

RURAL AFFAIRS AND ENVIRONMENT COMMITTEE
FUTURE OF AGRICULTURAL SUPPORT IN SCOTLAND
WRITTEN SUBMISSION FROM QUALITY MEAT SCOTLAND

Introduction

Quality Meat Scotland works with the Scottish Red Meat industry to improve the sustainability of all links within the supply chain. A successful livestock industry is vital to the Scottish farming economy and rural landscape. Including poultry and milk, the livestock sector contributed 55% of total Scottish Agricultural output in 2010 with red meat alone contributing 37% of total output in 2010. Furthermore 85% of Scotland's agricultural area is considered to be Less Favoured Area and 62% of the total land area considered to be rough grazing suitable only for ruminant livestock production and consequently the future of livestock farming could have significant impacts on landscape and fragile rural economies.

The current major concerns for the industry are low profitability and a reduced supply, particularly in the sheep sector but also among the suckler beef sector, that has gained pace since the introduction of decoupled payments in January 2005. A contributory factor to fluctuating profit levels, particularly in the pig sector, has been significant within and between year volatility in both input and output prices. Price volatility has increased in recent years and how best to manage this volatility is a concern for the livestock sector. There are also longstanding concerns over the cost of compliance with the regulatory framework of which the CAP is part. In many cases these requirements do not apply outside the European Union (EU) and consequently reduce the competitiveness of EU producers. Additionally many of these costs are borne solely by farmers and processors.

Consequently, QMS considers that some clear objectives should be set at the outset for a reformed CAP. In a Scottish context these should include:

- securing livestock production in Scotland and more widely a recognition of food security as a CAP objective;
- minimising spatial redistribution of support payments within Member States;
- means to manage price volatility;
- encouraging innovation in respect of improving product quality and production efficiency which should offer both improved enterprise sustainability and climate change benefits; and
- minimising administrative burden on producer and competent authority

Equally it is worth restating the original objectives of the Common Agricultural Policy which were set out in the Treaty of Rome as:

- to increase agricultural productivity by promoting technical progress and ensuring the optimum use of the factors of production, in particular labour;
- to ensure a fair standard of living for farmers;
- to stabilise markets;
- to assure the availability of supplies; and

- to ensure reasonable prices for consumers

QMS firmly believes these objectives are as pertinent today as they were in 1958.

It is against this background that QMS offers the following observations and comments.

Direction of travel

QMS recognises, and agrees, that the direction of travel across Europe is for direct support to be de-coupled and that the rates of payment should also no longer reflect historic patterns of activity. We would also urge that the direction of travel takes cognisance of simplicity of operation and administration for both producer and competent authority.

However, any new area support regime must recognise activity and the productive capacity and flexibility of the land to which the support is attached. QMS would be concerned that the drive for a simple area based support system may lead to significant redistribution of the current level of support. The consequence of which may lead to a significant disincentive to maintain livestock production at its current levels, or to increase in response to the commercial market signals, with knock on effects for up and downstream employment and Scotland's ambitious targets for its food and drink sector as detailed in the Scottish Government food and drink policy published in 2009. The long term sustainability of our food processing industry will ultimately depend on a businesses ability, and freedom, to respond to market signals whether that be for commercial goods or public goods.

The direction of travel must equally recognise the increased volatility in commodity prices, both as output from and inputs to food production, and the need for safety net mechanisms to offer some basic security to producers.

Pack Inquiry recommendations

We welcome the findings of the Pack Inquiry and we believe the overarching principles outlined in the recommendations are appropriate for Scotland.

We consider the retention of a two pillar system to be a valid model with pillar 1 the home of direct payments and pillar 2 the home of economic and environmental development support. Over time inflation will diminish the value of pillar 1 support effectively making businesses more dependent on returns from the market place. Consequently, we strongly recommend that the current level of funding in pillar 1 is neither diminished nor modulated.

It is important that the support available delivers maximum benefit to both producers and the up and down stream businesses dependent on active agriculture but also delivers value for money. Profitable farm businesses are better able to deliver on many public goods, for example, landscape management and biodiversity, and business development because they are able to afford, or secure, the matched funding needed to qualify for many of the measures in pillar 2. To achieve this it is

vital that support is only available to those actively involved in the day to day management of agricultural activity.

The diversity of the climate, soils, topography and remoteness of the Scottish land resource is considerable. In some areas the options for land use are minimal and limited to livestock production while in other parts land use can, with relative ease, be switched between livestock and crop production. The LFA categorisation takes these differences into account and consequently we consider it valid to divide support between LFA and non-LFA packages.

However, where we do have concerns is that the current LFA also covers a wide diversity of land capability ranging from areas where farming is very extensive and capable of only producing breeding and store livestock (and indeed areas where land abandonment has already occurred) to other areas of the LFA with greater productive capacity. The latter results in heavier, but not excessive, stocking rates and or the ability to produce prime stock as well as breeding and store stock. It is this feature that raises concerns over redistribution of support between the more productive areas and least productive areas when a simple area payment is used and the potential it has to act as a disincentive to the more efficient producers. In this regard the Pack inquiry introduces the concept of a new vulnerable area category which merits further investigation.

The principle of top-up funds offers some capacity to recognise some of the differences within the LFA identified above and we welcome the concept. We believe that more analysis needs to be done in respect of the size of the budget for basic area payment and top up fund and also the mechanisms that could be used within a top up fund. This challenge is recognised in the recommendations of the Pack Inquiry and by the Scottish Government and we understand further work in this area is underway.

What should the priorities be for a reformed CAP in Europe post 2013?

The European Commissions communication “The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future” succinctly sets out the challenges and therefore priorities for a reformed CAP as;

- EU and global food security;
- Sustainable management of natural resources;
- Adapting to and mitigating the impact of climate change;
- Retaining and enhancing competitiveness;
- Making the best use of the diversity of EU farm structures and production systems;
- Strengthening territorial and social cohesion in rural areas;
- Making CAP support equitable and balanced between member states; and
- Pursuing the simplification of the administration of the CAP both for farmers and the competent authorities.

QMS does not wish to add to this list of priorities. However, if we were to pick three with the highest priority we suggest;

- Food security;
- Retaining and enhancing competitiveness and thus securing a fair standard of living for farmers and farm workers; and
- Simplification.

as having greatest resonance. Irrespective of the final outcome on priorities, they must have clear objectives and a sufficient budget attached.

What should Scottish Government's key negotiating points be in seeking to influence the UK government, other member states and the European Institutions?

In comparison with many European Union Member States, Scotland has a greater dependence on livestock production (beef, sheep and pig production contributing 37% of output in Scotland but only 19% across the EU-27), a higher proportion of Less Favoured Area land and a larger farm business structure. Leading from these aspects we would suggest the key negotiating points for the Scottish government should include:

- Securing a sufficient budget both within a devolved UK and also for the UK as a whole;
- Minimising disadvantage/discrimination on the basis of scale;
- Recognising and supporting the role of livestock production in the management of landscape and bio-diversity particularly in Less Favoured Areas, areas of permanent pasture and on the carbon rich soils of Scotland;
- Securing activity and production so as to be able to deliver on food policy targets by securing raw materials for Scotland's food and drink businesses.

How many of the Pack report conclusions and recommendations can be taken forward as part of CAP reform.

We believe the Pack report is a particularly valuable scoping paper on the future of the CAP. Many of its conclusions and recommendations apply more widely than in Scotland alone. We would therefore hope that the majority of the Pack report recommendations can be taken forward as part of the CAP reform.

Conclusion

CAP mechanisms will continue to play a major part in the future shape and capacity of Scottish agriculture. Over time we have seen how food producers have responded to the introduction, and removal, of headage and area payments. In its most recent guise the CAP has had a major influence of livestock numbers in Scotland. Through a mixture of decoupling and low enterprise profitability livestock numbers have declined since 2004. If this was to continue serious questions would be raised over the future of businesses and employment involved in the processing and sale of meat and the contribution of the red meat sector to achieving Scotland's food and drink policy economic targets.

We strongly believe that it is only through profitable farm businesses that many of the priorities for the CAP can be achieved. We therefore believe that any future CAP must offer some measures to manage the risk of commodity price volatility, encourage innovation and adoption of latest research and technologies and allow businesses the flexibility to respond to market signals.

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