely complex, which makes it expensive to administer and hard for stakeholders to understand. NESAG believes every opportunity should be taken to simplify and streamline future support mechanisms to ensure as little as possible of the budget is absorbed in administration costs.

In NESAG’s view, LEADER has been a very effective mechanism for delivering wider rural benefits by incentivising collaboration in local communities, enabling them to maximise their potential. The success of LEADER as a delivery mechanism is borne out by recent news that the Rural Priorities Community Services and Facilities option is to be transferred into the programme. Consideration should be given to a significant expansion of the LEADER budget. It is also recommended further consideration is made to develop the local/regional LEADER delivery model for sectoral and community interests using devolved budgets and a rural stakeholder partnership approach for Pillar 2 funds.

NESAG believes it will also be very important to manage the expectations of farmers, foresters and others, especially for competitive schemes where funding pots may be limited. Providing detailed information on current uptake and the effect upon available budgets to prospective applicants would be very helpful.

In particular, we believe that there are valuable lessons from the introduction and administration of previous schemes – especially the area-based payment scheme in England – but also from experiences in Scotland (Rural Priorities) and elsewhere.