

RURAL AFFAIRS AND ENVIRONMENT COMMITTEE

FUTURE OF AGRICULTURAL SUPPORT IN SCOTLAND

WRITTEN SUBMISSION FROM SNH

Thank you for the opportunity to comment. The future of agricultural support is of profound importance to the future of Scotland's countryside and its character. Our full response is found at Annex A. However, the key points we want to make are:

- Agriculture has a profound impact effect on much of Scotland's environment.
- A very powerful case for rewarding positive environmental management by farmers from the public purse, in order to correct market failure and to secure for society the major contribution that a healthy and flourishing environment can make to both quality of life and economic competitiveness.
- Investment in the environment can contribute significantly to economic growth.
- In our view, therefore, the principal purpose of future public support for agriculture should be to ensure the continuing supply of "the public good" derived from existing or additional environmental benefits where these are most efficiently and effectively produced as a product of farming or cannot be secured in any other way
- There is a proper place for suitably targeted financial support where it can achieve a change from an unsustainable to a more sustainable model of farming
- We have significant reservations about many of the Pack Inquiry recommendations as they appear to be based on an insufficient understanding of the environmental goals to be achieved.
- We are not in favour of a lamb headage scheme, though we would support (in principle at least), the possibility of a top-up for the sheep sector that guaranteed a level of management of sheep flocks sufficient to improve the good ecological condition of unenclosed land.
- We cannot agree that the highest payments should go to the most active farmers if they are defined (as they are) as being purely the most productive. The aim should be to direct payments to where they generate the best public

good – beyond agricultural production delivered through market forces. This is often environmental benefit.

- The proposal to re-structure the system of payments between LFA and non-LFA land is a bold attempt to begin to target 'direct' payments. However, the present LFA boundary represents only a very crude distinction in relation to the potential supply of environmental goods. We would prefer to see some form of targeting that would more accurately reflect the distribution of High Nature Value (HNV) farming.
- We are not in favour of focussing future schemes on "broad and shallow" measures. There is a continuing need for a targeted approach if benefits are to be optimised. One approach would be to make Pillar 1 the deliverer of the wider, less specific measures whilst focussing an adequately resourced Pillar 2 on more targeted ones.
- Broadly we think that the Scottish Government's key negotiating points in seeking to influence the CAP should be;
 - **To create a stronger and more explicit link between the money paid to farmers and the obligation to deliver environmental public goods.**
 - A **radical reform of the first pillar**, involving substantial redistribution. If the SFP survives (as it seems likely it will, in some form, at least until 2020) it should become a basic payment for *sustainable* land management.
 - **To maintain (but preferably expand) the budget for the SRDP for the next programming period** (as the means of funding a programme of more specific environmental (and other) measures.

The primary focus for the CAP should be on achieving food and environmental security by supporting the provision of environmental services by land managers. There is a risk that public support for the CAP will shrink unless it is clear that payments are conditional not only on the prevention of environmental damage, but on the delivery of clearly recognisable public benefits. As Environment Commissioner Potočník has observed - "if we can achieve a very significant and profound greening of the CAP we can also get the stronger public support we need for continuing the high level of CAP financing".

Reform should bring about a further transfer of emphasis away from un-targeted income support towards the direct purchase of environmental goods.

If you have any queries about the content of this comment, please contact Peter Pitkin in the first instance – peter.pitkin@snh.gov.uk, tel. 0131 316 2600.

Annexe

What should the direction of travel be for the future of agricultural support in Scotland?

In Scotland agriculture shapes much of our environment and we all have to live with the consequences – good or bad. Fortunately the legacy of many centuries of farming activity in Scotland has been largely benign – as evidenced by the value placed upon many of our agricultural landscapes and the relatively good performance against the terrestrial breeding bird indicator. But in thinking about the future of agriculture, and the public financial support for it, we must not overlook the fact that we are considering and influencing the fate not just of an industry and way of life but of the land we live in, the environmental services that it provides and the many other economic activities that rely upon the quality of our natural resources – not to mention the non-material benefits that these can and do provide.

Whilst adverse impacts on the environment can to a degree be controlled through regulation, positive contributions can only to an extremely limited extent be either regulated-for or marketed. There is accordingly a very powerful case for rewarding positive environmental management from the public purse, in order to correct this market failure and to secure for society the major contribution that a healthy and flourishing environment can make to both quality of life and economic competitiveness.

Research commissioned by SNH¹ and several partner organisations in 2003 estimated the value of the natural environment to Scotland's economy at £17.2bn per annum, equivalent to 11% of total output for Scotland. Given the importance of the environment to the Scottish economy, we believe investment in the environment can contribute significantly to economic growth. In view of the close relationship between farming and the environment, and since three-quarters of Scotland is agricultural land, it is reasonable to direct a substantial part of that investment through farming. That investment, however, must be targeted in a way that will achieve specific outcomes, not merely reducing negative impacts.

Environmental benefits are not the only public benefits associated with agriculture – although we believe them to be by far the largest in scale and most pervasive. Particularly in the remoter, less hospitable parts of the country, farming can provide the foundation for communities which might otherwise struggle to survive

¹ *RPA and Cambridge Econometrics. (2008) the Economic Impact of Scotland's Natural Environment. Scottish Natural Heritage Commissioned Report No.304 (ROAME No.RO7AA106).*

economically. In such areas this social objective supplements what is often a very strong environmental case for supporting the continuation of a level of agricultural activity appropriate to the harsh physical conditions which, in the absence of such support, would not be viable financially.

In our view, therefore, the principal purpose of future public support for agriculture should be to ensure the continuing supply of “the public good” derived from existing or additional environmental benefits where these are most efficiently and effectively produced as a product of farming or cannot be secured in any other way.

Food production, itself, is not generally regarded as “a public good” in the same way. An adequate level of food security is a legitimate goal of public policy and one that is likely to assume greater priority in the conditions expected over the next 50 years. But that does not of itself make agricultural produce of the normal kind “a public good”. Rather it is a market commodity.

Agri-environmental payments as presently made through the Rural Development Programme are likely to be the main source of support for these environmental benefits. We do see a legitimate case, however, for continuing to support farm incomes in situations where farming could not otherwise survive – but only where the continuation of farming is essential to the supply of social and environmental benefits. Such support is likely to play a vital part in maintaining the extensive agricultural management of much of rural Scotland, but it needs to be better targeted for this purpose.

We also believe there is a proper place for suitably targeted financial support where it can achieve a change from an unsustainable to a more sustainable model of farming over a limited period. Payments should not be made indefinitely merely with the aim of maintaining methods or levels of outputs that would otherwise be unsustainable.

Greenhouse gas emissions from agriculture are estimated at around 20 per cent of Scotland's total, most in the form of methane and nitrous oxide. The Scottish Government's target of an 80% cut in emissions over the coming four decades in the Climate Change (Scotland) Act will require radical changes in agricultural land use and management. There is the potential not only for farmers to reduce emissions from agriculture and improve the resilience of their businesses to climate change, but to take action to counteract or compensate for the effects of greenhouse gas emissions from other sources. In some parts of the country where the production of any agricultural commodity is inherently uneconomic, this with other environmental goals could become a central purpose of support for farming.

Are the recommendations made by the Pack inquiry appropriate and achievable?

Although we can support the principles ‘guiding the achievement’ of the inquiry's ‘goal’ for the future of Scottish agriculture, and most of the objectives that the report

lists as its 'processes', we have significant reservations about many of its recommendations. These appear to be based on an insufficient understanding of the environmental goals to be achieved and of the capacity of certain types of measure to deliver them. As a result they would not, as they stand, deliver the vision of an environmentally sustainable and benevolent agriculture to which we believe that Pack and Government subscribe. While they go some way to increasing the connection between first pillar payments and the supply of environmental public goods, they would leave more than half of the budget with no stronger connection (with any public goods) than at present. The proposed top-ups correspond to the 'greening component' in one of the scenarios of the EU Commission's Communication of 18th November. Although the top-ups would be worth enough to ensure that farmers could not afford to ignore them, Pack is far from clear about what their purpose should be. He fails to recognise that first pillar payments would be limited in their ability to achieve many of the more pressing environmental outcomes because they would be annual and non-contractual.

We are not in favour of a lamb headage scheme, though we would support (in principle at least), the possibility of a top-up for the sheep sector that guaranteed a level of management of sheep flocks sufficient to improve the good ecological condition of unenclosed land. One idea might be to link some payments to labour input, so long as this involved management of an environmentally appropriate kind, rather than just being derived formulaically from the number of stock – which could potentially take us back to all the problems – environmental, welfare, quality of output and WTO non-compliance – historically associated with headage payments.

The two pillar system

On the whole it seems that Member States favour retention of the two pillar system and The European Commission has give a clear indication that it is to remain.

Targeting direct payments at more active farms

We cannot agree that the highest payments should go to the most active farmers if they are defined (as they are) as being purely the most productive. There is too strong an assumption running through the recommendations that the supply of public goods will continue so long as levels of support to farming in general are maintained, with a bias in favour of the most economically productive businesses. This is another example of the report neither recognising the value and importance of the environmental benefits sought, nor the nature of the management required to secure them. As stated above, we do not agree with the strong and explicit assumption, here, that food production is "a public good" comparable to the environmental and social benefits that agriculture produces, justifying public support on the same terms. In pursuing this idea Pack, therefore, too readily assumes that future agriculture production has to be 'supported' rather than considering how the market might more powerfully respond to and meet society's needs. Ideas about a level of "food security" might justify some market intervention, but otherwise it could be unhelpful

to simply “support” agricultural production per se.

From an environmental point of view, appropriate land management is more important than active farming. Any definition of active farming that relies on minimum stocking rates runs a serious risk of encouraging farmers to keep more animals on ecologically sensitive habitats than such areas can sustain. The intention that the eligible area should be adjustable to match changes in stocking (recommendation 5) in effect turns an area-based payment into a headage payment.

Dividing support for land into different packages for LFA and non-LFA areas

The proposal to re-structure the system of payments between LFA and non-LFA land is a bold attempt to begin to target ‘direct’ payments. It would nevertheless leave 15% of the land with 38% of the budget, still much at odds with the distribution of non-market public goods.

The present LFA boundary represents only a very crude distinction in relation to the potential supply of environmental goods. The present LFA includes a wide variety of land types and farming systems, including some quite intensive livestock farming, and it is uncertain whether the boundary will be valid after 2013. We would prefer to see some form of targeting that would more accurately reflect the distribution of High Nature Value (HNV) farming, based on the work that SNH has been doing over the past few years to map it.

In order to make a connection between the size of the payment and the potentially deliverable environmental benefit the inquiry suggests that its size relative to the direct payment should differ - outside the LFA it would be an area payment of one-third of ‘direct’ support; in the LFA it would be determined by the Standard Labour Requirement (SLR). Although we believe it desirable to make the connection, we have reservations about this particular approach, which has not been tested with reference to any environmental outcomes.

The SLR, as presently calculated, relates closely to livestock numbers, so in our view would be an inappropriate indicator, and the proposal appears not to take into account that environmental management may be more costly in relatively intensively farmed land, or that the cost and value of different measures may vary.

We would support the inquiry’s proposal, which is in line with the integration scenario of the Commission’s Communication, to move the larger part of the present LFA support measure (i.e. LFASS) to the first pillar - though not necessarily to move the money. We believe there would be value in retaining a proportion of LFA support in the second pillar for a newly defined ‘vulnerable area’, if it could thereby be targeted more effectively to achieve specific outcomes rather than merely providing additional income support.

Other recommendations

We agree with the main recommendation about the SRDP (No.17), but not that there should be more emphasis on a broad and shallow approach. Broader, less demanding environmental measures have an important part to play in influencing the behaviour of a wide constituency of farmers and maintaining the environmental fabric of the countryside. However, the monitoring of agri-environmental measures indicates that 'broad and shallow' measures are either less successful than the more targeted schemes in achieving their objectives (a critical consideration if funding is limited), or their outcomes are not easily measured.

Our conclusion is that, though many measures might rightly be "broad and shallow" in order to encourage wider participation in the programme, there is a continuing and vital need for a targeted approach in many circumstances if the benefits are to be optimised. The essential need is for both "broad" and "narrow" measures to be adequately financed. One approach would be to make Pillar 1 the deliverer of the wider, less specific measures whilst focussing an adequately resourced Pillar 2 on more targeted ones.

We agree that there would be benefits in using the LEADER mechanism to deliver a wider range of measures across the programme.

We are broadly in agreement with the other recommendations relating to the second pillar, but in the event of a substantial cut to the budget we would want to see any future LFA (or vulnerable area) scheme delivering more for the environment.

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?

We propose three headline points:

- **To create a stronger and more explicit link between the money paid to farmers and the obligation to deliver environmental public goods.**
- **A radical reform of the first pillar**, involving substantial redistribution. If the SFP survives (as it seems likely it will, in some form, at least until 2020) it should become a basic payment for *sustainable* land management.
- **To maintain (but preferably expand) the budget for the SRDP for the next programming period** (as the means of funding a programme of more specific environmental (and other) measures.

The primary focus for the CAP should be on achieving food and environmental security by supporting the provision of environmental services by land managers. There is a risk that public support for the CAP will shrink unless it is clear that payments are conditional not only on the prevention of environmental damage, but on the delivery of clearly recognisable public benefits. As Environment Commissioner Potočník has observed - "if we can achieve a very significant and

profound greening of the CAP we can also get the stronger public support we need for continuing the high level of CAP financing”.

These reforms should bring about a further transfer of emphasis away from un-targeted income support towards the direct purchase of environmental goods and services (see ‘Achieving a transition away from income support payments’ www.lupg.org.uk). Research from a number of Member States indicates the scale of funding for Pillar 2 environmental land management needs across Europe (see <http://encanet.eu/home/index.php?id=suslaus>).

A principal purpose of CAP support should be the supply of existing and additional environmental benefits where these are most effectively secured, in the absence of a market, as a product of farming. In present terms this implies either a significant shift of funds from P1 to P2, or a targeted environmental measure within the first pillar. If the SFP survives, it should become a basic payment for sustainable land management, going beyond the requirements of cross-compliance and ideally including the management of a proportion of land for specific environmental purposes.

We recognise the desirability of some form of safety-net to protect EU agriculture from the effects of drastic market fluctuations that might put the environment at risk. This is not, however, a sufficient justification for perpetuating a system of universal income support. Public support will, however, need to provide a reasonable level of income for farms that supply critical environmental goods and services but are inherently unprofitable because of their harsh environment or remoteness. Financial support also has an important part to play where, as time-limited investment, for example in new technology and environmental management systems, it can assist the transition to a more sustainable model of farming.

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

As we do not yet know the outcome of the reform, it is impossible to answer this question with any certainty. The inquiry has for the most part concentrated on those aspects of Scottish agriculture that are influenced by the CAP, and indeed on those that figure in the debate about its future. If we assume that the most likely outcome is along the lines of the ‘integration scenario’ of the Commission’s Communication, then most of Pack’s recommendations could be accommodated, albeit with some modification.

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