**Written submission from New Entrants Group**

**Scottish Government Consultation on future CAP direct payments in Scotland from 2015.**

The following is a written response to the Scottish Government consultation on future CAP direct payments in Scotland from 2015 from the New Entrants Group.

The New Entrants Group (NEG) believe that it is of the utmost importance to instill fairness and an internal level playing field within Scottish farming and it is essential to quickly bring up the levels of support for currently active farms on low payments, expanding farms without full SFP and of course new entrants.

It is also essential that businesses that engage in slipper farming, destocked farmers & relatively inactive farmers on high SFP payments should be in receipt of a Basic Payment that reflects current activity. There are too many farmers who are using the SFP as a "pension fund" which leads to a reluctance to hand over farms to future generations and also encourages land to be held and not farmed to its full potential or placed on the rental market. The subsidy these farmers bleed out the system needs to be retargeted at active farmers.

These 2 principles will be more help structurally and strategically to Scottish agriculture than giving a soft landing to businesses that have had the benefit of 10 years of high SFP payments to invest in their businesses, to make them more efficient, reduce borrowings, invest in livestock and build cash reserves. It is illogical to expect the former businesses to survive if the latter with all their advantages cannot cope with the new area payment from day one.

A quick change over to the new area scheme on day one is the core element to instilling fairness and putting the future of Scottish Agriculture on the right track. The historical basis has seen 1000 beef farmers leave the industry, 100,000 Suckler cows leave the national herd, 1 Million ewes leave the national flock and 25% of Scottish Abattoirs close over the last 10 years. It is therefore madness to continue this basis of subsidy going forward and the NEG believe that if Scottish Government can use and utilise all the measures available to it to design an appropriate new CAP direct payment system then a gradual change becomes unnecessary and redundant and the industry can move forward immediately.

## PAYMENT REGIONS & BUDGETS

NEG believe that Scottish Government should use 4 payment regions to divide the budget

1. **Arable land and Temporary Arable Grassland** (grassland used for cash crop (e.g Hay to sell) or fallow.)
2. **Permanent Grassland and Temporary Livestock Grassland** (grassland used for on- farm use of forage (eg silage) or grazing – that meets a minimum on-farm average stocking density.
3. **Agricultural based Rough Grazing** – Where grazings can meet a higher historical / traditional minimum stocking density.
4. **Environmental based Rough Grazing** – Where grazings are more extensive and meet a lower historical / traditional minimum stocking density.

We also believe that Scottish Government should adopt the “Olympic Podium” model of budgets and split them approx 40:50:6:4 to give indicative payments including greening of

1. 200 euro/ha for arable & arable TGR
2. 250 euro/ha for permanent grass & livestock TGR
3. 30 euro/ha for agricultural based rough grazing.
4. 10 euro/ha for extensive rough grazing

Some further modeling may be necessary to finalise the exact budget figures but that is the approximate outcome we would like to see.

REASONS –

- The regions are split into four in order to reflect the diversity and extensiveness of farms and ensure that basic payment matches with activity.
- The Olympic Podium model ensures that the engine room of upland livestock production where choices of types of production are limited and active farms are most fragile, gains the highest/ha support.
- The arable land gains a slightly lower support/ha to reflect that challenges are less, choices of production are greater and productivity can be higher on this land. It also reflects that previously only cereals were supported and now all crops (potatoes, veg, fallow etc) and temporary grassland for cash crops will now carry a support payment.
- The category of Livestock Temporary Grass has been added to reflect that those arable farms that choose to keep stock and graze and conserve grassland within an arable rotation, to the benefit of the soils and increase overall productivity of the farm are supported for their extra activity. This measure should support lowground suckler herds and finishers and encourage the re-establishment of livestock onto arable farms.
- The differential between the two temporary grass categories is established by simply setting a minimum average stocking density on the livestock temporary grass of around 1-2LU/ha. This will ensure that

grass that is kept fallow/topped or cash cropped for Hay / silage does not qualify for the higher support.

- The land within the two rough grazing categories is established using the traditional stocking densities of the land as per the derogations on farming activity that Scottish Government has negotiated with EU. (An alternative would be to use the overall percentage of grass species within the RGR sward compared with other herbaceous plants such as heather which would indicate the carrying capacity of the grazings). This measure will ensure that payment matches the extensiveness of the activity carried out on the land- for example a 1000 head ewe flock on 1000ha of better rough grazing will carry the same effective support as 1000 ewes on 3000ha of heather type hill.

**REDISTRIBUTIVE PAYMENT**

The New Entrant Group believe that the Redistribution Payment (RP) can have a major impact on supporting smaller more intensive family farms that are the backbone of Scotland's rural economy & production and the traditional Crofting system of production. The Redistribution payment will also have major benefits for new entrants to the industry by allowing them to compete with large established farmers.

With both the Redistribution payment & how they implement Voluntary Coupled Support(VCS) , the Scottish Government has a major decision to make on whether they support the smaller family farms which form the majority of the industry or whether they use a lack of RP and implement a flat rate VCS to support large farms, who should have the economies of scale to compete in the marketplace without preferential support.

Redistribution Payments on first glance seem complicated, however they should be relatively simple to implement in reality and would likely involve an uplift of over £100/ha on arable and permanent grassland on the first 54ha of a farm and would deliver a payment of above £300 /ha on these acres. The payment would decrease the overall hectare payment by a few pounds and move it to the best land on the farm. In effect this returns subsidy back to more productive land from very extensive rough grazing. The modelled overall gains to businesses may seem small – £2000-5000 per business, however on smaller businesses; this is a major percentage increase in payments.

REASONS –

- Modelling by Scottish government show that all farms below 165ha would benefit / break even from the Redistribution payment. This is almost 70% of all businesses that submit an IACS form.
- RP helps smaller, more intensive family farms & crofts – which are the backbone of Scotland's rural economy.
- NEW ENTRANTS - Redistribution will also mean that new entrants could bid for tenancies and grazings and have a financial advantage by using the redistribution uplift over established farms adding the land to existing operations.

- RP will be a major help to more active upland sheep producers, who are likely to lose out under the new system. In the case of an active upland sheep farm with at least 50ha of in-bye pasture and the rest rough grazing then redistribution will add £5000/year to the total area payment. This is done by reducing the rough grazing payment by a few pounds and paying a much higher rate on the permanent grass in-bye ground.
- If a split rough grazing region is NOT used - then modelling has shown that RP reduces the payment to very extensive rough grazings by 1/3rd and diverts the subsidy back to more active grazings.

**VOLUNTARY COUPLED SUPPORT**

NEG would wish the Scottish Government to use the maximum coupled support available. This would be 8% to the beef sector and possibly 5% to support the sheep sector if allowed.

The Scottish Government however, has to decide on whether VCS is intended to support, sustain and grow the beef and sheep enterprises on individual farms to off-set losses in stock numbers from those that inevitably leave the industry. (This would maintain overall numbers in the industry as a whole.)

OR

Use VCS merely as a de-facto pillar one payment to soften the blow to those whose SFP has been cut by the change in the system.

The NEG would rather see the Scottish Government use the coupled support for the former outcomes and concentrate on supporting the areas that it will make the most difference in maintaining and expanding stock numbers. The outcomes and areas we see that are critical are –

- Maintaining numbers within existing herds, especially the smaller herds which make up the vast majority of the suckler herds in Scotland. 75% of all Scottish herds have 75 cows or under and the average herd size in Scotland is 54 cows. It is essential that these herds on mainly family farms keep producing beef to maintain the rural economy they support.
- Encouraging farms to start new suckler herds / re-enter the industry having previously stopped keeping suckler cows and went over to sheep or arable. Most farms still have the resources to re-enter production. There is much upland and hill land that could carry extensive suckler cows.
- Encourage the existing smaller herds to expand – If the small herd is more profitable due to higher VCS payments, it is more likely to expand and concentrate more on beef production over the other sectors.
- Help the more intensive upland sheep sector which seems to be hard hit by the new area system.

The NEG therefore propose that Beef Voluntary Coupled Support should use the full 8% budget and take the form of a Beef Calf Scheme.

- The beef calf scheme should be front loaded and take the form of a payment of approx £200/head on the first 50 calves, with the remainder receiving a balancing payment. (modelled to be around £60-70/head)
- The beef calf scheme should be paid only on 75% beef bred calves to maintain quality and not dilute the scotch brand. The suckler sector is the most fragile sector and relies 100% on the beef produced for income. In the dairy sector the main income stream is from the milk produced and the beef is a secondary product.

The NEG also propose that if available that an additional 5% budget sheep coupled support be also used. This might take the form of an uplift payment on rough grazing / permanent pasture that meets a higher stocking density than the minimum set for active farming purposes or possibly a headage payment on gimmers retained annually within the flock.

**It should be noted that some stakeholder groups are calling for a flat rate VCS on beef calves – This should be resisted at all costs.** This would detrimentally affect the large number of family farms with suckler herds. This would be a massive strategic mistake to further force the beef industry into a small number of large producers. History within the pig and poultry sector has shown that this has resulted in long term decline of the sectors to the disadvantage of the rural economy as a whole.

REASONS –

- It is essential to ensure the average producer has his income from VCS maximised – as any relative "cut" might be enough to force them out of the sector, as they do not have the economies of scale of the large herds.
  (If the relative size of the coupled payment is reduced by potentially as much as £100/calf – i.e. If the system was front loaded at £200/calf the average suckler producer with 50 cows would receive £10,000, if the system was flat rate at £100 per calf then he would receive only £5,000.)
- It is essential for the long term industry and wider rural economy that new herds are started or re-started where producers have previously left the sector (to arable or sheep). **A £200/calf payment <u>each year</u>** is a good incentive for new entrants and others to contemplate starting to keep cows. The lower overall flat rate is not enough to entice people to enter the sector given the capital cost of keeping cows.
- Existing herds need encouragement to expand. A front loaded system means that the 75% of Scottish suckler herds are on a sound footing and confidence to expand would be evident. For the average producer to expand from 50 to 75 cows then the VCS would still mean an income per cow of £160 coupled support. Still enough to make a difference.

- A flat rate beef calf system means that more VCS will go to larger producers. However, the uplift per calf will only be £20 - £30 per head over the front loaded system.
  – on a 200 head herd this would mean an extra VCS payment of £4000-6000 added to a likely gross income for the animals alone of above £140,000. The loss of that £30/head should the system be front loaded would not make any difference whatsoever whether that farmer kept cows or not, and therefore as a means to maintain production it is ineffective. **No large herd is going to stop keeping cows over the loss of £30/head in VCS.**
- In the face of an overall cut in support payments, arable farms need encouraged to again keep livestock on their farms to increase overall productivity of the farms, increase soil organic matter through grass within the rotation and applications of manure and reduced reliance on artificial fertilisers - all of which can increase profitability of cereal and other arable crops and the farm as a whole. Only a front loaded system would produce the incentive for arable farmers to try and recoup some of the modulated VCS money they have "lost" by reintroducing livestock to their systems.
- The sheep VCS would need thoroughly modelled, but it must be aimed at the very active upland producers (mostly family farms) that may lose out within the new payment system.

NOTE – There has been some recent proposals for a **"lead feed" or "Ratchet" beef calf scheme** whereby any increase in the number of calves produced over the previous year would get an enhanced payment of 175%. On first appearance this might seem a good idea to reward expansion. However if examined closely, it would be wholly ineffective and a waste of money (especially compared to a front loaded system).

If we take an example where a 50 cow herd expands to 75 then given a flat rate of £100/calf his total payment **<u>for one year only</u>** would increase by £1875 or £25/cow over his entire herd. It is actually hardly an incentive – especially over the long term and the life of a cow.

If we take an example where a 200 cow herd expands to 250 then the increase in VCS would be £3750 or £15/cow. Would a large producer expand his herd to gain overall £15/cow from VCS for a single year? **This would be a complete waste of scarce resources.**

**TRANSITION – INTRODUCTION OF AREA BASED PAYMENTS.**

**The New Entrants Group fully supports an IMMEDIATE changeover to area based payments from day one in 2015.**

The consultation spends many paragraphs trying to solve the major fundamental problem of a gradual change – that of high slipper farmer payments of many hundreds of pounds per hectare on rough grazing and high historic payments to farmers that have destocked or reduced livestock numbers. If leaching of slipper payments and those of destocked farms get added to the basic payment budget, it means many tens of millions of pounds are now available to active farmers. (see annex one)

The landscape of farming has changed dramatically and no longer bares any relation to the historic reference period. The payment of public money to those that no longer keep stock or maintain the same level of activity has the potential to be as big a scandal as slipper farming during the last system.

We now have a situation where expanding active businesses (new entrant & established) are operating on lower levels of SFP than their activity deserves and a gradual phase in will be a disaster for these businesses. It would be 2019 before these businesses were on a level footing with businesses that were in full production during the reference years. A number of points need to be noted.

- New entrants, although brought up to the full area rate in 2015, still have to compete in the open market with established farmers with high historical elements of basic payment for - livestock, seasonal grazings, rental of land, purchase of machinery etc. this is still an unlevel playing field and is not equality.
- Why is it expected that a new entrant can survive on the full area rate from 2015 yet established businesses with high current SFP payments cannot?
- Established businesses that have purchased or rented additional land without SFP entitlements will now find that their historic element of basic payment will be diluted over their entire area. They will not get equality until 2019.
- Expanding established businesses with higher numbers of cattle, sheep and land than the reference period have no recourse to a national reserve and do not receive a basic payment commensurate with their activity. They also will not reach a level playing field until 2019.
- Other farmers are also fundamentally disadvantaged with artificially low payments, such as those in the reference period that finished heifers, sold calves on white BSPS, farmed potatoes, veg, pigs and poultry & those that were restructuring their businesses. All these people will continue to be disadvantaged in a gradual transition despite being as active as their contempories.

**All of the above types of business are going forward. These are the businesses that Scottish Government should be supporting; these are the businesses that are the future of the industry. Yet, these are the businesses that will be discriminated against by a gradual change.**

The New Entrants group strongly believes that before any decision is made on a gradual transition that Scottish Government should closely examine the livestock numbers on every holding that receives over £500/ha in SFP to see if activity levels in 2013 matched the SFP that was received and based on the reference years. **It is our belief that many farms that strongly object to a quick change to area, do not have the levels of activity that gained them**

**their high SFP entitlements** and they do not therefore deserve any higher basic payment than other farms with a similar level of current activity but do not have the benefit of high historic SFP.

A gradual change has further repercussions for the wider Scottish Agricultural Industry. The gravy train of the last CAP system will be extended for a further 5 years. It is expected that 50% of current SFP will be translated into the historic element of the basic payment, which will gradually reduce over the 5 year period. There are many current Slipper Farmers who are sitting on high per hectare SFP payments - £500 to over £1000 per ha. This will result in a number of scenarios.

- The slipper farmer can stock rough grazing with a token element of livestock to meet any minimum stocking density requirement. This would mean that a slipper farmer for example with £500/ha current entitlements could carry forward an historic element of basic payment worth £250/ha + greening + VCS and activate it on rough grazing or for a better long term return activate it on seasonal permanent pasture. This would mean that the slipper farmer would receive **10 times** the basic payment of an active neighbour on rough grazing who gets the proposed full area payment of £25/ha.
- The slipper farmer could then legally sell his entitlements on the open market after year one – value would be based on the historic element and he would make an immediate killing. The windfall tax would not stop this type of trading.
- Every Slipper farmer in Scotland will be looking for ways to activate their high historic payments and meet minimum farming activity. It is worth it for £500/ha but not for the full area payment levels that are much lower.
- Slipper farmers will also be looking to rent more productive seasonal land to activate their entitlements in year one. They can outbid any normal active farmers as they have inflated payments to offset against. Again they can either continue to farm or sell the activated entitlements after year one. This will result in a horrendous seasonal grazing and rental market for normal active farmers and new entrants.
- Destocked farmers and landowners can continue to farm at a minimal level and still receive a high value basic payment. There is no incentive to increase productivity again or rent out the land to others who will maximise the output of the farm.

**Continued high historical payments with a gradual phase in will <u>lock up land for the next 5 years</u>, as a good living can be made by taking the basic payment and farming minimally. There is no incentive to rent land out, share farm, contract farm, sell land, farm land more productively when the income from inflated historic basic payments gives a better return. It is essentially a pension fund for retired or demotivated farmers & landowners.**

**Annex one**
**Artificially inflated historic payments.**

- There was over 3000 applications to the to the investor category of the last national reserve. It is well documented that many businesses temporarily increased production in order to maximise SFP entitlement value. Many of these businesses no longer carry out anything like the activity that led them to receive their high historic payments.
- The number of beef farmers has reduced by **1000** in the last 10 years. This means that during a gradual phase in, that these 1000 farmers will be getting a far higher payment than their current activity merits. Why should these farmers get a higher basic payment than their arable / sheep counterparts for now doing the exact same job.
- The national suckler flock has reduced by 100,000 cows. Why should farmers that have de-stocked or reduced stock numbers from the reference period still carry high historic elements to their basic payment. If a suckler cow carried a suckler premium of circa £215/cow in the reference period this means that £21,500,000 of current SFP is getting paid to farmers who no longer keep these stock. This would translate to £11million going to the wrong people in the new basic payment historical element.
- The missing 100,000 suckler cows would have produced 100,000 calves which would have carried £150/hd in beef premium and slaughter premium to finishers. This amounts to £15,000,000 of current SFP getting paid annually for stock that is no longer in the system. Again this would translate into £7.5million going to the wrong people in the basic payment.
- There is a MILLION less ewes in the national flock. Once more these sheep carried a sheep premium of £15/hd in the reference period. That is another £15,000,000 of current SFP going to people that do not deserve the payment. This translates to a further £7.5 million going towards the historic element to destocked farmers.
- Dairy premium – it is well documented how many dairy herds have left the sector. Again why should these farms now receive more basic payment than their arable / sheep / cow counterparts?

That is not the whole story however, as the figures above are the net losses to the industry over the 10 year period. This does not take account of the following –

- Expanding farms, herds and flocks who are farming with no or little support or at least support not commensurate with their current activity.
- These expanding herds & flocks mask the true level of destocking and reduced numbers of other farms from the reference years

**All of the above would mean at least £26 million pounds will be going to people as their historic element of basic payment that do not deserve it. A quick change in 2015 would solve all this at a stroke.**

## GRADUAL TRANSITION & NATIONAL RESERVE

As already stated the New Entrants Group does not support a gradual transition to area payments but if Scottish Government is determined to implement the gradual change then it must be aware of the implications of that decision – which will be **detrimental to every single business** other than those with existing high historical SFP payments.

In the event of a gradual transition a COMPREHENSIVE NATIONAL RESERVE will have to be implemented. Due to the amount of New Entrants, anomalies (deer farmers etc), expanding farms etc that are currently disadvantaged by the existing SFP system – then the National Reserve will have to be substantial. It will have to be far bigger than the 3% suggested in the consultation document.

The NEG have calculated that AT LEAST 12% modulation of the basic payment budget will be required in order to meet the needs of a national reserve. **This amounts to approx £38million.**

Scottish government figures show that there has been on average 300 new entrants to the industry each year over the last 10 years. This therefore amounts to at least 3000 businesses (17% of the total IACS businesses) that require some degree of allocation from a national reserve.

If each of these businesses are awarded the equivalent of the average historic SFP payment of £25,000, then that will equate to a historic basic payment element within the new system of £12,500 each or £38million.

This figure is likely to be higher if Scottish Government does the correct thing and helps all those disadvantaged by a gradual changeover.

***What is the price of a Gradual Transistion?***

**During a Gradual Transition -**

**The penalty of modulation for the National Reserve will be paid for by every single farmer in Scotland, including the hardest hit with the lowest current SFP who will immediately lose 12% of their Basic Payment no matter how low their entitlement values – all to support the wealthiest farmers who have a high historic SFP payment.**

It has also to be highlighted that with the use of 13% of the National Ceiling on Voluntary Coupled Support and a further 12% of Basic payment Budget used for the National Reserve then some farmers who cannot recoup the coupled support (arable farmers, new entrants without much stock**) will immediately lose 20% of their entire Subsidy Payment !**

**– all to give a soft landing to the wealthiest farms with extremely high historic SFP, whose activity may not be anything near the level that earned those payments during the reference years, and have had the use of that high SFP to invest in their businesses and reduce borrowings etc.**

**During an Immediate Transition –**

Scottish Government will not require a large national reserve as it will only have to deal with ongoing new entrants and will not have to make up all the existing categories of new entrants and disadvantaged farmers. This is because all farmers will start with a clean slate on the same regional area payment. It will also ensure the system does not miss any deserving cases and it will pick up all active farmers.

An immediate change solves all existing inequities and ensures a fair and equitable subsidy system both between sectors and between farmers. Surely if the beef sector, which has the highest historic payments, are able to fully utilise Voluntary Coupled Support and higher payments on Permanent Pasture then they cannot also expect additional income by having a gradual transition. They cannot have it both ways to the detriment of every other farmer.

**NATIONAL RESERVE**

As already stated – if there is an immediate change there will only be a requirement to support ongoing new entrants each year. This is likely to be a relatively minimal amount with a budget of 3% of the basic payment budget (£9million)

***HOWEVER***

If there is a gradual transition, there will have to be a major national reserve with at least 12% of the basic payment budget (£38million).

There will be a requirement to support at least 5 categories of farmer that requires uplift / entitlements from the National Reserve as they presently suffer a disadvantage compared to other established farmers.

**NEW ENTRANTS - Farmers who commenced their activity in 2013 or later. These farmers need entitlements allocated through the National Reserve at regional average value.**

- These farmers will get an allocation of entitlements as new entrants to the new scheme.

**NEW ENTRANTS (last CAP Scheme) - Farmers who never received entitlements under the last CAP system and are actively farming in 2013. These farmers need to have entitlements allocated in 2015 and entitlement values topped up to the regional average value.**

- The value of entitlements in 2015 is calculated using the 2014 SFP.

- These farmers would have no SFP in 2014 so any new basic payment entitlements would have a very low or zero value. The specific disadvantage is that since these farmers were never allocated entitlements, they suffered a disadvantage through the last CAP compared to farmers who did receive entitlements. This disadvantage would continue until convergence was complete in 2019.

**NEW ENTRANTS - PURCHASED (last CAP Scheme) -Farmers who never received entitlements under the last CAP system but have since purchased some entitlements and are actively farming in 2013. These farmers need entitlement values topped up to regional average value.**

- The value of entitlements in 2015 is calculated using the 2014 SFP.
- Depending on the number and value of historic entitlements purchased, new basic payment entitlements could have a low value.
- The specific disadvantage is that since these farmers were never allocated entitlements, they suffered a disadvantage through the last CAP compared to farmers who did receive entitlements. Although they have been able to purchase some entitlements it might not be enough to cover the number of hectares or historic value if entitlements had been granted. This disadvantage would continue until convergence was complete in 2019.
- These farmers are further disadvantaged in that they have also used capital to purchase entitlements compared to farmers that were allocated entitlements in the last CAP.

**DEVELOPING FARMERS - Farmers who started or whose business was in the very early stages of development during the reference period (2000-2002) for the last CAP reforms, and received an allocation of entitlements through the previous national reserve that doesn’t reflect the agricultural activity of their now established business.**

- The value of entitlements in 2015 is calculated using the 2014 SFP.
- Depending on the number and value of historic entitlements allocated during the previous national reserve, new basic payment entitlements could have a low value.
- The specific disadvantage is that because the business was starting or developing during the reference period, the number of entitlements allocated from the previous national reserve did not reflect the agricultural activity or number of hectares being farmed once the business was fully established.
- These farmers suffered a disadvantage through the last CAP compared to other established farmers who did receive a full allocation of entitlements. This disadvantage would continue until convergence was complete in 2019.

**DISADVANTAGED FARMERS – Farmers who have purchased or rented new eligible land (land that was originally allocated entitlements in the last CAP but is now naked of entitlements) that they do not have enough number and value of historic entitlements to cover their total acreage with the effect that their historic element of the basic payment will be diluted.**

- The value of entitlements in 2015 is calculated using the 2014 SFP.
- The specific disadvantage is that since these farmers have taken on more land (without historic entitlements), that the number of entitlements allocated from the last CAP does not reflect the number of hectares or current agricultural activity that the business now farms, that the new basic payment is diluted and could have a low value.
- These farmers suffered a disadvantage through the last CAP compared to other established farmers who did receive a full allocation of entitlements. This disadvantage would continue until convergence was complete in 2019.

**It is essential that all deserving cases are picked up and that there should be an independent industry panel to adjudicate on appeals and cases that may not necessarily fall into the categories above.**

**SIPHON ON SALES OF ENTITLEMENTS WITHOUT LAND**

The NEG fully supports the use of the maximum siphon on sales of entitlement without land. The Scottish Government must send out a message to speculators and farmers that transfer of entitlement without land is to be discouraged.

If there is one thing to be learned from the last CAP is that land should not be transferred without entitlements if possible – that is how so many anomalies were created and new farmers ended up farming without subsidy support.

If farmers choose to sell entitlements without land then the proceeds go to the national reserve, which even if only in a small way will help reduce the National Reserve top slice.

**WINDFALL TAX**

Again this is only applicable if a GRADUAL TRANSITION is employed.

However, the NEG fully supports the maximum use of the Windfall Tax. The Scottish Government must send out a message to speculators and farmers that manipulation of the subsidy system will not be tolerated.

If farmers choose to farm a smaller area then the basic payment should reflect that and be the average regional rate. Correctly the proceeds should go to the national reserve, which even if only in a small way will help reduce the National Reserve top slice.

## ACTIVE FARMER

It is essential that the CAP system gets back to a position where the “farmer” claims the subsidy payment and not the “landowner”. The situation whereby somebody farms without support on land where the landowner receives the subsidy for essentially only owning the land is untenable.

Along with proposed rules including minimum stocking etc the NEG would like to see a position where the claimant has to prove he is the “farmer” and he is taking the financial and physical “risk” of production.

It is also essential any minimum stocking rules for activity purposes are high enough to be meaningful. The ones in the consultation document are nowhere near robust enough.

## SUMMARY OF CAP PROPOSALS

Many sectors of farming are looking for an immediate change to the new area based system. Many farmers recognise that it is more important to get the mechanics of the new system correct, as it will also form the basis of the following CAP reform after 2020. They are of the view that the industry must look forward, put all its farmers on an equitable footing so that businesses can get on with making decisions based on their costs of production and the marketplace and not what they did 14 years ago.

The previous Scottish Farm minister Ross Finnie was quoted when introducing the last scheme in 2004 –

*"Scottish Ministers are committed to building a profitable, successful farming industry in Scotland. We are on the brink of major change. The Single Farm Payment Scheme gives all farmers the opportunity to restructure their businesses to make them more sustainable in the longer term.”*

He also said

*"Basing the single farm payment on farmers historic entitlement does not provide a long term rationale for agricultural support payments. We plan to review this decision as soon as EU arrangements permit.”*

Farmers have had 10 years to adjust their businesses. They have been repeatedly warned that they could have even faced a future without subsidy at all by 2014. Why do these farmers need further time to adjust when many of their counterparts have already done so and modernised and expanded and made their farms more efficient?

The New Entrants Group are proposing a package of measures that will be fair to all of Scotland’s Agricultural community – from Crofters to the large arable farmers.

If this package of measures were introduced, the most vocal of opponents to the immediate transition to the area payment scheme must recognise that many of the proposals will help ACTIVE farmers with higher SFP payments and it will protect them in the LONG TERM to 2020 and beyond. It will not tolerate inactivity and inactive farmers with high payments will be quite rightly cut adrift.

These farmers with high historic payments cannot expect a system tailored to their long term requirements, with the use of VCS & favourable payment regions etc, whilst ALSO accepting a gradual change incorporating their high historic payment values. If this is the case then every other single farmer with average or below average payments is paying for the wealthiest farmers to keep receiving their high payments.

In summary we propose

- Immediate Transition to area payments – To instill a fair subsidy system that looks to the future and creates a level internal playing field within Scottish agriculture.
- Split payment regions with Olympic Podium budget model which is weighted towards livestock production – both in the uplands & hills and also lowground arable farms with stock.
  This will help active sheep and beef producers by giving them an enhanced basic payment.
- Maximum Voluntary Coupled Support for both beef and sheep. It is important the beef calf scheme is front loaded to the first 50 calves to help the 75% of suckler producers with herds under 75cows. It should also act as an encouragement for these producers to expand and new herds to start. (It should NOT be a defacto piller 1 payment to large beef herds to make up for lost SFP.)
- Redistribution Payment – This will help the intensive smaller family farms and crofts that are the backbone of the rural economy (70% of IACS Businesses). It also gives new entrants a means of competing with established businesses in renting land and grazings.
- Siphon on sales of entitlements without land – to reduce entitlement speculation, keep entitlements with land and top up national Reserve.
- National Reserve – only the minimum requirement for an ongoing national reserve for new entrants. An immediate transition deals with all disadvantaged farmers and anomalies at a stroke.
- Active farmer rules – A strong minimum stocking density to define activity and a return to subsidy being paid to the “farmer” shouldering the risk, not the “landowner.”
- NOTE – a gradual transition would mean that every single farmer on average or below average payment would pay to give the wealthiest farmers a soft landing. Some farms without livestock could lose 20% of their entire subsidy payment to VCS and Nat reserve. This would be grossly unfair.

If all the above measures are implemented, then no farmer can claim to be unfairly dealt with. No active farmer has anything to fear from these proposals, and the industry as a whole can immediately move forward. Only inactive farmers will deservedly lose out.