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Mr Rob Gibson  
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In 2014 Scotland Welcomes the World



11 June 2014

Dear Rob

Thank you for your letter of 9 May 2014, enclosing the Committee's report on its conclusions and recommendations on implementation of the new Common Agricultural Policy (CAP) in Scotland.

I have considered the Committee's report alongside the responses to both the Direct Payment and SRDP consultations. In addition I have held numerous meetings with key stakeholders including NFUS, Scottish Beef Association, National Sheep Association, New Entrants, Highlands and Islands Agricultural Support Group, Scottish Environment Link and other environmental NGO's, etc., to listen to their thoughts and concerns.

Having carefully considered all that information, I am today announcing to Parliament the Scottish Government's plans for implementing the CAP. I enclose a copy of my statement to Parliament, a fact sheet outlining the decisions and a copy of the press release that is being issued.

I would like to take this opportunity to record my thanks to the Committee for their valuable input throughout the CAP process over the last few years and look forward to working with the Committee throughout the implementation process.

Kind regards

**RICHARD LOCHHEAD**

## **CAP REFORM PARLIAMENTARY STATEMENT 11 JUNE 2014**

### **Introduction/Context**

Today I'm announcing decisions on how we will implement the new Common Agricultural Policy from 2015.

I will outline the key decisions on how we will implement Pillar 1 of the policy that is set to deliver £2.8 billion in direct support to our farmers and crofters between 2015 and 2020.

We are also publishing today details of the Rural Development Programme worth £1.3 billion over the same period, that's being submitted to Europe.

My objective is to ensure that these investments support food production, our rural economy and spectacular environment.

And that the men and women who deliver these benefits are supported and rewarded for doing so in all parts of Scotland: island, mainland, lowland or upland.

We know this support is vital.

Total Income from Farming in Scotland last year was £829 million – including £583 million in farm payments.

So it's vital that we get these decisions right - within the rules.

We now face difficult decisions on how to implement a policy that we want to underpin productive farming, but where support can't be linked to production.

And a policy largely decided on a European basis, that needs to be moulded as far as possible to Scotland's diverse circumstances.

It's been a long rocky road getting to today.

But it's now decision time. Time for clarity.

The new CAP is far from perfect and hasn't delivered the simplification we were promised. But at least it's far better than was originally feared.

At the start of negotiations, people thought the CAP budget could be cut by as much as 30%.

That didn't materialise.

Thankfully, the UK government failed to abolish or phase out direct payments, on which our industry relies.

But Scotland has been left bottom of the table, in payments per hectare, in both Pillars.

To add insult to injury, when Europe gave the UK over €200 million in 'convergence' money, because of Scotland's low payments, the Westminster government spread it across the whole UK.

Other governments got uplifts in both Pillars and are deciding how to invest them.

Today, I'm having to deal with budget cuts and mandatory deductions.

And this coincides with the biggest-ever redistribution of CAP support.

Because, 10 years ago, Europe committed to replacing virtually all activity-based support with area payments.

The Scottish administration at the time decided to put off the difficult choices, by adopting the historic-based approach.

Today, further delay is not an option.

Europe moved away from activity-based support because of overproduction.

But in Scotland, with 85% Less Favoured Area, the risk is the opposite - land abandonment, and loss of activity.

The government has worked tirelessly with stakeholders and left no stone unturned to find the right solutions for Scotland.

I'm under no illusions - the package I'm announcing today will not please everyone.

Some farmers, who were disadvantaged under the old CAP, will finally move towards a level playing field.

Others will see their payments go down.

But I have looked at every opportunity to mitigate the impact on genuine farmers.

Overall this is the best possible package for the CAP in Scotland, 2015 to 2020.

## **Transition**

Given the major redistribution of support, the speed of transition is vitally important.

New entrants have lobbied for the Pillar 1 changes to be implemented in one step.

Farmers whose payments will go down have argued for time to adapt.

I must look at the impact on Scottish agriculture as a whole. I believe that an overnight transition would pose a real risk to not just primary production but thousands of downstream jobs, in the livestock sector in particular.

Given the level of reduction that many intensive farmers face, convergence will therefore be achieved over the 2015 to 2019 scheme years.

But we negotiated the ability to put those disadvantaged under the old CAP straight onto the regional average, through the national reserve.

I accept that the National Reserve therefore needs to be substantially bigger than the standard 3% as a quid pro quo. Stakeholders support this.

Encouraging the next generation is very important to me.

That's why Pillar 2 support will be expanded into a new entrant package.

Start-up grants will be the most generous allowed, at €70,000 - plus capital grants.

And the Pillar 2 advisory service will include specific provision for new entrants.

Importantly, in Pillar 1, we secured the ability to repeat the National Reserve in future years, so future new entrants are not excluded.

And a big priority is to ensure support targets active farmers, be they new entrants or long-established businesses.

### **Activity**

We will make every effort to target every public pound at genuine activity - to target those who wear dirty wellies not comfy slippers.

This package tackles slipper farming.

Under the **Scottish Clause**, land with no farming activity on it will get no Pillar 1 payments.

I have also instructed my officials to add sporting estates, whose principal activities are not farming, to the '**negative list**' - whereby claimants are excluded unless they can prove they're a genuine farm business.

These measures will ensure no payment on land with no farming activity – currently estimated at 600,000 hectares.

I will also **limit entitlements to the area claimed in 2013** – to prevent tenancies being manipulated for unfair gain.

At the other end of the spectrum, the challenge is how to reward the most active farms.

Especially in the livestock sector, where production per hectare can vary so much.

Moving away from the historic-based system helps.

Historic payments, by definition, don't represent today's activity.

There's broad consensus on splitting Scotland into payment regions based on land quality - and on targeting coupled support at 8% on the beef sector.

And there remains broad consensus to treat better land as a single region, at around €200 to €220 per hectare including greening - depending on the number of hectares declared.

But there have been calls to improve the way rough grazing is dealt with, to avoid overcompensation for the least active.

And we have a new weapon in our armoury – extra coupled support.

Month after month, I battled a UK Government that originally wanted zero coupled support before moving to 5%.

Europe finally agreed 13% for some countries, 8% for the UK.

Following discussions with Owen Paterson and Commissioner Ciolos, we finally secured clearance in principle to go up to 13% - putting Scotland on a level playing field.

We also had a second breakthrough - on regionalisation.

We've identified a way to split the rough grazing which is deliverable, because it uses existing land classifications fixed at the outset.

With these new flexibilities, we will address the rough justice in the rough grazing.

Rough grazing in the non-LFA, and in LFASS grazing categories B, C and D, will be one payment region with a rate of around €35/ha including greening.

The poorest rough grazing, in LFASS category A, will be a separate region at around €10/ha including greening.

But in this third region, I propose to introduce coupled support for sheep at the equivalent of around €25/ewe.

This is subject to agreement by the rest of the UK, but we will work with stakeholders on how to implement it, to minimise the burden of inspections.

On land with the greatest risk of inactivity, payments and stocking levels will be closely linked.

One further related issue is the issue of huge individual payments.

The top 5 recipients in Scotland in the current CAP receive between them over £7½ million.

The changes set out will, in any case, reduce that by nearly two-thirds – or more if they don't meet the activity tests.

But most farmers I speak to, and the general public, think there should be an upper limit.

So part-way through the transition we will introduce a **cap on Basic Payments** at around £400,000/year, after labour costs.

For the vast majority, this will have no impact. But it's a safeguard, and fixes the principle that unlimited individual payments cannot be tolerated.

This is a "five-pronged assault" on inactivity: the Scottish clause, the negative list, a third region, more coupled support, and capping.

## **Beef sector**

The link to activity is especially important for the beef sector.

Productive beef farms were high recipients under the old system. Their long production cycle means it's hard to change quickly – with implications for upstream and downstream businesses

But beef is the engine room of Scottish farming, worth over £2bn to the economy.

A gradual transition will help.

And having fought hard for coupled support, I propose to retain **8% coupling for beef** across Scotland, with 75% beef genetics.

But I am changing the payment profile, with double rate on the first 10 calves then a flat rate.

And subject to the necessary approvals I propose to introduce a coupled payment top-up on the islands at around €65/calf.

Compared with today, a 100 cow beef herd will get over 50% more coupled support.

There are, however, limits to what we can do in Pillar 1. So we must look to Pillar 2.

I have decided to introduce in the SRDP an ambitious Beef 2020 package.

My aim is to help the sector through the transition ahead but also encourage transformation.

Before deciding on the detailed shape of the package I shall want to digest next week's recommendations from Jim McLaren's Beef 2020 group.

However, I can confirm today that we will be making available £45 million of new money over 3 years for what will be a crucial and unprecedented investment in the beef sector.

Producers will be financially supported on issues such as genetics, performance and reducing their carbon footprint.

The beef package will be a good example of win-win outcomes between economics and the environment.

## **Environment/greening**

The CAP must support productive farming. But it must also protect biodiversity, reduce agriculture's carbon footprint, and conserve landscapes.

In Pillar 2, despite the budget situation, I've already increased the agri-environment budget by over £10 million per year.

But the new CAP also has greening in Pillar 1.

The challenge here was how to deliver environmental benefit, without a disproportionate hit on farming operations.

For the 3 crop rule, we negotiated substantial improvements.

But there's still an issue for specialist barley producers.

With stakeholders, we've identified an alternative approach based on winter cover that gives equally good environmental outcomes without affecting production.

This will have to be approved by the European Commission, and the approval procedure is not yet known.

But our intention is to implement this as soon as we can, in 2015 if possible.

I always said there should be more on climate change in the CAP package, and I am using Pillar 2 to fund carbon audits for farms.

We've also looked at options under the permanent grassland measure in Pillar 1.

Subject to Commission approval, farmers covered by the permanent grassland measure will need to have a fertiliser plan. In later years, we may ask for this to be backed by soil analysis.

This is a modest light touch requirement which many farmers do anyway to deliver the win-win of reduced carbon footprint and improved profitability.

The final greening measure concerns Ecological Focus Areas. We have to decide what features to count against the 5% EFA requirement.

I want to give farmers credit for the features they already have. But there's a balance to be struck.

Counting every tree would create a mapping nightmare for farmers – and run the risk of EU penalties.

So after detailed work with stakeholders, I have decided to go as far as I can, and to include as EFA:

- buffer strips
- fallow
- field margins – including hedges and ditches

- Catch and cover crops
- And Nitrogen-fixing crops – subject to management conditions that help biodiversity while allowing for crop production.

We will continue to work with stakeholders on the details, including the use of optional weighting factors and coefficients.

I have also decided to strengthen the rules on buffer strips under the 'Good Condition' element of cross compliance rules.

Scotland has a great story to tell. Our food production has a fantastic international reputation as clean and green.

But we must stay ahead of our competitors.

Farming is on a journey towards ever more sustainable systems. Today's announcements are part of that, and I will convene a major conference early next year, to bring together these commercial and environmental agendas.

### **Impact of the new CAP**

I've explained how this new CAP package will impact on some particular sectors within Scottish agriculture.

But in designing the package I have balanced the impacts across farming as a whole.

For example, these latest changes to improve targeting for beef and sheep have no real impact on the dairy or arable sectors who will also benefit from the five year transition.

Sectors that have been frozen out – such as deer farmers, will be eligible for the first time.

And the move to area-based payments is positive for crofters and for the Highlands and Islands.

In response to the consultation exercise I am decided reinstating a separate capital grant scheme for crofters with its own budget.

The wider Rural Development Programme supports rural communities, forestry, the environment, food and drink, small business and of course the £459m LFASS budget is maintained to underpin our more fragile communities.

But, however well we have put this package together, there's always the risk of unforeseen consequences.

Despite the EU's rhetoric about simplification, this is the most complex CAP ever.

Under EU rules, some of the decisions I'm announcing today can be revisited each year – such as on coupled support.



But others can only be reviewed once, or not at all.

That doesn't seem sensible.

Not when we're working hard to underpin food production, but we're not allowed to link payments to activity!

We've addressed the rough justice in the rough grazing. But no change till 2021 seems too harsh.

So I am calling on the EU to permit a full Health Check of the new CAP at the midpoint of the programme.

## **Conclusion**

It would be naïve to pretend the new CAP, as decided by Europe, is perfect for Scotland.

Also there are important details still to be worked up, with stakeholders.

And that the package requires clearances and approval with the UK and Brussels.

Look at the new policy with a magnifying glass, and I'm sure we'll find anomalies and rough justice.

But I believe the government has exploited the positive aspects, and minimised the anomalies.

Giving us the best possible package in the circumstances.

Despite the constraints in the EU rules, the outrageous budget position, and often turbulent market conditions, we are confident that this package reflects Scotland's priorities and lays the foundations for a successful Scottish agricultural industry for years to come.

## PILLAR 1 - FACTSHEET

### Media and stakeholder factsheet Future CAP Direct Payments in Scotland 2015 – 2020

Over the last year, there have been many discussions on how future Direct Payments can be best made in Scotland. The Scottish Government's CAP Stakeholder Group has met throughout the year to discuss possible ways forward, a public consultation has been carried out and a further public engagement programme has also been undertaken.

Europe published the main regulations for the future CAP in December 2013, and these require us to notify Europe of many of the key decisions by August 1<sup>st</sup> 2014. However, the delegated acts and implementing rules which set out much of the fine detail have still not been published. This document outlines the main decisions that have been taken so far which will form the basis of our notification to Europe in August. Further information and guidance for farmers will be produced in due course when all the detailed rules are known.

#### Basic Payments:

Future Basic Payments in Scotland will be paid on an area basis and to reflect the variation in land across Scotland, will be based on traditional **land quality**.

There will be **three Payment Regions** which will determine the final area rates of the Basic Payment.

- **Payment Region 1** (around 1.8m hectares) will include parcels of better quality agricultural land that has been typically used for arable cropping, temporary grass and permanent grass. Rough grazing will not be included in Payment Region 1.

Rough grazing will be split between two further payment Regions.

- **Payment Region 2** (around 1.0m hectares) will include parcels of better quality rough grazing which have been designated as LFA grazing categories B, C and D.
- **Payment Region 3** (around 2.0m hectares) will include parcels of the poorest quality rough grazing which have been designated as LFA grazing category A.

In recognition of the difference in land quality, **the budget** will be distributed between these two Payment Regions to achieve a balance in 2019 that reflects the variation in the productive capacity of the land. Depending on the area of eligible land declared for the new scheme, the 2019 combined area rates for Basic Payments + Greening Payments would be in the order of €220/ha for eligible land in Payment Region 1, €35/ha for eligible land in Payment Region 2 and €10/ha for eligible land in Payment Region 3. Voluntary Coupled Support (VCS) payments would be in addition to this.

### Transition to area-based payments:

The **initial 2015 value** of payment entitlements will take account of a farmer's historic Single Farm Payment (SFP) value. Between 2015 and 2020, payment entitlement values within each Payment Region will converge so that **by 2019**, all payment entitlements **have a common value** of the regional area rate.

### Eligibility & area of land:

Farmers will be able to apply for entitlements to the new Basic Payments if they are able to demonstrate **agricultural activity**, for example, by having **activated a Single Farm Payment (SFP)** entitlement in 2013, or by having other **verifiable evidence** of farming activity. In 2015, eligible, active farmers will be allocated the number of payment entitlements equivalent to whichever is the **smallest** of the **number of eligible hectares declared in 2013 or 2015**.

### Negative List:

**Sporting estates** will be added to the list of business types to be **excluded** from future direct payments. Regulations already stipulate that airports, railway services, waterworks, real estate services, permanent sport and recreational grounds are to be excluded from direct payments unless they are able to demonstrate that they are active farmers.

### Minimum activity requirement – Scottish clause:

Farmers will be required to demonstrate they are undertaking some type of **minimum activity on land that is naturally kept in a state suitable for grazing or cultivation**. In Scotland this area is typically **rough grazing land**. Minimum activity requirements will include a **minimum stocking density** (with derogations) as well as other **alternative measures**.

### New entrants:

There will be a **package of measures** under both Pillars of the CAP specifically targeted at new entrants. **Existing new entrants** will be eligible for Basic Payment entitlements if they are able to produce **verifiable evidence** of farming activity in 2013. They will also be able to apply to the **National Reserve** to **top up** the value of their payment entitlements to the **regional average value from Day 1**. **Future new entrants** will also be allocated entitlements from the National Reserve and funding will be generated by **further top slices** to the Basic Payment ceiling.

### Capping, siphon and windfall profit:

Europe requires a mandatory 5% deduction to all Basic Payments over £120,000. This is a process known as degressivity. In addition to the mandatory 5% degressivity deduction there will be a **cap on Basic Payments at around £400,000 after taking labour costs into account**. Greening, Young Farmer Scheme (YFS) payments and Voluntary Coupled Support (VCS) payments are not subject to either degressivity or capping.

There will be a **siphon on sales** of entitlements without land and the **windfall profit** measure will be applied where there is a significant increase in entitlement value due to ending or sale of lease.

### **Voluntary Coupled Support (VCS):**

Subject to the agreement of the rest of the UK and Europe, Scotland intends to use **8%** of its revised national ceiling for coupled support payments to the **beef industry** with up to a **further amount up to 0.5%** being used for further top up payments for the beef producers **on the islands**. Payments will be made for calves with **75%+ beef genetics** which are born on Scottish holdings. Beef coupled support payments will be **front loaded**, with double the rate paid on the first 10 calves. Beef calf producers on Scottish islands will receive higher rates than mainland producers.

In addition, again subject to the agreement of the rest of the UK and Europe, Scotland intends to target coupled support payments for **sheep** to help Scottish farming businesses which **are reliant on rough grazing**.

**Young Farmer scheme:** Top up payments to farmers **under 40y** at the time of applying will be available. The payments which will be made on **up to 90 hectares** of a farmer's claim, will be top ups of **25% of the regional average** entitlement value.

### **Greening:**

There will be a package of Greening measures including **some standard and some equivalent measures** that are tailored to Scottish needs. Under the **Crop Diversification** measure farmers will be allowed to choose between Europe's standard Greening requirement and an equivalent 'winter soil cover' requirement, or an equivalent 'catch crops' requirement. For the **Permanent Grassland** measure we are required to designate important grasslands in Natura 2000 sites but **will not** make use of the option to designate further grasslands. A **mandatory requirement for farmers on permanent grasslands** will require them to produce a **nutrient management plan**, however, the aim is to target this to the **most intensive farms**. Standard measures will be implemented under the **Ecological Focus Area** requirement and features such as **fallow, buffer strips along watercourses and field margins, catch crops** and **nitrogen-fixing crops** (with management prescriptions) will count towards the requirement. The option to implement the EFA requirement at a regional or collective level will not be implemented in Scotland.

Standard greening measures will be implemented as of 1 Jan 2015 however if the equivalent measures have not been approved by the Commission in time, equivalence will be implemented from 1 Jan 2016.

## PILLAR 2: SRDP 2014 – 2020: FACT SHEET

### Key Purpose and Priorities:

The key purpose of the SRDP is to help achieve sustainable economic growth in Scotland's rural areas and the priorities remains broadly the same as the previous programme: The four main priorities are:

- Sustainable economic growth
- Protecting and enhancing our environmental assets
- Adapting to, and mitigating, climate change
- Vibrant and sustainable rural communities

A Partnership Agreement will outline how the SRDP will have a joined-up approach with other European funds in Scotland for economic growth and fisheries.

### The new SRDP will be:

- **Simple** – with a clear list of schemes.
- **Straightforward** – through an improved application process, a common application form for land based schemes with a two tier approval process through a Rural Regional Delivery Partnership.
- **Effective** – through better targeting, support for co-operative action and improved advice, and closer alignment with other EU and domestic funds.
- **Customer focussed** – with improved guidance, better customer support, an expanded advisory service and the Scottish Rural Network.
- **Accessible** – through enhanced support for small farms and an improved application/approval process for grants under £75,000 for land-based schemes.

### Timetable

- The programme document will be submitted to Europe this month and we aim to open the new SRDP to applications in January 2015 [although this is dependent on EC timescales for approving the SRDP].

## SRDP 2014 – 2020 SUPPORT SCHEMES

Scheme/priority	Allocation	
LFASS	£459m	Continued support for less favoured areas. A review of LFASS will start in 2015, a replacement scheme and designation will be in place by 2018.
Forestry	£252m	A range of grants for woodland creation, agroforestry, tree health, woodland improvement, processing and marketing and sustainable management of forests.
Agri-Environment-Climate (AEC)	£350m	Targeted support for land managers to undertake management and capital work for environmental purposes. Includes £10m targeted support for slurry stores and £6m for footpaths
Beef package	£45m	To deliver economic and environmental improvements. This will include £32.5m for support towards genetic resilience, plus targeted support for the beef sector through other budget lines including Knowledge Transfer and Innovation Fund and the Advisory Service.
New entrants	£20m	Start-up grants for new entrant young farmers of up to 40 years old (as set by Europe) and one to one advice.
Crofting	£14m	Grants to crofters to take forward improvements on their crofts which will help to sustain their business and enable co-operative working.
Small Farms	£6m	Targeted support for small farms that face similar issues as crofters regarding sustainability.
Business support – Food and Drink Support	£70m	Support to the non-primary agricultural businesses in the food and drink sectors who are key drivers of growth and sustainability in our rural areas.

LEADER (local development)	£66m	LEADER will provide opportunities for individuals, business and communities to come together and support rural development and provide lasting benefits to the local area.
Small Rural Business Scheme	£20m	Targeted to small non-agricultural rural businesses (including social enterprises and farm diversification projects).
Knowledge Transfer and Innovation Fund	£10m	Scotland must take advantage of its strong performance in research and development and ensure that the learning from here and elsewhere can be transferred to on the ground improvement. Will include dedicated support for the livestock sector.
Advisory Service	£20m	This is closely tied to the above and will play a key role in ensuring best practice and learning can be implemented on the ground. Will include dedicated support for the livestock sector.
Broadband	£9m	Budget provision for broadband
Technical Assistance	£15m	Cost of Scottish Rural Network and SRDP implementation, evaluation and monitoring.

## RESAS - CAP REFORM – DIRECT PAYMENTS ANALYSIS

This paper shows how the new CAP package will affect farmers in the main agricultural sectors and geographic regions of Scotland.

While implementation decisions taken in Scotland have decided the final shape of the package, the two changes most likely to affect an individual farmer's pillar 1 payments are the move from historic to area based payments (e.g. for the new Basic and Greening Payments) and the reduction in the pillar 1 payment pot.

**The information presented below is illustrative.** A number of factors affecting the payments will not be known until the Scottish Government collects claim details from applicants (e.g. on the number of beef calves or number of hectares declared). A number of assumptions have therefore been made to complete this analysis.

Furthermore, the figures shown are for 2019. In 2015, payment rates will be different as transition arrangements mean historic Single Farm Payment values will be taken into account and payments will be based on the lower 2015 budget.

### The budget settlement

Scotland's future budget will see a significant reduction. In 2011, following all transfers to pillar 2, Scotland's farmers received around €583 million in Single Farm and Scottish Beef Calf Scheme Payments. In 2019, following a transfer of 9.5 per cent to pillar 2, approximately €531 million will be available for Direct Payments, a reduction of around €52 million (nine per cent) compared to 2011.

### Policy decisions

In 2015, Scotland will move to area based Basic and Greening Payments. Land on a farm will be paid according to land quality with three payment regions:

- **Region 1** - Arable, Temporary Grass or Permanent Grass – Initial estimates suggest rates will be around €200-220/ ha including greening
- **Region 2** - Rough Grazing in the Non-LFA and with LFA grazing categories B,C and D - Estimated rates will be around €35/ha including greening
- **Region 3** - Rough Grazing with LFA grazing category A land and unclassified LFA land - Estimated rates will be around €10/ha including greening

This modelling assumes that subject to agreement with the Rest of the UK, Coupled Support will be paid to:

- Sheep on farms with the majority of their land in Region 3 and who have less than 200 hectares of better quality (Region 1) land. Initial estimates give a rate at around €25 per Breeding Ewe.
- Beef Calves on all farms with a top up available for Islands. Mainland payments will be front loaded and initial estimates give a rate at around €170 on the first 10 calves on mainland farms and €85 on all subsequent calves.



Including the top up, the first 10 calves on island farms will receive €235 with a rate of €150 on all subsequent calves.

Top up payments of approximately €15 per hectare will be made as part of a Young Farmer Scheme.

Payments will only be made to farms with eligible land and farmers with large claims will have Basic Payments above £120K reduced by 5% with an cap on total Basic Payments set at around £400,000.

The results that follow show estimated rates for the end of the reform period (2019) and include all farms with 3 or more hectares who submitted a Single Application Form in 2011.

Some of the decisions taken overturn assumptions made when presenting information for the consultation, as such the figures shown below for the consultation are slightly different to those published in December 2013.

### Change in Payments by Sector

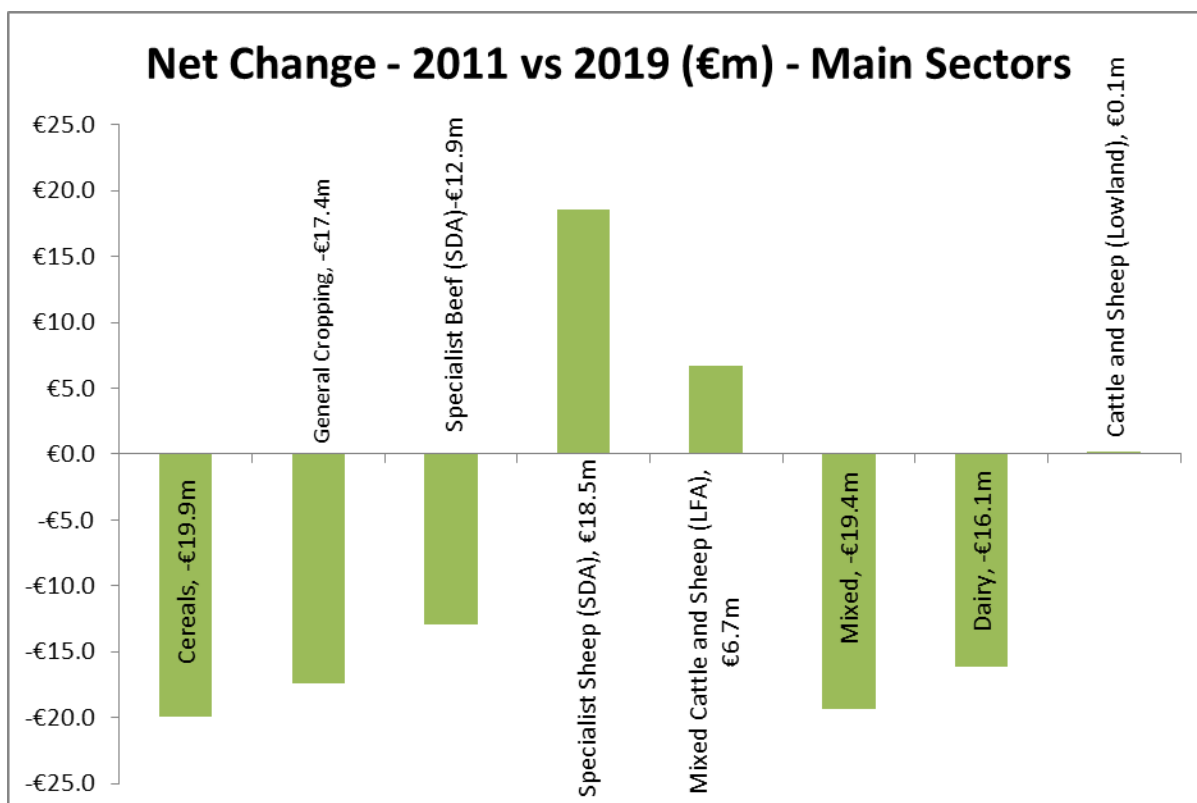
The table below shows the total budget allocation for each of the main agricultural sectors in Scotland in 2011, in the consultation scenario and with the final policy.

Sector	Number of Businesses	2011 Total Spend	2019 Consultation Total Funding	2019 Final Policy Funding
Cereals	2280	€83.8 m	€63.8 m	€63.8 m
General Cropping	1565	€83.1 m	€65.9 m	€65.7 m
Specialist beef (SDA)	4390	€133.6 m	€117.6 m	€120.7 m
Specialist sheep (SDA)	4145	€33.6 m	€52.3 m	€52.2 m
Mixed Cattle and sheep (LFA)	2005	€74.0 m	€79.5 m	€80.7 m
Dairy	1083	€53.2 m	€36.9 m	€37.1 m
Cattle & Sheep (Lowland)	285	€3.4 m	€3.7 m	€3.5 m
Mixed	1736	€88.7 m	€68.6 m	€69.3 m
Horticulture	163	€1.4 m	€1.6 m	€1.5 m
Specialist Pigs	47	€0.6 m	€0.4 m	€0.4 m
Specialist Poultry	268	€1.3 m	€1.5 m	€1.5 m
Other	3309	€21.0 m	€19.6 m	€15.9 m
Unknown	64	€0.0 m	€3.7 m	€3.4 m
<b>Total*</b>	<b>21340</b>	<b>€577.8 m</b>	<b>€514.9 m</b>	<b>€515.7 m</b>

\*Future funding varies and is lower than the 2019 budget because of deductions for Young Farmer Payments and Degressivity

Compared to the consultation scenario, the decisions taken have meant an increase in funding for the “Beef”, “Mixed”, “Dairy”, and “Mixed Cattle and Sheep” sectors. While “Specialist Sheep” businesses receive marginally less funding than in the consultation, the targeting of payments to better land means more active sheep farmers will see increased payments.

The diagram overleaf shows the **net** difference in direct payment funding for each of the main agricultural sectors. For brevity, results for smaller sectors are not shown.



Overall, this analysis of the **net** changes within each sector, shows that the main beneficiaries of area based payments tend to be the sectors with larger, more extensive farms (“Specialist sheep” and “Mixed Cattle & sheep (LFA)”). However, looking at just the overall net changes masks the more subtle differences that occur within each sector. Because of the diverse nature of Scottish agriculture, within every sector, some businesses will gain whilst others will lose (see table below).

Main Sector:	Number of Businesses	2011 (€m)	2019 (€m)	Comparison of 2011 vs. 2019		
				Gains (€m)	Losses (€m)	Net Change (€m)
Cereals	2280	€83.8	€63.8	€3.9	-€23.9	-€19.9
General Cropping	1565	€83.1	€65.7	€3.8	-€21.2	-€17.4
Specialist beef (SDA)	4390	€133.6	€120.7	€17.3	-€30.3	-€12.9
Specialist sheep (SDA)	4145	€33.6	€52.2	€22.5	-€4.0	€18.5
Cattle and sheep (LFA)	2005	€74.0	€80.7	€16.8	-€10.1	€6.7
Mixed	1736	€88.7	€69.3	€5.5	-€24.9	-€19.4
Dairy	1083	€53.2	€37.1	€2.6	-€18.7	-€16.1
Cattle & Sheep (Lowland)	285	€3.4	€3.5	€1.1	-€1.0	€0.1

### Change in Payments by Geographical Region

The table overleaf shows the total budget allocation for each of the main geographical regions in Scotland in 2011, in the consultation scenario and with the final policy.

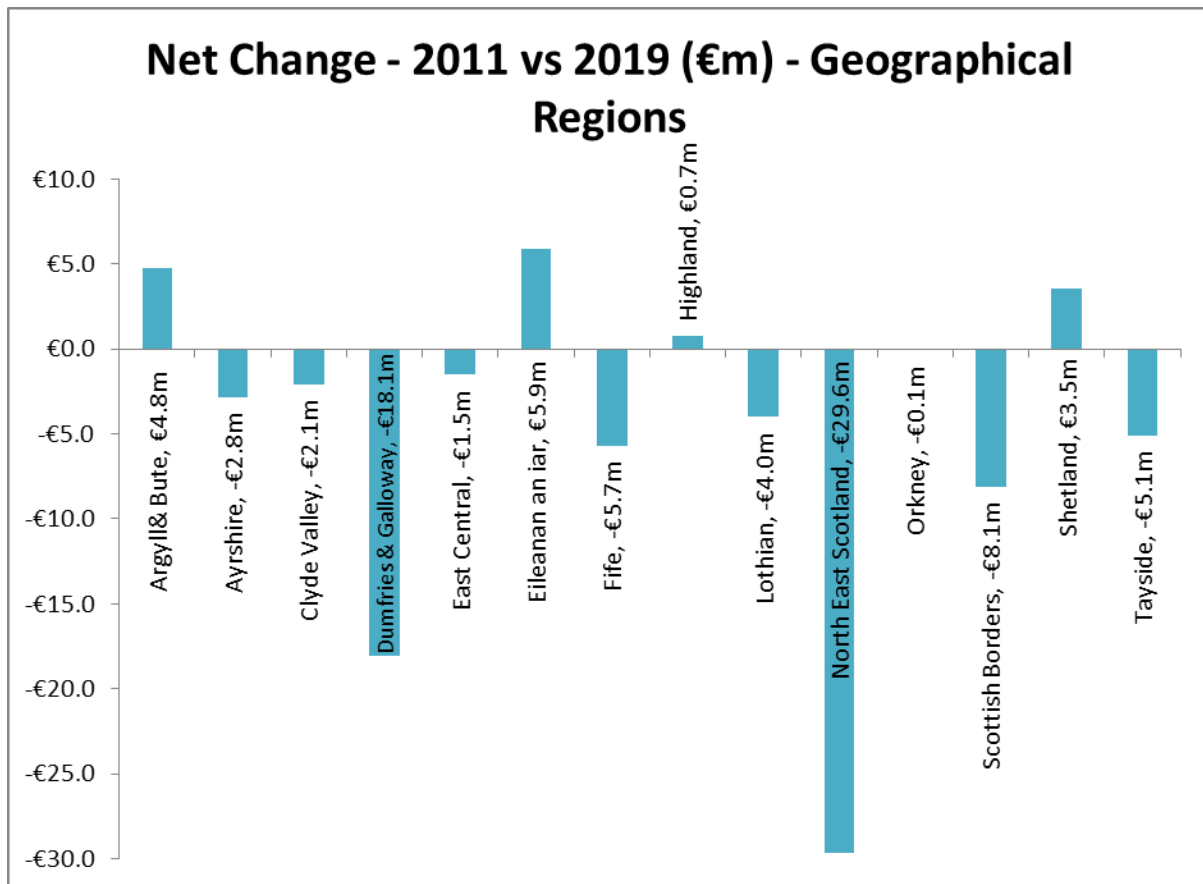
Region	Number of Businesses	2011 Total Spend	2019 Consultation Total Funding	2019 Final Policy Funding
Argyll & Bute	1070	€20.9 m	€24.7 m	€25.7 m
Ayrshire	1175	€34.1 m	€30.5 m	€31.3 m
Clyde Valley	1060	€30.7 m	€27.9 m	€28.6 m
Dumfries & Galloway	2013	€84.3 m	€63.8 m	€66.2 m
East Central	603	€18.7 m	€16.9 m	€17.2 m
Eileanan an Iar	1983	€3.6 m	€10.1 m	€9.5 m
Fife	526	€24.0 m	€18.2 m	€18.3 m
Highland	4248	€70.7 m	€80.1 m	€71.4 m
Lothian	521	€23.4 m	€19.1 m	€19.4 m
North East Scotland	3559	€123.6 m	€93.8 m	€94.0 m
Orkney	731	€16.7 m	€14.9 m	€16.6 m
Scottish Borders	1171	€59.5 m	€49.5 m	€51.4 m
Shetland	1006	€5.5 m	€8.1 m	€9.1 m
Tayside	1674	€62.0 m	€57.2 m	€56.9 m
<b>Total*</b>	<b>21340</b>	<b>€577.8 m</b>	<b>€514.9 m</b>	<b>€515.7 m</b>

\*Future funding varies and is lower than the 2019 budget because of deductions for Young Farmer Payments and Degrassivity

Compared to the consultation scenario, the decisions taken have meant an increase in funding for most regions including Dumfries and Galloway, Scottish Borders and Orkney. The regions that lose funding compared to the consultation scenario (Highland, Tayside, Western Isles) will generally do so as a result of reduced payments for farms with large amounts of poor quality rough grazing. More active farmers in these regions should see an increase with more targeted spending.

The diagram below shows the **net** difference in Direct Payment funding for each of the main geographical regions.

Although some of the total sums may seem similar between the two scenarios modelled, the distribution of payments within a region will be different.

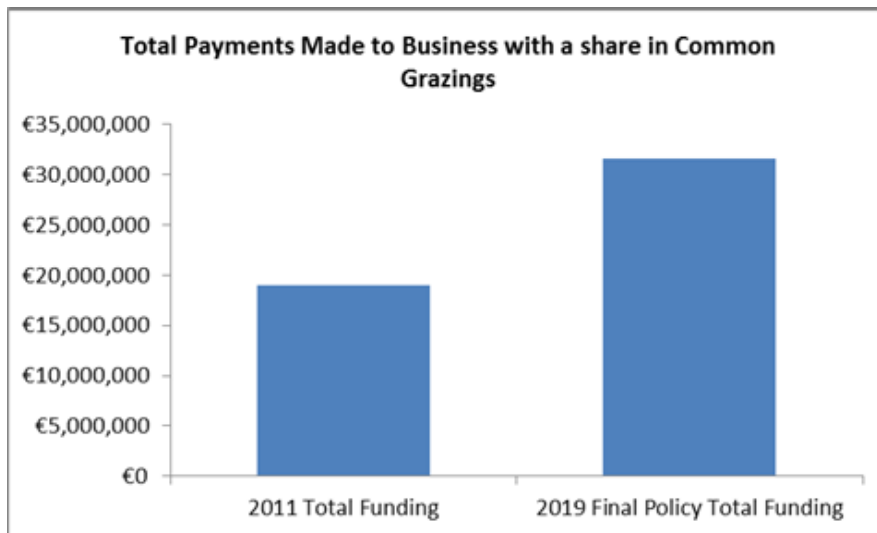


Again, the net results mask the scale of the redistribution that is occurring for businesses within each geographic region which is summarised in the following table. For example, within the two regions that overall lose the most (NE Scotland and Dumfries & Galloway) there are some businesses which will gain and others which lose funding.

Geographic Region:	Number of Businesses	2011 (€m)	2019 (€m)	Comparison of 2011 vs. 2019		
				Gains (€m)	Losses (€m)	Net Change (€m)
Argyll & Bute	1070	€20.9	€25.7	€8.2	-€3.5	€4.8
Ayrshire	1175	€34.1	€31.3	€4.6	-€7.4	-€2.8
Clyde Valley	1060	€30.7	€28.6	€4.3	-€6.4	-€2.1
Dumfries & Galloway	2013	€84.3	€66.2	€7.9	-€25.9	-€18.1
East Central	603	€18.7	€17.2	€2.8	-€4.3	-€1.5
Eileanan an Iar	1983	€3.6	€9.5	€6.0	-€0.1	€5.9
Fife	526	€24.0	€18.3	€0.7	-€6.4	-€5.7
Highland	4248	€70.7	€71.4	€23.4	-€22.7	€0.7
Lothian	521	€23.4	€19.4	€1.4	-€5.4	-€4.0
North East Scotland	3559	€123.6	€94.0	€7.5	-€37.2	-€29.6
Orkney	731	€16.7	€16.6	€2.1	-€2.2	-€0.1
Scottish Borders	1171	€59.5	€51.4	€4.7	-€12.9	-€8.1
Shetland	1006	€5.5	€9.1	€3.8	-€0.3	€3.5
Tayside	1674	€62.0	€56.9	€8.1	-€13.2	-€5.1

## Crofters

Crofting businesses are included in the tables above in either Specialist Sheep, Specialist Beef or Mixed Cattle and Sheep sectors and in geographical regions such as Highland and Shetland. To provide more detail on payments to crofters, the following chart isolates payments made to approximately 4,300 businesses with a share in a Common Grazing. While some individual crofting businesses will have lower payments, the new system will generally see crofters receiving a large increase in pillar 1 payments. In 2011, crofters received around €19m, under the new policy crofters are estimated to receive around €32m.



### **Additional Land**

Research by the James Hutton Institute showed that, in 2011, Scotland had around 3.5m hectares of agricultural land classified as rough grazing (of which some 2.8m hectares is declared) and around 1.9m hectares of better quality land (of which just under 1.8m ha is declared). The additional land would only be eligible for future payments if it is declared by an eligible, active farmer.

If additional land were to come into the system by 2019, this would reduce the per hectare rates for businesses currently claiming Single Farm Payments. However, the majority of the additional land shares the characteristics of Region 3 land and would be more likely to receive a low payment rate and have less budgetary impact.

### **Rebuttals;**

#### **3 Payment Regions;**

- Was the single most difficult decision to make.
- Listened carefully to arguments for and against both 2 and 3 Region payment models.
- In taking decision had to consider the diversity of land quality within Scotland's Rough Grazing and ensure payments are targeted to active farmers.

- Had to make sure we reward active farmers on the better quality RGR and avoid overcompensating those less active or soft shoe farmers on the poorer quality RGR.
- By including a VCS Scheme for sheep in the poorer quality RGR, we can reward the active farmers in that region.

### **Full convergence to flat rate by 2019**

- Listened carefully to arguments for immediate transition to full area based payments.
- Package of measures for New Entrants and other previously disadvantaged farmers will see them get Regional Average payment in 2015.
- Therefore full convergence by 2019 is the fairest way as it gives existing farmers time to adjust and gives new entrants Regional Average from day one.
- The Scottish tunnel would only have benefited those with large historic entitlements. These farmers have known since 2005 that the CAP would change and have had time to adjust accordingly.
- The tunnel received only 13% support from consultation respondents, whereas internal convergence by 2019 received 20% support.

### **Limit entitlements to 2013 or 2015 area whichever is less**

- This should dissuade landowners from terminating short leases in an effort to declare more land in 2015.
- This should also dissuade businesses from trying to second guess the system, by purchasing entitlements in the run up to 2015, to try and manipulate the CAP to maximise their support.
- In addition this will help prevent new land, previously unclaimed, coming in and being eligible for support which would dilute payments.
- This is a fair outcome and combined with the minimum activity / Scottish clause will help to reduce slipper farming, which in turn means a fairer share of the CAP for all active farmers.

Strictly embargoed until 14.40 Wednesday June 11, 2014

## Supporting rural Scotland

### Rural Affairs Secretary announces CAP implementation plan.

The package of measures to support Scottish farming, food production, rural communities and the environment has been announced by Rural Affairs Secretary Richard Lochhead.

In a statement to the Scottish Parliament, Mr Lochhead outlined how the new Common Agricultural Policy (CAP) will be implemented in Scotland including plans for direct farm payments and Scotland's rural development programme between 2015 and 2020.

The new system has been developed following extensive discussions and consultation with industry organisations and the public.

It includes tough new rules to ensure only genuinely active farmers are entitled to direct payments as well as specific support for new entrants, the environment and Scotland's livestock producers.

The main points announced today include:

- Strict activity requirements that farmers will have to meet to be eligible for direct payments. This will remove land with no agricultural activity from the payment regime, which is currently estimated at 600,000 hectares
- Basic direct farm payments will be capped at around £400,000 per year after labour costs
- Sporting estates will be added to the negative list to exclude them from receiving direct farm payments unless they can prove they are a genuine farm business
- The creation of three payment regions and a coupled support scheme for sheep for producers in the third region
- A five year transition between 2015 and 2019 for the move from historic to area-based farm payments, which is required by Europe. New entrants, who have previously been excluded from receiving direct farm payments, will get the regional average from day one of the new CAP
- A new £45 million three year beef improvement scheme. This is in addition to the 8 per cent coupled support scheme for beef which is being retained. Beef producers on the islands will be eligible for higher coupled support payments than mainland producers, with an uplift of around €65 per calf
- A greener CAP, with farmers being rewarded with Pillar 1 top-up payments for taking action to protect biodiversity and reduce emissions, and confirmation that rural development funding for agri-environment and climate change schemes will increase by more than £10 million per year as proposed in our consultation
- A separate capital grant scheme for crofters in the rural development programme.

The Rural Affairs Secretary said:

“This is the most radical redistribution of CAP payments ever and we have strained every sinew to forge from challenging circumstances a production-based and sustainable agricultural policy. And all this against a background of an atrocious budget negotiated by the UK Government

“Our producers will continue to put food on our tables - and on tables around the world - protect our environment and support our rural communities while at the same time addressing flaws in the previous CAP such as inactive slipper farmers and new entrants being frozen out.

“Scottish agriculture underpins our rural economy and rural communities and is itself underpinned by the Common Agricultural Policy. As I have always been clear, it is therefore vital that the new CAP supports farming and food production, as well as responsible land use, and strikes the right balance between flexibility and complexity.

“The measures I am announcing today will target support at genuinely active farmers – including new entrants – as well as specific measures to support Scottish livestock producers and the environment.

“In the face of the constraints imposed by the UK-negotiated budget deal, EU rules and challenging market conditions I have consulted extensively on CAP reform in Scotland and carefully considered all views.

“I am confident this is the best possible CAP package for Scotland under the circumstances, and will lay the foundations for a successful Scottish agricultural sector for years to come.

“Of course, if Scotland had been an independent country during the last round of CAP talks, we would have received an additional €1 billion in direct farm support and been able to join other countries in negotiating an uplift of hundreds of millions of euros in our rural development budget which helps our rural communities.

“It drives home the need for an independent Scotland to have our own seat at the top table in Europe for the next CAP negotiations.”

Commenting on the specific support for Scottish beef, Mr Lochhead said:

“I have been particularly conscious of the likely impact of these CAP reforms on Scotland’s beef sector which is worth over £2 billion to the Scottish economy as a whole and likely to be hit hardest by the move to area-based payments.

“That is why I am announcing £45 million of additional funds for an ambitious beef improvement package. It will run over three years of the rural development programme and its detailed shape will be decided after I have received recommendations from Jim McLaren and his Beef 2020 group. This package will complement the eight per cent coupled support for beef available under Pillar 1 and taken together these measures will help safeguard the future of this crucial sector.”

On the rural development programme, Mr Lochhead added:

“The rural development programme is designed to deliver our key priorities of sustainable economic growth, protecting the environment and tackling climate change, and vibrant rural



communities. That is why I have increased funding for agri-environment schemes by £10 million per year and maintained budgets for the Less Favoured Areas Support Scheme (LFASS), forestry and LEADER, as well as reinstating a separate capital grant scheme for crofters.”

### **Background**

The Rural Affairs Secretary’s statement to the Scottish Parliament can be accessed here:

### **Contact**

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