

Preparing for the ‘CAP health-check’

Provisional view of significant issues for the Highland Area

Purpose

The Highland Council is asked to note this brief summary of the main issues which are to be debated and which are particularly relevant to this area.

It is recommended that the Council respond to the European Commission (responses required by the 15th of January 2008) highlighting the main points which should be addressed as part of the CAP health-check.

- Change the basis for the SFP from the current historic model and phase in the flat rate system in the period up to 2013 using a hybrid model.**
- Capping or modulation of the largest payments. Progressive modulation of the highest payments, with the funds generated to remain within the regions in which they accrue**
- Use of Article 69 funds to support ‘failing’ sectors e.g. suckler cows in hill and mountain areas.**

Background

The Common Agricultural Policy (CAP) has undergone three fundamental reforms since 1992. The aim of all these reforms was:

- to improve the efficiency and transparency of the CAP,
- to increase the market orientation of farmers,
- to better integrate new elements – in particular environmental and animal protection aspects – into the general agricultural policy, and
- to boost rural areas.

At the heart of the current support for farmers is a direct payment, introduced in the 2003 Mid-Term Review Reform, which is granted independently of any stipulated production (decoupled direct payment). Individual claims are based on historical payments made to farmers during particular reference periods before the reform came into force. It was possible for these to be paid as a Single Farm Payment (SFP) for the period 2003 to 2013. However Member States have adopted different models of payment based on either historic levels of payment, a flat rate area based payment or a combination or hybrid of the 2 models. Scotland to date has adopted a system based entirely on historic payments.

Payments which are totally or partially coupled to production can also be maintained in the present system; Member States have made use of their margins to differing degrees in this matter. While payments in Scotland are fully decoupled from production we have retained some sectoral support for beef through the calf scheme.

Public funding is tied to the provision of proof that a farmer was adhering to essential Community and/or national requirements concerning good agricultural practice (cross-compliance (CC)). These standards cover essential aspects of agricultural practice undertaken with concern for the environment, health and animal welfare.

The new Member States will become completely integrated into the direct payments system by 2013.

Extra resources have been made available for the second pillar – concerning rural development – through redeployment (max. 5% modulation). The overall financial framework of the second pillar has lagged behind the European Parliament's demands,

and there have been repeated instances of Member States in great need of rural development measures having problems providing co financing resources.

The Commission has now produced a communication in which it proposes, essentially, to continue in the direction adopted by the 2003 reform. This 'health check' is the Commission's way of responding to the call from heads of state and government in December 2005 to analyse all EU expenditure, with a special emphasis on agricultural spending. The total spending on the CAP is not, in fact, the subject of the communication but is restricted to the health check of the budget.

The main Commission proposals affecting the Highlands are:

- a faster move to an area-based flat rate for direct payments
- degression of direct support and an increase in minimum thresholds for payments
- targeted use of appropriations under Article 69
- further decoupling/partially coupled payments
- changes to cross-compliance rules

Other topics for discussion that may be of interest to Members but possibly of less significance in Highland as a whole are the ending of **Set-aside**; increase in **Dairy quotas** prior to phasing out; simplification of **Intervention** schemes; revision of the **10 month rule**; and increase **Modulation** (which will not affect Scotland due to high present 'voluntary' rate).

Present Trends and Issues in the Highlands

It was widely predicted that livestock numbers in the Highlands and Islands would fall significantly as a result of decoupling and the move to the Single Farm Payment. What is now causing major concern however is the speed of that decline in both sheep and cattle numbers. A recent study by HIE looking at trends in agriculture in the period 2001 – 2006 show that the Scottish flock has fallen by some 249,000 sheep and of that decrease some 214,000 sheep are from the Highlands and Islands, i.e. 86% of the total (Moray and Caithness were the exceptions to this trend). A similar disproportionate effect can be seen in the suckler cow numbers where in Scotland as a whole numbers have increased by 2000, suckler cow numbers in the Highlands and Islands have fallen by 6000. These figures demonstrate the heightened loss of competitiveness of the fragile areas where poorer land, high feed costs and distance from centres have impacted disproportionately on the livestock sector in these areas.

It is vital that the accelerating decrease in stock numbers is addressed at the earliest opportunity; figures from 2007 are likely to show a further sharp decline in numbers, as maintaining this sector in the fragile areas is crucial for social, environmental and economic stability. Further significant decline could lead to stock levels falling below critical mass in some areas and a collapse in infrastructure such as hauliers, marts, feed merchants etc making reversal extremely challenging.

Many producers are also just holding on and with the unexpected hike in grain prices adding at least 50% to feed prices, electronic tagging round the corner, transport regulations, disease control measures and generally poor returns there is little pointing to a resurgent livestock sector in the Highlands. Measures to stimulate and support this sector are therefore vital and urgent.

The Working Document produced by the European Parliament acknowledges that such difficulties have arisen in certain regions and in certain sectors following the changes in support mechanisms and suggests actions which could be considered to address these. To quote from the document the Committee on Agriculture and Rural Development ‘calls for appropriations under Article 69 primarily to be allocated for measures to prevent agricultural production being wound up in areas where this would be significantly detrimental to nature, the countryside or regional development (in particular mountain areas, other especially disadvantaged areas and pastureland in extreme locations’ In another section of the document it further states ‘.....that any funding which is freed as a result of a reformed Article 69 or under the second pillar should be used, in particular, to preserve sectors which are regionally or environmentally significant, principally that of livestock farming.’

It is clear therefore that proposals to address the type of situation being experienced in the Highlands where one sector is significantly struggling and which is regionally and environmentally important, as cattle are in the hill and mountain areas of Highland for example, such proposals will receive careful consideration by the Commission.

Comments on the Main Proposals from a Highland perspective

1. **Change the basis for the SFP from the current historic model and phase in the flat rate system in the period up to 2013 using a hybrid model.** It is clear that using historic levels of production from 2003 as a basis for the main support payment would become less defensible and sustainable over time and there are clear signals in the document from the European Committee on Agriculture and Rural Development that a move to a flat rate system would be welcomed. Modelling carried out previously indicated that the Highlands and Islands would also benefit from such a move but the main driver for the change would be to make the SFP more transparent and defensible as a use of public funds.
2. **Capping or modulation of the largest payments.** Progressive modulation of the highest payments, with the **funds generated to remain within the regions in which they accrue**, would again reduce the vulnerability of these payments (the very large payments to individual farm businesses attracts much criticism) and possibly lead to more effective use and distribution of the SFP. The availability of some additional funding for wider rural development measures within the region would benefit the Highland area, accepting that a small number of large farm businesses may lose a small percentage of their present payment.

3. **Use of funds generated under Article 69 to support the livestock sector.** As set out earlier in this paper there is clear and urgent need to retain a viable livestock sector in the more fragile and remote areas of the Highlands and address the haemorrhaging of stock from these areas. There is also a desire to support High Nature Value Farming (HNVF) and there is an opportunity presented under Article 69 to develop a mechanism of support that achieves these dual aims. This is seen as critical to the Highland area and should be a priority in discussions. Such a measure combined with possible LFASS linkages to HNMF (not for discussion in this paper) may provide some encouragement for a failing sector.
4. **Decoupling/partially coupled payments.** It is unclear if the health-check will allow Member States to revisit original decisions on decoupling. If for example it became apparent that the Member States which retained coupled payments for suckler cow production are not suffering the problems referred to in this sector in the Highlands, would it be acceptable to revisit the subject and look at partial recoupling in affected sectors. Such a move may or may not be appropriate but clarity on whether or not it is an option is needed. (It is suggested that the payments under the calf scheme are retained while noted this is under a different mechanism – National Envelopes).
5. **Changes to cross-compliance.** The documents available hint at only minor changes to cross-compliance (CC) which should not greatly impact on the majority of businesses in the Highland area. The significant point here is perhaps to ensure that additional rules or conditions are not introduced which would limit the scope of funding measures under the second pillar of CAP.

Summary

The CAP health-check provides an important opportunity to influence funding measures which will be in place up to 2013. In terms of the Highlands the patient is not in great health and some changes are urgently required to address serious problems which have emerged and are ongoing following the review and changes in support in 2005. If we are to strive to retain a viable livestock sector in the Highlands and associated environmental, social and economic benefits the above issues are seen as key and should be given priority in the forthcoming debate on the health-check.