

RURAL AFFAIRS AND ENVIRONMENT COMMITTEE

FUTURE OF AGRICULTURAL SUPPORT IN SCOTLAND

WRITTEN SUBMISSION FROM SCOTTISH AGRICULTURAL COLLEGE

Future of CAP reform – with a focus upon hill and upland livestock farms

Tony Waterhouse, Claire Morgan-Davies and John Holland

The next phase of farm support under the Common Agricultural Policy (CAP) will commence in 2013, some eight years after the most recent major reform (2005). These reforms decoupled production based payments, creating the Single Farm Payment (SFP) system. In Scotland, using a 'historic' payment model, this has been based upon previous payments supported through a largely new cross compliance system. Inherent within the new approach was the capacity to increase the freedom for farmers and land managers to farm as they wished, rather than the constraints placed by quota and similar restrictions. A new system, which inevitably moves away from a historic payment, is proposed by an enquiry team led by Brian Pack (2010).

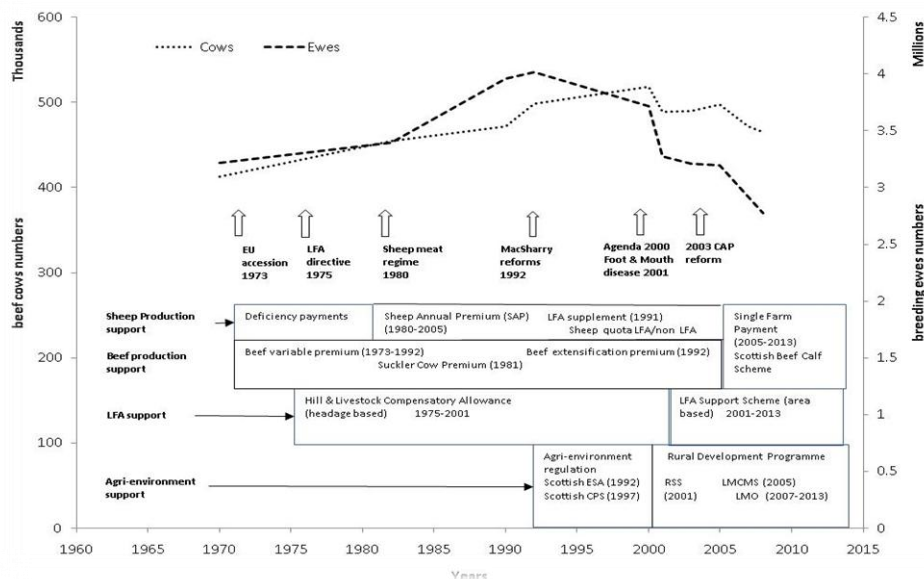
This paper will focus upon the hill and upland livestock sector because; 1) it is very important to Scotland; 2) any reform package will have great influence here due to high dependence upon subsidy payments, the lack of flexibility of farming systems in the hill areas of Scotland, and failures may lead to major impacts on social, economic and environmental issues; 3) because arguably the hill and upland sector was most influenced by the last reform package; and 4) because this is a specific area of expertise of the authors. We have focussed on limited issues raised by the Committee's questions.

The direction of travel of CAP reform and predicting impacts

The discourse with respect to the primary and secondary purposes of the new support payments is interesting to note. Pack proposes a focus upon food production and food security, in line with those views from European Parliament, and from EU Commissioner, whilst the counter argument for a continued or enhanced ecosystem services approach has many supporters. Inherent within the Pack approach are proposals to treat LFA and non-LFA areas of Scotland very differently. We note issues of relevance;

- 1) There will be major impacts of any new format

All previous major reforms have been implicated in major changes to farming structurally and economically, have had impacts upon rural and associated industry and have had effects upon the environment. This was particularly clear in the last reform package, and it seems highly likely that any new reform package, even if correcting some of issues of the 2005 package, will be significant and fundamental.



Looking forward is always a challenge, aided much by looking back in time. Some of CAP and support payment changes and headline impacts upon livestock numbers are illustrated in the figure above. These headline numbers for livestock do not differentiate here between regional and LFA/non LFA areas, but recent declines in numbers (SAC, 2008) show there have been disproportionate effects upon livestock and employment regionally. The upland sector has shown the greatest changes, mainly of decline since the 2005 reform were announced. We consider it important to reflect upon Scotland's diversity to deliver both production and a high degree of ecosystem services through agricultural management.

2) That there are many other factors other than CAP involved in land use and these will act independently of CAP reform, at least in part

We have conducted significant primary research with land managers, e.g. Morgan-Davies, 2008; Waterhouse, 2006; SAC, 2008; Holland, 2011. This has revealed a wide range of issues and impacts at the farm level. Relevant trends and issues for the future include;

- Effective abandonment of significant land areas, sometime only on parts of farms and thus less obvious from farm census statistics.
- Livestock numbers have generally declined, but in an uneven manner between farms and across farms, but these have gone alongside management changes such as to breeds, and use of land within the farm.
- Many of changes noted are linked to labour issues, rather than to economics. Skilled labour is difficult to find and diminishing. There are fewer full-time occupiers, fewer occupiers with agriculture as their main interest and fewer employed workers and it is proving harder to find top-up labour for key tasks that require more people above reduced base farm labour, e.g. lambing and gathering sheep. This is affecting the sustainability of system and raises concerns over product quality and welfare of livestock.
- Concern that an aging farming population is creating further issues, besides uncertain succession and continuity. Farmers note management changes, for example stopping keeping cattle or gathering on more difficult terrain.
- Less farming activity also means less up and down-stream activity, such as veterinary services, animal feeds supplies, auction and abattoir throughput and haulage, all with wider social impacts.
- Widespread agreement that only active management should be supported.
- Widespread views of a diminishing value for biodiversity related impacts through reduced intensity or removal of agriculture.

We conclude that many of these issues will not diminish through changes to the farm support package, as proposed.

3) Whatever the new package, many stakeholders will be unhappy with the outcomes

There is a strong divergence in views of the purposes of our upland agricultural land. This is highlighted by the consultation report by George Street Research (2010) where they noted strong differences in opinion between wildlife conservation interests and others. Many commentators including Pack highlight some tension between production focussed support and the farming that underpins many ecosystem services. There are many practical interactions and conflicts between different elements of ecosystems services.

Our recent research (Morgan-Davies, 2010) has shown that different stakeholder interests also want very different things in terms of hill land. In the public goods debate, we believe that access, climate change, biodiversity and local community interests would all lead to different outcomes, than at present if given priority. Further we note there are poor matches between sectoral policy interests (food, forestry, renewables, access and biodiversity and water interests are all very different) and what many stakeholders want.

4) How might the reforms impact?

It is uncertain how different support approaches and particular payment rules and cross compliance will affect individual businesses. A major issue raised within the SAC Retreat report is the way that impacts pass across farm boundaries, with potential 'domino' effects. This makes it even harder to predict any likely impact, particularly at local levels, where relatively few farming businesses have a major influence at a whole landscape level, and one farm's decision influences another's sustainability.

Furthermore, in terms of impacts upon environmental issues, or wider ecosystem services, the effect upon livestock numbers, grazing intensities, fertiliser inputs and use of other inputs will flow from the individual farmer responses, which themselves have great uncertainty. The impact of many of these practices upon the whole range of ecosystems services, and their interaction magnifies uncertainty further. The Scottish government is proposing a new programme of research that aims to better understand these very issues and how they might be valued.

A key headline question though must be, what will impacts of proposed reform be on the 'Retreat' trends? Will they reverse, stabilise, encourage or have no effect upon the underlying social and economic trends and other drivers? Our view is that with good market prices, with a substantive payment package and cross compliance that ensures active farming only, then that in many areas of Scotland, declines in farming activity will slow and show modest reversal. The degree of reversal may depend upon the detail of top-up payments. We also consider that in certain local areas, there will be no recovery, and continued abandonment of farming will continue, linked to the personal choices of the land managers involved. This is because of the relatively low numbers of individuals who make these decisions within a large area, their inter-dependence, the difficulties of the jobs involved and the well-reported lack of suitable trained labour and land managers.

The division of support and mechanisms across Scotland

Crucial to how any new reform package succeeds will be the payment model for different systems and regions across Scotland. Inevitably this also creates many of issues and debates about implementation, around who will be 'winners' and 'losers'.

Scotland has highly varied production inputs and outputs for livestock systems. Across sheep and beef systems the range is very considerable, much greater than that for example in dairy farming systems. Here, whilst farm size and scale may differ, there are relatively standard production standards for land areas per dairy cow. For sheep systems in Scotland, stocking

density vary from 10 ewes per hectare to 10 hectares per ewe at the extremes. Even comparing industry norms between field-based upland systems and extensive pasture based hill systems; stocking density differs by at least 10 fold. Furthermore output per ewe differs dramatically, in terms of sales by up to a factor of four-fold. A single standard area based payment thus has no logic, and would have potential for unforeseen consequences as it moves payments approaches outside our recent experience. There is a clear problem, though that the range of stocking densities and outputs above, whilst arguably typical of the difference between LFA and non-LFA land, are just as commonly seen between farms within the current LFA area.

Total top-up payments based on lamb numbers would also be quite varied per production unit (per ha or per ewe), where production level varies dramatically based on land type and location. For cattle, this variation is less likely to be seen, as calves produced per cow are more in the hands of the farmer or crofter than the constraints of the land and the climate

A division, or divisions, within Scotland on payment levels is entirely logical. Two issues emerge; how should these boundaries be set? and what payment mechanisms should be used but based upon the payment boundaries? There is a clear link between the division between the land/farm types and the elements to which any payment is geared.

The splits as proposed by the Pack Committee are relatively crude along the current LFA and non-LFA boundary, but far-reaching. Furthermore, the modelling commissioned and reported by Pack, shows issues, particularly for those farm types with low land areas, high inputs and outputs – such as mainly cattle and cropping farms. Pack proposes that cropping farms in the LFA could opt out into the non-LFA system. More intensive upland livestock farms – often with many cattle and more productive sheep systems are shown by the modelling to show a major decline in net support payment income.

The experience from England (Defra 2011) on how they used (non-historic) area payments within their LFA is interesting. Here a Moorland Line, which was already demarcated, often across a farm to create categories of land, above and below, was used to attempt to more fairly categorise the scale of inputs and outputs from these two key land types. There have been adjustments since inception in 2005, but the English upland farms have continued to survive relatively intact, though not without some of the problems of livestock reduction and areas of abandonment seen more widely in Scotland. Such a line does not exist in Scotland.

Pack looked at a payment approach using the Land Capability for Agriculture (LCA) approach, which splits land type into more categories than that used in England but dismissed this as too complex. It is our view that without a more sensitive approach to how land type interacts with production systems and costs then problems will occur. These are likely to have structural impacts upon our most productive upland livestock farms. Top up payments for both calves and lamb-based payments are critical.

Support as a reward for production, through the top-up payments, is a critical issue within the Pack recommendations. The continuation of the Beef Calf scheme is a mechanism to achieve this for beef systems – it already works on the ground. However a study conducted Barnes (2008) noted complexity in understanding its impact, the continued decline in cattle numbers and thus the calves produced and continued negative net margins for these farms.

An analogous system for lambs, as proposed by Pack, with a payment based on lambs on the farm at 60 days of age poses many questions re security and practicability. Whilst 'counts' of lamb in extensive systems are often taken at this time, how they might be proven to be verifiable is a much greater challenge. This example confirms a key conclusion, that the devil will be in the detail and without the detail it is difficult to predict how farmers will fare and respond in terms of their future business direction and all that will be influenced.

References

- Barnes (2008) Special Study Evaluating the Scottish Beef Calf Scheme
<http://www.scotland.gov.uk/Publications/2008/06/05104709/0>
- Defra (2011) Farming in the uplands . Defra evidence to UK Parliament Rural Affairs Committee
<http://www.publications.parliament.uk/pa/cm201011/cmselect/cmenvfru/writev/556/18.htm>
- European Parliament (2010) Report on the Future of the Common Agricultural Policy after 2013 (George Lyon), European Parliament, Brussels.
<http://www.georgelyon.org.uk/resources/sites/84.234.17.197-489191ad48f659.69290487/CAP+report.pdf>
- George Street Research (2010) Phase 1 of the Inquiry into Future Support for Agriculture in Scotland: Analysis of Evidence. <http://www.scotland.gov.uk/Resource/Doc/319836/0102322.pdf>
- Holland, J.P, Waterhouse, A., Morgan-Davies, C., Midgely, A. & Thomson, S. (2011) An Analysis of the Impact on the Natural Heritage of the Decline in Hill Farming in Scotland. Report to SNH, in press
- Morgan-Davies, C. Waterhouse, Milne, C.E., Stott, A.W. (2006) Farmers' opinions on welfare, health and production practices in extensive hill sheep flocks in Great Britain. *Livestock Science*, 104, 268-277
- Morgan-Davies, C., Waterhouse, A. (2010) Future of the hills of Scotland: Stakeholders' preferences for policy priorities *Land Use Planning*, 27, 387-398
- Pack Committee Report (2010) <http://www.scotland.gov.uk/Publications/2010/11/03095445/0>
- SAC (2008) Farming's retreat from the hills. www.sac.ac.uk/mainrep/pdfs/retreatreport.pdf
- Waterhouse, A. and Morgan-Davies C (2008) CAP reform and new agri-environmental schemes- impacts on welfare <http://www.sac.ac.uk/mainrep/pdfs/welfareworkshop.pdf#page=26>