



The Scottish Parliament

ENVIRONMENT AND RURAL DEVELOPMENT COMMITTEE

AGENDA

9th Meeting, 2004 (Session 2)

Wednesday 24 March 2004

The Committee will meet at 10.00 am in the Chamber, Assembly Hall, The Mound, Edinburgh.

1. **Inquiry into the implementation of CAP Reform:** The Committee will take evidence from—

Panel 1

Bob Stubbs, Senior Development Manager, Key Industries, Highlands and Islands Enterprise;

Roddy Jackson, Executive Committee Member, Scottish Estates Business Group;

Pip Tabor, Project Director, Southern Uplands Partnership; and

Panel 2

Jonathan Hall, Rural Policy Adviser, Scottish Landowners' Federation;

John Thomson, Director, Scottish Natural Heritage;

Adam Harrison, Rural Development Officer, WWF Scotland.

2. **Subordinate legislation:** The Committee will consider the following negative instruments—

the Pesticides (Maximum Residue Levels in Crops, Food and Feeding Stuffs) (Scotland) Amendment Regulations 2004, (SSI 2004/104);

the Pollution Prevention and Control (Scotland) Amendment Regulations 2004, (SSI 2004/110);

the Potatoes Originating in Egypt (Scotland) Regulations 2004, (SSI 2004/111); and

the Countryside Premium Scheme (Scotland) Amendment Regulations 2004,
(SSI 2004/113).

Tracey Hawe
Clerk to the Committee
Direct Tel: 0131-348-5221

The following papers are attached:

<p><u>Agenda Item 1</u></p> <p>Submission from Highlands and Islands Enterprise</p> <p>Submission from the Scottish Estates Business Group</p> <p>Submission from the Southern Uplands Partnership</p> <p>Submission from Scottish Landowners' Federation</p> <p>Submission from Scottish Natural Heritage</p> <p>Submission from WWF Scotland</p> <p>A paper from the Committee adviser and SPICe is attached (<i>for members only</i>)</p>	<p>ERD/S2/04/09/1a</p> <p>ERD/S2/04/09/1b</p> <p>ERD/S2/04/09/1c</p> <p>ERD/S2/04/09/1d</p> <p>ERD/S2/04/09/1e</p> <p>ERD/S2/04/09/1f</p> <p>ERD/S2/04/09/1g</p>
<p><u>Agenda Item 2</u></p> <p>the Pesticides (Maximum Residue Levels in Crops, Food and Feeding Stuffs) (Scotland) Amendment Regulations 2004, (SSI 2004/104)</p> <p>the Pollution Prevention and Control (Scotland) Amendment Regulations 2004, (SSI 2004/110)</p> <p>the Potatoes Originating in Egypt (Scotland) Regulations 2004, (SSI 2004/111)</p> <p>the Countryside Premium Scheme (Scotland) Amendment Regulations 2004, (SSI 2004/113)</p>	<p>ERD/S2/04/09/2a</p> <p>ERD/S2/04/09/2b</p> <p>ERD/S2/04/09/2c</p> <p>ERD/S2/04/09/2d</p>

SUBMISSION FROM HIGHLANDS AND ISLANDS ENTERPRISE (HIE)

Context

The HIE Network is responsible for economic and community development across a diverse geographical area which covers more than half of Scotland and is home to around 425,000 people. Our strategy 'A Smart, Successful Scotland – the Highlands and Islands Dimension' sets out four strategic objectives: Strengthening Communities; Developing Skills; Growing Businesses; and Making Global Connections. One of our priorities for Growing Business is Global Success in Key Sectors and agriculture is one of these key sectors. The HIE Network has a key role and a keen interest in the delivery of rural development assistance.

HIE has always sought to help create and support businesses which diversify our economic base, including helping traditional sectors like agriculture to reach new markets and broaden their activities. The recently announced CAP reforms are the most radical changes to the agricultural sector in decades and it is important that full consideration is given to the potential ramifications of the changes that are planned.

CAP Reform and the Highlands and Islands

HIE undertook preliminary research during 2003 on the potential impacts of the CAP changes through research commissioned from the Scottish Agriculture College. Subsequently, workshops and seminars were held to discuss the findings and a significant level of consensus was achieved amongst many of the agencies in the Highlands and Islands.

The announcement of the outcome of the consultation made by the Deputy Minister for Environment and Rural Development clarified a number of key principles, most of which were consistent with HIE's views. There were however a number of differences which we will elaborate on later and whilst the general shape of the reforms is now known, there are a number of significant issues still to be resolved. These include the detail contained in the Implementing Regulations, still to be finalised by DG Agri; the current consultation on Good Environmental and Agricultural Condition (GAEC); and the design and roll out of the Modulation funds under the Rural Development measures through the use of Land Management Contracts (LMCs).

The most significant factor to consider though is how will the farming and crofting community react to the changes? Looking back at the historic trends in livestock numbers; area farmed; number of holdings and people employed in agriculture, the most remarkable factor is that the sector has been very resilient to shocks brought about through periods of low prices and disease crises such as BSE and Foot and Mouth. Throughout all this, the pattern of agriculture has stayed relatively constant in the Highlands and Islands with only a slow decline in the employed workforce which is running at about 1% per annum. This resilience was a feature identified in our recent SAC commission which showed that whilst the pure economics of production might theoretically lead one to conclude that production systems needed to change, the reality of this reform might be completely different.

Underlying the thinking behind the reform proposals was the principle that farmers should be freed up from subsidy regimes in order to take market decisions based on consumer demand. Those producers who were less able to respond directly to the market or who already produced significant non-market benefits, be they social or environmental, would be rewarded for such goods through the reform. By definition, this should involve some redistribution of aid and this is one of the principal reasons why we advocate that the Single Farm Payment should progressively move towards an area based payment system over time.

Now that the decision on CAP reform options has been announced, HIE, with the involvement of other partner organisations, intends to commission medium term monitoring of the changes in order to generate evidence which will benchmark the changes occurring in the Highlands and Islands against other regions of the UK and the EU. We will use this information to help inform future amendments to the CAP, including strengthening the debate for changes to the Single Farm Payment.

Potential Impacts on Environmental and other Public Objectives

The SAC report suggested that there could be an approximate 20% decline in livestock output at the Highlands and Islands level and a similar decline in total output; both of these being roughly twice that of the predicted fall across Scotland as a whole. The more telling fact was that within the Highlands and Islands, these changes could be even more radical with the most significant effects being in the fragile areas including Shetland, Western Isles, Argyll and the Islands and the remaining west coast mainland. Predictions of losses as high as one third of cattle numbers were estimated for these areas.

These fragile areas also provide significant environmental gains through low intensity management practices; stocking densities and fertiliser regimes. In order to maintain this level of activity and biodiversity (as opposed to rectifying environmental damage in more intensively farmed areas), farmers and crofters require financial support to maintain current practices.

Once livestock numbers are lost in the fragile areas, it will be extremely difficult to retrieve the situation in the future. This will have a consequential effect on local infrastructure in the form of marts, hauliers and local abattoirs.

The proposed GAEC conditions are currently under consultation and, whilst the general principles suggested appear reasonable, there is an issue that the same cross-compliance requirements would apply to farm holdings in receipt of potentially widely differing Single Farm Payments.

In summary, our suggestions in respect of the potential impacts on environmental and other public objectives of the CAP reforms are as follows:-

1. It is vital that the National Envelope provisions are targeted to mitigate against the loss of cattle numbers in fragile areas. We suggest that support of £140 cow is a minimum required to prevent the loss of cattle from the north and west, although, over the longer term, this level of support is not actually sufficient to retain cattle in the most remote areas. This support should be targeted at suckler cows in the Fragile and Very Fragile LFA areas.
2. Further support will be required in the longer term and we believe that this is best delivered as part of a Pillar 2 scheme using rural development funds, probably as part of an LMC arrangement.
3. The requirement for cross compliance conditions is a sensible and vital component of the continued receipt of public funds to the farming sector. There are however, 18 Statutory Management Requirements (SMRs) and a further list of GAEC conditions. Whilst the SMRs are in effect already, we believe that it would be helpful for ALL farmers and crofters to be given full copies of all the SMRs and the finally agreed GAEC requirements.
4. We remain concerned that there are anomalies between the cross compliance conditions and the historic based, Single Farm Payment in that farmers and crofters with widely varying SFPs will have to comply with the same cross compliance

conditions. For example, it has been calculated by SEERAD that an average non-LFA payment in Lothian would equate to £233/ha whereas an average LFA payment in the Western Isles equates to £8/ha. The cost of cross compliance as a percentage of average support levels therefore varies widely and works against those operating in the remoter fragile areas.

Wider Rural Development Objectives

In our response to SEERAD, we advocated the use of the maximum suggested level of National Modulation of 10% and our view still remains that a high level will be required to properly fund the aspirations to develop the Land Management Contract system. The Rural Development measures funded through Pillar 2 are essential to maintaining and enhancing rural areas and include the only parts of the CAP designed to steer support in favour of the marginal producers. Pillar 2 also contains some of the principal EU instruments for the effective implementation of key environmental policies and it is therefore very important that a high level of funding is directed in this area. The Executive's decision to provide a minimum of 10% modulation from *both* EU and National sources is a step in the right direction but hopefully will be increased in future in order to provide additional funding for rural development measures. Continuity of Treasury match funding is very important in supporting future rural development programmes.

In addition, Pillar 2 funds are largely unaffected by the "financial discipline" requirements of Pillar 1 (which funds the SFP). Following EU enlargement, Pillar 1 will be a declining fund with reducing importance beyond 2013 and it is therefore important to maximise the use of Pillar 2 support so that relevant mechanisms are in place for the longer term.

The delivery of rural development measures under Pillar 2 should be devolved to those agencies best placed to deliver assistance. We very much support the conclusions of the recent Haskins report carried out for DEFRA which stated that "Defra's prime responsibility should be the development of policy, and it should arrange for the delivery of its policies through national, regional and local agencies. Policy and delivery functions should be managed separately so that accountability for policy and delivery is clearly defined".

It is important that in devising programmes, there is a balance between economic, social and environmental support measures in recognition of the requirements laid down in the "Forward Strategy for Scottish Agriculture". Our understanding of the emerging design of the Land Management Contract is that a three tier approach is proposed with the top level being the SFP with its cross compliance requirements; the second level is a broadly applicable menu of items largely accessible to all and the final tier will comprise the targeted and probably competitive schemes which could include such things as marketing support and business diversification assistance.

We advocated in our response to SEERAD that the €5,000 franchise applied to the EU modulated funds should also be applied to National modulated funds. This would help to remove a significant number of producers in the Highlands and Islands who are in receipt of small levels of subsidy payments from the need for modulation clawback.

In summary our suggestions in respect of the wider rural objectives are that:-

1. The use of Pillar 2 funds should be maximised and the recently announced levels of modulation should be reviewed over the next few years with a view to raising them.

2. Commitment from Treasury to secure continued match funding at current levels should be sought.
3. Scheme delivery should be carried by those agencies best placed to do so. Assistance for agricultural rural development activity should be delivered through those agencies currently delivering rural development in an integrated way across a wide range of economic sectors which, so far as the Highlands and Islands is concerned means the HIE Network.
4. The broad measures defined under Tier 2 of LMCs should have applicability across a wide range of farming and crofting situations
5. The targeted measures under Tier 3 of LMCs should be devised having considered a wide range of measures including those contained in Article 33 of Council Regulation (EC) No 1257/1999.

Single Farm Payment

Whilst we acknowledge that the Deputy Minister for Environment and Rural Development announced a future review of the basis of the SFP, we believe that an opportunity has been missed to start the move towards a fairer system of support payments. A system based on historic payments fossilises an imbalance of aid which directs most support to the producers and regions that already have a more competitive and market oriented agriculture. Historic payments will continue to marginalise the very farming systems that generate significant existing environmental benefit and that are the most fragile and at risk of abandonment.

Much has been made of the need for stability in agriculture and the fact that a move to an area based payment would significantly redistribute existing aid. Our analysis of the situation recognised that fact and recommended a progressive move over time to a position which balanced the social, economic and environmental significance of the Highlands and Islands with the level of receipts from the SFP.

We acknowledge that there would be redistribution of aid within the Highlands and Islands, for example within Orkney, however our concern is to ensure that support is focussed on those producers who are less able to respond to market signals and a progressive period of adjustment would still allow time for those affected to adjust.

In summary our concerns about the Single Farm Payment are that:

1. The logic for historically based individual allocation becomes less defensible over time
2. An historic based system will continue to reward those producers who can already respond more directly to the marketplace
3. Maintenance of production systems in fragile areas will be put at risk on the basis of low levels of current historic payments
4. The areas that are at risk in an agricultural context are also at risk from the significant structural and policy changes that are underway in the aquaculture and sea fisheries sectors.

Finally, HIE has undertaken considerable research work on the CAP Reform issue and has completed a comprehensive submission to SEERAD in its recent CAP Reform consultation. We would be very pleased to make this evidence available to the Committee if it was felt appropriate.

SUBMISSION FROM SCOTTISH ESTATES BUSINESS GROUP

1. Introduction

- 1.1 SEBG represents a group of progressive land-based estates with significant agricultural and rural business interests. It aims to promote a modern business approach in the management of Scotland's land resource in ways which deliver social, economic and environmental benefits.

2. Rural Development Objective

- 2.1 SEBG supports the principle of CAP reform leading to the removal of production-driven agricultural support and to a market-oriented industry. The Group therefore strongly favours full decoupling and a system of support founded on rural development objectives using Land Management Contracts. It would recommend against partial decoupling which it believes would act as a market-distorting mechanism and add to the level of bureaucracy in administering a support system for a particular agricultural sector.
- 2.2 Full decoupling is essential if the wider rural development objectives underpinning the Fischler reforms are to be achieved. Production-based support acts to shield producers from the market and the consumer and to confine activities to those sectors of agriculture receiving support. SEBG believes that the rural economy will benefit from a system which stimulates farm-based rather than exclusively agriculture-based activities in future.
- 2.3 The process of transition, however, to a market-oriented industry will be of fundamental importance to avoid damaging social and economic implications. Targeting support for farm-based rural development during this transition will facilitate the necessary restructuring of the agricultural industry. The concept of whole-farm support using Land Management Contracts will bring about valuable social, economic and environmental benefits in return for annual payments. The three-tier model developed for LMC's in Scotland will act to provide higher levels of support for enhanced benefits. SEBG fully supports this concept of rural development in providing financial incentives for delivering additional benefits rather than financial penalties for breaching scheme rules. It is a proven system as demonstrated successfully with the take-up of environmental options under the Rural Stewardship Scheme.

3. Rural Development Funding

- 3.1 The key issue to address in Scotland and in other member states will be the level of funding to support the rural development programme. SEBG believes that the level of compulsory modulation to be introduced by the EU of 3% in 2005 rising to 4% in 2006 and 5% in 2007 will be inadequate to achieve the wider rural development objectives sought. SEBG favours additional national modulation in Scotland of 4.5% provided this is match-funded by the UK Treasury giving a maximum deduction of 9.5% from the Single Farm Payment by 2007 plus any additional deductions which may be required to feed the National Reserve.
- 3.2 In determining the criteria for distribution of modulated monies SEBG favours maintaining support for the upland regions through the Less Favoured Areas Support Scheme. The fragile and remoter geographical areas justify different treatment and LMC's will require to be tailored to take account of these factors.

4. Conclusion

- 4.1 In conclusion SEBG welcomes the package of reforms announced and supports the Scottish Executive's decision to apply full decoupling of support from production. The Group is not persuaded of the case to maintain partial support for any sector through the National Envelope which will act as a trade-distorting mechanism and create costs and added bureaucracy in implementation and administration.
- 4.2 To assist in the process of transition to a market-oriented industry SEBG supports rural development funding to encourage diversification and a range of farm-based activity with payments linked to the level of social, economic and environmental benefits delivered. It supports the use of Land Management Contracts with a system of structured payments dependent on the scale of benefits achieved.
- 4.3 SEBG favours National Modulation of 4.5% subject to match-funding by the Treasury in addition to the compulsory EU modulation of 3% rising to 5% in 2007. The additional funding generated from National Modulation will help secure the restructuring of the agricultural industry in the wake of the Fischler Reforms and lead to farm-based economic activity not constrained by production subsidies. By so doing SEBG believes that lasting reform will be achieved for the benefit of Scotland's rural economy, its environment and its communities.

SUBMISSION FROM THE SOUTHERN UPLANDS PARTNERSHIP

Background

The Southern Uplands Partnership is committed to sustainable rural development in the south of Scotland. We are a regional charity established in 1999 which developed as a result of a need: the rural south of Scotland has many different local authority and enterprise areas, and it was never central to any one organisation's remit to look at the needs of the rural uplands as a whole. Local people initiated this Partnership in order to plug those gaps. Within a year individuals, voluntary groups, agencies and groups from Forestry Commission Scotland to NFUS, Community Councils to Local Authorities had become members. The Southern Uplands Partnership now contributes to the delivery of joined-up thinking in the south of Scotland.

This strong partnership has a challenge when it comes to presenting an opinion on SEERAD's proposals for CAP reform, because we have a broad spectrum of opinion, even among our directors, and certainly among our membership. We include farmers and landowners, archaeologists and environmentalists, as well as government bodies and councils. Some of our members favour providing as much aid as possible to farmers with fewest strings attached; others favour making cross compliance as tight as possible in order to gain maximum environmental benefits. We are therefore pleased to report that, on balance, SUP favours the proposals put forward by SEERAD.

Farming is an important component of rural economies, and is perhaps more important socio-economically to the South of Scotland than to other parts of Scotland. The agricultural statistics indicate that the South has a very mixed agricultural economy, producing much more beef and dairy products than average for Scotland, and also has very productive arable and sheep farms. The Arkleton report (commissioned by the South of Scotland Alliance in 2000) showed that unlike other public funds (proportionally most of which in Scotland goes north to support the most remote and disadvantaged communities) proportionally most CAP money goes to the South of Scotland, because this is where agricultural production is highest. One view which is consistent within the membership is the desire for the South of Scotland not to lose out significantly through a change in delivery mechanisms.

Many rural people depend upon farming, and upon associated work such as transport, fencing, contracting, engineering, animal feed suppliers...few of whom are counted as belonging to the "agriculture sector" in the economic statistics, but all of whom live in our area and are trying to make a living here. If farming decreases suddenly without appropriate diversification support mechanisms in place, these jobs will be lost. Economic statistics indicate that Dumfries and Galloway and the Borders have the lowest average wages in Scotland. Our rural economy is fragile.

The Countryside Survey indicated that land use change has been more widespread in South West Scotland than anywhere else in Scotland during the last 50 years. This change, due to the economics of farming in marginal areas, has resulted in one third of Galloway becoming afforested (Dumfries and Galloway has twice the national average of commercial forestry). Upland farms have been replaced with sitka forestry. We fear for the spread of blanket forestry across southern Scotland, and want to maintain the diversity we have left - the farms, moors, woodlands, jobs, villages and communities.

The Southern Uplands core area is a mountain massif as defined in the 2004 EC report on Mountain Areas in Europe. That report outlines how "In general, mountain agriculture cannot compete with lowland agriculture. However the maintenance of mountain agriculture is important to preserve landscapes, recreational opportunities and cultural identity." That report concludes that "As the CAP continues to evolve, a primary goal should be to encourage systems that give added value to the specificities of mountain agriculture and consider the whole process from production to marketing. Countries should particularly consider mountain regions when developing the second pillar of the CAP, addressing agriculture in the broader context of multi-functional regional economies."

The Southern Uplands is the smaller of the two mountain massifs in Scotland; just 4318 km². However, the EC report notes that often it is the smaller or less obvious mountains that are the losers in terms of policy - they are frequently overlooked.

Reference: European Commission contract no. 2002.CE.19.0.AT.136 "Mountain Areas in Europe: Analysis of mountain areas in EU member states, acceding and other European countries. January 2004.

CAP Reform

The SUP helped run three lively regional meetings in November 2003 to discuss the effects and potentials for CAP reform. The following points are the conclusions reached during those meetings.

- There were hopes that farming could become more prosperous and diverse, more entrepreneurial, more integrated with woodlands and nature conservation, and better connected with the public.
- There were fears about more farm amalgamation and specialisation, loss of farm viability, loss of upstream and downstream jobs, loss of family farms, loss of hill cattle, and degradation of the landscape through intensification, abandonment and blanket afforestation.
- The meetings were in favour of full decoupling by a large majority. Reasons included simplification of bureaucracy and increased diversification and entrepreneurship.
- The meetings did not favour recoupling (by a huge majority), in order to avoid complication, although there was concern to find a way to support upland beef production. There were mixed views about the national envelope for beef, but no support for an envelope for dairy or sheep.
- There was strong support for a hybrid system of payments, phased in over a number of years to shift from a historic to a flat rate system so long as a fair and painless way could be found of achieving this.
- There was a majority in favour of increased national modulation, but many disagreed. Many felt that modulated funds should be regionally ring fenced, and even directly returned to farms.

Mid-term review decisions – how do these impact on the more rapid development of more environmentally sustainable farming and quality products?

- The most economically and ecologically fragile parts of the Southern Uplands are the marginal areas between fertile lowlands and most extensively farmed hill. These tend to be smaller farms, where conservation interest is high (pastures, bogs, woodlands, burns and springs). They are often family farms, suggesting a long-term commitment to the business and to the land, and where a current reliance on subsidies (50-60% of income) means that an alternative option will be needed post CAP. There is a risk that with the current shakedown these marginal farms may change by default, either by amalgamation with more intensive farms, or afforestation. New support schemes could allow them to survive, rewarding farms with specific species and habitats.
- When asked 'what agricultural environment we want in the western Southern Uplands, a meeting answered that 'we want it as it is (i.e. mostly permanent pasture) but with more ecological diversity, better ecological management and stronger socio-economic prospects'. More especially, we wanted better managed pastures, better managed moors, more native trees and woodlands, more paths especially around towns and villages, and some people wanted more organic and low-input farming, even conservation farming. CAP reform will help bring about these improvements.
- In the Southern Uplands, ideal environmental outputs had already been defined and agreed in local initiatives such as the LBAPs, SNH's Natural Heritage Futures programme, the local NSA and river catchment management plans and to a lesser degree through the relevant

Indicative Forest Strategies. It was suggested that some sort of Indicative Rural Strategy (including these, and culture/archaeology) might be useful in guiding future land-use. The Southern Uplands Partnership has appraised the plans and strategies of those with an interest in land-use and there is general agreement; however, there are few, if any, specific targets. A Regional Indicative Rural Strategy might clarify “sensitive”, “preferred” and “potential” areas for various activities. Farmers adopting agri-environmental measures in areas preferred by the strategy should receive additional funding.

- There was concern over the details of Good Agricultural and Environmental Condition (GAEC), and particular concern about the ruling to preserve all permanent pasture, partly because many of the all-grassland farms in the Southern Uplands would benefit ecologically from diversity: occasional ploughing and the introduction of a few arable fields (e.g. to benefit black grouse).
- There was concern over the lack of integration of farming with forestry. For example, it was feared that GAEC may inadvertently proscribe against wooded pastures by not considering them as agricultural, and that the new schemes may prohibit the planting of small woodlands on farms.
- Quality products such as award winning cheeses, Scotch Beef, heather-fed lamb, organic food, and green labelled produce are part of the way forward for many farms in the Southern Uplands.

Mid-term review decisions – how do these impact on the provision of jobs and opportunities in the rural economy and a more secure future for rural industries?

- Rural jobs and industries will develop as new ways are found of adding value to the resources – although this will require support structures. For example, nature-based tourism initiatives are starting to make an impact in the Southern Uplands but depended on support from well-resourced organisations such as the Forestry Commission Scotland or RSPB to get them off the ground. There is potential for many more such initiatives – but they will not come about without some 'hand-holding'.
- More paths would be an economic asset to the region and would catalyse new rural enterprise
- We must sustain rural communities, maintain and strengthen rural jobs, both in land management and in green tourism, which means building buoyant rural businesses. Ways to develop new jobs and to hold young people in the countryside are vital. If the agricultural industry is not profitable the environmental benefits and landscapes which the industry provide, and the public enjoy, will cease. CAP reform must allow farm businesses to develop while at the same time protecting those farms which are creating environmental benefits. Business Gateways are important.
- There are too many grant schemes on offer, each with its own criteria, application procedure, reporting procedure and time-schedule. The complexity acts as a barrier to many potential projects. A simpler and more flexible approach to supporting local projects is desperately needed.
- We look with some envy at the role and remit of Highlands and Islands Enterprise where social, economic and environmental concerns are being addressed together and in all sorts of innovative ways. We would like to see a similar remit given to all the enterprise companies or at least those in largely rural areas. This would in our view encourage a more appropriate approach to rural development and might also facilitate closer working between the key agencies

Mid-term review decisions – how do these impact on the introduction of Land Management Contracts?

- At our meetings, the majority were in favour of Land Management Contracts (LMCs) because public support should be prioritised to farms that produce public benefit. LMCs have the potential to target resources to where they can deliver maximum public benefit.

Beyond 2006 the links between what the public want and what farmers provide must be visible. At present most support goes to the most intensive farms – under reform, there is the opportunity to use funds where the public benefits are greatest.

- The challenge is to find a mechanism to inform the LMCs. Local priorities need to be identified in each region by local stakeholder groups. Every area and every farm is different. Previous schemes have offered standard options with very minor local flavour. Real benefits will come about when local priorities can be specified. A regional Indicative Rural Strategy might be helpful in this respect.
- Many benefits will only be realised if scattered information is brought together so that farmers and communities can see for themselves what is important about their landscape – archaeology, paths, biodiversity, historic landscapes or key habitats – and how these relate to the bigger picture. Local Environmental Resource Centres will hold the key to this, and require funding.
- Farmers should be asked to produce outcomes (environmental and social outcomes) rather than follow prescriptions and training may be required to facilitate this.
- Land will require careful monitoring and policing to ensure that the targets benefits are being produced over the long term.
- The more modulated funds there are the faster changes might be made. It is likely that 10% modulation would result in LMCs being available to all who want them – i.e. non-competitive. Rather than distribute modulation funds to a few big projects, we would prefer an accessible, appropriate scheme across the whole country of a size that can deliver the desired outcomes.

In summary

The task is to create a rural support package which helps create jobs in rural Scotland at the same time as enhancing the environment. For this reason, we support SEERAD's proposals for the reform of CAP in Scotland. We support the shift to full de-coupling based on historic payments, and support SEERAD's suggestion that this should be reviewed in due course to consider whether a gradual move towards area based payments would be appropriate.

If area based payments do occur, we urge the Parliament to ensure that payments are ring-fenced towards the various agricultural regions of Scotland. No doubt every region would like to receive more subsidy than it had before but this would result in other regions receiving less; which would be unfair.

New support mechanisms must be flexible, locally focused, and must encourage diversity. Farmers need to be able to choose support from a wide menu of options

The options need to recognise that a few farms are intensive and specialise in food production, and many are extensive, with opportunities to specialise in providing public benefits such as nature conservation and access.

Regional strategies need to be available so that additional incentives can be offered to farmers who agree to provide certain public benefits in preferred geographic or ecological zones.

CAP reform should benefit communities, nature, landscape and access to the countryside.

The SUP considers that the mid-term review decisions will impact positively on more rapid development of more environmentally sustainable farming and quality products, the provision of jobs and opportunities in the rural economy and a more secure future for rural industries.

We support the introduction of robust Land Management Contracts, but consider that the aims and priorities of such contracts should be agreed regionally and locally, rather than at a national level.

SUBMISSION FROM THE SCOTTISH LANDOWNERS' FEDERATION

CAP Reform – Modulation and Rural Development

In responding to *CAP Reform: Opportunities for Scotland*, the SLF considered that the best interests of Scottish farming, and the rural economies, environment and communities it underpins, would be served in the long run if:

- Full decoupling from production was implemented in Scotland from 2005.
- No attempt was made to partially recouple in any sector (arable, beef or sheep).
- National envelopes were only used for on-farm adjustment to retain activity rather than support production.
- A unique purpose behind the Single Farm Payment was made evident, in order that implementation equates with objectives.
- Complementary Pillar II rural development measures are accessible and adequately resourced...
- ...through additional national modulation up to a maximum of 10%, which was entirely match funded to 2012.

Following the announcement by the Deputy Minister for Environment and Rural Development to the Scottish Parliament on 12 February 2003 regarding the implementation of CAP Reform, the SLF's coherent and strategic approach would appear to have been well received. The SLF has also maintained that short term adjustment to overcome potential decoupling problems would be best achieved through adequately resourced rural development measures, leading to Land Management Contracts (LMCs) in the future. As a consequence, the SLF believes that additional national modulation is preferable to using national envelopes. So long as Treasury match funding and appropriate and accessible rural development schemes are in place, Scottish farming will be better placed to serve national and rural interests by this means.

This in itself may well prove to be the justification for continuing agricultural and rural support in the long run, providing clarity on the 'new' objectives of the CAP and the rationale behind its implementation.

The CAP Reform is undoubtedly highly significant, and confirms a new era of 'rural' rather than 'agricultural' support. The agreement finally reached in July 2003 also provided a much greater degree of Member State and regional (Scotland) flexibility than previously anticipated. Complementing the ethos behind *A Forward Strategy for Scottish Agriculture*, the SLF considers the CAP Reform package announced on 12 February provides a significant opportunity for rural Scotland and for individual farmers.

That said, the realignment of agricultural support under the CAP Reform will hasten the restructuring of the Scottish agricultural industry. It is the view of the SLF that complementing Pillar II rural development measures must be in place to assist the adjustment process – thereby allowing agriculture to continue and enhance its contribution to the prosperity of Scotland's rural economy, environment and society.

Adequate resources and appropriate funding then become key issues. Decoupling and cross-compliance may not be sufficient to induce the increasing level of public goods provision now expected from the farmed landscape. Nor will they guarantee realistic levels of expenditure within the local economy to ensure rural development for

Scotland's rural communities. Therefore, the SLF accepts the need to employ other discretionary elements of the CAP Reform in addition to full decoupling from production.

Modulation and Rural Development

The SLF has consistently recognised the principle behind modulation, since it was first proposed as part of the Agenda 2000 proposals back in 1998, as the only way to put more money into rural development measures in the short term.

The SLF acknowledges the proposal within the CAP Reform to introduce compulsory modulation as a step towards a meaningful rural development measure, and welcomes the fact that this will be applied across the entire EU. The guarantee that at least 80% of the monies raised will be returned to each Member State is also welcomed, so that at least four-fifths of the money raised in Scotland will be spent in Scotland. That said, the SLF would ideally wish to see flat-rate modulation applied across all recipients of a Single Farm Payment devoid of any franchises, with all modulated monies returned to Scotland via accessible LMCs available to rural land managers.

More significantly, the SLF considers that, because of the low level of core funding of rural development measures in Scotland, the proposed compulsory EU modulation will be insufficient to raise adequate resources to fund a meaningful rural development package.

Implementing full decoupling from production so that agriculture continues and enhances its role in rural development critically depends on retaining on-farm activity. Resources will be required beyond those raised by compulsory EU modulation or the use of a national envelope in the beef sector.

In particular, the SLF has fully supported the concept of LMCs that have been developed over the last eighteen months by SEERAD. The SLF considers that LMCs could provide the necessary vehicle to maintain land use activity whilst delivering economic, environmental or social benefits across rural Scotland, including forestry and recreation.

The key issue is the funding that can be made available to fuel such a vehicle, especially if it effectively absorbed existing rural development measures, such as LFASS, RSS, FBDS and so on. The SLF considers that, as well as compulsory EU modulation, additional national modulation is also necessary.

The SLF is aware that compulsory EU modulation will reduce the Single Farm Payment from 2005 by 3%, rising to 5% in 2007 and beyond. In addition, up to a 3% reduction required to feed the national reserve and a possible 10% reduction from beef producers to fund a national envelope, together with the unknown reduction for "financial discipline", can not be ignored. The SLF is also acutely aware that any further voluntary modulation could seriously begin to diminish the income stream from the Single Farm Payment.

However, it must be remembered that the Single Farm Payment is an 'income stream' and highlights the need for all to know exactly what its purpose is. The Single Farm Payment is not 'farm income' or profit, which may actually rise in a number of instances as the cost associated with the current CAP support schemes will not necessarily be incurred from 2005 onwards.

The SLF has argued that Scotland should establish national modulation up to a maximum of 10% but only if it is entirely (100%) match funded by the UK Treasury and this is guaranteed by the Treasury. As a consequence, the SLF supports the Scottish Executives intention to apply total (EU and national) modulation of at least 10% by 2007,

subject to the outcomes of the forthcoming Spending Review. In addition, the SLF believes that any funds derived from national modulation must not be used by the UK as part of its co-financing commitment to lever EU resources into rural development measures, albeit that they will now be on a 40:60 (UK:EU) footing.

This could make all the difference to a meaningful and effective Scottish Rural Development Plan (SRDP), which must be revised in 2006. In particular, this may allow the full development and implementation of LMCs in Scotland to become reality – thereby offsetting some of the possible adverse economic, environmental or social consequences of the CAP Reform by retaining on-farm activity.

In order to reach that point, prior to the full revision of the SRDP in 2006, the SLF considers that the Scottish Executive should utilise the additional resources to be made available from modulations in the following ways

The SLF considers that a number of elements of the current SRDP must remain specific objectives for rural development support until LMCs can be fully implemented. Therefore, the additional funding to be made available from modulation, some £40 million for 2007, should be targeted at agri-environment measures, support for the hills, woodland grants, restructuring of farm businesses and training and enterprise schemes.

Agri-environment must continue as an important destination for RDR funding, at a level equating with Tier 2 of the LMCs model such that it is available to any land manager in Scotland. The justification is that agri-environment is the clearest manifestation of CAP support switching to objectives that are sustainable, and that agri-environment measures are the best way to get non-market support back to those who are providing public benefit.

Should for the hills would be maintained through the Less Favoured Areas Support Scheme (LFASS), albeit it should be finally divorced from production and more closely coupled to environmental and social objectives. This component of the current SRDP may prove vital in safeguarding such particular facets of farming activity in remoter areas in the face of economic adjustment driven by decoupling. LMCs must also carry such responsibilities.

Given the Scottish Forestry Strategy (SFS) and the associated objectives held by the Scottish Forestry Grant Scheme (SFGS), support for woodland expansion and stewardship that delivers a range of public benefits should be granted the resources to deliver. As economic objectives are no longer the sole justification for afforestation support, outlined by the SFS, such Pillar II spending would also provide an opportunity to really begin the integration of land use through LMCs.

In an era of decoupling, support for the refurbishing of existing farm business will become even more important. There will be a need for advice and financial support for efforts by individual farm businesses their management, marketing and product quality. There is no shortage of advice to the industry, but the small business that make it up lack guidance on access to appropriate advice and the capital to put good ideas into practice. Any 'rural development' package, including LMCs must facilitate such improvements to rural enterprise opportunities.

The SLF continues to believe that the focus of modulated funds should be to assist farm and other rural land use businesses to diversify, readjust their structures to reflect the impacts of the CAP Reform. In doing so, such businesses could provide multiple public benefits through land management *per se* irrespective of sectoral land use.

The use of modulated funds should be non-sector specific LMCs, rather than of the separate continuation of existing schemes which perpetuate the lack of integration that characterises rural development in Scotland. However the SLF would resist calls for such modulated money to be made available for issues of concern to wider rural interests beyond those directly concerned with land management.

The SLF does not believe that modulated funds have a role in wider rural socio-economic adjustment, not least because of the chronic pressure on such limited resources both now and in the future. The SLF could only embrace wider rural development expenditure outwith land management only if any shortfall of existing funds was made up by increasing the EU's Pillar II budget in general, and by increasing the UK's current 3.5% share in particular.

Conclusion

From the original Mid Term Review communication of July 2002, the SLF has openly endorsed the principles of the CAP Reform, as they echoed much of what the SLF has advocated since 1995 with the publication of its policy document *Supporting the Countryside*. The SLF considers that the CAP Reform must provide a more responsible, flexible and simple approach to farm policy, which must finally begin the process of fully integrating agricultural support with rural development.

The SLF continues to believe that it is necessary to break subsidy dependence through full decoupling from production. Farm businesses must develop in response to market signals, rather than being constrained by dependency on the subsidy treadmill. Supporting 'producers' rather than 'production' is a vitally important step towards creating a market-oriented agriculture, therefore the principle of decoupling is fully supported by the SLF.

There is, however, a potential or perceived danger in particular locations of Scotland that a decline in production-related activity, because of decoupling, will not be offset by an increase in land management activity. Apart from meeting cross-compliance conditions, such 'down sizing' could result in relatively little farming activity and expenditure. This could be extremely detrimental to some quarters of rural Scotland.

Yet, the priority must be a strategic one, enabling individual farm businesses to thrive within a prosperous agricultural sector. In turn, the farming industry will then be able to enhance its pivotal role in wider rural development. The only meaningful way to manage such an adjustment process that may occur from 2005 is to ensure open access to adequately resourced, activity-based voluntary land management schemes, such as the concept of LMCs.

SUBMISSION FROM SCOTTISH NATURAL HERITAGE

Summary

Scottish Natural Heritage (SNH) welcomes the Executive's decision to break the link between the support payments paid to farmers and the amount of food they produce. This will bring to an end the situation where many farmers have maintained levels of production merely in order to claim the available subsidy. This unnecessary production has resulted in a high cost to the environment and has often been at the expense of the high quality that should be the hallmark of Scottish produce.

In future, the payments farmers receive will depend on them complying with current environmental legislation and maintaining their land in Good Agricultural and Environmental Condition. This will give added protection to Scotland's network of Natura sites and reduce the risk of wildlife habitats being damaged by overgrazing.

The decision to de-couple is an important step towards building a new system of support that rewards land managers for helping to provide the kind of countryside that people want and which can benefit the wider rural economy. In the longer term, though, the total support paid to farmers must reflect more directly the actions they could take to improve the environment and enhance the countryside, rather than just protecting it. We believe this change could be best achieved by progressively switching the money available for agricultural support into agri-environmental and related rural development measures. Any de-coupled support remaining should be more explicitly linked to positive environmental action by moving, by degrees, towards a regionally differentiated area-based payment, rather than a historical one.

We welcome the decision to introduce, by 2007, modulation at an overall rate of 10% of direct support payments as another step in this direction. This could provide for a very significant increase in environmental payments to farmers made through the Rural Stewardship Scheme, and the funds needed to give a worthwhile impact to a system of Land Management Contracts. We note, however, that the decision depends on the Executive being able to secure matching funds from the Treasury to support this level of modulation. It will be most disappointing if the 2004 Spending Review fails to find this money.

The decision to use a national envelope to provide additional support payments in the beef sector could, if it is appropriately designed, help to avoid beef cattle production being lost from areas where it helps to maintain the wildlife and the character of the landscape. An envelope is likely to be less precise for environmental purposes, however, than an agri-environmental measure.

De-coupling

De-coupling finally removes the potential for environmental damage inherent (although much reduced by successive reforms) in the CAP since it began. Ending the situation where farmers are encouraged to maintain high levels of production in order to maximise their subsidy payments could, nevertheless, result in major structural changes to farming in Scotland. It is widely predicted that business structures will diverge – farms that are currently less profitable reducing their inputs and disposing of their stock, but farms that are more competitive increasing their production in response to market signals.

There could be problems for the environment at both ends of this scale and steps need to be taken to guard against both the impact of highly intensive production systems, and the consequences of abandonment where these would work against the interest of the

natural heritage. It is particularly important from an environmental point of view to ensure that the less intensive kinds of farming associated with biodiversity or the beauty of the landscape can continue.

Cross-compliance and a standard of good agricultural and environmental condition provide a means (albeit largely untested) of protecting the environment against damage that might result from increased market-induced production. These devices are unlikely, however, to be considered a reasonable way of maintaining beneficial kinds of farming (particularly, suckler cattle production) in marginal economic circumstances. But there is scope for specific payments to less intensive producers for environmental reasons, either using a national envelope or, as we would prefer, through the Rural Development Regulation.

The decision to introduce the SFP as a payment based on a 'historical' reference period has implications that could be significant for the natural heritage in the longer term. The environmental justification for moving immediately to an area-based payment is not strong, but over time it is likely to become increasingly difficult to justify a single income payment founded on little more than the entitlement to production-related support claimed in 2000-02.

Ultimately an area-based payment would lend itself better to becoming a reward for good stewardship based on (and proportional to) a programme of public goods and services the farmer would be committed to deliver. Linked to a strong obligation for good stewardship (going beyond cross-compliance) it would align well with the concept of a European Model of Agriculture and could be expected to have much more public appeal and credibility.

So unless there is a very substantial further shift in the balance of support between Pillar 1 and Pillar 2, we would propose a phased transition to an area-based payment. The system should be supported by a planning mechanism that would identify a programme of land management and rural development measures for each holding within a strategy for the local district, catchment or landscape unit. Land management contracts could be developed to provide this.

De-coupling in the dairy sector

It is clearly desirable to bring support for dairy farmers into line with support for other sectors. De-coupling in the dairy sector is unlikely, however, to remove the trend to larger farms, concentrated in Southwest and Northeast Scotland. We would like to see more consideration given, in the context of land management contracts, to ways of encouraging smaller, less intensive dairy farming (for example, producing milk for local consumption and cheese production) in the remoter parts of Scotland. This would both reduce the need to transport milk over unsustainably long distances and help to reinforce the local rural economy.

National Envelopes

We do not generally support the use of national envelopes, even where it is desirable from a natural heritage perspective to retain certain types of farming. We see their value as a step towards a system that ultimately places more emphasis on the purchase of non-market public goods, but on balance we would prefer to see this achieved through modulation.

The production of store cattle from suckler systems is widely held to make an important contribution to the natural heritage and the potential impact of the reforms on this sector

has been much publicised. De-coupling appears to remove the necessity for existing suckler producers to continue rearing cattle unless they are required to retain some animals to keep their land in 'good agricultural and environmental condition'. A national envelope for the beef sector is one way of providing a financial incentive for continuing to keep cattle, and it provides for an incentive to be introduced without increasing the pressure on the RDR budget. However, we believe an agri-environmental measure (funded by modulation) could be more precisely targeted as an environmental instrument and would be administratively simpler.

Set-aside

The environmental value of set-aside land depends largely on how it is managed. With the abolition of the CAP arable support scheme, there appears now to be considerable scope for the management of set-aside to be determined mainly by environmental rather than supply-control considerations. We believe the management of set-aside to benefit biodiversity, or where appropriate public access, should be obligatory.

Rural development and modulation

We strongly support the concept underlying the Rural Development Regulation – which we believe provides a model for a future CAP based on the principle of support for non-market public goods. Given adequate funding, a system of land management contracts could provide a framework for developing the model in Scotland. We support modulation as a mechanism (though an unnecessarily complicated one) for increasing the resources available for RDR programmes, which would be an essential component of such a model.

The money allocated by the European Commission to the UK for RDR measures has been disappointingly low, compared with many other member states. In Scotland, since 2000, modulation has resulted in an increase in funding for the RDR of 25-30%. Under the new proposals announced by the Executive, the amount of modulation will increase further, by about half by 2008 (from around £31.8m to £ 47.5m). But even when compulsory modulation reaches its programmed maximum, the budget is likely to fall far short of the demand for RDR measures, not least the growing demand from farmers for membership of agri-environmental schemes (RSS) and the need for substantial funding to give the proposed land management contracts a worthwhile impact.

In view of the many needs and opportunities, and our wish to see the CAP itself evolving to embody the principle of payment for public goods, we have proposed that voluntary (i.e. 'national') modulation should be increased to the maximum the regulations allow. The proceeds should be used for the following priorities, which we consider to be some of the essential components of a system of land management contracts. Without significant new funding for such measures, land management contracts will not meet the expectations that the Forward Strategy raises.

- To meet increasing demand from farmers for membership of agri-environmental schemes, in particular to provide measures adequate to ensure that less intensive types of farming can continue in areas where the natural heritage depends on them.
- To contribute to the cost of managing the natural heritage features of Sites of Special Scientific Interest (SSSIs) and implementing the European Birds and Habitats Directives.

- To extend the range of agri-environmental measures so as to give more emphasis to maintaining the biodiversity and, in particular, the landscape features of ordinary farmland.
- To make use of article 33 measures to facilitate public access and support its management, and promote a more integrated approach to rural development, farming and the natural heritage.
- To introduce local programmes of environmental and rural development measures in response to particular local needs, for example in National Parks.

In increasing the overall rate of modulation, arrangements could be made to increase the number of farmers benefiting from it by introducing, as part of a land management contract, a new agri-environmental scheme, similar to the Defra Entry-Level Scheme. This might be funded by an amount equivalent to the money withheld from the Single Farm Payment. It would be open to all farmers on a non-competitive basis. Matching (UK Treasury) funds would be available to fund more specific ('targeted') environmental (and other) measures – of the kind expected to comprise tier 3 of a land management contract. There is a strong case for targeting this money towards those areas where the natural heritage depends on low intensity agriculture, particularly where its viability is under threat.

The new measures added to the Rural Development Regulation should not be introduced in Scotland at this stage. Farmers in Scotland, compared with some parts of Europe, already observe quite high standards of animal welfare and environmental protection, and the adjustments they are required to make to become cross compliant are not expected to be excessively costly. A high proportion of Scottish farmers already belong to quality assurance schemes, so the value of a payment as an incentive to join is questionable

Other considerations for SNH

The new arrangements for a de-coupled single farm payment will have important implications for SNH in the arrangements for managing SSSIs and the way we calculate payments to farmers under management agreements. In some situations we may well need to provide a payment for putting animals onto the land where once we would have paid to have them taken off. There are similar considerations for SEERAD relating to agri-environmental schemes. Many payments have hitherto been determined largely by the need to compensate for the loss of production and the associated subsidy. How we should calculate these payments in future is far from clear; entitlement to a historically based Single Farm Payment and its potential tradability is a particularly uncertain factor. We fear that these uncertainties could add to the difficulties of securing the conservation objectives for specific areas of land through management agreements.

SUBMISSION FROM WWF SCOTLAND

CAP reform: has anything changed?

The Scottish Executive has CAP reform as the central plank of its rural policy. The Partnership Agreement presents reform as the way to shift support from production towards rural development as a more legitimate reason for supporting the sector. In addition the Partnership Agreement sets out a challenging agenda for change. Not least amongst its commitments are ones towards:

- Introducing Land Management Contracts;
- Implementing the Water Environment and Water Services Act;
- Developing environmentally sustainable farming;
- Encouraging more sustainable agricultural activity in remote areas.
- Greater planting of native trees and diversifying the use of forests and timber;
- Support for local food processing, distribution and marketing; and
- Practical support for innovation and enterprise in our rural communities.

Far from being radical the recent CAP reform decisions in Scotland have changed very little and are not enough to deliver the Partnership Agreement. The reforms have not re-directed money to where public benefits can be delivered or to where rural development is needed and they have not increased the meagre budget for rural development by enough.

Less than half of the total support we give agriculture each year has been affected by these reforms - £361 million of the total £750 million and the reality is that little has really changed even for those direct payments that have been reformed.

Historic payments

At the heart of the failings of the 'old' CAP to deliver public benefits or to prevent dis-benefits such as pollution, habitat loss and declining farming employment and incomes was the fact that the support received was based simply on the level of production. The choice to continue that pattern into the future has sacrificed the opportunity to change the CAP for the greater good simply to keep the vocal minority of the industry quiet. 'Stability' for the few, who benefit from the current arrangements, has condemned the majority to a bleak future.

The 'new CAP will continue to see the largest 400 farms getting on average £160 000 a year of public money and the smallest 10 000 getting only £1500. Whilst that alone may not impact the delivery of public benefits from public money we believe that the decision has locked us into continuing patterns of expenditure which have little merit and cause some harm:

- A hectare of land that was growing cereals in 2002 will get £215 of support in 2005 whereas a hectare of hill sheep land will still get only £15;
- A hectare of Fife will continue to get £181 of public support whilst the same area of land on the Western Isles will get only £9.

Does farming in Fife really deliver 20 times the benefits to the environment or the local community and economy as crofting in the Western Isles?

The Executive does recognise that they are in danger of losing public backing for this level of support to the countryside. The CAP used to be thought of as money for old rope – the danger is that it will soon be seen as money for nothing.

What will be the impacts of not changing the CAP?

At the European, or even national level, it is expected that decoupling will lead to only a slight drop in production. This is seen as an environmental dividend because it is

assumed there will be fewer environmental impacts but no substantial reduction in the economic benefits derived from the sector. However the gross level of production tells us little about what the real consequences will be. More important is where and how that production occurs. It is this pattern that will determine the real environmental and social cost and benefits and in particular who will feel them.

At one end of the scale there is concern that the types of farming and crofting that are characterised by low inputs, low productivity and are distant from markets will prove to be uneconomic and will continue to decline. These tend to conserve and manage the semi-natural landscapes, habitats and species that we cherish so much and are also the types of agriculture that sustain remote communities, generate local employment where there are few alternatives and create opportunities for other sectors such as tourism and forestry to play a greater role in rural development.

At the other end of the spectrum there are concerns that the larger scale intensive units will continue to intensify, to shed labour to cut overheads and to rely on high levels of capital and inputs from outside to achieve even higher productivity of commodities that are processed and have value added outside the local economy. They will continue to isolate themselves from the local economy yet damage the local environment.

It is no coincidence that the areas designated last year as vulnerable to drinking water pollution by nitrates from agriculture are the same regions of the country that attract the highest level of direct payments. These are the North East which gets on average £137 per hectare, Fife at £181, Lothian at £144, the Borders at £117 and Dumfries and Galloway at £111. The new CAP will continue to compensate them disproportionately in comparison to areas like the Western Isles, which gets £9 per hectare on average and the Highlands at £15.

But the 'distortions' of the CAP are not just geographical. In a single area, such as Dumfries and Galloway, the same contrasts exist between large intensive farms that benefit from the CAP and small family units that continue to decline.

The Executive have made the decision to base payments on the historic rate. The role of the CAP, now that the sector is 'free to farm for the market', must be one of buying the sorts of public benefits that the market will not pay for and managing the implications of the freedom to farm for the environment and rural communities.

There are still two options left to do this. The first is to ensure that there is enough funding to support agriculture and rural development that delivers the benefits that the public expects. The second is to establish meaningful standards for those who receive public support so that the use of the public money no longer damages the environment or undermines rural communities.

Are we funding enough rural development?

In answer to the first aspiration for the CAP the Executive has decided to shift 'at least 10%' of direct payments to rural development by 2007. Subject to agreements from the Treasury and the budget round in Scotland this is expected to raise only £16 million next year and rise to £40 million by 2007.

In total we might expect a budget of £169 million for rural development after 2007 compared with single farm payments of £350 million and a further un-reformed £256 million of market support. In reality less than a quarter of the budget will be targeted at specific public benefits.

We estimate that at least £210 million is needed now to make the Scottish rural development programme start to deliver against its current objectives and even more is needed to meet the commitments in the Partnership Agreement.

£210 million would allow Scotland to invest:

- £75 million in agri-environment schemes so that most of Scotland's 20,000 farmers could enter these schemes - currently only 10% of farmland is under active management;
- £25 million in forestry grants would reach the Executive's target of 25% of the country as woodlands - currently we are only planting half what we should to reach this target;
- £50 million a year spread across some of the 23 currently unused European measures would allow farmers and rural communities to prepare for the uncertain future facing them. It is this budget line in particular that could start to deliver the Executive's aspirations for local food and innovation and enterprise in the wider rural community;
- And the country could still spend £60 million a year on compensating farmers in remote areas where farming is a struggle. But as the recent evaluation of the rural development plan shows the LFASS should be re-designed to deliver sustainable farming in the most disadvantaged areas rather than simply income support for sheep farmers.

In contrast the £40 million on offer by 2007 will only pay for 1/3rd of farmers to enter agri-environment schemes or 1/6th of farmers to access woodland grants or 1/10th to diversify.

To make something of the CAP we need to ensure that 'at least 10% by 2007' becomes a firm commitment by Cabinet to 20% by 2005 – only then will the CAP start to deliver what the Partnership Agreement promises.

At the same time as shifting more money we also need to re-write the rural development plan. This is an opportunity to address the problems identified by the evaluation last year but also to introduce new developments, contained in the Partnership Agreement, such as Land Management Contracts and the Water Environment and Water Services Act. None of this is possible if all we do is decide how to spend the new money – we must be able to plan better ways to use all the available money together.

The evaluation of the current plan last year was clear in indicating the failures of the programme to live up to expectations. It was condemned, by independent consultants, as being far too narrowly focused on farming to the exclusion of benefiting wider rural communities.

Far from being a "support to sustainable agricultural activity in remote areas" the evaluation criticised the Less Favoured Areas Support Scheme, which swallows two thirds of the total budget for having little benefit to the environment or wider rural communities. It has no impact on rural employment and has been little more than an income subsidy for hill farmers. Even then it has not been able to compensate for the extra costs of farming in remote areas and in particular is very poorly targeted at the most disadvantaged.

The agri-environment schemes were found to have only resulted in about 10% of farmland being actively managed, and most of that being under organic support rather than specific environmental management. The lack of monitoring made it very difficult to assess the impact on the ground. Whilst the forestry schemes that were part of the plan were deemed successful the plan was criticised for not doing more to capitalise on the existing woodland resources for new businesses.

Overall the plan has not delivered for the environment. For instance the consultants could find no evidence that the Code of Good Farming Practice, a form of cross-compliance within the LFASS and Rural Stewardship Scheme, had actually resulted in any environmental improvement in farming practices. Most environmental benefits were unsurprisingly restricted to the agri-environment schemes and were related to reductions in grazing levels or the use of fertilisers and pesticides.

We now know enough to be sure that the rural development plan needs to be improved. There are countless examples of other European and even UK countries that have used the very same measures to deliver real benefits. In Germany and England funding is available to renovate rural infrastructure which benefits farmers alongside their neighbours. In Austria LFA support is targeted at farmers facing 'environmental restrictions' due to managing important European conservation sites rather than simply restrictions due to land quality. This allows them to fund conservation through supporting farmers. Both Finland and Germany use rural development funds to stimulate local markets for innovative renewable energy schemes based on local timber and creating new rural businesses whilst also addressing climate change.

The re-design of the whole rural development plan should be based on the principles that public money should be worked harder to deliver public goods that go beyond what should be normal good practice. There is some pressure to design schemes, within Land Management Contracts, that are open to all and demand little or no change in order to receive the money. The danger is that this will only serve to water down the rural development budget and will fail to deliver any real benefits.

For instance some 'environmental' schemes are being suggested that will attract extra payments for farmers to carry-out no-cost or even money saving activities such as planning the use of slurries and fertilisers or to implement changes in practice that are already required by the law. Other suggestions are that we pay farmers a supplement to produce high quality carcasses or not to use GM feeds – all things that should be delivered by the market and not by public money.

Will there be meaningful standards?

The second opportunity to ensure that CAP reform is good for the environment is to establish a meaningful system of cross-compliance. We believe that in return for some £350 million of public money in the form of single farm payments Scotland's farmers ought to be subject to a set of standards that address the environmental impacts of their activities.

Unfortunately the standards include only a basic list of existing environmental legislation. Noticeable by its absence is the most important piece of EU environmental legislation in recent times, the Water Framework Directive, which is also one of the Executive's commitments within the Partnership Agreement. We are concerned that we are in danger of creating a 'two tier' approach to the law. All European Union legislation will be legally binding but only some will have the potential sanction of having support payments withdrawn.

We would like to see the Executive take the opportunity to voluntarily create a comprehensive code of practice and cross-compliance as recommended by the Custodians of Change report.

Whatever the list of legislation we believe that good practice should mean going beyond the legal minimum. If it does not we find ourselves in the unacceptable position of the single farm payment being seen as a payment simply to obey the law.