RURAL AFFAIRS AND ENVIRONMENT COMMITTEE

FUTURE OF AGRICULTURAL SUPPORT IN SCOTLAND

CORRESPONDENCE FROM THE CABINET SECRETARY

During my evidence to the Committee last week on Future Support for Agriculture in Scotland, I undertook to provide some clarification in relation to the following points;

- Scottish Government’s position on the Pack Inquiry’s recommendations.

- Comparison of Scottish pillar 1 & 2 allocations with UK and EU averages, and the potential impact of the Deβ 65 % minimum proposal.

- Commission view of pillar 2 funding.

Scottish Government’s position on the Pack Inquiry’s recommendations

“The Road ahead for Scotland”, the final report of the Inquiry into Future Support for Agriculture in Scotland (The Brian Pack Inquiry) was published on 3 November 2010. The Inquiry acknowledges that additional work is required to develop some of its recommendations further. Scottish Government has accepted that additional work is required and through our Future CAP Stakeholder Group is taking that work forward.

We have however identified certain principles, we see as flowing from the Inquiry’s report that we can support at this stage;

- **Fairer allocation of both Pillar I and Pillar II budgets.**
  Scotland currently receives 4th lowest Pillar 1 allocation in Europe and lowest Pillar 2 allocation.

- **Continuation of Pillar I Direct Payments.**
  There is an ongoing justification for Pillar I Direct Payments given the special challenges Scotland faces with 85 % of our agricultural land classified as Less Favoured Area (LFA). Direct Payments are crucial for Scotland; they underpin the delivery of public benefits and help sustain our rural economies.

- **Reform of Direct Payments.**
  Whilst we want to see direct payments continue they should nonetheless be reformed. The historic model can no longer be justified as a basis for making the payments and must be phased out. Instead payments should become more clearly linked to the delivery of public benefits and farming activity.

- **Coupled Payments**
  With 85 % of our agricultural land LFA and two thirds suitable only for rough grazing, we accept the Inquiry’s view that limited coupled payments are necessary
to guard against undesired outcomes such as land abandonment in the most vulnerable areas.

- **Future Payment Methods**
  We agree with the Inquiry’s analysis that an area based payment alone would not work for Scotland. It could cause significant redistribution in the wrong direction particularly in the LFA area. It is also important that any new payment system must address the global challenges.

- **Top-Up Fund (TUF)**
  In light of their analysis above, the Inquiry recommends that an alternative would be the establishment of a TUF to supplement payments. The TUF should pay for public goods and be based on Standard Labour Requirements (SLR) for the LFA area. Scottish Government accepts the inquiry’s analysis that area-based payments on their own could have substantial flaws and we would like to explore this proposal as a possible alternative. We also accept the Inquiry’s recommendation that additional work is required to develop the proposal further are therefore taking this work forward with stakeholders before adopting a detailed position.

- **Measures to help new entrants and those excluded from current system.**
  The new regime must include measures to cater for new entrants and unsupported sectors from day one.

- **Simplifying the CAP**
  There is general agreement that CAP needs to be simplified to reduce the administrative burden for both farmers and governments. This principle of simplification must be reflected in all future policy proposals. The current EU audit system also needs to be reformed to deliver controls on CAP payments that are proportionate and represent value for money.

- **No Capping of Payments**
  Capping payments would be at odds with the justification for payments and would almost certainly prove ineffective as businesses likely to be affected would be split into multiple businesses.

**Comparison of Scottish pillar 1 & 2 allocations with UK and EU averages, and the potential impact of the Deβ 65 % minimum proposal.**

Pillar 1 spending per hectare in the UK is below the average for EU member states, at €247 per hectare relative to the average which is around €261 per hectare. Within the UK, the average pillar 1 payment per hectare is lowest in Scotland (at €125 per hectare), largely reflecting the limited amount of arable land in Scotland and the predominantly extensive nature of Scotland’s cattle and sheep farm sectors when compared to the rest of the UK.
These figures are based on the Average Pillar 1 €/ha values (Pre-modulation 2013 ceilings), see Table 1 in Annex A

The Deβ report from the European parliament recently recommended that redistribution between member states should not reduce any member state’s payment per hectare below two thirds of the EU average. In this case it would suggest that member states would receive at least €172 per hectare, although this is likely to entail some redistribution away from member states with larger allocations of funds post 2013.

At this stage it is unclear what the implications of the Deβ proposal would mean in practice. It could be argued that as the UK allocation is currently under the EU average but above the two thirds level it is unlikely to change very much.

Pillar 2 spending per hectare in the UK is the lowest of all EU member states, at roughly £11 per hectare annually, well below the EU-25 average of around £49 per hectare annually. Within the UK, Scotland has the lowest annual per hectare allocation, at around £6 per hectare per year. These figures are based on Pillar 2 Spending per Utilised Agricultural Area (UAA), £/per hectare, per year, see Table 2 in Annex A

**Commission view of pillar 2 funding.**

The Commission Communication states, “As regards the distribution of rural development support among Member States, the use of objective criteria should be considered, while limiting significant disruption from the current system”. This point was re-emphasised by Commissioner Ciolos when he launched the Communication.

In our submissions to both the House of Commons Select Committee on Environment, Food and Rural Affairs (EFRA) for their inquiry into agriculture support and the European Commission’s consultation on their communication, Scottish Government has argued for a fairer allocation of both pillar 1 and pillar 2 allocations as follows.

“At the outset it must be recognised that appropriate funding is essential to deliver the objectives of the CAP including its primary purpose of encouraging food production. It is therefore vital that Member States and Regions receive a fair and proportionate share of the CAP budget. The new Member States have made well-publicised demands to improve their low allocations from the Pillar I budget, but it should be noted that the Pillar II budget allocations are also based on historic and arbitrary criteria leading to unfairly low allocations for the UK as a whole and for Scotland in particular. This unacceptable situation must be redressed in the future CAP, via the adoption of fair and objective allocation criteria for both Pillar I and Pillar II budgets”.

I trust the above information helps to clarify the issues for the Committee.

Richard Lochhead, Cabinet Secretary for Rural Affairs and the Environment
2 March 2011
Table 1. Average Pillar 1 €/ha values (Pre-modulation 2013 ceilings)

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Table 2. Pillar 2 Spending per UAA, £ per hectare, per year