



Taking action for a living planet

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CAP Reform: opportunities for Scotland

The response from WWF Scotland, December 2003

CAP Reform Consultation
Room 245
Pentland House
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Edinburgh
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Dear Madam or Sir

WWF as a global environmental network has a keen interest in the role of agriculture in wider sustainable development. This focuses on the impacts of the industry and how it is supported, through policies and schemes, on both people and nature. WWF has more than 25,000 members and supporters in Scotland. We welcome the opportunity to contribute to the reform of the CAP in Scotland and welcome the efforts that the Department has put in to seeking to consult widely on this opportunity.

WWF believes that the way in which £750 million of public money is spent to support agriculture each year in Scotland is neither fair nor efficient and does not reflect the value of agriculture to the country. These reforms offer us the opportunity to change how just under half of that money is spent and we should use that opportunity to make Scottish farming and rural areas sustainable.

Modulation

Without a substantial shift in the nature of the CAP from direct payments and towards rural development and environmental measures then these reforms will fail either to fulfil the vision in the *Forward Strategy for Scottish Agriculture* or to deliver what the public expect from public policy.

As a minimum first step we would like to see £100 million a year switched to be spent on rural development and the environment. That represents at least 20 per cent national modulation on top of the EU compulsory level and more if UK match funding cannot be guaranteed in the longer term. On top of that there must be a clear indication that further modulation is needed in the near future to make up for lost time.

In the short term this money should be used to:

- Expand the number of farmers in the RSS and the range of environmental schemes available.
- Double the current investment in forestry not only to increase the establishment rate but also to expand the range of forest related rural development investments.
- Start to use some of the 23 currently unused rural development measures available.
- Re-vamp the Less Favoured Areas Scheme as a tool not only to deliver real public benefits but also to target support to those in most need – both objectives of the scheme at present but ones which are not being delivered.

The desire to ensure that all farmers have the opportunity to access modulated funds should not result in the ‘watering down’ of the extent and range of public benefits that rural development measures should deliver. The value of these funds is precisely that they can be targeted to maximise the public benefits they deliver.

Measures need to be developed to address specific problems arising from the reform decision in Scotland and to tackle issues such as the environmental damage caused by diffuse pollution and climate change contributions from agriculture. These will require further funding from modulation or other sources additional to that set out above.

Decoupling, re-coupling and national envelopes

The principle of severing the link between public money and the environmental and social damage caused by supported agriculture is welcome. However basing decoupled payments on the level of historic receipts fails to sever that link effectively.

Ultimately only a system of support based on delivering known and targeted public benefits will be acceptable to the tax payer and will be sustainable. This requires a significant shift in the CAP from direct payments to rural development and environmental schemes.

Scotland must make efforts to move quickly towards a flat-rate payment with substantial modulation to redress the inequality of the current CAP.

The uses of national envelopes and/or partial recoupling are not long term or sustainable solutions to any problems faced by agriculture as a result of these reforms. Neither option delivers targeted or specific public benefits as effectively as an expanded rural development programme.

Dairy

Dairy support should be redirected now to rural development measures that support dairy farming that delivers real public benefits.

Standards and cross-compliance

Without substantial modulation and effective, transparent and meaningful environmental standards there is little of environmental merit in these reforms. Standards associated with payments should encourage best practice rather than simply enforce the existing law.

Cap reform and forestry in Scotland

These reforms must not hinder the Forestry Strategy objective of the expansion of Scotland’s woodlands to 25 per cent of the country. The Executive must make a clear commitment to this target and ensure that support to agriculture does not endanger it.

The following submission explores these issues in greater detail.

Yours faithfully

Simon Pepper
Director, WWF Scotland

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INTRODUCTION – THE NEED FOR CHANGE

The Forward Strategy for Scottish Agriculture vision is for “a prosperous farming industry” that should:

- be focused on producing food and other products that the customer wants;
- play a major role in sustainable rural development and help to maintain the prosperity of our rural communities;
- be a leading player in the protection and enhancement of our environment; and
- embrace change and new opportunities.

This widely endorsed vision for agriculture is fleshed out by the *Custodians of Change* report and set in a wider rural context by documents such as the *Scottish Forestry Strategy* and the *Partnership Agreement*. These and other relevant documents add up to a shared vision of what sort of agriculture we feel is appropriate in Scotland at this time.

WWF does not believe that farming currently fulfils this vision. More importantly, in relation to this consultation, we do not believe that the public support given to the sector is helping it to move in the direction of that vision. It is important therefore that these reforms lead to change rather than a perpetuation of the *status quo*.

The Executive should consider carefully if the changes introduced will deliver against the shared vision.

Data recently made available and in the *Economic Report of Scottish Agriculture 2003 Edition* reveal the current patterns of public support to agriculture. Of a total support package of some £750 million, 53 per cent is in the form of direct payments to farming, 29 per cent as market support for milk and other commodities, only 4% for agri-environment and less than 1 per cent for forestry. These reform decisions will only affect some £361 million of the direct payments to farmers – less than half of the total support to the industry. The Executive should keep this in mind when considering calls from some interests that suggested changes are too radical or ‘unfair’ to contemplate – the majority of the public funding of agriculture will not be affected by these changes.

What is also interesting to note is the distribution of the spending across farm businesses, farming types and the country:

- A Parliamentary Question (S1W-28190 – Mr Mike Rumbles answered by Ross Finnie on August 30 2002) revealed that 8 200 farmers in Scotland do not claim or get any CAP support. Data for 2002 concerning the £361 million of the direct payments affected by these reforms indicates that 47 per cent of farms (9754) in 2002 shared out only 1.9 per cent (£15 million) of the support – whereas the largest 389 agribusinesses received 17.9 per cent (£62.5 million) of the budget between them. Data released last year by SEERAD indicates that in the year 2000 27 individual agricultural businesses received subsidies in excess of £250 000.

- Data recently made available by SEERAD also reveals that a hectare of arable farmland in Scotland receives on average £215 of support whereas a hectare of mixed livestock and arable land in the LFA is supported to the tune of only £38 on average.
- A hectare of Fife that is farmed is supported by the public purse to the tune of £181 of direct payments each year, the Lothian £144, the north-east £137 and Dumfries and Galloway £111. But a hectare of the Highlands only by £15 and the Islands by £9.

The question these figures raise is whether the way we spend public money on agriculture in Scotland now is fair to all farmers, equitably shared around the country or adequately reflects the ‘public values’ inherent in the farming systems it supports? Does a hectare of cereals really have more than five times the non-market public worth of a hectare of mixed farm in the uplands? Does a hectare of Fife deliver 20 times as many jobs or environmental benefits as an equivalent area in the western Isles?

In areas where it is most heavily supported, the north-east, south-east and south-west, farming tends to be intensive and known to pollute. That is why the east of Scotland has been designated as vulnerable to the pollution of drinking water by nitrogen fertilisers and why the south-west is the target of Executive efforts to reduce the pollution of bathing waters by pathogens found in livestock manure. Because they are intensive they are also reliant on inputs brought into the area and have restructured to reduce overheads particularly in the form of labour – the most expensive input to farming. Such farming systems whilst economically productive tend to have a lower environmental and social value to society, and may have indirect costs, and yet absorbs most of the support.

Conversely farming in the north-west and on the Islands tends to have little environmental impact and in fact is essential to maintaining some of the most valued natural and semi-natural habitats in Europe – such as the machair and the breeding grounds for rare birds. At the same time small-scale, extensive patterns of production rely more heavily on local labour and local inputs. They are also more likely to produce goods and services that can be utilised locally for added value through links to the food industry or tourism. Such patterns of agriculture would seem to offer greater public benefits and yet the current CAP fails to reward crofters there for delivering those benefits.

It is WWF’s assertion that this CAP reform should start to deliver *the Forward Strategy for Scottish Agriculture* and specifically start to reward agriculture for *being “a leading player in protecting and enhancing the environment”* and for playing *“a major role in sustainable rural development”*. That will inevitably mean a shift of money to environmental and rural development schemes and a redistribution of the CAP between farming types, individual businesses and across the country.

That is the opportunity of these reforms – to change the CAP in Scotland and to start investing differently in a sustainable future for farming for the benefit of people and nature.

HOW TO CHANGE

1 Should additional rates of national modulation be applied? If so what rate and for what purposes?

Scotland has had the poorest record in Europe on funding and using the CAP rural development measures. These reforms are a real opportunity to make up for the meagre allocation of resources to Scotland made by the EU in the current programme period. The reforms are also an opportunity to demonstrate a commitment to the *Forward Strategy*, to rural Scotland and to the wise use of public money to deliver public benefits.

None of the options for modulation set out in the consultation document is sufficient to allow agriculture to *play a major role in sustainable rural development and help to maintain the prosperity of our rural communities*. Or allow it to become *a leading player in the protection and enhancement of our environment* or enable it to *embrace change and new opportunities*.

To do so requires a significant increase in the rural development budget. The opportunity presented by these reforms is to shift a substantial amount of the agricultural budget into buying specific and targeted public benefits. If we do not change what the CAP 'buys' there is a danger that the taxpayer will come to see support to farming as 'money for nothing'.

Modulation is also an opportunity to invest in making farming and rural areas sustainable and prepared for the 'freedom to farm' that will come with these reforms.

A substantial commitment to shifting money now and a clear signal that there will be more in the near future, in preparation for the next rural development programme period in 2007, is needed from the Executive.

We estimate that a further £100 million is needed to make the current Scottish Rural Development Programme (SRDP) start to deliver against the needs and opportunities in rural Scotland.

Such an additional investment would bring the budget for rural development up to £210 million, still only 28 per cent of the total public support to the sector. £210 million a year would allow Scotland to invest:

- £75 million in environmentally friendly farming to allow almost all of Scotland's 20,000 farmers and 50 000 farms to enter these schemes;
- £25 million in forestry grants to allow Scotland's farmers to reach the Executive's own target of 25 per cent of our country being planted with trees;
- A new £50 million a year spread across some of the 23 unused measures to allow farmers and rural communities to prepare for the uncertain future facing them. We could renovate villages as they do in England and Germany, we could create new business in forestry as they do in Austria and Finland and we could give better advice to farmers on business and environmental management as they do in Wales. These examples show that we could do a lot better.
- And the country could still spend £60 million a year on compensating farmers in remote upland areas where farming is a struggle – but the LFASS should be re-designed to deliver real environmental benefits and support sustainable farming in the most disadvantaged areas and is more than a 'back door' sheep subsidy.

This would start to make the SRDP live up to the expectations stakeholders have of it as well as signal to the tax-payer that support to agriculture is no longer 'money for nothing'. It would also allow for the redesign of the SRDP in 2004 with all the relevant stakeholders and in a way that makes real the Executive's commitment to Land Management Contracts.

The argument that farmers should have an equal opportunity to access modulated funds to the degree that they previously received direct payments should not 'water down' the level of public benefits delivered by the funds. Modulation 'ring-fenced' to individual businesses and/or the development of 'widely

accessible' pseudo-rural development measures, that in reality deliver no additional public benefits from agriculture, would be false steps towards delivering the *Forward Strategy*.

Arguments that modulation is a 'tax' on farmers and will damage their financial stability must be tempered by an understanding of the reality:

- That public support to the sector is just that – the taxpayers' money not the farmers' and that its use should be determined by the best delivery of public benefits;
- That a significant number of farm businesses will see no impact from EU modulation since some 17,000 currently receive either no CAP support or less than £3500 in a year;
- That an increased and better-targeted rural development programme will be of major benefit to the majority of farm businesses and to the public;
- That a '*prosperous farming industry*' will not be achieved in the long run through injections of cash into individual businesses unless that is tied to sustainable development of the sector as a whole.
- That inherent in the argument that modulation will lead to redistribution which is 'unfair' is the assumption that the current, highly skewed pattern of CAP spend in Scotland is either 'fair' or reflects the maximum delivery of public goods such as the environment or rural jobs. This is patently not the case.

There must be a minimum national modulation of 20 per cent above the compulsory EU rate now if UK Treasury match funding is available and nearer 30 per cent if not.

The Scottish Rural Development Programme needs to be substantially re-designed, with all stakeholders, in 2004 to help agriculture and rural Scotland prepare for the future and to make Land Management Contracts a reality.

The Executive must clearly signal that it will seek to shift more money for the next rural development period of 2007-2013.

2 Decoupling

In principle WWF welcomes decoupling since historically production payments have contributed to the environmental damage caused by farming in the EU and to the over-production and subsequent dumping of EU produce on the rest of the world. This in turn has led to the undermining of livelihoods and consequent environmental damage in low-income countries. However we have concerns about the model of decoupling in these reforms.

2a Should a single payment be operated on a flat-rate basis, instead of the individual (historic) payments approach?

Decoupling based on an historic distribution of the CAP, with no substantial shifting of budget to environment and rural development and with the currently inadequate system of environmental standards, does very little to cut the link between tax-payers' money and environmental and social damage caused by the sector.

- Historic levels of payments – will still 'cross-subsidise' agricultural production on some farms and will place farmers who will soon be 'free to farm' under unfair competition with neighbours who were not 'subsidy farming' in the reference period. The indirect cross-subsidising inherent in such a system will continue to see an unacceptable link between the use of public money and damage to the environment and livelihoods at home and abroad.

- Inadequate modulation – will not allow us to address specific environmental and social problems faced by farming particularly in cases where the public benefits it delivers, such as the environment, economic activity and jobs are threatened by the uncertainty of reform and the future of the sector.
- Inadequate standards – will not address the problem of the intensification of agriculture on favourable land or the extensification and possible abandonment of semi-natural farmed landscapes of high nature value. Even high environmental standards will only succeed in preventing further damage to the environment from agriculture and not support improvement in the performance of the sector.

Basing the majority of the support to agriculture on decoupled historic receipts will fail to allow farmers to *be focused on producing food and other products that the customer wants*. Instead it will perpetuate a complex bureaucratic and distorted method of support to the sector. Such an approach will replace ‘subsidy farming’ with ‘entitlement farming’ particularly if trading in entitlements becomes common – none of which can be said to be wise use of public funds or in the interest of rural Scotland. More importantly without substantial modulation decoupling alone will fail to deliver against the rest of the *Forward Strategy*. Instead it will only serve to entrench the inequalities and inefficiencies of the current CAP. Because this pattern of expenditure is determined by levels of production a decoupled payment based on these historic receipts cannot function as an equitable system of farm income.

The use of a flat rate payment scheme has the merit of redirecting support away from currently heavily supported areas, in the south and east, and to the north and west and from intensive livestock and arable to more extensive and environmental benign forms of farming. There are however likely to be as many new inequalities and inefficiencies in a flat-rate payment system as in an historic one. Any system of support that remains in the majority directed at ‘farm payments’, rather than transparent environment and rural development payments, cannot be called a wise use of money, will not be tolerated by the public and will not have a sustainable future.

The only sustainable answer is to signal a significant shift in how the CAP is delivered from direct payments to rural development. Such a shift will allow public money to be spent transparently and fairly to meet real needs and opportunities.

In the short-term there is some merit in easing a transition to a flat rate of payment by developing a hybrid system that starts with an historic rate but aims to move completely to a flat rate within 5 years. However this will only be acceptable if it is accompanied by a major shift of funds to rural development and the environment.

2b Should use be made of the recoupling options? and Should use be made of the provision for a national envelope?

It will be difficult to manage the uncertainty or the possible negative impacts of these reforms effectively or for the long term by partial recoupling and/or national envelopes. Both options are difficult to target towards specific situations and both are limited in how much they can do and how long they can be used. In principle the idea of giving farmers the freedom to farm on the one hand but then tying them to particular commodities to produce or ways of farming seems inconsistent both with aims of the CAP mid-term reforms itself and with the *Forward Strategy*.

However concerns have been expressed that these reforms may result in extensive farming systems, in remote, poor and costly areas, being abandoned. These focus on issues such as the maintenance of cattle in the uplands and of arable as a part of mixed farming in the north and west.

These and any other problems that result from CAP reform are best dealt with through targeted specific schemes that address real problems in identified areas rather than trying to create a national and/or sectoral scheme which can only fail to be flexible enough. If the threat posed by these reforms are that arable rotations in mixed farming systems in the north and west of the country will be lost or that cattle will be moved off the hills then we need a mechanism that can target those particular farms and localities. A national envelope that sees all farms currently in receipt of arable or cattle payments having equal access to the new support will not allow the support to be targeted to where it is needed. At the same time the limits on the size of the national envelopes will not free up enough money to develop an effective scheme.

The level of uncertainty as to what will be the response of farmers to the package of reforms as a whole make it difficult to see how an effective 'solution' to a problem we are not yet sure of can be designed now.

The most effective solution to problems arising from these reforms is to ensure that we have the flexibility in the near future to address them where and when they arise. That flexibility can only be secured by substantially increasing the SRDP budget through national modulation.

However, for the SRDP to address specific threats from these reforms there must be a level of modulation in addition to that set out in section 1. We cannot allow the SRDP to be made less effective simply because of the failure of decoupling to be sustainable.

3 Should dairy payments be decoupled at the same time?

Yes.

WWF would like to see a re-assessment of how, why and where we support dairy farming. Dairy farming in Scotland is amongst one of the highest polluting sectors of the industry and is performing badly in economic and social terms. The public purse should only support dairy farming that has environmental and social benefits and not systems that have environmental costs and deliver little else. This could be achieved through, for instance, the re-allocation of quota, or more preferably through modulation and expanded and targeted rural development measures.

Some ideas that need to be explored include:

- The establishment of a high nature value grassland payment scheme within the SRDP;
- Rural development investment in co-operatives for dairy producers to diversify the market chain and add more value for farmers within it;
- Rural development investment in setting up more local marketing of dairy products;
- A redistribution of milk quota to areas where extensive dairy farming is delivering desirable environmental and rural development benefits;
- The use of meaningful cross-compliance and standards to limit diffuse pollution and/or achieve input restrictions as has been done with nutrient budgeting in Denmark and the Netherlands;
- Rural development investments in nutrient management techniques and practices.

In terms of the immediate issue of the allocation of additional dairy quota in Scotland we would like to see it done on the basis of directing the support to dairy farming where it is proven to deliver environmental benefits.

4 Standards and cross-compliance

WWF is disappointed that the CAP consultation did not include an opportunity to discuss the importance of developing and implementing a meaningful set of standards to be kept by those in receipt of public money. Without meaningful environmental standards so much of what is being offered through these reforms will have little or no direct environmental benefits. If we are not going to see a substantial shift away from direct payments and towards rewarding the delivery of environmental benefits then we must ensure that the environmental performance of the new farm payments are maximised through tough and meaningful standards.

We welcome indications that standards and cross-compliance will however be consulted on in the near future.

Unfortunately the standards being proposed by the European Commission include reference to only a basic list of existing environmental, food safety, animal health and animal welfare legislation. Noticeable by its absence is the most important piece of EU environmental legislation in recent times – the Water Framework Directive.

At the same time the EC definition of Good Agricultural and Environmental Condition is an inadequate list of issues covering soil erosion, soil organic matter, soil structure and the maintenance of vegetation and landscape features.

We are concerned that the list of legislation only represents some of the current legal requirements that farming has to meet in Scotland and that we are in danger of creating a ‘two tier’ approach to the law. The debate about cross-compliance has been running for some time in Scotland and the need to set meaningful standards on those who receive public support for land use has been agreed by most stakeholders. We would like to see the Executive take the opportunity to create a comprehensive code of practice and cross-compliance as recommended by the Custodians of Change report and as already possible voluntarily through the EC ‘Common Rules Regulation’.

Good practice should go beyond a selection of the legal minimum requirements. If it does not we find ourselves in the unacceptable position of paying businesses to obey the law.

We are also concerned that the list of criteria of Good Agricultural and Environmental Condition are inadequate as a framework within which to define the good status of farmed land.

In its interpretation of the standards and implementation of cross-compliance the Executive must go beyond the minimal approach. Scotland must become more proactive in using standards to move farming forward rather than seeing them as a ‘burden’ on the industry or as something that is a last resort for when we are facing infringement proceedings from Europe.

Ensuring that standards are kept to, and that infringements lead to the recovery of payments, is vital to how effective they will be. Enforcement has to be transparent and conducted by a body that is trusted by all stakeholders. It also has to be at a level that is likely to encourage the industry to keep the standards. We do not believe that the current 5 per cent inspections by the same staff who administer the subsidies engender much faith in the system by external stakeholders.

5 CAP reform and forestry in Scotland

There is widespread concern that the shortfall in targets for woodland expansion within the Scottish Forestry Strategy will be made worse by these reforms. Farmers are facing huge uncertainty about the

level of payments they will receive, the way that entitlement will function and what will impact on the eligibility of land to attract that entitlement. The outcome is already that many producers are delaying or cancelling decisions to plant trees. Unless managed carefully these reforms look set to ‘fossilise’ land use in the current patterns and make it impossible for us to reach the target of 25 per cent forest cover by 2050.

To address this uncertainty the Executive must:

- Make sure that the definition of Good Agricultural and Environmental Condition and the need not to lose permanent pasture allows Scotland to increase woodlands on current agricultural land;
- Double the budget for rural development schemes in forestry – to both expand the rate of planting but also increase the management of the existing woodlands for public benefits. Rural development money also needs to be expanded to invest in new rural industries based on forests such as wood fuel heating and processing and value adding; to invest in the skills farmers need to manage woodlands effectively and to encourage certification of private and farm woodlands.