

## **Written submission from NFU Scotland**

The task of shifting from Scotland's current historic-based system of support to a new area-based system is hugely challenging and may lead to significant restructuring of Scottish agriculture.

Overall, the challenges for Scotland are: limited financial resources within both Pillars of the budget; a very diverse agricultural landscape; and very large tracts of hill grazing which itself is of highly variable quality and productivity.

However, NFU Scotland welcomes the announcement of 17 February 2014 that further measures will be adapted in order to target so-called slipper farming on Scottish hillsides. In addition, we support the Scottish Government's intentions to use 13 per cent of the Scottish budget for coupling, and keenly anticipate the outcome of talks with the UK Government and a swift resolution on this issue.

### **Pillar 1**

#### **Active farming**

NFU Scotland wants an effective farming activity test to be robust so that it strips out naked or unfarmed acres, and prevents them from draining scarce funding from Scotland's limited Pillar 1 budget. We look forward to continuing to work with the Scottish Government as these rules get written into Pillar 1 implementation plans.

Realistically we consider that the most practical measure to rule out slipper farming will incorporate an appropriate stocking of livestock/grazing to reflect land capability as part of an activity test. We would like a process put in place by the Scottish Government where farmers can demonstrate that the stocking level of the farm is appropriate. In addition, safeguards need to be included where, for example, the farm is stocked with less livestock because it is subject to a stock reduction agreement, or if the stocking density is not met with other annual maintenance activity which must be carried out every year.

#### **Payment regions**

The Scottish Government suggests that having two payment regions will allow simplicity whilst also taking into account the differing quality of land in Scotland. NFU Scotland does not agree with this perspective, and maintains that more payment regions within the area-based system would result in better targeting of funding. However, it is accepted that two regions may be easier for farmers to interpret, making it easier to declare parcels correctly, with fewer boundary lines to be questioned.

Scotland's three million hectares of rough grazing (RGR) need appropriate levels of support, but this payment region is far from uniform and can carry hugely different intensities and production. Every effort must be made to differentiate the payments within this region. A simple flat rate (€/ha) could decimate more productive hill units, while over-compensating very extensive grazing systems which would divert funds from better hill land.

It is essential that higher area-based support payments are delivered to better and more productive land. As well as being the engine-house of Scotland's food industries, farms on this land also carry higher input costs and are exposed to greater volatility.

The scope to differentiate payments within the RGR region is very limited, however NFU Scotland considers that options must be explored in full. Different payment rates could be applied if the rough grazing region can be split on an objective basis or through targeting payments at livestock in the RGR through the additional coupled support.

Scotland must consider a coupled support system (where farmers receive support payments linked to a particular type of production) for hill farms (those with a high proportion of RGR land), so that different payment rates are available on the basis of different stocking densities. Targeting in this way in Scotland's hills is essential to focus the appropriate levels of support to different farm businesses, and to use Scotland's limited funds more efficiently.

In order that any regional approach is as accurate as it can be there should be an effective appeals mechanism for cases where clearly the farmed land in question is in the 'wrong' region and should be assigned a different payment rate.

### **Coupled support**

We have long argued that Scotland should be able to use the UK ceiling to determine how much Scottish money is available for coupled payments. The flexibility granted by the EU Commission to use up to 13 per cent of our budget will give the Scottish Government the option to boost coupled support payments if deemed necessary.

### ***Coupled support - beef farming***

It has already largely been agreed that 8 per cent of the budget will be used supporting our beef sector. NFU Scotland is very supportive of this.

However, NFU Scotland believes that this coupled support can be more effective in underpinning beef production if the weighting towards the first calves claimed is adjusted. Importantly, this would also help to some degree cushion the impacts of the switch to area-based payments for very exposed medium sized beef producers on relative small areas on predominantly non-RGR land.

Therefore, NFU Scotland's preferred beef coupled payment would operate as follows. A flat, fixed rate payment on all calves up to the first 40 claims from any one business. Thereafter, a variable rate (determined by the number of claims) would apply to all other eligible calves claimed under the scheme. The new beef scheme would be open only for eligible calves of 75 per cent beef genetics or more. Current estimates suggest that this would deliver a fixed €150 per calf for up to the first 40 claims, with approximately €80 per calf thereafter (based on about 200,000 calves currently claimed from herds under 40 cows, and 200,000 calves from the remainder.)

It is also evident that Scotland's red meat industry must use the potential reservoir in the dairy sector to sustain the supplies that maintain the current processing infrastructure. Therefore, NFU Scotland also believes that calves of 50 per cent beef genetics from Scotland's dairy herds should qualify for some support, but this should be at the lower variable rate identified in the preferred model above.

### ***Coupled support - hill farming***

Creating a flat support system for the most fragile parts of Scotland, which could see money flood into large areas of very low intensity grazing whilst bleeding critical support from hill farms where grazing levels are more intense, is clearly unacceptable and unjustified. NFU Scotland will continue to discuss with the Scottish Government how best the extra 5 per cent headroom on coupling could be used to solve emerging issues, such as preserving activity in the RGR.

Different payment rates that target support to activity in the RGR is essential if destocking of productive grazing areas is to be avoided. Opening up an appeal system to allow productive RGR to be reclassified as permanent grass – and so be eligible for the non-RGR rate – is also essential.

A lower base payment in the RGR with support targeted at hill flocks and suckler calves through two coupled schemes may not see additional money going to that region - but would target that budget to make it work more efficiently and with greater justification. That then could bolster the spend on the non-RGR land, and could push Scottish payment rates closer to those available on arable land and improved grassland in the rest of the UK.

### **Transition**

Moving from historic-based Single Farm Payments to area-based Basic Payments will redistribute funding from intensively farmed land to extensively farmed land. The reality is that a significant proportion of breeding and finishing cattle enterprises and productive hill sheep farms are going to be rushed towards an area-based payment system in 2019, and are likely to reposition themselves – with cows or hill sheep the immediate casualty.

However, the new CAP rules offer Scotland various ways to allow farmers time to adjust to the new level of direct payments. NFU Scotland recognises that there are three basic options for the transition to the area-based CAP. First, introduce flat area rates in each payment region fully from 2015. Second, use internal convergence to phase-in area-based payments by 2019 at the latest. Third, use of a so-called 'Scottish tunnel' which narrows the range of entitlement values without bringing them all to the regional average area value.

NFU Scotland believes that the most sensible approach would be to use a 'tunnelled' method that would move support rates to within a range of the area payment by 2019. Whilst smoothing the way throughout what will be a turbulent period of adjustment for Scotland's farm businesses, this approach would allow for an evidential basis to be obtained up to 2020 on the effectiveness of an area-based support system and would enable established businesses to continue to be the basis of Scottish production in 2015 and beyond.

This approach would also require an effective and continuous National Reserve to operate in the interests of genuine new entrants and those who take on more land to develop an established business. Genuine new and developing businesses between now and 2015 can therefore be supported through a robust National Reserve. Meaningful activity requirements then need to kick in – to address the existing naked acres and any other loopholes created by establishing flexibility around the historic 2013 reference point through a National Reserve.

## **Greening**

The CAP greening requirements fit badly with Scotland's environmental priorities while also constraining spring barley production and reducing Scotland's cropping potential. The failure of European greening to fit must not prompt gold plating of implementation standards.

It is clear that there will be no quick win on equivalences for Scotland and therefore the Scottish Government must apply the European standards to optimise impacts on the ground and to avoid unnecessary costs. Those standards are now urgently required. Rotation and land management requires clear guidelines from Government to ensure businesses can plan cropping ahead to deliver compliance in 2015. This means that:

- A full menu of EFA options should be available to ensure there is value from existing features;
- Standardised measurement standards of ecological features should be defined to allow compliance management;
- Flexibility in the face of extreme weather must be defined and available;
- No Scottish requirements should be added that gold plate the EU standards.

In the medium term, we must aim to open up an equivalence option. NFU Scotland is willing to work with officials to develop greening equivalence options to fit Scotland's arable area and climate. The present European Commission posture is not flexible, but energy must be applied to negotiate a solution that provides wins for the environment and production.

Breaking away from rigid crop diversity requirements is fundamental, especially in northern areas and on higher ground. There are real wins in precision farming techniques while the use of break crops and or winter stubble management might deliver further carbon and environmental gains creating a balanced equivalent scheme.

NFU Scotland has already underlined the importance of Pillar 2 measures in driving the uptake of new technology and precision techniques.

With limited direct payments on cropping units supporting the development of on farm resilience through Pillar 2 is also a priority. Developing an accessible but limited scheme to allow drain repairs or upgrades is still a priority. Drainage upgrades can deliver both carbon, business and environmental benefits such as water quality through less run-off.

## **Pillar 2**

It is vital that support for active agricultural management remains at the core of the new SRDP, as it is thriving farms and crofts that are pivotal to the well-being of rural Scotland – economically, socially and environmentally.

Given that about £330 million of the £1.326 billion budget will now be made up from funds transferred directly from Pillar 1, the clear message from NFU Scotland is that the Scottish Government has to prioritise farm production and farm business sustainability.

NFU Scotland places top priority on vital funding at current levels for the Less Favoured Areas Support Scheme (LFASS) to ensure farming and crofting businesses remain sustainable. This provides essential support for 85 per cent of Scotland's agricultural land and provides crucial support for more fragile and remote areas, underpinning grazed landscapes, local economies and more vulnerable communities.

In addition, as changes to CAP Pillar 1 (direct) support are implemented in Scotland, LFASS in its current form and with current financial commitment, will act as a vital anchor of stability for many farming communities through inevitably turbulent times.

NFU Scotland also considers that productive agriculture (across all sectors) should also be supported to ensure Scotland can meet demand for the high quality produce it is renowned for world-wide. The Scottish Government is on record as wanting to ensure this important sector for the Scottish and farming economy continues to grow and modernise, and so yield even greater benefits by way of jobs, incomes and economic growth.

NFU Scotland recognises the intention to continue to protect and improve the natural environment. The Scottish Government has set ambitious targets for adapting to and mitigating the impact of climate change, along with biodiversity targets. Agri-environment measures should be more effectively targeted to try to deliver the right actions, in the right place at the right time, by farmers and crofters that are best placed to deliver. In that context, NFU Scotland supports funding to facilitate co-operative action at a landscape or catchment scale so that collective efforts yield greater returns. Targeted, accessible and simpler measures have to be in everyone's interest.

NFU Scotland considers that priority must also be given to accessible measures that enable a broader swathe of farms and crofts to build financial and physical resilience – and so deliver against newer rural development goals, namely water quality and climate change. Investing in improved efficiency measures and improved productivity would enable a range of farming systems to step up to these new challenges, and also improve business returns so that climatic and market volatility can be better endured.

In that regard, NFU Scotland must challenge the emphasis and financial commitment that the Scottish Government places on woodland expansion. The desire to lock up carbon in trees is laudable, but planting targets and their associated funding budgets appear more than excessive when set against either the opportunity cost of losing

fertile but scarce agricultural land from food production or the possibility of achieving equivalent climate change goals through on-farm efficiency measures.

There must also be a commitment to address other areas of vital importance to farmers, crofters and the Scottish economy, including supporting new entrants, crofters and small farms, and the need to modernise and improve working practices so that the full range of agricultural businesses can adapt to new challenges – physical and financial – and deliver even more towards important rural development goals that are in the interests of wider Scottish society and beyond.

NFU Scotland, however, is yet to be convinced that an enhanced Advisory Service, a refreshed Scottish Rural Network, and an expanded Knowledge Transfer and Innovation Fund (KTIF), together with what is promised to be improved customer support, can make a realistic and significant difference to farming and crofting in terms of their potential contribution to meeting rural development goals.

NFU Scotland also recognises that the new SRDP is just part of the package of funding available through the EU. However, NFU Scotland is cautious about a more integrated approach intended to secure greater value from the investments made using the different European funds for economic growth and fisheries. The key areas the Scottish Government has focussed on (business support, skills, advice and social inclusion/local development, etc.) must ensure the various funds complement each other and do not simply drain scarce funding that should be directly accessed by farmers and crofters to undertake investment and management that drives rural development.

The Scottish Government also intends to improve the delivery of the SRDP where it has been overly bureaucratic, and NFU Scotland supports the intention completely and welcomes the removal of the Rural Priorities Scheme. NFU Scotland backs the re-introduction of a targeted range of land based schemes with a common application process. However, NFU Scotland has some doubt as whether the new SRDP will be “clearer, more effective and more customer focused to ensure it will better serve the needs of Scotland”.