

## **RURAL AFFAIRS AND ENVIRONMENT COMMITTEE**

### **FUTURE OF AGRICULTURAL SUPPORT IN SCOTLAND**

#### **WRITTEN SUBMISSION FROM HIGHLANDS AND ISLANDS ENTERPRISE**

Highlands and Islands Enterprise (HIE) welcomes the opportunity to respond to the Scottish Parliament's Rural Affairs and Environment Committee's call for views on the future of agricultural support in Scotland.

HIE, the Scottish Government's economic and community development agency for an area that covers more than half of Scotland, is active in the agricultural sector in two main ways:

1. HIE works to implement the national strategy for food and drink developed in partnership with industry, the Scottish Government and other key public bodies.
2. HIE supports crofting community development because of its contribution to population retention, culture and the environment of the region, especially in the most fragile parts of the area.

#### **1. What should the direction of travel be for the future of agricultural support in Scotland?**

Agricultural support should be aligned to exemplary environmental management and delivered on the basis of eco system management which will deliver food security, water, energy, bio-diversity and climate change mitigation, alongside a robust and sustainable economic industry.

This should include support for farmers, crofters and other land managers to enable them to recognise and tackle their contribution to reducing greenhouse gas emissions. Most contemporary intensive farming practices are environmentally unsustainable and are very vulnerable to peak oil effects on fertiliser and oil based mechanisation. The future CAP should support crofters and farmers to make choices to enhance their business resilience and sustainability and support implementation of the Low Carbon Economic Strategy.

CAP also has a significant contribution to make towards supporting rural development in general, beyond the confines of its direct, Pillar 1, support for agriculture. This is a highly valued aspect of CAP which needs to continue to be a strong feature for the future. In this respect HIE would argue for enhancement and certainly no reduction in the share of CAP (Pillar 2) to which local business and rural/community development has potential access.

HIE would also encourage the Scottish Government to maintain its allocation of co-funding for the rural development aspect of CAP as an effective means of achieving community and social cohesion, and sustainability. Tipping the balance of resources from production subsidy to investing discretionary funds is a more effective route for delivering a diversified and sustainable rural economy. HIE would welcome the opportunity to play a more proactive role in the delivery of future rural development programmes across the Highlands and Islands.

We would also like to comment on the Scottish Rural Development Programme (SRDP), through which agriculture and rural development funding is channelled. Through our work with other customers, it is clear that the SRDP has been an administratively complex and confusing mechanism for crofters, farmers, land managers and communities to access. The computer based system is 'labyrinthine' in nature and extremely difficult to navigate and use for many potential applicants. This has led to a layer of consultants being involved in supporting access to the programme, with resulting project cost impacts. There have also commonly been persistent delays in claims processing which have adversely impacted the cash flows of, in particular, small scale farmers, crofters, land managers and community groups. It is not uncommon for claims to take in excess of nine months to process, in comparison to most public bodies, such as HIE, which aim to process complete claims within 10 days. Applicants without access to working capital are forced to build financing costs into their projects to deal with these delays in processing claims. As a result, some applicants are not optimising access to the SRDP's range of programmes and are missing out on valuable opportunities.

Simplification of the current delivery mechanisms, for future funding, would greatly enhance cohesion of access and is urgently required. This could include exploration of alternative appropriate delivery agencies for some aspects of the future SRDP as well as simplification of the presentation of the programme options and measures and a more intuitive application process.

**2. Are the recommendations made by the Pack inquiry appropriate and achievable? Does the Committee agree with maintaining the two pillar system for delivery, targeting direct payments at more active farms and dividing support for land into different packages for LFA and non-LFA areas?**

Pack identifies that the adoption of an area-based system without any link to activity, albeit on an historic basis, will not work for Scotland due to the widely varying production capability of its land, with 65% of its agricultural area rough grazing. Whilst he accepts that there will be no difficulty in applying area payments to the better land, the difficulty highlighted has not yet been adequately resolved. The attempt to do this by adjusting the LFASS rates needs to be further refined.

Put simply, there is still too great a proportion of the LFASS budget being distributed to the best of the less favoured land.

We suggest that use could be made of oceanic island status and mountain status, provisions as yet un-tapped by Scottish Government, to address this imbalance.

An alternative mechanism might be to simply adjust the size of the LFASS per hectare payments for land classifications. For example Class 1 to 5.1 could be reduced from Pack's current proposed €246.84 to say €200 with the resulting available budget used to increase the rates for the lower classes 5.2 to 5.3 and 6.1 to 7. The activity coefficient will ensure that overcompensation does not become an issue.

HIE welcomes Pack's proposals to introduce a Top Up Fund to reward individual business' commitment to improve their environmental sustainability and agrees that that fund should be established through redistribution within the existing Pillar 1 resources.

HIE would advocate the benefit of the Scottish Government working with DEFRA to maximise the 'market distortion' share of the UK CAP Budget (Article 68). HIE agrees with Pack's assertion that the rate should be increased from the current 4.5% to around 15% in order to optimise population retention, adding value to the food and drink supply chain and creation of thriving, sustainable rural communities. This area could, for example, fund a new croft entrant scheme, with the rationale being that these would be new businesses, not extensions of existing businesses which currently are already supported through the SRDP. Such a scheme would be a welcome support for population retention and growth in some of Scotland's most fragile communities.

Pack's proposals for sheep farming support rates will help stabilise populations in some of the most fragile areas of the Highlands and Islands and are welcomed.

**3. What should the priorities be for a reformed CAP in Europe post 2013? What should the Scottish Government's key negotiating points be in seeking to influence the UK Government, other EU member states and the European institutions? How many of the Pack report conclusions and recommendations can be taken forward as part of CAP reform?**

Pillar 1 payments must be attached to activity and should deliver non-market public goods which should include:-

- higher environmental standards
- high agricultural standards including quality assurance standards
- actions to mitigate climate change, including woodland creation
- actions to mitigate flooding

- actions to address historic environmental degradation
- actions linked to bio diversity targets
- actions to enhance water management
- improved business efficiency.

Pillar 2 accounts for only about 20% of the whole CAP budget. The proportion of the budget in Pillar 2 needs to be enhanced and leakage from Pillar 2 to Pillar 1 resisted. HIE believes that distribution will deliver the best range of outcomes for Scotland in the context of the Government Economic Strategy. Diluting the effort through Pillar 2 will adversely impact progress with the solidarity and cohesion objectives.

Scottish Government should take advantage of the extent of High Nature Value (HNV) farmland within Scotland as it seeks to influence the CAP reform debate. Water, energy, bio-diversity and climate change mitigation objectives are all deliverable from HNV farmland managed using a low intensity methodology. These designations should be seen as an opportunity to address the social and economic issues as well as the purely environmental, particularly since much of the Europe's HNV farmland lies within Scotland and the Highlands and Islands in particular.

Carbon sequestration in the deep peat soils which are common in parts of the Highlands and Islands is another area that a reformed CAP might seek to optimise.

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