THE REFORM OF THE CAP TOWARDS 2020 – CONSULTATION DOCUMENT FOR IMPACT ASSESSMENT

RESPONSE FROM SCOTTISH BORDERS COUNCIL

This response is submitted by Scottish Borders Council in consultation with the Scottish Borders ‘A Working Countryside’ Group, a partnership of 24 key public, private and third sector partners working together to deliver integrated rural development in the Scottish Borders (Annex 1).

POLICY SCENARIOS

Question 1: Are the policy scenarios outlined consistent with the objectives of the reform? Could they be improved and how?

1.1 The reform objectives outlined in the CAP 2020 Impact Assessment (IA) consultation document are not consistent with the wording of the reform objectives outlined in the official Communication ‘The CAP towards 2020’. This is not helpful for clarity and transparency. We agree however that the three main objectives for the future reform of CAP should be: 1) Viable food production, 2) Sustainable management of natural resources and climate action, and 3) Balanced territorial development.

1.2 The reform of the CAP is important to support the development of sustainable agriculture and sustainable rural communities. In the Scottish Borders region we hope that CAP reform will support the development of more innovative and competitive European agriculture, with food production as the primary purpose, but also delivering other important public benefits such as addressing climate change and loss of biodiversity, and wider rural economic development issues. These aspirations are captured in the detail of the reform objectives expressed in the official Communication.

1.3 Total income from farming in Scotland (£589 million, Source: Scottish Government 2009) is less than subsidies received (£633 million, Source: Scottish Government 2009), so dependency on direct support for agriculture is high. However, in the face of public sector budget cuts there needs to be better justification for the continuation of the CAP, and for maintenance of the CAP budget. It is important that the EU continues to have a common agricultural policy, but it is accepted that the current method of allocating funding based on historic payments is increasingly difficult to justify. The reform of the CAP must deliver the best possible outcomes for EU citizens, with more equity across member states. Direct support for farm businesses must continue in order to underpin the continued viability of the sector, but objective criteria and targeted outcomes are required to justify continued support. Support for wider rural development is also important to enable the development and diversification of rural economies. This must be better aligned with European regional policy to ensure maximum synergies and impact.
1.4 The policy scenarios outlined in the IA consultation document are consistent with the objectives of the reform. In addition to making choices about which option will best achieve the reform objectives, we agree there is a need to simplify CAP implementation procedures and reduce the administrative burden where possible, within the scope of a better targeted and outcome focused policy.

Question 2: Are there other problems apart from those set in the problem definition section of this document that should be analysed when considering the architecture of the CAP in the post 2013 period? What are their consequences? Can you illustrate?

2.1 Partners in the Scottish Borders agree with the Commission’s view that the CAP is faced with a series of significant challenges that require strategic choices to be made for the long-term future of its agriculture and rural areas. We agree that adaptations to the direct payments system are necessary to redistribute, redesign and better target CAP support.

2.2 The broad challenges outlined in the IA document do not properly recognise widespread market failure in food prices and the consequent dependency on direct Pillar 1 support to underpin the viability of agricultural businesses. The IA document does not fully recognise the fact that agricultural income per working unit in Europe is significantly lower than in the rest of the European economy, and that income per inhabitant in rural areas is considerably lower than in urban areas. This is recognised in the Commission communication, and is important in underlining the need for the continuation of the direct payment budget in Pillar 1, but with better targeting and clearer outcomes for EU citizens.

2.3 Agriculture continues to be a key sector in the local economy in the Scottish Borders, directly supporting 1,697 direct full and part-time jobs and a total workforce of 3,946 in the Scottish Borders (Source: Scottish Government 2008). This is approximately 9% of the total workforce. Agriculture, hunting and forestry are worth £108 million annually to the Scottish Borders economy (2006), which is 7% of total GVA. This does not take account of significant supply chain linkages, particularly in the tourism and food & drink sectors. Agricultural activity in the Scottish Borders is currently supported by approximately £60 million per of direct payments per year from Pillar 1, and a further £10-15 million of competitive Pillar 2 Rural Development Programme support. It is critical for the sustainability of the industry that CAP policy continues to underpin business viability, and drive increased agricultural competitiveness, while helping to overcoming disadvantage, supporting innovation and the use of new technologies, and to enable businesses to find efficiencies.
2.4 Rural economies have a unique potential contribution to make to Europe’s economic success, and CAP reform must take into account wider economic development challenges and opportunities. Synergies with Regional policy, Social policy and to a lesser extent Fisheries policy need to be developed at regional/local level to avoid duplication and maximise impacts, and to achieve this we support the proposal for the development of a Common Strategic Framework for EU funds.

2.5 The barriers to economic growth affecting rural areas include critical mass, distance to markets, limited infrastructure, access to networks, and skills (supply and demand). The ‘step changes’ required in rural economies must address the structural challenges compromising productivity levels in rural economies. Rural areas need further investment in business advice, research, skills development, and infrastructure to support the development of more productive economic activity within the local economy. Partnership, added value and market focus will continue to be important for agricultural businesses and other rural businesses. Increasingly, policy instruments need to respond to local market needs and conditions - it cannot be a ‘one size fits all’ approach.

2.6 Consideration needs to be given to the timescales for the implementation of the reform. Scottish Borders Council recognises that the current lack of support for new entrants is not acceptable. Of lesser concern is the continued availability of direct support for a small number of farm businesses not actively contributing to agricultural output. A transfer to area-based payments from 2013 would immediately address both of these issues. However, it is not clear if the current debate assumes a transition in 2014, or if this transition will be phased over a longer period towards 2020. The speed of change and the scale of adjustment are of critical importance. A strong signal is needed from the Commission on the direction and timing of reform so that farm businesses and other businesses in the supply chain can understand the direction of reform and plan for it as early as possible.

Question 3: Does the evolution of the policy instruments presented in the policy scenarios seem to you suitable for responding to the problems identified? Are there other options for the evolution of the policy instruments or the creation of new ones that you would consider adequate to reach the stated objectives?

3.1 Scottish Borders Council agrees with the broad principles for direct payment reform as outlined in the official Communication and in the European Parliament’s proposals. The criteria for direct payments should be both economic, in order to fulfil the basic income function of direct payments, and environmental, to support the provision of public goods. We also agree that future direct payments should be linked to active farming, although definitions still need to be elaborated and agreed.
3.2 We agree there is need for more equitable distribution of direct support. The current EU average direct payment per hectare is approximately €260. The UK average is €247, and the Scottish average is €125. Within Rural Development programme budgets, EU average spend is approximately €50 per hectare, the UK average is €11 and a Scottish average is €7. For this reason, we are sympathetic to the call for more equity in the level of payments throughout the EU. However, we would not support a general flat rate Single Payment System (SPS) as outlined in the first option ‘Adjustment scenario’, as there is a need for payments to reflect the significant variations in input costs and the outcomes/public goods delivered across a range of different agricultural sectors and land types across the EU.

3.3 The ‘integration scenario’ second option is therefore supported as best designed to achieved the stated objectives of the reform – with a basic decoupled direct payment and additional ‘top-up’ payments targeting specific priorities and outcomes.

3.4 We do not agree that there is a need for an upper ceiling for direct payments received by large individual farms (“capping”). If it is accepted that reform will provide justification for continued direct support and targeted outcomes for EU citizens, the rationale for capping payments in not clear. Farm businesses in the Scottish Borders are significantly bigger than the European average, and capping payments could have a negative impact on the sustainability of a productive agricultural sector, and the associated delivery of public goods. A potential unintended consequence of capping payments could be that farm businesses will be artificially broken up to maximise payment levels so that businesses remain competitive. This is not in line with the reform aim to continue to enable farm businesses to make business decisions based on market opportunities. However, it is important to provide incentives and support for encouraging new entrants.

3.5 We support the alignment of Rural Development programmes with high level priorities provided in the Europe 2020 strategy. This should be delivered through regional and local partnerships (at NUTS III level), using models such as the LEADER approach to deliver joined-up strategy development and local decision making to maximise synergies, impact and innovation.

IMPECTS

Question 4: What do you see as the most significant impacts of the reform scenarios and the related options for policy instruments? Which actors would be particularly affected if these were put in place?

4.1 Both the ‘status quo’ and ‘no policy options’ reference scenarios are not serious considerations in addressing the challenges outlined in the official Communication and the IA consultation document. This is reinforced by the position paper of the European Parliament and the views expressed via the Commission’s public debate that support the reform of the CAP based on a two-pillar structure.
4.2 Partners in the Scottish Borders believe that the Option 2 – ‘Integration scenario’ will best deliver the reform objectives stated to develop a more sustainable agriculture and sustainable rural communities. The Option 1 – ‘Adjustment scenario’ does not go far enough in responding to criticisms that CAP support needs to be better linked to active farming and better targeted towards specific outcomes – addressing food security, climate change adaptation and mitigation, loss of biodiversity etc. The Option 3 – ‘Re-focus scenario’ assumes that production capacity can be maintained without direct support. This is not a realistic option in the current climate where agricultural income remains highly dependent on direct CAP payments.

4.3 Scottish Borders Council supports the proposal in Option 2 to divide the SPS system into a basic component (not capped), with additional payments targeting strategic priorities. A significant majority (approximately 70%) of Scottish Borders farm businesses are tenanted. It is important that the transition to area-based payments does not disadvantage tenant farmers and destabilise the industry. For this reason we support proposals to establish a significant additional payment to reflect agricultural activity and outcomes delivered. Additional payments must be simple, targeted, and should not incur high administration costs.

4.4 Both Pillar 1 and Pillar 2 should be aligned with the Europe 2020 Strategy to achieve ‘smart growth’ (through resource efficiency and technological knowledge), ‘sustainable growth’ (through supporting issues such as biodiversity loss and the reduction of carbon emissions) and ‘inclusive growth’ (through unlocking economic potential in rural areas). CAP policy must be developed within a European context – setting high level direction and outcomes, but with the flexibility that accounts for regional variation. To achieve this, and complementarity with other European and national programmes, partners in the Scottish Borders call for a regional approach to policy implementation and decision making.

4.5 It is important to retain support for Less Favoured Areas, recognising the diversity of standard, fragile and very fragile areas, and the need for continued support to maintain production capacity in these areas. A review of the Less Favoured Area Support Scheme (LFASS) by Scottish Agricultural College for Scottish Government in 2007 highlighted the significance of LFA payments in the Scottish Borders, providing 31% of total income for farms in eligible areas. This significant dependence is due to the level of agricultural activity in the LFA, with only 15% of farming income coming from outside farming (Source: Scottish Government 2007).

Question 5: To what extent will the strengthening of producer and inter-branch organizations and better access to risk management tools to help improve farmers’ income levels and stability?

5.1 The strengthening of producer organisations and the development of better supply chain networks will help contribute to improved farm income levels and stability, but this is unlikely to address the significant dependency of European agriculture on CAP payments in the short to medium term.
Question 6: What environmental and climate-change benefits would you expect from the environment-targeted payments in the first and second pillar of the CAP?

6.1 High level climate-change outcomes should be identified at European level to further unlock the agricultural sector's potential to mitigate, adapt and make positive contributions to emission reduction and energy efficiency measures. These outcomes should be targeted and support through Pillar 1 additional ‘top-up’ payments. Support for addressing loss of biodiversity and the protection and management of natural environments should be targeted through a well resourced Rural Development programme via Pillar 2.

Question 7: What opportunities and difficulties do you see arising from a significant increase of the rural development budget and a reinforcement of strategic targeting?

7.1 A significant increase in the rural development budget will create difficulties for agricultural sustainability if this means that Pillar 1 direct support is reduced.

7.2 However, increased strategic targeting should result in better value for money and clearer outcomes from policy interventions. Rural development budget should be delivered through regional and local partnerships (at NUTS III level), using models such as the LEADER approach to deliver local decision making that maximises synergies and impact.

Question 8: What would be the most significant impacts of a “no policy” scenario on the competitiveness of the agricultural sector, agricultural income, environment and territorial balance as well as public health?

8.1 The ‘no policy options’ reference scenarios is not a realistic consideration in addressing the challenges outlined in the official Communication and the IA consultation document.

MONITORING AND EVALUATION

Question 9: What difficulties would the options analysed be likely to encounter if they were implemented, also with regard to control and compliance? What could be the potential administrative costs and burdens?

9.1 More detailed elaboration of the policy options is needed before controls and compliance issues can be properly considered. In addition to making choices about which option will best achieve the reform objectives, we agree there is a need to simplify CAP implementation procedures and reduce the administrative burden where possible, within the scope of a better targeted and outcome focused policy.
Question 10: What indicators would best express the progress towards achieving the objectives of the reform?

10.1 High level indicators should be developed to capture the high outcome focus of the reform proposals. These should be developed with reference to the development of a Common Strategic Framework for EU funds.

Question 11: Are there factors or elements of uncertainty that could significantly influence the impact of the scenarios assessed? Which are they? Would could be their influence?

11.1 The main factor that will significantly influence the impact of the scenarios assessed is the EU Budget Review negotiations. The CAP budget must be maintained at current levels if the reform objectives are to be achieved – to achieve equity of direct support across Member states, to achieve more ambitious outcomes for EU citizens focused on food security, environment, climate change and territorial balance, and to contribute to the challenges of the EU 2020 Strategy and economic recovery in Europe.

Scottish Borders Council
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Annex 1 – Scottish Borders A Working Countryside Partnership

- Berwickshire Community Councils’ Forum (BCCF)
- Borders College
- Borders Forest Trust (BFT)
- Borders Foundation for Rural Sustainability (BFRS)
- Borders Machinery Ring (BMR)
- Buccleuch Estates
- Forestry Commission Scotland (FCS)
- National Farmers Union Scotland (NFUS)
- RSPB
- Scottish Association of Young Farmers Clubs (Borders Federation)
- Scottish Borders Access Forum
- Scottish Borders Community Councils’ Network (SBCCN)
- Scottish Borders Council (SBC)
- Scottish Borders Environment Partnership (SBEP)
- Scottish Enterprise (SE)
- Scottish Environment Protection Agency (SEPA)
- Scottish Government Rural Payments and Inspections Directorate (SGRPID)
- Scottish Natural Heritage (SNH)
- Scottish Rural Property and Business Association (SRPBA)
- Southern Uplands Partnership (SUP)
- The Bridge (Scottish Borders Community Development Company)
- Tweed Forum
- VisitScotland
- Youth Borders