Scottish Crofting Foundation
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European Forum on Nature Conservation and Pastoralism

A joint response by the Scottish Crofting Foundation and the European Forum on Nature Conservation and Pastoralism to the Scottish Government consultation on the Less favoured Area Support Scheme, December 2008.

Thank you for this opportunity to contribute our thoughts on the future of the Less favoured Area Support Scheme (LFASS), an extremely important component of support for active land management in the disadvantaged areas of Scotland.

A fundamental of this, as with any public payment for public goods, is that the aims of the mechanism and the rules of the scheme should be in accordance with those set out in the Regulation. Criteria used to identify LFA land and to calculate payments should be defensible to public scrutiny. We feel that this scheme presently fails on both counts.

The LFA measure must support systems which are sustainable and maintain the countryside. We recognise that there is a limited amount of money so this must be targeted at the higher nature value areas – one of Scotland's strengths.

The formula currently used to calculate payments (resulting in the better quality land which is able to carry more stock getting paid more per hectare, based on what a producer used to do) is contrary to the spirit of the regulation and is untenable. Therefore a new formula that directs payment to actual delivery of public goods is needed.

We support these assertions with the very thorough work done by the Committee of Inquiry on Crofting and the Future of Scotland's Hills and Islands study undertaken by the Royal Society of Edinburgh, both of whom concluded, as do we, that the LFASS must change to provide support to the truly less favoured areas as intended.

In reference to the alarming drift of livestock from the hills and the islands which is not reflected in the Scottish figures recently published it is acknowledged that LFASS is not the only contributor to this. However addressing the above would send a very strong message to those remaining in the livestock sector that the Government is serious about supporting, not just the farming/crofting communities, but the whole fabric of society, economy and environment which is dependent on these enterprises.

Our general approach to the LFA issue is that:

1. The aims of the LFASS should be in accord with and directed squarely at those set out in the Regulations and the Community Strategic Guidelines;
2. These aims should be reflected in the scheme rules and in the monitoring and evaluation plan;
3. The payments in the scheme should be limited to overcoming market failure in the provision of the specified public goods and integrated with the operation of cross-compliance;
4. The payments should be calculated solely on the basis of the costs of meeting the requirements of the scheme in the year of participation by the particular claimant;

5. If the lack of a 'peripherality' criterion within the new LFA rules means that the extra costs it imposes on claimants on islands cannot be met in the standard scheme, there must be 'specific handicap' scheme targeted at them;
6. Although most of the Scottish LFA is not threatened by the proposed new guidelines for the definition of disadvantaged areas, the greater flexibility in payment levels means that a Mountain Area designation is desirable;
7. There should be a clear setting out of the benefits to the achievement of Axis 2 of small production units in the RDP and the conclusions should be reflected in the structure of LFASS.

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A summary of our general approach to the LFA issue

1. The aims of the LFASS should be in accord with and directed squarely at those set out in the Regulations and the Community Strategic Guidelines.

This means that the supporting the use of agricultural land is not an end in itself: the systems supported must be sustainable and maintain the countryside. While all EAFRD schemes can contribute to achieving the aims of the three Axes, the LFA measure fits within Axis 2 and must primarily contribute to the preservation and development of High Nature Value (HNV) farming systems[1] and traditional agricultural landscapes, and to addressing biodiversity, sustainable water management and climate change issues. The maintenance of population and the support of marketing chains are not valid objectives for LFASS, though they may well be incidental benefits; in Scotland a scheme which is well targeted at valid objectives will have considerable socio-economic benefits. The objectives in the SRDP therefore need to be rewritten to make the delivery of Axis 2 the central purpose, and to allow for both the targeting of applicants providing these benefits and the exclusion of those who deliver little.

2. These aims should be reflected in the scheme rules and in the monitoring and evaluation plan.

The scheme rules, for example the definition of minimum use, should be designed in a way which is likely to facilitate the achievement of the Axis 2 objectives. If that requires active management, as we believe it does, then LFASS must demand that. The Scottish Government should be ready to defend meaningful minimum activity rules, separating that argument from the wider debate about decoupling in general. It is clear that there is no 'cutting red tape' benefit to an over-liberal régime, as was claimed in the past, since active claimants are still subject to inspections, albeit now for cross-compliance monitoring.

Since the major focus in Scotland is likely to be the maintenance of HNV farming systems, the scheme should reflect that in its rules. Payments should be directed to those who by the character of their land and the nature of their management deliver on this goal. Fortunately there is no contradiction between this rule and the desire to target on the most marginal farms in any particular area.

Livestock density should therefore be a key element of eligibility for the receipt of payment. The maximum permissible density should be reduced to better target the payments at farms delivering lower intensity management likely to deliver RDP targets.

With the apparent demise, which we regret, of peripherality as a valid element in the payment calculation, both disadvantage and Axis 2 benefit are best encapsulated by the proportion of rough grazings (or similar unfertilised, unimproved grassland) in the total forage of the holding. The level of payments should be adjusted at the lowest possible level – farm level is ideal – to target the active management of these areas in particular. This should be combined with a broad regional variation to reflect the generally lower quality of western rough grazings.

The aims set out in the RDP and which are the focus of subsequent monitoring and evaluation should be specific and relevant to Axis 2 objectives. The number of scheme participants or overall number of sheep in the LFA are not robust enough in themselves to show the efficacy of the measure, for example. They should have also have a spatial

[1] HNV farmland has two characteristics: it is managed by low-intensity systems, and this results in a high proportion of the farmed area being semi-natural vegetation of some type. In some areas the result is a large-scale landscape of open hill, while in others a small-scale mosaic results. However, a small-scale landscape without low-intensity use is not HNV.

dimension. For instance, maintaining the overall number of suckler cows may not be sufficient to achieve the objectives set if they disappear altogether from certain sensitive areas.

For clear environmental reasons related we support the principle of encouraging the presence of cattle on marginal holdings. It is clear also that the way both Article 69 (68) and agri-environment schemes have been implemented in the past suggest that regional or farm-level variation in the costs of keeping some cattle is best compensated through the LFA mechanism. If it is felt, after strong lobbying of the Commission, that a cattle uplift is not lawful then mechanisms for farm-level and regional differentiation are necessary in the other measures mentioned.

3. The payments in the scheme should be limited to overcoming market failure in the provision of the specified public goods and integrated with the operation of cross-compliance.

It is clear that in Scotland, as in most of Northern Europe, the main Axis 2 issue which requires urgent *support* from the public funds is the lack of economic viability of HNV farming systems, wherever these are located. Correcting this market failure should be the main focus of LFASS. The funding of HNV farming systems where there is no market failure is not a valid use of LFASS.

The avoidance of damaging management practices is in the long-term a matter for cross-compliance, although there is a possible role in the short-term for assistance to meet standards. The protection of water quality and the avoidance of damage to features of historic or natural interest fall into that category.

Although we accept that cattle keeping on marginal land is more costly than sheep keeping, we are not convinced that this relative disadvantage is as significant in less marginal areas. We note that the 'cattle uplift' element in the old scheme had the effect of further adding to the payments of the least disadvantaged areas. It is clear to us therefore that the uplift should reflect the proportion of rough grazings in total forage, with little or no uplift on farms with a lot of improved grassland or arable. On these farms winter keep production is least expensive, market failure is at its lowest and additional environmental benefit is difficult to demonstrate.

4. The payments should be calculated solely on the basis of the costs of meeting the requirements of the scheme in the year of participation by the particular claimant.

Two fundamental weaknesses of the present arrangements need to be addressed without delay. Payments must relate to *current* management. They must also be calculated on the basis of the gross margin generated by the minimum activity necessary to ensure compliance with scheme rules, *not* of current agricultural management. For example, if the minimum activity is 0.12 LU/ha, then this should be the basis for calculation even for farms which are currently operating at, say, 1.2 LU/ha. If the public 'ask', as shown in the rules, is for, say 0.12 LU/ha, then the question is not what is the optimal gross margin per ha for the farmer, but what is the most efficient system in terms of lowest requirement of additional public funds needed to deliver that stocking density. We are not convinced that this information can be gleaned from the SAC Farm Management Handbook, except in the case of the most extensive system, where this is the actual stocking density, so we would advise a revisiting of the Macaulay gross margin calculations.

Costs generally diminish with the scale of the farming operation. The principle of linking payments to the costs of the specific claimant implies the use of degressive payments.

Payments should make a substantial contribution to the cost of fulfilling the scheme rules, so that the time spent by claimants on those activities is rewarded at the minimum wage. This implies a calculation of the deficit from market returns and SFP and that payments will vary as and when SFP is reformed. It also implies that the reward for time spent should be the same for producers throughout the LFA. Overpayment should be calculated solely with reference to the minimum wage return on time spent to fulfil scheme rules.

5. **If the lack of a 'peripherality' criterion within the new LFA rules means that the extra costs it imposes on claimants on islands[2] cannot be met in the standard scheme, there must be 'specific handicap' scheme targeted at them.**

We believe that peripherality is a real cost, which is related not just to the cost of fuel (or ferry transport) but to factors such as the Working Time Directive, rules on the welfare of animals in transport, and the effects of the weather on transport routes. Thus we encourage the Government to fight the principle of dropping of peripherality as a criterion for the designation of the LFA. We agree with the Commission however that the effect in practice will be limited; the big question for us is whether peripherality costs are permissible in the disadvantage calculations in areas which qualify for other reasons. The Government must ensure that this case is made.

Whether or not it succeeds, the record on recognising the rapid escalation in disadvantage that island status brings is so poor that we believe that an 'island' LFA based on the 'specific disadvantage' provisions of the Regulation is called for.

6. **Although most of the Scottish LFA is not threatened by the proposed new guidelines for the definition of disadvantaged areas, the greater flexibility in payment levels means that a Mountain Area designation is desirable.**

Following on from the logic of point 2, we support the division of the scheme between Mountain and an 'Other' LFA, since the result will be a set of claimants with a very high proportion of rough grazing and a set with lower proportions. This allows the setting of high payments but low maximum livestock densities for the former and the setting of lower payments and higher maximum density for the latter. In the case of the 'Other' LFA, an option which might be considered is targeting the payments at semi-natural vegetation only, but on balance we feel that it is the *proportion* in total forage which truly represents a disadvantage to the producer; other areas are best managed through agri-environment.

The interaction of the Atlantic with altitude should be made clear to the Commission. Blanket peat forms at sea level in the extreme west, but at higher altitudes in the east. The case is clearcut, but will not be familiar to those living in continental climates.

[2] An island should be defined for this purpose as any area whose day to day access to the main Scottish road network is by ferry.

7. **There should be a clear setting out of the benefits to the achievement of Axis 2 of small production units in the RDP and the conclusions should be reflected in the structure of LFASS.**

Increasing economies of scale is a valid aspiration for agriculture in the Scottish LFA. However, it is an aim consistent with the operation of the market and should not therefore be a valid justification for spending public funds. On the other hand, a multiplicity of low-intensity management systems gives a richer landscape and habitat mosaic than results from one large farm on the same area. While recognising economies of scale is a general issue (see 4 above), the Government has a choice whether to encourage or discourage the smaller unit by a combination of minimum area criteria or minimum payments. We believe that as long as eligibility is linked to real activity, small producers should be encouraged and that the environmental benefits which result will be matched by social and economic benefit for rural communities, not least in the most marginal areas.

Responses to the questions in the consultation

Q1. We support both these proposals.

Q2. Although we contend that the relevant gross margins are those which deliver the demands of the scheme, not the presently-occurring farming systems, the basis for setting the payment rates set out in Table 2 is a pragmatic basis for proceeding in the absence of other data.

We believe that maximum stocking levels should be set with reference to Axis 2 objectives (see below). We do not believe that producers above the maximum stocking should receive payments.

We believe that minimum stocking levels should also be set with reference to Axis 2 objectives. However the fact that the *average* density for land classes 6.1-7 (Table 6) suggests that 0.12 is too high to both reflect disadvantage and continue to include without penalty producers who are genuinely actively managing LFA land. A new level of 0.1 LU/ha is proposed.

We do not accept at all the need to further adjust the proportions of the payments set out in table 2, since this reflects the real disadvantage. There is no justification in terms of Axis 2 objectives or of scheme logic for the adjustments proposed from 15 onwards.

We reject emphatically the notion that overcompensation in marginal areas is an urgent problem. We note that the disadvantage for class 7 in the Very Fragile area is calculated as £325/ha yet the proposed payment rate there is only £9.85. Even at the unadjusted rate of £59/ha, these areas are still at a substantial disadvantage of £315/ha relative to non-LFA land. Meanwhile the best land is paid at £23.2, giving a remaining disadvantage of £100. Why is this lower than that for the Very Fragile? Why is there no suspicion of overpayment there?

Payments should be based on table 2 only, with any adjustments to allow for meeting the overall budget being made by a proportionate reduction in all payment rates.

Q3. The rationale is not valid in the context of the Strategic Guidelines. The relationship of direct and indirect objectives are the reverse of what they should be: the direct objective should be the achievement of Axis 2 aims with regard, in particular, to the maintenance of High Nature Value farming systems, with indirect benefits in terms of economic support, community maintenance, supply chains, maintenance of a critical mass of users of services etc..

We propose an alternative wording:

The objective of this measure is to provide a basic underpinning for farming systems in areas which are economically marginal due to soil, climate and other physical disadvantages and which contribute positively to the maintenance and enhancement of the environment, in particular High Nature Value farming systems characterised by low-intensity management of semi-natural pastures. The support of such systems contributes also to wider public benefits in the form of more viable rural communities. The LFA measure complements support under Pillar 1 and together they act as a base supporting the minimal acceptable level of farming activity on which other RDP and Article 68 measures can deliver additional benefits.

Q4. No

Q5. We accept that any changes to the interim scheme needs to be simple while a fundamental reform to be introduced in 2010 is drawn up, but the current arrangements are extremely inequitable. We feel that a very substantial shift in payment rates between Very Fragile and Standard areas is the minimum acceptable response.

Q6. We reject completely the idea that minimum stocking rates are not allowed by the Regulation (or indeed by the general provisions setting out the basis for cross-compliance). They fall not into the realms of discussion of coupling and decoupling, but of minimum maintenance requirements. We note for example that Ireland has a strict minimum stocking level of 0.15 LU/ha below which *no* payments are made except if required for environmental reasons, e.g. set out in an agri-environment plan or required in connection with environmental designation.

We note that in the case of the encroachment of unwanted vegetation the rule is that the area can be brought back into production in short order. Given the de facto impossibility of accomplishing this if hefted flocks are lost from the hills, even this cross-compliance rule logically requires continued *active* management by livestock

Q7. Since it has as yet proved impossible to allocate payments in a way which fairly compensates for the disadvantage of delivering the minimum stocking requirement in all the various parts of Scotland, and since any higher stocking level requirement is not clearly justified by environmental benefit and is likely to be used once more to direct higher payments to less disadvantaged areas, we do not support any requirement which goes beyond the minimum stocking at this stage.

We support the eligibility of new entrants as long as there is a clear *activity* criterion – payments should not go to units who have no agricultural cost and whose environmental benefits (if any) are not delivered through agricultural management.

We agree with the cattle top-up being reintroduced, but note that the extra costs of cattle are higher the more fragile the area. Uplifts must therefore be substantially higher in the fragile areas and must lower (or nil) in less disadvantaged areas, not vice versa as at present.

While arable cropping is carried out on the best land and might therefore be considered a sign of lower disadvantage, we recognise also that in the most marginal areas small areas of low-intensity arable cropping on a holding provide considerable environmental benefits, particularly in the case of machair, where it forms part of the designated interest of European conservation sites. We are therefore against any rule within LFASS which would promote the further loss of cropping in marginal areas. We reiterate our view that it is the overall balance between land of higher and lower productivity which is key and that the balance is best achieved not by specifically penalising arable land but by weighting the payments properly to reflect disadvantage at the holding scale.

Q8. Environmental benefits are delivered by better targeting, better scheme requirements and better payment calculations. Targeting is achieved by the delimitation process, but also scheme rules which restrict payments to those with a low stocking density. Minimum activity should be defined in terms of stocking levels which are related to the environmental benefit of the land in question. Scheme payments should reflect the higher costs (and higher benefits) of units with a higher proportion of semi-natural vegetation (which in most of the LFA approximates to rough grazings). Cattle payments are justified, but only in marginal areas, and again should be higher for units with a small proportion of inbye. Similarly, payments on areas with arable crops are justified, but only in marginal areas.

Q9. Despite the poor record of targeting LFA payments in Scotland, we fundamentally reject the idea of redirecting monies allocated to the scheme to other RDP measures. Agri-environment is no substitute, despite what is claimed by the UK government on occasion, since the fundamental issue is not going *beyond* GAEC, but the economics of *minimum* management requirements. LFA provides the only way of targeting this geographically in a way which can be proportional to the costs.

Q10. See below for our vision of the second interim (and hopefully post-2013) scheme:

What could the new (second interim?) LFA scheme look like?

Based on these principles, we believe that a future LFASS should have the following characteristics:

- There would be 3 schemes, one each for islands (specific disadvantage, taking account of costs of peripherality), mountain and 'other'. (These could be run as one scheme from the perspective of the applicant, but for convenience are referred to as 'schemes' below.)

- The schemes should aim to reward each LFA farmer with the minimum wage for the time spent achieving LFA objectives, taking into account market returns and SFP income.

- Within each scheme, there would be a set minimum and maximum stocking density. The former would be set at an ecologically-meaningful level (and allowing, as in Ireland, for active management by livestock at densities below the general minimum where required by environmental schemes or recommended by SNH). The latter would be set to separate out units where the costs of meeting the minimum density are clearly minimal. For the Mountain LFA, the values might be 0.1 and 0.5 LU/ha. Farms in the Mountain LFA which failed to meet Mountain LFA criteria could opt to qualify for Other LFA criteria and payments.

- While some regional variation in payments is likely in order to reflect the varying quality of rough grazings, the final payment will depend primarily on and be in direct relation to the proportion of rough grazings on the holding.

- Cattle uplift payments would be available in each scheme in circumstances where cattle deliver enhanced environmental benefits and the market and SFP would fail to deliver cattle keeping. Cattle payments must be proportional to the market failure and will therefore be higher on farms with a low proportion of inbye.

The European Forum on Nature Conservation and Pastoralism is a EU-level NGO which aims to highlight the positive relationship between certain types of low-intensity agricultural systems and nature conservation (High Nature Value or HNV farmland). The environmental and socio-cultural public goods produced by European agriculture are delivered primarily by this low-intensity, economically marginal agriculture.

HNV farming systems are marginal in the market but are not out of the market. The fundamental issue for policy is to allocate production between low-input and high-input farming systems while keeping the former's low-input characteristics.

The Forum believes strongly that if farming in HNV areas is to become and remain socio-economically sustainable, and to continue to provide the current benefits for nature, it requires greater consideration in the design and delivery of EU agricultural and rural development policies. Its needs should be a major consideration in the design of the CAP as a whole.

The Scottish Crofting Foundation is the only organisation dedicated to the representation and promotion of crofting and crofters and is the largest organisation of small-scale food producers in the UK. The SCF advocates small-scale, low artificial input food production as the sustainable way forward for resource management, rural population retention and food security. The associated land management also provides numerous public goods which must be paid for from public funds.