

## **APPENDIX 1**

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

#### **PUBLIC CONSULTATION**

##### **RESPONSE FROM NORTH EAST SCOTLAND AGRICULTURAL ADVISORY GROUP**

North East Scotland Agriculture Advisory Group (NESAAG) is 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.

#### **Overview**

NESAAG believes that agriculture must respond positively to the 'new challenges' such as carbon accounting and climate change, and soil and water quality which have been identified by the EU. Indeed a failure to do so could see resources diverted elsewhere from the CAP; European taxpayers are fully entitled to expect tangible and measurable public benefits from farmers in exchange for their contributions, particularly as future levels of taxation are expected to rise.

The reform of CAP under Agenda 2000 has gradually progressed from production support to market orientation. The introduction of SFP in 2006 based on a historic reference period is now ripe for review. NESAAG strongly supports the bold and innovative principles of the Pack Inquiry Interim Report which recognises the need to present substantive and robust reforms for the Future Support for Agriculture in Scotland (and particularly the use of Top-up Funds) which will help to shape the industry to meet the challenges of the future and to underpin sustainable economic growth.

#### **Consultation Questions**

5.1 The Inquiry identified broad principles which future support schemes must follow - do you agree with these principles? (P34)

##### **Inquiry's Broad Principles:**

- Future support schemes must follow the pattern of Agenda 2000 and the Mid Term Review by meeting a wide range of objectives;
- Future support schemes must be WTO compliant;
- Future support schemes are likely to be no better funded than at present and there will be pressure to reduce the budget over time;
- Future support schemes should help deliver the Scottish Government's

- aim of achieving a ‘new contract between farming and society’;
- Future support schemes must be designed to work towards clear objectives so that it is clear what investment in agriculture is seeking to achieve.
  - Future support schemes must have agricultural production at their heart, thereby sustaining agricultural production;
  - Future support schemes should be simple and not incur high administration costs.

A5.1 NESAAAG agrees with the broad principles above. It is particularly important that there is greater transparency in linking support with measurable beneficial outcomes in order to justify public support for the Common Agricultural Policy (CAP) continuing to make direct payments to farmers. Opportunities to remove policy overlap and to streamline delivery should be grasped.

NESAAG fully supports measures which sustain agricultural best practice and the production of high quality food within Europe. It is in the interests of European consumers to have a strong indigenous food industry operating transparently to the highest standards.

5.2 Are the objectives identified by the Inquiry as the underpinning rationale for future support valid and comprehensive? (P35)

**Inquiry’s Objectives:**

- Maintain a productive agricultural sector in Scotland – so that we maintain our capacity to respond to issues of food security;
- Help the industry to adapt and improve – the industry needs to continually improve its competitiveness and its adoption of new practices;
- Maximise the delivery of public goods – public investment in agriculture can enhance their delivery;
- Mitigate the disadvantage experienced by Scottish agriculture – 85% of the land is classed as LFA.

A5.2 Although NESAAAG is in broad agreement with the above, the statement of objectives should be re-ordered to put ‘public benefits’ (which deserve more discussion and description elsewhere in the report) in central place, and then to derive arguments for future support for environmental management, production capacity and efficiency, thus ensuring that there is a clear basis for distinguishing agriculture from other economic sectors calling for support.

The rural sector can only deliver lateral benefits if it is profitable. It is vital therefore to justify support for measures to stimulate and promote innovation, diversification, adoption of best practice, pursuit of higher standards and improved market orientation to deliver improved efficiency and profitability.

- 5.3 The Inquiry identified four main streams for future support and believes that the debate about Pillars is distracting - do you broadly agree with these recommendations? (P35)

**Inquiry's Main Streams for Future Support:**

- Direct Payments – Direct payments are needed to help farmers cope with market volatility, to provide a safety net and underpin farm incomes, and to compensate farmers for the costs of operating in a common market;
- Top Up Funds – A Top Up Fund could be available to farmers in receipt of direct payments and be used to achieve transformational change in the industry with support linked to the adoption of certain practices to enhance competitiveness and sustainability;
- Rural Development Programme – In a similar way to the current arrangement, the SRDP would be the prime delivery mechanism for public good benefits from agriculture and for wider investment in rural development and communities;
- Less Favoured Area – Given the nature of available land in Scotland it is important that compensation for disadvantage is set realistically in recognising the true increased cost and reduced income of operating in much of Scotland.

A5.3 Direct Payments seem unlikely to be phased out in the medium term, given their dominance in EU, UK and Scottish terms. The interim report notes that they “help farmers cope with market volatility” by providing a guaranteed income component decoupled from production levels.

Arguably, Direct Payments can exacerbate market volatility by encouraging risk-taking and unwise speculative production in commodity markets. There may be more effective methods. If the ‘common market’ referred to above is the global market, NESAAG agrees with the continuation of Direct Payments to give confidence to farmers and their financial backers (i.e. the banks) that the farm business and household can survive unusual market downturns.

A Top Up Fund (TUF) “to enhance competitiveness and sustainability” appears to address the purposes of both the current Pillar 2 Axes 1 and 2 (unless “sustainability” is to be interpreted only in an economic sense). However, “transformational change” (and perhaps “adoption”) might be interpreted as linked to investment action to create new assets for productive or environmental purposes, rather than ongoing annual support payments to avoid the loss of valued land management practices (or other potential losses, e.g. of rare breeds, or communal activity such as sheep gathers). The examples given (on p.40) of the possible uses of Top Up Fund are mostly production-orientated, and do not seem to differ much from Axis 1 measures. If environmental uses are also envisaged, how will they differ from Axis 2 measures, such as Land Managers Options (LMOs) or Rural Development Contracts (RDCs)?

Overall, NESAG strongly supports the concept of TUF. Probably rightly, the Inquiry at this stage does not address EU complexities such as co-financing (which applies to Pillar 2 but not to Pillar 1), the possible outcome of the current Less Favoured Area (LFA) review and SRDP for which a mid-term review is imminent. However, Scotland should have a view about these matters: would it support co-financing of Pillar 1 Direct Payments (which might be represented as “partial nationalisation” of the CAP)?

5.4 Is the goal of trying to achieve an objective system for the allocation of area payments using a constant criterion, which is not dependent on management, like the Macaulay Land Capability for Agriculture (LCA), worthwhile? (P37 - 38)

A5.4 If productive capacity is to be the basis of mainstream area payments, then NESAG agrees that the Macaulay system is the best available, and might indeed be used to combine the Direct and LFA payments.

5.5 The Inquiry suggests that it is essential that the area eligible for direct payments changes annually to ensure it reflects the reality and is not an historic base. Do you agree with this concept? For your information it could have implications for administration costs and, possibly, the date by which the full direct payment is made. (P37)

A5.5 Certainly, a move away from the historic base would represent an improvement and is strongly supported by NESAG. It is not very clear from the Interim Report why, once the initial database is established, much more data would be needed from land managers than at present, though undoubtedly more such managers would seek entitlement. NESAG is strongly supportive of a system which would end the undesirable outcomes arising from previous entitlement trading and which recognises the current contribution made by active occupiers.

However there are concerns that some means of trading direct payments under an area-based system may be found and that landlords may benefit disproportionately under such a system (compared to occupiers).

5.6 What are your views on the “annual qualifying requirements” for future area based payments set out in the interim report? Are they sufficient to capture “active” farming? (P38)

A5.6 NESAG welcomes ‘annual qualifying requirements’ to ensure that payments are directed only to active farmers but considers that those set out in the Interim Report do not generally reflect adequate levels of activity.

5.7 An example is given in the report to illustrate what area payments might look like – area payments plus Top-Up Funds (TUF) equals the current SFP budget. This example has been chosen for illustration only and is in no way a working scheme. The example pays higher rates to

the most productive land and to land on the margin of being most productive. (P38)

a) Whilst this model, as far as allocation between land types, is in keeping with the Inquiry's view on why direct payments are justified, do you agree?

b) If you accept the principle of higher direct payments going to the engine house of Scottish agriculture, do you accept the £/ha allocation between the land classes and, in particular, the division between LCA 5.1 and 5.2 or should all LCA 5 get the same payment?

c) If all LCA 5 land gets the same payment, then this rate could be £60 for LCA 5 land without changing the top rate (£130) or if it was £85 for LCA 5, then it would mean £115/ha for LCA 1 – 4 land.

- a) NESAAAG agrees in principle with this model. However the payment profile across the land types is crucial.
- b) Arguably, most of Scotland's productive agriculture by area (the 'engine house') occurs on Grade 3.2 land, with mixed systems contributing significantly to output, employment and landscape character. In contrast to agriculture on the best land (Grades 1 and 2), farming on Grade 3.2 land has been heavily reliant upon previous subsidy regimes and is likely to be rather adversely affected by reduced support. Equivalent (high) levels of subsidy for farmers on the (rather limited) best land in Scotland are unlikely to result in transformational change, given the flexibility and productivity available to farmers on such land. The outcome for productive agriculture on Grade 3.2 land arising from a levelling-off in support between grades 1 and 5.1 is likely to be altogether more significant (and potentially, damaging).
- c) NESAAAG is broadly supportive of the Inquiry's proposal to differentiate between 5.1 and 5.2 land.

5.8 Do you agree that the total agricultural utilisable area of Scotland should be eligible for inclusion in an area scheme and that as far as rough grazing is concerned, the area actually paid on, is land supporting more than 0.12 LU per hectare? It would be expected that the claimant would reduce the area claimed to meet the minimum stocking rate requirement. (P39)

A5.8 It is time that sectors such as deer farming, vegetable production and horticulture which have previously been excluded from the Single Farm

Payment (SFP) system were brought into line with support for mainstream agriculture.

Defining a minimum density for extensive grazing will help confine support to active management. Whether the proposed threshold of 0.12LU/ha is appropriate is likely to be a source of debate but the creative proposal which allows farmers to reduce their area claimed to meet the minimum stocking density is welcomed by NESAAAG.

5.9 The Inquiry's attention was drawn to a potential problem in that area based direct payments might drive up rents. It suggests that if the occupier of the land has to enter an annual contract with Scottish Government to deliver Good Agricultural and Environmental Condition (GAEC), including minimum stocking rate where appropriate, this might help.

- a) Do you believe it is a real problem and, if so, will the route suggested help?
- b) Do you have a suggestion as how to ensure the beneficiary of area payments is the working farmer? (P39 - 40)

a) The Inquiry has correctly identified a likely outcome of an area-based payment system but this applies to almost any conceivable system as long as land rents are open to 'free' negotiation. Given the likelihood of a reduced budget, it is particularly desirable that support payments deliver beneficial outcomes instead of merely distorting rental valuations.

b) One approach might be to reduce area-based payments to no more than 50% of the overall budget and create a larger Top-up-Fund to reward active management and beneficial outcomes, thereby reducing the element which can be attributed to 'land' alone.

5.10 The Inquiry believes that a constraint on the sustainability of farm businesses is market price volatility, with Europe, in order to satisfy WTO demands, having no effective price stabilisation mechanisms. (P40)

- a) Do you agree?
- b) Also, within WTO constraints, is there a mechanism (such as mutual funds or insurance) that you think the Inquiry should consider?

a) A degree of market stability is necessary to encourage long-term investment, which in turn enhances resilience and sustainability. Despite the ready availability of market information on agricultural commodities (which ought to dampen price volatility), the past 3 years have seen have seen very

dramatic price movements which are unhelpful for business planning. Factors such as weather and exchange rate fluctuations also affect farmers' income. However NESAG does not agree that there are no effective price stabilisation mechanisms in Europe. The EU maintains substantial border protection for many agricultural products, including beef and sheepmeat and has intervened recently in the dairy sector.

NESAAG believes Member States are unlikely to endorse increased intervention in future commodity markets when the intended direction of travel is closer market orientation.

The fundamental rationale for maintaining direct payments to farmers is to provide a financial 'safety net' and although the EU might consider further intervention in truly exceptional circumstances, lessons learned from the banking crisis will probably limit action (on the grounds of moral hazard) to land at risk of abandonment.

Volatility has been greatest in the arable sector which is generally confined to the best land, which is extremely unlikely to be abandoned. By contrast, the livestock sector has been far less volatile but the long-term trend has been inexorable decline. NESAG cautions whether it is wise to spend taxpayers money to intervene in a volatile, but resourceful and adaptable arable sector which can respond relatively quickly to market signals. The livestock sector is in a very different situation and may be a more worthy recipient.

b) NESAG has previously suggested (Health Check Implementation) a full examination of the 'likely costs and potential benefits' of WTO-compliant (World Trade Organisation) options to contribute to crop, animal and plant insurance premiums or mutual funds and holds to this view- especially in the light of cost-sharing disease-control proposals from the UK Government.

5.11 The Inquiry suggests establishing a Top up Fund (TUF) which would be available to farmers in receipt of direct payments, in return for a commitment to transformational change which will improve their competitiveness and sustainability. Do you agree with this suggestion that a TUF be established? (P40 - 42)

A5.11 If a Top up Fund (TUF) can be set up and operated legally within WTO constraints, NESAG offers its full support as it would enable a meaningful share of resources to be deployed to best effect, essential if the industry is to sustain key sectors and stimulate progress. To avoid trade-distortion (WTO) problems, targets (which should be openly accessible to all land managers) will need to be expressed in terms of public benefits consistent with (but not measured by) production efficiency (e.g. improved carbon sequestration and better use of inputs such as inorganic fertilisers).

5.12 As the TUF will provide money to help achieve outcomes at the expense of the direct area payment, deciding the size of the fund is critical. The Inquiry's view is that for the TUF to be meaningful it must

be at least half the amount that would be paid out as new direct area payments, what is your view? (P40 - 41)

A5.12 NESAAAG considers that TUF funds should no less than half of the overall budget – i.e. at least equivalent to the sum paid out in area-based payments, thereby ensuring that active delivery of public benefits triggers support. Distributing most of the cash simply on an area basis, even with the incorporation of enhanced Good Agricultural and Environmental Condition (GAEC), would merely reward land occupancy and drive up land rents.

5.13 At this stage the Inquiry has identified the principle of establishing a TUF but, as well as developing its own ideas, is looking to canvass ideas on what the various measures might be and how they might be applied. Please provide your thoughts. (P40 - 41)

A5.13 To ensure maximum uptake (and therefore maximum delivery of public benefits) from active management, NESAAAG's view is that claimants must be able to access meaningful and readily-available cash support in exchange for a commitment to a deliver a management programme (or contract) relevant to their holding and assessed over a sensible (five year?) time frame. Outcomes could be improved carbon sequestration and soil and water management and would be consistent with optimising productivity (but not measured in those terms).

The 'Agriculture in Aberdeenshire' study published by NESAAAG in November 2008 (<http://www.aberdeenshire.gov.uk/support/agriculture/future.asp>) identified a number of action areas (in italics) which are applicable across much of Scotland:

1. *The livestock sector and meat supply chain* (the Inquiry covers this in detail)
2. *Technology/knowledge transfer and promotion of best practice through the expansion of 'monitor farms' and other forms of 'viral learning'*. The commitment of claimants to participate (and subscribe financially?) to such schemes could form part of the contract.
3. *Increased promotion of agriculture as a career, establishment of a modern apprenticeship scheme and skills training*. For larger businesses at least, a commitment to recruiting and training the next generation of technicians and managers should be recognised as part of their contract.
4. *Maintenance and expansion of support for the Research and Development (R&D) base*. Funding is clearly a matter for government but industry needs to work much more closely with R&D agencies to identify what it wants. Difficult to see how this fits in with TUF however.
5. *Support for enhanced biodiversity*. This can be readily achieved under TUF.

Additional possibilities might include:

6. Some means of supporting Quality Meat Scotland (QMS) and other agencies promoting quality assurance schemes to improve marketing (especially for developing export sales of the Scotch Beef brand) and to stimulate further improvements in efficiency and quality throughout the food chain to help meet Scottish Government food industry targets.

7. Support for greater use of animal by-products (ABP) to maximise 'value-added' - including renewable energy generation.

5.14 The Inquiry suggests that Top up Funds might be directed at individual claimants in proportion to their direct area payment in return for certain specified outcomes with any unclaimed funds being used as a general pot. Do you agree with this concept of, in effect, having an individual area claimant's fund **or** should it be much more measure-specific for example, with some funding dedicated to supporting particular sectors? (P41 - 42)

A5.14 It is difficult to reconcile the principle of proportionality (to individual direct area payments, after redistribution from historic-basis levels) with the stated TUF purpose of effecting "transformational change". However, as a means of modifying undesirable features of area-based direct payments (since no "land capability" formula will be perfect), and perhaps being legally more feasible, there is a legitimate argument for making TUF payments individual-specific, i.e. available "in return for certain specified outcomes", either as a series of annual "top-up" payments, or as a lump sum in one particular year.

But relying on this approach alone fails to tackle the particular challenges faced by the livestock sector in Scotland (and particularly, red meat producers) as set out in the Interim Report. NESAG supports the allocation of dedicated funds to support sectors such as upland grazing which deliver multiple public benefits.

5.15 If you believe that a proportion of TUF monies should be used for sector specific measures. (P41 - 42)

- a) What proportion of the total TUF should be allocated?
- b) Which sector or sectors should TUF support and why?

a) NESAG supports the use of sector-specific TUF funds.

In moving away from the current situation in Scotland where virtually all available Pillar 1 funds are distributed on a historic basis (in contrast to other

Member States which retain 'unallocated' funds for specific initiatives) it will be necessary for the Inquiry to communicate clearly that these funds have not been 'top-sliced' from across the sector (though many are likely to see it in this way).

The Interim Report sets out a proposal in which one third of Pillar 1 funds are allocated to TUF, with 50% of that fund made available to all individual claimants in proportion to their direct area payment and the remaining 50% (c. £76.7M) is directed towards specific sectors. NESAAG supports this general formula, but suggests that no less than one half (rather than one third) of Pillar 1 funds is allocated to TUF, resulting in a sector-specific pot of around £115M.

b) The livestock sector (and red meat producers in particular) should be supported by TUF monies, with a particular emphasis on livestock breeding enterprises.

5.16 Currently the EU allows 3.5% of National Ceilings to be used for trade distorting measures (including coupled support) with the target very much being vulnerable areas and production. In any new regime the Inquiry believes that it is essential that Scotland achieves a right to direct 15% of its ceiling to trade distorting measures as 85% of Scotland is Less Favoured Area and 65% is rough grazing utilised by livestock. Do you support this stance? (P41)

A5.16 NESAAG considers that it is extremely unlikely that a special case could be made for Scotland increasing the trade-distorting limit from 3.5% of the national ceiling (determined by WTO) to 15% for measures to benefit fragile areas.

Currently, 85%\* of Scotland is classified as LFA (\* the new LFA map based on soil and climate criteria will be published shortly). The correct avenue for addressing this national disadvantage is for a fairer share of EU LFA resources. It is hoped that the current re-assessment of LFAs across Europe based on soil and climatic criteria (but excluding socio-economic factors) will recognise Scotland's natural advantage and result in improved LFA support.

5.17 Do you agree that the area of forest created from 2009 should be eligible for payment?

A5.17 NESAAG agrees that farmers converting all but the best farmland to farm woodlands should not lose their entitlement or be unfairly disadvantaged. Support for increased levels of planting is consistent with the SG target to raise woodland cover from 17% to 25% by 2050. In particular, farmers in the uplands should be encouraged to diversify into creation of both productive and native woodlands to generate alternative income streams, to improve shelter for retained grazing land and to enhance long-term capital value.

- 5.18 Do you have any further comments you wish to make on the issues set out in this chapter?

## **Chapter 6: Short term issues**

- 6.1 Do you accept the Inquiry's position that a move away from the current historic basis of SFP to an area base should await EU agreement on the post 2013 regime and allow time after the decision is made, for developing how the scheme would be implemented including the necessary data processing – i.e. that a scheme should not be implemented before the 2014 scheme year? (P44 - 45)

A6.1 NESAG agrees with the Inquiry's position. The lead-in time between 2010 and 2014 should be sufficient to anticipate and develop a suitable area-based scheme incorporating TUF.

- 6.2 As the Inquiry envisages that current SFP entitlements will be paid for the next four years (2010, 2011, 2012 & 2013) and it received strong arguments for the immediate implementation of a phased change, the Inquiry recommends that any new basis should be implemented in the 2014 scheme year without a further transitional period. Do you agree with this view and, if not, what arguments would you offer to influence this position? (P45)

A6.2 Although there was within NESAG an argument advanced for a further transitional period incorporating an updated or rebased historic scheme (which the Inquiry Team could consider), the wider group agrees with the Inquiry's recommendation to proceed with the new scheme without delay, subject to the readiness of administrative and IT systems' to handle the new area-based payments.

- 6.3 The Inquiry has identified with regret that under the Health Check regulations there is no route available to provide historic SFP to new entrants who have started farming since 2004. Do you have any views on how such new entrants, within EU rules could be helped? (P45 - 46)

A6.3 NESAAAG considers that it is unfair that genuine new entrants to the industry are unable to gain access to SFP support which is available to long-established businesses.

In its response to the Health Check Implementation consultation last year, NESAAAG supported the principle of creating a National Reserve in Scotland for the purpose of supporting genuine new entrants to farming, with the proviso that the definition of what constituted a genuine 'new entrant' required to be more clearly defined to ensure scarce funds were properly directed to eligible cases.

NESAAAG shares the Inquiry's regret that National Reserve resources are unlikely now or in the near future to be able to remedy this obvious failing, a situation which lends impetus to implementation of the new area-based payments as soon as is practicable after 2013 (see 6.2 above) to recognise and reward land managers delivering ongoing (and not historic) public benefits.

6.4 The Inquiry is of the opinion that the only way to ensure that only land which supports some agricultural production is used to claim SFP entitlements is to introduce new requirements into GAEC. In particular the Inquiry thinks that for livestock production, a minimum stocking rate of 0.08 LU/ha should be applicable from the 2011 scheme year. In the interests of equality, the Inquiry has also suggested an equivalent measure requiring minimum arable activity. (P46 - 47)

a) Given the low penalties, certainly in the first year (2011), of breaching these new GAEC requirements and the relatively high costs of implementing the livestock regulation, do you believe that what is proposed is sensible?

b) Do you have an alternative suggestion (within EU rules) as to how to exclude barren hillsides from validating entitlements or should it be treated as unimportant?

A6.4 NESAAAG wholly supports the principle that only land which supports active agricultural production can be used to claim SFP entitlement. There were within NESAAAG strong arguments in favour of the Inquiry's suggestion to adopt new measures under GAEC to prevent inactive farmers from continuing to collect their entitlement and bring the industry into disrepute.

At a pragmatic level however, the penalties would be relatively low and none of the cash recovered (at a relatively high administrative cost) would be re-circulated amongst more deserving recipients (75% would be remitted to

Brussels with the remainder used to offset administrative expenses).

NESAAG's consensus view is that it is very disappointing that there does not appear to be a cost-effective method of redistributing entitlement from inactive farmers over the remainder of the term to 2013 and that, regrettably, there is little merit in diverting administrative resources for no benefit to Scottish agriculture (other than on a point of principle) when staff time could be more productively utilised in preparing the way for a new, fairer area-based system which excludes such anomalies in future.

6.5 To better define GAEC, the Inquiry has also considered introducing a maximum stocking density (2.5 LU/ha). What is your view on this suggestion? (P46)

A6.5 Overgrazing is already covered by recently strengthened GAEC measures and so a maximum stocking density (which takes no account of intensive cattle finishing and pig operations) is not required.

6.6 Do you accept the principle of top slicing all Scottish entitlements to finance measures designed to address some of Scotland's emerging issues? The reasons for your view would be appreciated. (P47 - 48)

A6.6 NESAAG supports the principle of top slicing all Scottish entitlements to generate discretionary resources for key short-term priorities.

However the last time that short-term measures under Article 68 were proposed for a limited range of beneficiaries (under the Health Check Implementation consultation), the issue proved to be extremely divisive. There is no reason to conclude that it will be more favourably received in future.

6.7 Do you believe that an Article 68 measure to help stabilise beef production should be seriously looked at for implementation and, if so, which of the three outlined would you support and why? (P49 - 51)

A6.7 NESAAG welcomes active consideration of the options to support the beef sector under Article 68, though the prospect of obtaining EU approval and vital concessions from England, Wales and Northern Ireland for the more ambitious measures are likely to be particularly challenging.

Suggestion 1: Maintain cows in LFAs

This suggestion under Article 68(1) (b), effectively a successor to the Scottish Beef Calf Scheme (SBCS), addresses concerns raised in recent reports by Royal Society of Edinburgh (RSE) and Scottish Agricultural College (SAC),

noting the dwindling cohesion of small rural communities which are heavily dependent on beef cattle breeding enterprises.

The Interim Report helpfully works through the details of this suggestion and recommends a budget of £30M, which is £10M more than the current SBCS. Even at current levels (£20M pa), the SBCS budget exceeds the 'trade-distorting' 3.5% limit of the national ceiling allowed under Article 68. Suggestion 1 would therefore require significant concessions from the other three regions of the UK to proceed with a budget of £30M (rather unlikely). The maximum annual budget for a new scheme under the Scottish Regional Ceiling is around £17M – less than the SBCS, though a new Article 68 scheme would extend beyond the expiry date of SBCS in 2012.

As an older (Article 69) scheme, SBCS is paid for by the cattle sector and unusually, remains linked to headage. There is likely to be widespread support for its retention. Nevertheless, 'Suggestion 1' is the best of the short-term options advanced by the Inquiry.

#### Suggestion 2: Extended Beef Calf Scheme

This option, also under Article 68(1) (b), is effectively an extension of the SBCS to include beef calves from the dairy sector. The suggestion appears to benefit the dairy sector but it is unclear whether there are sufficient advantages for the beef herd. With a proposed budget of almost £23M, this measure would also exceed the 3.5% national ceiling.

#### Suggestion 3: Cattle health

This suggestion proposes direct support to help eradicate Bovine Viral Diarrhoea (BVD) from the national herd. BVD is widespread and pernicious, and adversely affects herd productivity and fertility. At £12M, the suggested budget for this option represents 2.4% of the national ceiling and could be implemented unilaterally within Scotland – subject to all sectors agreement to contribute. However NESAAG considers that subsidies to adopt long-overdue best practice is an inappropriate use of funds and that meaningful progress in eradicating BVD should be enforced through GAEC or other measures.

Of the three suggestions, NESAAG is most supportive of Suggestion 1 which aims to maintain cows in LFAs, possibly by continuing SBCS until its mandatory termination in 2012, and thereafter implementing the most beneficial option available under Article 68 (all options should be fully explored with the EU and the other regions of the UK).

6.8 Is the Article 68 measure to support sheep production in the North West worthy of pursuing despite the expected disproportionate costs of running the scheme? (P51 - 52)

A6.8 No

6.9 If you recommend trying to implement one or more of the Article 68 measures do you wish to offer comment on what you see as the essential criteria of the scheme(s)? (P49 - 53)

A6.9 NESAG suggests that the relevant criteria should be:

1. Reasonable expectation of success in negotiations with EU and rest of UK and support from across Scottish agriculture for the suggestion(s).
2. Clear additionality (i.e. support desirable outcomes which would otherwise not happen)
3. Avoid dissipating resources on remedying bad practice; instead incentivise best practice.

Ultimately and regrettably, NESAG doubts whether sufficient support will emerge for any of the Article 68 suggestions above.

6.10 Should the conversion of the Scottish Beef Calf Scheme from an Article 69 measure to an Article 68 (will not be identical) scheme under the Health Check regulations be pursued? Is your recommendation dependent on what else might be pursued under Article 68? (P53)

See A6.7 above