

## **FIRST PUBLIC CONSULTATION ON THE COMMON AGRICULTURAL POLICY “HEALTH CHECK”**

### **OFFICER RESPONSE ON BEHALF OF ABERDEENSHIRE COUNCIL**

#### **Introduction**

Aberdeenshire Council is pleased to comment on elements contained in the European Commission’s consultation on the Common Agricultural Policy (CAP) “Health Check” and corresponding Communication paper, issued by the Commission on 20 November 2007.

Due to the tight timescale for responding to the consultation, this response reflects the opinions of officers from Economic Development, Transportation and Infrastructure. Aberdeenshire Council’s Rural Affairs Working Group will consider the CAP “Health Check” at its next scheduled meeting on 01 February 2008.

#### **Background**

Agriculture is a highly important industry in the North East of Scotland, in terms of output and added value in the food processing and drinks sectors, plus the stewardship of the land. The North East of Scotland (which includes Aberdeenshire and Moray) accounts for 11% of Scotland’s agricultural land area. Around 40% of Scotland’s barley and 39% of Scotland’s oilseeds are grown in the North East of Scotland, while the area contains around 20% of Scotland’s beef breeding herd and 65% of Scotland’s pigs. Output from agriculture in Aberdeenshire accounts for around 8% of the region’s Gross Domestic Product (GDP).

Aberdeenshire Council wishes to encourage an economically vibrant and environmentally friendly agricultural sector, achieved through a combination of initiatives including mainstream production, value added processing, positive environmental management and a broadened income base through diversified enterprises. This aligns with the Council’s Economic Development Priorities to 2011, in particular Objectives 1 and 5, in relation to promoting a vertically integrated agricultural sector, while recognising key opportunities embracing biofuels and bioenergy potential from the sector.

The Council is also fully aware of the importance of the CAP and its support mechanisms in contributing to the stability and sustainable development of the agricultural sector. Of the £400 million CAP support to agricultural businesses in Scotland, it is estimated that CAP receipts in Aberdeenshire account for around 16% of this.

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However, with modest (and sometimes negative) net profit margins demonstrated from many enterprises, profitability is, in the main, linked to Single Payment Scheme (SPS) receipts. Therefore, as the industry reacts and adapts to the SPS, introduced in 2005, it is vital that any future adjustments resulting from the CAP “Health Check” do not impact on the sustainability of the sector.

With a view to identifying the impact of the SPS since its introduction, research will shortly be undertaken that relates to the scale and output of the agricultural industry in the North East of Scotland. It is therefore premature in this consultation response to provide “verifiable factual elements” of the agricultural sector in the North East of Scotland, until the results of the research are published.

## **Questions on the Issues Addressed in the “Health Check” Communication**

### **1 Taking stock of the implementation and simplifying the Single Payment Scheme**

#### **1.1 Simplifying the Single Payment Scheme**

Q1. Do you agree that Member States should be allowed to adjust their SPS model towards a more flat rate of support, at national or regional level?

A1. Yes. In the UK agriculture is devolved to four regions, namely England, Scotland, Northern Ireland and Wales. This has enabled a regional approach to be applied since the introduction of the SPS in 2005. When the SPS was introduced in Scotland, the historic reference period 2000-2002 was used as the basis of calculating the SPS at farm business level. Since 2005, businesses have had opportunity to respond to market forces and adjust their enterprise mix. The historic reference over time therefore becomes less relevant in the support mechanism and it is timely now to consider alternatives. Also, using the historic reference in some respects has disadvantaged some businesses, depending on the enterprises managed and premiums paid during the reference period. For example, beef finishers who based their enterprises on heifers as opposed to steers during the reference period have lower SPS entitlements compared to those finishing steers due to lack of premiums applicable to heifers contributing to the overall entitlement.

The decision on how to implement the SPS should continue to be made at regional level. With the aim of minimising the impact of SPS adjustments for individual businesses, it is recommended any move away from a historic based system is phased, for example, 50% historic reference retained to 2013, with 50% based on regional reference amounts which take account of land type, mountainous regions and remoteness. A further and final step away from the historic reference can then be made in the next budgetary period.

Q. 2 What types of impacts would you expect with the introduction of flatter rates of support for farmers?

A.2 Having taken the step in 2005 to move away from production related support, the SPS now enables individual businesses to choose their enterprise mix, based on business objectives and market focus. This is welcomed. “Flatter” rates of support should only enhance this, more so if fruit and vegetable crops become eligible towards SPS entitlements. Using a phased approach to move from the historic to flatter system for SPS should minimise concerns regarding re-distribution of entitlements, geographically or sectorally.

## **1.2 Cross-Compliance**

Q.3 Should the scope of Cross-Compliance be re-defined?

A.3 Adhering to Statutory Management Requirements (SMR) and maintaining land in Good Agricultural and Environment Condition (GAEC) are core to the ethos of cross-compliance. While the ethos is endorsed, the complexity, bureaucracy and administrative burden associated with monitoring cross-compliance is questioned. Simplification and streamlining the guidance to the industry would be welcomed, as is promotion and training provided to the industry. The GAEC standards should continue to be reviewed periodically to ensure that relevant standards are retained, while any deemed inappropriate can be deleted.

## **1.3 Partially coupled support**

Q.4 Should decoupling be applied in full extent to all sectors? Should there be alternative flanking measures? Are there any sectors where partially coupled support should remain?

Q.4 We endorse the principle of decoupling support payments from production, to enable business objectives to be applied with greater emphasis on market focus. However, we have reservations on the level of agricultural activity that is maintained in certain circumstances, especially if activity has moved from a productive high input system to a low cost highly extensive system where output is minimal, yet entitlements remain constant.

Furthermore, based on the evidenced reduction in Scotland of the suckler cow herd and breeding sheep flock from the less favoured areas in Scotland, there may be merit in researching economic-based justification to develop measures to maintain agricultural activity in mountainous and remote regions, where the activity is often livestock based due to land type. A strengthening of support, through environmental measures or market focus such as an enhanced Scottish Beef Calf Scheme, is recommended for areas where agricultural activity is not based on arable cropping.

## **1.4 Upper and lower limits in support levels**

Q.5 Would capping support levels be effective? If applied, should capping upper thresholds be absolute or progressive? How should minimum levels of payments be addressed?

A.5 While generally supportive of the principle of capping payments, its application requires further exploration and justification. If support levels were to be capped on large-scale businesses, this should not necessarily be disadvantageous to such businesses, where the economic output is linked to economies of scale. The Commission's Communication (2007) 722 provides examples of how a progressive approach to capping high payments through the SPS could be applied. If capping were to be applied, a progressive approach is the only realistic method of application and would balance with economies of scale. Further consideration could be given to employment creation/maintenance for businesses in receipt of SPS above agreed levels. Also, should any capping be applied at higher levels, the savings made should be targeted regionally within Member States of origin, towards measures agreed at regional level, for example towards newly established businesses or specific market orientations.

Small and part-time farmers and in Scotland, crofters, should not be disadvantaged or excluded from the SPS. However, minimum thresholds could be considered, in terms of administrative costs and economic impact of the SPS. If a minimum threshold is applied this should be financially based, not area based.

## **2 Grasping new opportunities and improving market orientation**

### **2.1 Cereals Intervention**

Q.6 How should the safety-net role of intervention be maintained for cereals?

A.6 With cereal market prices increasing significantly in the last year, combined with increased demand for cereals for fuel, plus low stocks globally of feed wheat, it is essential EU security of supply is maintained through a structured intervention system. The paper suggests restricting intervention solely to high quality bread wheat. However, given recent trends, for example, the fall in yields, combined with increased risk due to climatic factors, it is recommended intervention is retained, but managed with greater scrutiny than in the past, in order to prevent unnecessary stocks to be accumulated, or impacting on real market price.

## **2.2 Cereals set-aside**

Q.7 Is the abolition of set-aside in the current context of market and policy developments appropriate and what measures are appropriate to maintain environmental benefits associated with set-aside?

A.8 As EU agriculture becomes more market orientated, at the same time as global feed stocks are low, it is appropriate now to abolish set-aside, only if provision is made to ensure environmental benefits associated with set-aside are not lost. The question of what happens to the set-aside entitlements requires consideration. As a suggestion, the set-aside entitlements could be split, with recipients retaining a proportion, say 50% through their SPS entitlement, while the balance 50% is transferred to Pillar 2, to be targeted through environmental or “green box” payments. If the entire set-aside entitlement was to be disbursed through SPS, there is increased risk of environmental loss. Any adjustment to set-aside entitlements would require to be made on a regional basis in Member State of origin.

## **2.3 Dairy Quota**

Q.9 Is dairy quota fulfilling its objectives and how should it be phased out?

A.9 Dairy quotas will expire in 2015. With the current high demand for milk products, quota limitations can be restrictive. If more quota is released, producers can respond to market demand and the value of quota transfer until its abolition will find its own market level according to the market price for milk products. Post 2015 without the quota system, milk production will be determined by market price in a sector that has undergone major restructuring.

## **3 Responding to new challenges**

### **3.1 Managing risk**

Agricultural and rural policy requires to take account of measures associated with risk, be it market failure, climatic or disease risk. This is best addressed at regional and Member State level, to take account of regional issues. However, in an evolving economic and physical climate, agricultural and rural policy must be robust and adaptable to respond to risk issues. It is proposed in Communication 722 that it may be appropriate to extend the use of modulation savings to allow risk management measures in the framework of rural development policy, provided they meet “green box” criteria. This proposal is acknowledged as pro-active rather than re-active and on the basis of the CAP’s budget fixed to 2013, appears a practical solution to risk management, on the basis this element of risk management is dealt with regionally within Member States.

### **3.2 Climate change, bio-energy, water management and biodiversity**

The challenges of addressing climate change issues, bio-energy, water management and biodiversity are best addressed through Pillar 2 of the CAP. The question is asked in Communication 722 whether support for energy crops is cost effective under Pillar 1. Given thresholds being reached in EU cropping area and subsequent scale back, combined with management costs in administering this incentive, its impact is diluted and could be better targeted through rural development instruments in Pillar 2.

Water quality and water conservation is key to a sustainable agricultural sector. Again, this is a rural development issue that requires input from public agencies in partnership with the agricultural sector. Likewise, with competing pressures for food (low feedstocks/high prices) and fuel/energy use (EU targets), research and development of best practice is key, for example, cultivation and harvesting techniques, low energy systems and processes. Pillar 2 must be adequately funded to enable competitive, conservation and innovation techniques to be adopted by land based industries.

Concerns regarding biodiversity decline can be addressed through “green box” incentives, for example, if specific environmental incentives are stimulated through transfer of a proportion of set-aside entitlements to Pillar 2, as described in A.8.

### **3.3 Strengthening rural development**

The proposals to strengthen rural development funds in Pillar 2 as described in Communication 722 are considered acceptable on the basis that the proposed 2% annual increase (2010-2013) in compulsory modulation is applied across Member States and matched by a corresponding reduction in voluntary modulation in Member States where it currently is applied. This will result in an overall compulsory modulation rate of 13% by 2013, which will be applied across all Member States and is considered necessary if rural development objectives are to be met.

Looking beyond the “green box” and competitive measures within Pillar 2, resources towards rural community and economic priorities must also be maintained. The Rural Development budget should be strengthened where possible as it gives Member States increased flexibility to develop targeted solutions to local/regional issues.

From a Scottish perspective the integration of rural community development (i.e. LEADER) within the Scotland Rural Development Programme for 2007-2013 is new. This approach of combined programmes for agriculture, land managers and rural development is yet to be tested.

In theory this should raise the value that farmers and land managers place on rural development. The link between the value that rural development can have on their businesses and for the wider community (and how they relate to that community) is

yet to fully established. Strengthening the budget should serve to strengthen the priorities for both rural development and environmental good-practice.

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