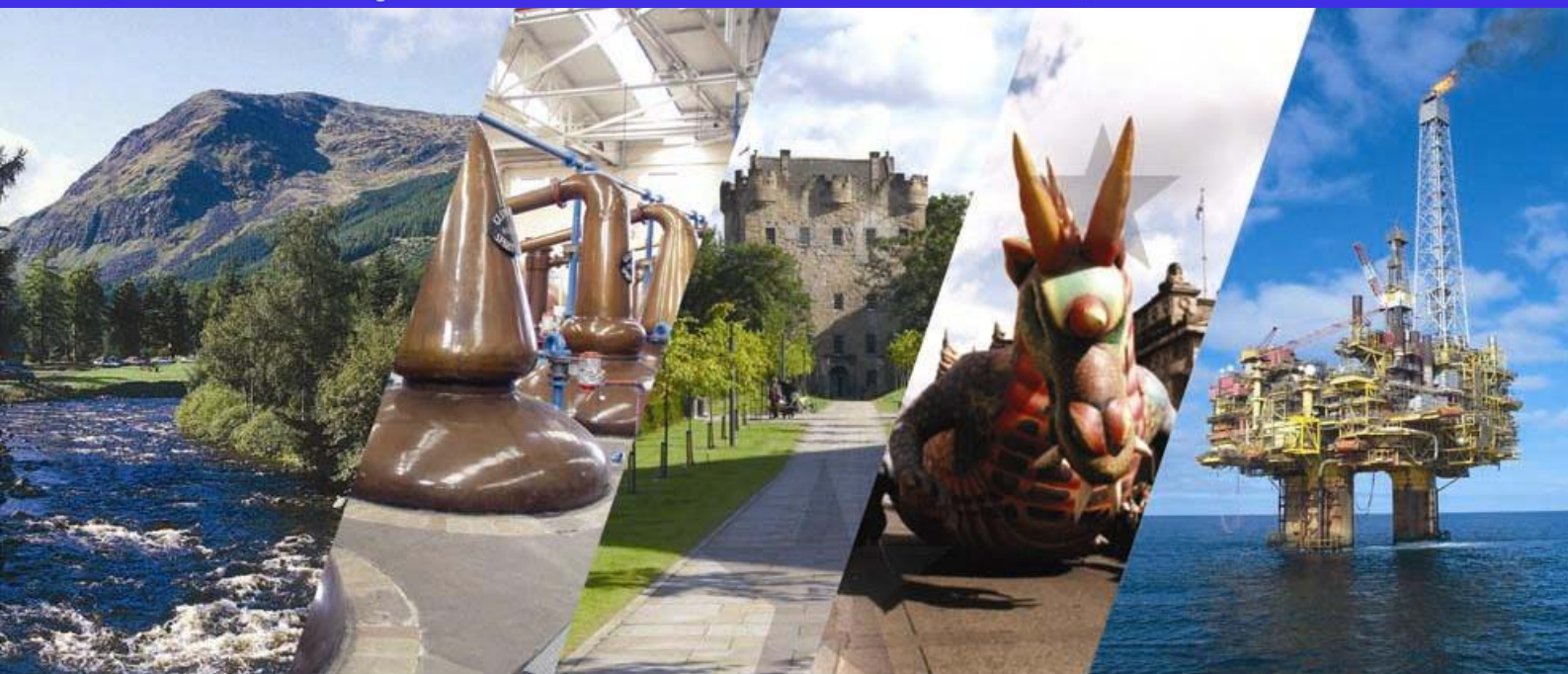




**East of Scotland
European Consortium**



**CAP Health-Check
consultation response**

15 January 2008



ESEC welcomes this opportunity to feed into the debate on the future of the Common Agricultural Policy (CAP). The CAP Health Check represents a useful opportunity to take stock of the impact of previous reforms and to make improvements to this important policy. Whilst the CAP often receives negative press, it is important to acknowledge the important role the policy plays in providing security both in the supply of quality food to Europe's citizens and ensuring farmers have a reasonable standard of living. The policy also plays an increasingly important role in environmental protection and in the preservation of rural heritage and communities since the second pillar was strengthened. There has been much reform in recent years and there is little appetite from those on the ground for further substantial changes to the policy, yet this may be inevitable with the upcoming EU discussions on the reform of the EU budget. In many ways, the CAP could benefit from a continued period of stability for land managers, rural businesses and communities. This is not to say that ESEC is opposed to change and indeed argue that there is a need for much greater simplification to the policy. In general the European Commission's Communication has identified the main issues with the CAP and offer some constructive solutions and ideas.

Given the short timescales involved in this consultation, this response is subject to political approval of our Policy Board who meet on 25 February 2008. Please consider our more detailed comments on the questions below.

1. Taking stock of the implementation and simplifying the Single Payment Scheme

1.1. Simplifying the Single Payment Scheme

The decision on how to implement the Single Payment Scheme (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.

Production decisions made in 2002 are not considered to be a realistic basis for application in 2013. 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 for 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.

For example, in the livestock sector, without the link to “head age”, hill farmers in particular are reducing their production (less numbers of hill flocks of sheep/less cattle numbers) so endangering long-term supply and transfer of expertise of agriculture. This adds to problems of depopulation of already-threatened rural areas. The number of farmers in the East of Scotland has continued to decrease over the last ten years (less farmers but larger farms). The total of decoupling of aid (from production levels however calculated) could be beneficial, but if this is to be implemented gradually or likely to be cancelled in the long-term, then this should not be made an option to the new Member States.

1.2. Cross-Compliance

Adhering to Statutory Management Requirements (SMR) and maintaining land in Good Agricultural and Environment Condition (GAEC) are core to the ethos of cross-compliance. We concur with the Commission’s conclusions that there is a need for simplification and acknowledge that work is already underway to achieve this. Currently there is an unacceptable amount of paperwork associated with the cross-compliance rules and we therefore support a Health Check that achieves simplification of what many feel are overly bureaucratic requirements of the CAP. 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. The move to increasing cross compliance is contested by some farmers but is generally acceptable to penalise poor agricultural conditions.

1.3. Partially coupled support

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

In principle we are supportive of the idea behind this proposal. In the UK there has been much publicity about wealthy land owners and companies such as Tate & Lyle being in receipt of farm subsidies. However caution is needed in how these approaches are to be taken forward.

For instance, on the proposals for large farms, the Commission would have to look at whether they were penalising farms for size and efficiency as economies of scale can be achieved through what is essentially industrialised scale farming. Furthermore as the Commission acknowledges in the Communication it will need to prevent some of these large establishments reemerging as more numerous, smaller holdings. We are unsure if or how the Commission could prevent that from happening. 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.

Likewise the proposed lower cap may well separate real farmers from small or “part-time farmers” which is a positive move. More detailed proposals are now needed on how this could work in practice and where the cut off points would apply. We would not want the Scottish crofting system of agriculture to be affected by this, as it offers a sustainable method of maintaining the land and population in less favoured agricultural areas and where there is a long history of depopulation. 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

2.1-2.4 Cereal Intervention, Cereals set-aside & Dairy Quotas & Other measures of Supply Control

The Commission is right to take measures to encourage a more market orientated system of food production. The abolition of milk quotas and the policy of set-aside land should be encouraged, especially given recent production trends where some countries are experiencing shortages of supply.

It should however be acknowledged that set-aside policies have been genuinely beneficial to environmental schemes, even if that was not one of their original intentions. Market conditions have now changed but the important role that agriculture can have on bio-diversity and farmers as stewards of our countryside, should not be underestimated. There clearly needs to be incentives for farmers and land managers to implement good-practice in this field and the link between LIFE+ and NATURA 2000 could be strengthened.

3. Responding to new challenges

3.1. Managing Risk

The nature of what we demand from an agricultural and rural policy in future years is highly likely to change and therefore there will be new set of challenges. The success of this Health Check will partly be assessed by the ability of the EU to adapt to those future challenges now. In addition there is likely to be more of an issue around supply side of the CAP compared to previous problems of over-production. The EU should also be prepared for increased market volatility. This requires a risk management policy to be responsive to the market and as the Communication points out, this cannot be a one-size fits all approach. We are supportive of the use of Rural Development tools to provide targeted solutions in this regard which gives Members States flexibility to come up with geographic, market, thematic and sector specific solutions.

3.2. Climate change, bio-energy, water management and biodiversity

These are all very important issues for agriculture and for future of sustainable rural development. The challenges of addressing climate change issues, bio-energy, water management and biodiversity are best addressed through Pillar 2 of the CAP.



The 2020 energy targets are likely to have a considerable effect on the level of competition for land between food and fuel. Indeed Italy has already reported concern about potential wheat/pasta shortages as farmers are seeking higher value-added returns from bio-fuel crops. Decoupling payments from production has helped prevent so-called food mountains but there is a continued need ensure security of food supplies. Research and development of best practice is now key, for example, with 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. The question is asked in the communication 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.

Biodiversity may be of increasing concern if the set-aside scheme is wound down, as this scheme has provided useful undisturbed habitats for many species. Therefore, the trend towards incentivising land managers through Rural Development measures to help mitigate and tackle these agri-environmental issues should continue to be encouraged. This needs to be supported with continued research and combined with evidence from other EU-Programmes such as LIFE+, CIP, and FP7. The idea of making climate change and water management objectives part of the cross-compliance is in principle a good idea and is a method of mainstreaming certain approaches. This can be seen with reference to the onset of River Basin Management Systems through the Water Framework Directive. The above comments are made with a repeated warning about the need for simplification of cross-compliance in general.

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.

3.3. Strengthening rural development

The CAP has encompassed the objectives on Rural Development and created a “second pillar” without increasing the budget allocation accordingly. Theoretically, finance has been allocated to Rural Development objectives but practically funding is sought from modulation (compulsory or voluntarily from the agricultural sector) and competes with ever-pressing demands from a strong



environmental lobby. This cannot lead to the integrated approach, which the Scottish Government recognises and advocates.

The increase in compulsory modulation is to be welcomed, as this has put Scottish farmers at a disadvantage to their EU competition. There should be a level playing field across the EU. However this still falls short of the levels required to make a significant impact on wider rural development. Although agriculture is a key driver in the rural economy, perhaps more so in accession states than in Scotland, it is not the sole driver. Agriculture is part of rural development; rural development is not part of agriculture.

A combined rural development approach is to be welcomed, but it needs to put "Rural Development" at the top of the tree, not as an add-on to agricultural schemes. There needs to be a stronger voice for non-land based business and community development in rural areas. However, until the necessary resources are made available, this will be difficult to achieve. From a Scottish perspective the marrying of rural community development (i.e. LEADER) with the wider EAGFF is a new method of organising an European Programme (as it is to most EU countries). This approach of combined programmes for agriculture, land managers and rural development is yet to be tested (we are still awaiting approval of the Scottish Rural Development Programme for 2007-13). Strengthening the budget should serve to strengthen the importance given rural development and environmental good-practice.

The phasing out of pillar one of the CAP would release the additional expenditure required but dislocation can only be prevented through a staggered and well thought through approach. The present approach disfavours the farmer and would only fairly reallocate funds from pillar one to pillar two if agriculture fails to perform.

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