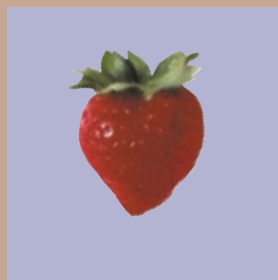
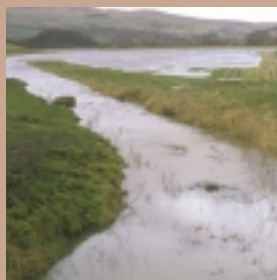
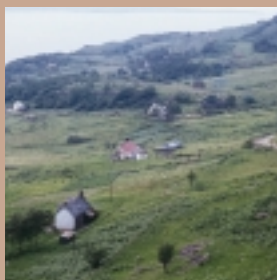
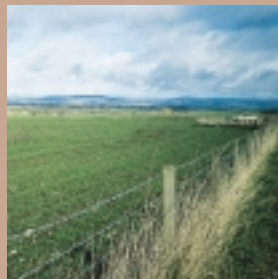
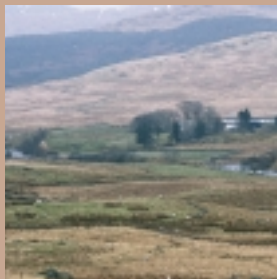
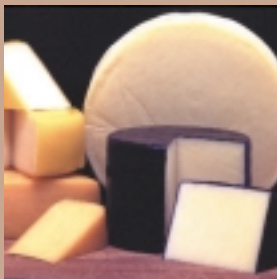


# CAP Reform: Opportunities for Scotland

## Consultation Paper



CAP Reform:  
Opportunities for Scotland  
Consultation Paper

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## CAP Reform: Opportunities for Scotland

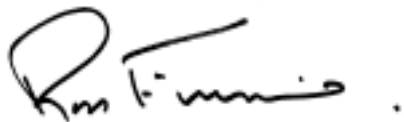


## **Ministerial Foreword**

This consultation paper seeks views on the decisions we now need to make on the implementation of the Common Agricultural Policy (CAP) in Scotland following the Agreement on CAP Reform earlier this year.

These decisions will influence the future of Scottish agriculture and rural areas more generally. It is therefore important that all those with an interest in Scottish agriculture and rural affairs consider the document carefully and register their views on the questions posed and on any other matters it raises.

No decisions on the main flexibilities have been taken and they will not be until this consultation has been completed. I can assure you that where views are registered, they will be considered in the decisions finally reached.

A handwritten signature in black ink, reading "Ross Finnie".

**ROSS FINNIE MSP  
MINISTER FOR ENVIRONMENT AND RURAL DEVELOPMENT**

## CAP Reform: Opportunities for Scotland

## Glossary

AAPS	Arable Area Payments Scheme
BSPS	Beef Special Premium Scheme
BCMS	British Cattle Movement Service
CAP	Common Agricultural Policy
EC	European Commission
EU	European Union
GAEC	Good Agricultural and Environmental Condition
LMCs	Land Management Contracts
PEPFAA	Prevention of Environmental Pollution from Agricultural Activity
RDR	Rural Development Regulation
RSS	Rural Stewardship Scheme
SAPS	Sheep Annual Premium Scheme
SCPS	Suckler Cow Premium Scheme
SPS	Slaughter Premium Scheme
SRDP	Scottish Rural Development Programme

## CAP Reform: Opportunities for Scotland

## **Introduction**

1. The Reform of the Common Agricultural Policy (CAP) agreed on 26 June introduces fundamental change in the nature of future support to agriculture. The agreed reform (referred to as the Agreement) also provides some key flexibilities in the implementation of the new support system, which will be introduced in 2005. A summary of the main elements of the Agreement is given in *Annex A*.
2. This consultation document outlines the benefits of decoupling, the central element of the new support system, and seeks views on whether any of the flexibilities – or options for implementation - should be used in Scotland. The document includes sections on the consultation process, the strategic focus within which decisions will be taken, details of the particular policy issues to be decided, and the consultation questions.
3. This consultation will last 3 months from 6 October 2003 to 6 January 2004 and decisions will be taken in February/March 2004. Wider considerations will be taken into account including developments in other parts of the UK and in other European Member States.

## **The consultation process**

4. The Scottish Executive is embarking on a consultation process to encourage a wide debate on implementation of CAP Reform and the flexibilities now available. A Stakeholder Group has been appointed to oversee the consultation process. Membership has been drawn from a range of interests – including producer, environmental, industry and consumer bodies (see *Annex B*). Pre-consultation meetings with the main stakeholders were held in August to gather views on the overall shape of the process.
5. There are four main elements to the consultation:-
  - this consultation paper, which aims to gather views from a wide range of organisations and interest groups throughout Scotland;

- a major stakeholder conference to launch the consultation;
  - summary material, which will be issued to all farmers and crofters to explain the outcome of the Agreement and provide an opportunity to comment; and
  - a series of regional meetings and discussion groups in November to raise the level of understanding of the Agreement and help individuals and organisations respond to the consultation paper.
6. Whilst the Agreement was reached in June, the final legislative text was only agreed at the end of September. There are some questions of interpretation that remain to be settled. Further, the important implementing legislation, which will provide the detail on how the new single payment system will be introduced in practice, including operational aspects such as the establishment and use of the national reserve, are unlikely to be agreed until Spring 2004.
7. Support payments under the new system will be subject to cross compliance conditions relating to the environment, animal health and welfare and food safety. Farmers will also be required to maintain land in good agricultural and environmental condition (GAEC). A technical working group, including stakeholders, will advise on the translation of the provisions in EU legislation into practical conditions which are appropriate for Scottish circumstances.
8. For the purposes of this consultation it should be assumed that GAEC will be a package of measures designed to ensure that agreed standards of good husbandry and environmental protection are met. It will require adherence to existing regulatory requirements, such as the Action Programme in Nitrate Vulnerable Zones, and adoption of management measures, as contained in codes of good practice such as the PEPFAA Code, to prevent pollution, and damage to habitats by over or under-grazing.

### **Strategic focus: the basis for decision-making**

9. The consultation takes place within a strategic framework already agreed and set out in *A Forward Strategy for Scottish Agriculture* (the Agriculture Strategy). The Agreement provides a significant opportunity to advance the key themes of the Agriculture Strategy. This strategic

framework, along with the responses to the consultation, will provide the basis on which further decisions are reached.

10. The vision statement in the Agriculture Strategy remains central.

“We want a prosperous farming industry, one of Scotland’s success stories, which benefits all the people of Scotland. It should:

- be focused on producing food and other products that the consumer 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.

Rural Scotland is not a single entity and the type of farming varies from place to place. The role of agriculture and the balance of economic, social and environmental benefits expected from it will differ from one part of Scotland to another.”

11. Other strategic documents<sup>1</sup> of relevance include: *Custodians of Change*, which draws out the linkages between agriculture and the environment; *Rural Scotland: A New Approach*; *Forests for Scotland: The Scottish Forestry Strategy*; and *Food and Drink: The Big Opportunity*. The key themes from these documents are reflected in *A Partnership for a Better Scotland* which sets out the Executive’s policies and commitments in the years ahead.

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<sup>1</sup> These documents can be accessed on the following websites:

<http://www.scotland.gov.uk/library5/agri/aewg-00.asp> - Custodians of Change

<http://www.scotland.gov.uk/library2/doc15/rsna-00.asp> - Rural Scotland - A New Approach

<http://www.forestry.gov.uk/forestry/cmar-5j817s> - Forestry Strategy

<http://www.scottish-enterprise.com/publications/bigopportunity.pdf> - Food and Drink: The Big Opportunity

<http://www.scotland.gov.uk/library5/government/pfbs-00.asp> - Partnership Agreement

12. Two of the main commitments in the Partnership document are:-

- Seek reform of the CAP to secure improvements for Scotland and to shift subsidies away from merely supporting production to recognising the economic, social, and environmental contribution that agriculture makes to rural development; and
- Implement Land Management Contracts to deliver reformed CAP support which takes account of the diversity of Scottish agriculture and its economic, social and environmental impact. (A description of LMCs is provided in *Annex C*.)

13. The Agreement provides key opportunities for Scotland to move forward on the first commitment; this consultation is about how we make use of the opportunities. The Agreement also opens up possibilities for advancing the second commitment.

## **The Policy Issues**

14. This section sets out the policy issues that form the basis of this consultation. The following issues are covered:-

- Decoupling;
  - Partial recoupling;
  - National envelope;
- Flat-rate area based system;
- Dairy decoupling;
- Set-aside; and
- Rural development and modulation.

Questions are set out after each relevant section and are summarised at the end of the document.

### **Decoupling**

15. The central policy change is the decoupling of support payments, that is breaking the link between the need to produce agricultural goods and the receipt of support payments. A single farm payment will replace existing payments under the main sectoral schemes (arable, beef and sheep); the single farm payment will be based on support payments received during a historic reference period (2000-2002). A new payment in the dairy sector will be introduced in 2004 and this will become decoupled in 2007, with an option for earlier decoupling in 2005 (see paragraph 31). There is also an option to keep payments in the seeds sector coupled to production; the Scottish Executive is minded to decouple in 2005, in line with decoupling in other sectors.

16. Decoupling will help make significant strides towards meeting the objectives of the Agriculture Strategy. It will create opportunities for a more market-oriented, competitive agriculture, with greater emphasis on its role in protecting and improving the environment and maintaining standards of animal health and welfare and food safety.

17. More specifically, the advantages of decoupling, and the new single farm payment, are:-

- greater freedom for farmers to respond to market demands and consumer preferences in deciding what they produce and how they produce it;
- simplification - with abolition of most of the separate sectoral schemes and replacement with the single farm payment scheme;
- improved standards of environmental protection, food safety and animal health and welfare - through the cross compliance requirements; and
- potential for improved farm profitability.

18. However, concerns have also been expressed about the move to a fully decoupled system.

These relate to the following:-

- Potential reduction in production, particularly quality beef production from suckler cows, with knock-on consequences in the beef chain. Furthermore, regional shifts in the pattern of livestock production may bring change to the most peripheral areas that have a higher dependence on agriculture within the rural economy; and
- Environmental implications, especially the possibility that changes in the livestock mix, and in certain instances, reduction in livestock numbers, could adversely affect valued habitats.

19. As part of the Agreement a number of flexibilities, or options for implementation, were secured.

The options include partial decoupling and the use of national envelopes. These were included to help address concerns on the possible impacts of moving to a decoupled system. Decisions on the use of these options in Scotland depend on the extent to which they help address concerns and the balance of advantages and disadvantages compared with a decoupled system. Use of any of these options will not change the need to meet cross compliance requirements. The options are considered in turn below.

## **Partial recoupling**

20. Partial recoupling would involve part of the payments being tied to the level of production. The options for doing this within the Agreement are as follows:-

- beef: recoupling of either
  - up to 100% of Suckler Cow Premium Scheme (SCPS) and up to 40% of Slaughter Premium Scheme (SPS); or
  - up to 100% of the Slaughter Premium Scheme; or
  - up to 75% of the Beef Special Premium Scheme (BSPS);
- sheep: recoupling of up to 50% of the Sheep Annual Premium Scheme (SAPS);
- arable: recoupling of up to 25% of the Arable Area Payments Scheme (AAPS).

21. Where any of these recoupling options are taken up, scheme payments would be made under the same conditions as at present. Farmers and crofters would still be subject to the constraints and bureaucracy associated with the existing schemes. Hence, for example, in the case of SCPS and SAPS, quotas would continue to apply; for BSPS there would still be a second payment at 20 months; retention periods, cross-checks with the British Cattle Movement Society (BCMS) database and also the main scheme rules would continue to apply to all of these schemes. These would be in addition to the new provisions relating to the single farm payment.

22. Whilst retaining any measure of recoupling may reduce (but not eliminate) some of the concerns arising from full decoupling, there would be a considerable reduction in the decoupling advantages, including higher levels of bureaucracy, reduced freedom to farm and a reduced incentive to produce for the market.

## **National envelope**

23. National envelopes can be created by retaining up to 10% of the decoupled payments in the arable, beef, sheep, and dairy sectors and used to make payments, “for specific types of farming which are important for the protection or enhancement of the environment or for improving the quality and marketing of agricultural products under conditions to be defined by the Commission ...”, as stated in the EU legislation.

24. The approximate amounts of money available by utilising the full provisions (10%) are:-

- Beef - around £18 million;
- Sheep - around £6.5 million;
- Arable - around £10 million; and
- Dairy - around £2 million in 2005 rising to some £3 million from 2006 onwards.

(These figures are indicative and cannot be confirmed until there is agreement on the final expenditure figures.)

25. Examples of the uses of a national envelope in the beef sector, where most concern has been expressed, are outlined below. These are presented for illustration only; the working up of detailed schemes will depend on the outcome of the consultation process and further detail in the European Commission's implementing legislation (see paragraph 6).

#### **Example uses of the national envelope in the beef sector**

##### **Payment on suckler cows**

Possible mechanism: a flat rate payment for each farm assured, productive suckler cow within the LFA.

Aim: to help protect the environment in the Less Favoured Area (LFA) and to encourage improved quality production.

Possible variants: higher payments per cow in more fragile areas; limiting payments to a set number of suckler cows per holding.

##### **Payment on beef calves**

Possible mechanism: a flat rate payment for each beef calf (with specific genetics such as 75% beef bred) across Scotland.

Aim: to improve quality beef production.

Possible variants: payment for additional beef calves over a certain historical base number; higher payment rates for beef calves in more fragile areas.

26. A range of different schemes could be envisaged including those involving combinations of payments on suckler cow numbers and on calves. Any scheme would have to be linked to one or both of the objectives set out in the legislation – protection or enhancement of the environment, or improving the quality and marketing of agricultural products (see paragraph 23 above).

27. Administration of a national envelope would be simpler than any of the recoupling options – as new payments could be designed to build on existing mechanisms and with simplification in mind – but would create more bureaucracy compared to full decoupling. Also, if a national envelope was applied in only one sector - in the example above, the beef sector - it would be created by reducing decoupled payments to beef producers, but not to producers in other sectors.
28. It would also be possible to use both the partial recoupling and the national envelope provisions in combination. Where use is made of recoupling in a sector this will reduce the money available for a national envelope in that sector. Combining the partial recoupling and national envelope provisions would add very considerably to the bureaucracy.

**Should a fully decoupled system of farm support be applied in Scotland (ie without use of the recoupling options or the national envelope provision)?**

**If not:-**

- **Should use be made of any of the recoupling options? Please provide views on which of the available recoupling options should be retained and why.**
- **Should use be made of the provision for a national envelope? If so, in which sectors? Please comment on how the illustrations provided in relation to the beef sector could be developed further, or on other ways in which a national envelope could be designed.**

### **Flat-rate area based system**

29. The Agreement allows Scotland to adopt an alternative approach to calculating decoupled payments, instead of the approach based on individual payments received during the historic reference period (as outlined at paragraph 15). The alternative approach would involve operating a flat-rate area based system.

Under this system the total subsidy expenditure in the reference period (2000-2002) would be divided by the total eligible hectares<sup>2</sup> to derive a uniform, or average, payment per hectare. The flat-rate area based approach could also be applied separately for arable land and grassland. It is further possible to operate a mix of approaches – average and individual payments – in various combinations, overall or for arable and grassland separately. Finally, it would be possible to apply any of these approaches in different combinations on a regional basis within Scotland.

30. The flat-rate area based approach would have a significant re-distributional effect across sectors and throughout Scotland. On the other hand, it would be administratively easier to implement, would generate fewer initial problems in determining individual payments and a smaller national reserve would be likely.

**Should the single payment system be operated on a flat-rate area basis, instead of the individual payments approach?**

## **Dairy decoupling**

31. Under the Agreement, new dairy payments will apply in 2004, and these payments will be brought within the single farm payment (ie formally decoupled) in 2007, when the dairy premium has reached its maximum level under the Agreement. There is flexibility for decoupling in the dairy sector to be brought forward to start in 2005, to coincide with the introduction of decoupling in the beef, sheep and arable sectors. This would afford dairy farmers the same benefits of decoupling as the other sectors ie freedom to farm, simplification, market orientation.
- .
32. The new dairy payment includes a dairy premium and an additional payment, the latter to be made according to objective criteria to be agreed by the European Commission. Once the dairy premium is decoupled – at the latest by 2007 – both the premium and the additional payment will be included in the single farm payment.

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<sup>2</sup> Eligible hectares are defined in the legislation as any agricultural area of a holding taken up by arable land and permanent pasture except areas under permanent crops, forests or used for non-agricultural activities.

**Should dairy payments be decoupled at the same time as decoupling in the other sectors, ie January 2005?**

**For those years in which there will be an additional payment (2004 if decoupling starts in 2005 and the three years to 2006 if decoupling starts in 2007), in which ways should this money be spent?**

## **Set-aside**

33. The Agreement requires set-aside of arable land to continue under the new single payment scheme. Flexible conditions for the management of set-aside include provisions for rotation, narrower strip widths and minimum areas. In particular, set-aside areas shall be no less than 0.1 hectares in size and 10 metres wide; these can be reduced to at least 5 metres wide and 0.05 hectares in size for environmental reasons. Existing provisions for growing non-food crops, establishing biomass crops and creating farm woodlands are retained.

**How should set-aside be operated in Scotland?**

## **Rural development and modulation**

34. The EC's Rural Development Regulation (RDR) sets out a range of activities on which CAP money can be spent. The possible range of rural development measures which can be supported is listed in *Annex D*. Most of these measures are intended to help farm businesses build a more financially and environmentally sustainable future. Some of the possible rural development measures can have wider purposes, such as the development of basic services for the rural economy.
35. The Scottish Executive spent approximately £103m last year (2002-03) specifically on RDR measures, through a mixture of direct expenditure of EU funds for rural development, 'modulation', and commitment of the Executive's own resources. Measures which are currently

implemented in Scotland include agri-environment schemes to enhance the agricultural environment, support for diversification, support for investments in modernising agricultural holdings, support for processing and marketing initiatives for agricultural produce, support for environmentally sustainable farm forestry and support for farming in the less favoured areas (ie poorer quality land in Scotland).

36. Modulation involves the transfer of money from production related agricultural subsidies (including the new single farm payment) to rural development measures. Until now, it has been up to Member States to decide whether to apply modulation and if so what modulation rate to apply. Currently Scotland, in common with the rest of the UK, applies a national modulation rate of 3.5% to production related subsidies in 2003, rising to 4.5% in October 2004. The value of modulation to Scotland is currently increased by an arrangement by which HM Treasury pays the Scottish Executive £1 for every £1 raised through modulation. This money helps pay for the Scottish Executive's contribution to the cost of these agri-environment and forestry schemes as well as helping to support other rural development measures in Scotland. Further increases in modulation may be assisted by Treasury match funding.
37. The Agreement introduces compulsory modulation throughout the EU at the rate of 3% in 2005, 4% in 2006, and 5% in 2007 to 2012. The proceeds of this modulation are intended to be shared between Member States in a way which favours less prosperous Member States which are more economically dependent on agriculture (subject to a guarantee that each Member State will receive back at least 80% of what it contributes). The Agreement also introduces three new rural development measures which Member States can choose to implement relating to the promotion of high quality food, helping farmers to meet new regulatory requirements, and helping farmers to apply animal welfare standards above and beyond the standards which they are legally obliged to maintain. The Agreement enables Member States, or regions within Member States, to apply national modulation rates over and above compulsory EU modulation rates to pay for rural development measures.
38. Scotland will have to continue to apply national modulation over and above EU modulation. This is because EU modulation (which does not apply to the first €5,000 of support payments to farmers) will not raise enough money to pay for the Executive's existing intentions for modulation supported rural development spending.

39. The table below shows how much modulation money is currently programmed to be raised to fund the Executive's intentions for rural development spending, as set out in the Scottish Rural Development Programme. It also shows how much money the EU compulsory modulation scheme may raise for rural development in Scotland (the figures are approximations since the amount of support which will subject to modulation can change e.g. by exchange rate fluctuations and since some of the detail on how EU compulsory modulation will work in practice has yet to be established). It shows the national modulation rate, additional to EU modulation, which would be needed to bridge this gap and the resulting total modulation rate.

**Modulation rates required to match status quo<sup>3</sup>**

		2004	2005	2006	2007
<b>Status Quo</b>					
National modulation rates currently programmed	%	3.5	4.5	4.5	4.5
Amounts to be raised	£m	12.4	15.9	15.9	15.9
<b>Amount required to match status quo</b>					
EU modulation	£m	0	8.2	10.3	12.5
National modulation	£m	12.4	7.7	5.6	3.4
Total amount required	£m	12.4	15.9	15.9	15.9
<b>Modulation rates required to match status quo</b>					
EU modulation	%	0	3	4	5
National modulation	%	3.5	2.2	1.6	1
Total modulation rate	%	3.5	5.2	5.6	6

40. These rates are subject to change once the detail of the modulation arrangements and financing issues are settled.

41. Three possible options for modulation and rural development are set out below. In considering what possible level of modulation to apply the Executive will have regard to possible uses of a national envelope in supporting sustainable rural development, as set out in paragraphs 23-28.

- **Option 1** for modulation and rural development would simply be to apply modulation at the rates necessary to sustain the status quo outlined above, ie maintaining the currently projected overall levels of modulation supported rural development funding. This would provide for some growth in spending in the rural development measures which are currently funded by modulation, but would not provide for expansion in rural development spending to include new measures or a major acceleration of entry into existing measures.

<sup>3</sup> Tables exclude match funding

There is a strong case for going further in the promotion of rural development measures in Scotland, in line with the *Partnership Agreement* commitments to the development of Land Management Contracts and to promoting agriculture's contribution to rural development and the environment. The case for further modulation has to be balanced against the possible effects of higher levels of modulation on the financial sustainability and competitiveness of fragile farm businesses, although businesses which receive funding through rural development measures can benefit financially.

- **Option 2** continues national modulation at the 4.5% rate currently planned for introduction in late 2004 and supplements it with compulsory EU modulation, leading to overall modulation rates of 7.5% in 2005 and 8.5% in 2006. The amounts of modulated funds this would make available for rural development spending are shown in the table below.

**Option 2: 4.5% national modulation (as programmed) plus EU modulation**

		2004	2005	2006	2007
Amount raised by EU modulation	£m	0	8.2	10.3	12.5
Amount raised by national modulation	£m	12.4	15.9	15.9	15.9
Total amount raised	£m	12.4	24.1	26.2	28.4
Additional amount raised over and above status quo	£m	0	8.2	10.3	12.5
Total modulation rate	%	3.5	7.5	8.5	9.5

- **Option 3** represents an option for a 10% national modulation rate that could be applied instead of 4.5%, leading to overall modulation rates of 13% in 2005 and 14% in 2006. The amounts of modulated funds this would make available for rural development spending are shown in the table below.

**Option 3: 10% national modulation from 2005 plus EU modulation**

		2004	2005	2006	2007
Amount raised by EU modulation	£m	0	8.2	10.3	12.5
Amount raised by national modulation	£m	12.4	35.5	35.5	35.5
Total amount raised	£m	12.4	43.7	45.8	48
Additional amount raised over and above status quo	£m	0	27.8	29.9	32.1
Total modulation rate	%	3.5	13	14	15

42. Priorities for spending the additional resources available under Options 2 or 3 would be decided after substantial discussion with key stakeholders in the light of this consultation and of the current mid-term evaluation of the Scottish Rural Development Programme, but for illustrative purposes each additional £1 million might be able to pay for:

- around 200 more farms to join the Rural Stewardship Scheme for environmentally friendly farming each year; or
- around 350 farms to take part in more basic agri-environment prescriptions if these are developed (currently intended as part of Tier 2 of Land Management Contracts, outlined in *Annex C*); or
- around 500 hectares per year of woodland creation or improvement benefiting around 100 new farms annually, and targeted to maximise wider conservation, landscape and amenity benefits under the Scottish Forestry Grants Scheme.

43. Option 2 would have less of an effect on the amounts of CAP support payments received directly by farmers, but conversely would not enable as many farmers to benefit from investment under rural development measures as would Option 3.

44. The Scottish Executive's intention is that, in due course, most rural development spending should come within the scope of Land Management Contracts.

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

## Final comments

45. Please record in your response any other views that you have on the policy issues set out in this consultation, but which have not been identified in the questions posed above. We may need to contact you to discuss any new issues that you identify.
46. Background information and data to support this consultation have been prepared and are available on the Scottish Executive website under the Agricultural Policy topic section - <http://www.scotland.gov.uk/about/ERADA/AgriPol/00017653/Home.aspx>. This consultation paper can be accessed from the same address or from <http://www.scotland.gov.uk/view/views.asp>. To find out where your nearest public internet access point is telephone Freephone 0800 77 1234. Further information on the Scottish Executive's consultation process is included in *Annex E*.
47. Written responses to this consultation paper are invited by Tuesday 6 January 2004. Please send your response, and a completed *Consultation Response Form* (attached at *Annex E*), to:-

[capreform@scotland.gsi.gov.uk](mailto:capreform@scotland.gsi.gov.uk)

or to

CAP Reform Consultation, Room 245, Pentland House, 47 Robb's Loan, Edinburgh, EH14 1TY.

48. All responses will be made available to the public in the Scottish Executive Library and on the Scottish Executive website, unless confidentiality is requested using the *Consultation Response Form*. All respondents will receive a summary report of the views expressed in the consultation and this report will also be made publicly available on the Scottish Executive website.

## Summary of the consultation questions

- **Should a fully decoupled system of farm support be applied in Scotland (ie without use of the recoupling options or the national envelope provision)?**

**If not:-**

- **Should use be made of any of the recoupling options? Please provide views on which of the available recoupling options should be retained and why.**
  - **Should use be made of the provision for a national envelope? If so, in which sectors? Please also comment on how the illustrations provided could be developed further, or other ways in which a national envelope could be designed.**
- **Should the single payment system be operated on a flat-rate area basis, instead of the individual payments approach?**
  - **Should dairy payments be decoupled at the same time as decoupling in the other sectors, ie January 2005? For the years in which there will be an ‘additional payment’ (2004 if decoupling starts in 2005 and the three years to 2006 if decoupling starts in 2007) in which ways should this money be spent?**
  - **How should set-aside be operated in Scotland?**
  - **Should additional rates of national modulation be applied? If so, what rate and for what purposes?**



## Annex A: Summary of the CAP Reform Agreement

The Reform of the Common Agricultural Policy agreed in June 2003 aims to improve the competitiveness and sustainability of European agriculture, promote food quality and environmental standards, simplify the system of support to farmers and strengthen rural development policy.

The main elements of the CAP Reform Agreement are set out below.

### Decoupling and the single payment scheme

- Payments to farmers will be **decoupled** from production through the introduction of a **single payment scheme** in 2005. This means that there will be no requirement to produce agricultural products for receipt of payment. The single payment scheme will replace most of the existing support schemes in the main sectors (arable, beef and sheep).
- The new single farm payment will be based on the level of direct support that individual farmers received during a historic reference period (2000-2002).
- The single farm payment will be conditional upon **cross compliance** with environmental, food safety, animal health and welfare legislation and a requirement that land is maintained in **good agricultural and environmental condition**.
- A **farm advisory system** will be set up from 2007 to advise farmers on land and farm management and help them meet the cross compliance conditions. Farmer participation will be voluntary, and the system will be reviewed at European level in 2010.

### Options for implementation (recoupling, national envelopes)

- Scotland can make use of specific **recoupling** options, which involve retaining some of the existing direct agricultural support schemes in the beef, sheep and arable sectors. Where any of the recoupling options are used, the main scheme rules and conditions continue to apply.
- Scotland can make use of a provision for additional payments (known as a **national envelope**) “for specific types of farming which are important for the protection or enhancement of the environment or for improving the quality and marketing of agricultural products under conditions to be defined by the Commission...”. National envelopes would be created by retaining up to 10% of the decoupled payments at sector level.

## Rural development and modulation

- For the first time, **modulation** will be compulsory at EU level. Modulation is the transfer of money from production related agricultural subsidies to rural development measures. Direct payments to farmers will be reduced at the rates of 3% in 2005, 4% in 2006, and 5% from 2007 to 2012. The money raised in this way will be redistributed between Member States based on the Commission's formula, which takes account of agricultural area, agricultural employment and gross domestic product per capita in purchasing power. Each Member State will receive back at least 80% of what it contributes.
- There is further provision to apply **national modulation** over and above compulsory EU modulation rates to pay for rural development measures.
- The Agreement introduces three new optional rural development measures. These relate to the promotion of high quality food, helping farmers to meet new regulatory requirements, and helping farmers to apply animal welfare standards above and beyond the standards which they are legally obliged to maintain.

## Operational aspects

- The planned date of implementation of the single payment scheme is 1 January 2005.
- The single farm payment will be based on direct payment receipts under the main agricultural support schemes during a historic reference period (2000-2002). Payment entitlements will be allocated on this basis and eligible land will be required to claim entitlements each year from 2005 onwards. Eligible land, under this individual payments approach, is defined as any agricultural area of the holding taken up by arable land and permanent pasture except areas under permanent crops, forests or used for non-agricultural activities.
- A national reserve will be established to deal with new farmers, hardship cases in the reference period, and other situations yet to be specified. The national reserve will be created by a reduction in single farm payments of up to 3%.
- There is an option to calculate payments using a flat-rate area based approach, rather than individual payments approach. Under the area based approach, available funds would be spread evenly across all eligible land, to derive a uniform – or average – payment per hectare. This approach could be applied separately for arable land and grassland. Combinations of this approach and the individual payments method are possible in Scotland, and on a regional basis within Scotland.
- The Agreement prohibits the payment of the single payment on land used to grow fruit and vegetables, including potatoes (other than starch potatoes). The rules for how this will operate differ between the individual payments approach and the flat-rate area based system.
- Set-aside will continue under the new system. Set-aside entitlements will be based on the amount of land a farmer had in compulsory set-aside during the historic reference period.

- There is a requirement to ensure the maintenance of permanent pasture. Derogations are permitted under justified circumstances (eg woodland creation), provided the total area of permanent pasture does not decrease significantly at Member State level.
- Some existing aid schemes will continue, subject to changes set out in the legislation (e.g. durum wheat, proteins, rice, nuts, starch potatoes).
- A new aid scheme for energy crops will be introduced.

### **Reforms in the dairy and cereals sectors**

- In the dairy sector, asymmetric price cuts will apply from 2005 (taking full effect in 2007) and will be compensated through a new premium and additional payment. The dairy premium will become part of the single payment scheme in 2007 (ie will become decoupled). Member States and regions can opt for earlier decoupling of the dairy premium in 2005, in line with other sectors. The dairy quota system will continue until 2014/15, and the quota increased agreed under Agenda 2000 will take place from 2006 onwards.
- Cereals - monthly increments will be reduced by 50%.
- A new mechanism for financial discipline will be established to ensure EU expenditure does not exceed budgetary ceilings agreed at the European Council in Brussels in October 2002.



## **Annex B: Membership of the Stakeholder Consultation Group**

A Stakeholder Consultation Group has been established to advise on the overall consultation process for implementation of CAP Reform in Scotland. Membership, drawn from the main stakeholder interests, is shown below.

### **Producer**

National Farmers Union of Scotland  
Scottish Crofting Foundation  
Scottish Landowners' Federation

### **Industry**

Scottish Association of Meat Wholesalers  
Quality Meat Scotland

### **Food/Retail**

To be confirmed

### **Consumer**

Scottish Consumer Council

### **Environment**

Environment LINK (3 representatives)

### **Rural development**

Scottish Enterprise  
Highlands and Islands Enterprise

### **Non-departmental public bodies**

Scottish Natural Heritage  
Scottish Environment Protection Agency

### **SEERAD**

Representatives from Agriculture Group, Environment Group, and Forestry Commission  
Scotland



## Annex C: Introduction to Land Management Contracts

The concept behind Land Management Contracts (LMC's) is of a whole farm system of support where farm businesses undertake to deliver a range of economic, social or environmental benefits in return for support payments. LMCs are a method of providing explicit payments for the production of public goods. There is scope to adapt LMCs to provide the over-arching delivery vehicle for implementing aspects of CAP Reform in Scotland.

A working group was set up to develop a Scottish model of LMCs and this group proposed a model based on the following 3 tier structure:

- **Tier 1: An annual base payment to all farmers.** This would effectively be the decoupled single farm payment for farmers who maintain their holding in accordance with Good Agricultural and Environmental Condition.
- **Tier 2: A further annual payment available to all farmers** for delivering different combinations of economic, social or environmental benefits. The benefits would be additional to Tier 1 and farmers would choose from a menu of options compatible with their particular circumstances and national and regional priorities.
- **Tier 3: Top-ups** to reward more specific benefits involving both one-off capital or short-life projects, available on a competitive basis along the lines of the existing Rural Stewardship Scheme.

Two LMC reports<sup>1</sup> have been published covering progress and the results of a modelling exercise the latter tested the practicalities of LMC's on real farms. The list below shows the Tier 2 measures used in that modelling exercise.

### Examples of Tier 2 measures used in the LMCs modelling exercise

<ul style="list-style-type: none"> <li>• Access measures</li> <li>• bird friendly cropping plan</li> <li>• buffer strips / field margins</li> <li>• development of skills / knowledge (including IT)</li> <li>• farm assurance schemes</li> <li>• farm visits</li> <li>• management of archaeological sites</li> <li>• management of dykes</li> <li>• management of extensive grassland</li> <li>• management of hedgerows</li> </ul>	<ul style="list-style-type: none"> <li>• management of mown grassland for birds</li> <li>• management of wetlands</li> <li>• membership of co-operative/collaborative projects</li> <li>• moorland management</li> <li>• nutrient and chemical budgeting and action plan</li> <li>• quality food production</li> <li>• recycling of farm waste</li> <li>• summer grazing of cattle</li> <li>• uncropped field corners</li> <li>• whole farm plan</li> </ul>
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<sup>1</sup> The reports can be found on the Scottish Executive's website at the following addresses:  
[http://www.scotland.gov.uk/library5/agri/lmcwg\\_report.pdf](http://www.scotland.gov.uk/library5/agri/lmcwg_report.pdf) and  
<http://www.scotland.gov.uk/library5/development/lmcme-00.asp>.



## Annex D: Rural Development Measures

The Rural Development Regulation (RDR) (1257/99) sets out rural development measures which can be included in national programmes covering the period 2000-2006. The full set of available measures are listed and described briefly below, in addition to the three new measures which are now available as an amendment to the RDR, as agreed in June 2003. The RDR will be reviewed in 2006, with changes introduced for the new programming period starting in 2007.

All of the measures listed can be funded with proceeds from compulsory EU modulation. Only the 'accompanying measures' can be funded by national modulation and, of these, those which are currently funded this way within the Scottish Rural Development Programme (SRDP) are shown in the table in bold.

### Rural Development Measures

Measure	Description
<i>'Accompanying' measures – national and compulsory modulation</i>	
<b>Agri-environment</b>	<b>To provide support for agricultural production methods designed to protect the environment and to maintain the countryside, calculated on income forgone, additional costs and incentive payments.</b>
<b>Afforestation of agricultural land</b>	<b>To provide support for the management and development of forestry with a view to maintaining the economic, ecological and social functions of woodland in rural areas.</b>
<b>Other forestry measures</b>	<b>Provides support for the afforestation of non-farm land, planting and regeneration of trees and an annual premium to compensate for loss of income forgone.</b>
Less-favoured areas and areas with environmental restrictions	To provide support for farmers operating in naturally less favoured areas or areas with environmental restrictions. Payments are area based and intended to compensate for existing disadvantage.
Early retirement	To provide income for older farmers/farm workers who want to stop farming and ensure they are replaced by farmers able to improve economic viability of holding or reassign use of land that cannot be farmed.
<i>Other RDR measures (including article 33) – compulsory modulation only</i>	
Investment in agricultural holdings	To provide support for investments to improve agricultural incomes and living, working and production conditions. Must reduce production costs, diversify or improve quality. Not simply a payment to increase production.
Setting-up of young farmers	To provide support for young farmers (under 40) to set up in farming for the first time. Aid takes the form of either a single premium up to €25,000 or an interest subsidy on loans taken on to cover the costs of setting up.
Training	To provide support for vocational training to improve occupational skills and competence of people involved in agricultural and forestry activities.
Land improvement	To provide support for land improvement, eg preventing erosion, improving drainage, preventing flood, protecting natural resources, protecting landscapes and protecting biodiversity.
Reparcelling	To provide support for reparcelling of land into amalgamating into

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	larger holdings, improving access and clarifying land ownership issues.
Setting up of farm relief and farm management services	To provide support for farm relief services (e.g. to provide farm management services while the farmer undertakes training or goes on vacation) and support machinery groups which enable farmers to share the costs of farm machinery.
Marketing of quality agricultural product	To provide support for the marketing of quality agricultural products, eg investments to enable farm businesses to process produce and market it successfully.
Basic services for the rural economy and population	To provide basic services to ensure that the rural economy can develop, e.g. support for small-scale public transport initiatives, voluntary carer schemes, out of school child care schemes.
Renovation and development of villages and protection and conservation of the rural heritage	To support the renovation and development of villages and protect and conserve the rural heritage, e.g. through sensitive adaptation of buildings to new uses, and enhancement of open spaces within village environments.
Diversification of agricultural activities and activities close to agriculture to provide multiple activities or alternative incomes	To provide support for diversification projects either within or outwith agriculture, to widen the economic base of farm businesses.
Agriculture water resources management	To provide support for the management of agricultural water resources with schemes such as collection and treatment of waste water, storage of waste water, piping equipment and realisation of hydroelectric schemes.
Development and improvement of infrastructure connected with the development of agriculture	To provide support for basic infrastructure items, eg roads, bridges or mains utilities (water, electricity, gas) in order to develop agricultural enterprises.
Encouragement for tourist and craft activities	To provide support for tourist and craft activities where this can provide enhanced economic opportunities for rural communities.
Protection of the environment in connection with agriculture, forestry and landscape conservation as well as the improvement of animal welfare	To provide support for the protection of the environment in connection with agriculture, forestry and landscape conservation and improvement of animal welfare. This is in addition to the main agri-environment schemes and may potentially support non-agricultural investments in e.g. landscaping works and amenity planting of trees and bushes.
Restoring agricultural production potential damaged by natural disasters and introducing appropriate prevention instruments	To provide support for the restoration of agricultural production following natural disasters.
Financial engineering	To provide support for financial engineering schemes for rural businesses.
<i>New optional measures under the CAP Reform Agreement – compulsory modulation only</i>	
Meeting standards	Temporary and degressive support to help farmers adapt to the introduction of demanding standards based on Community legislation in the fields of the environment, public, animal and plant health, animal welfare and occupational safety.
Animal welfare	Support to farmers who enter into commitments of at least 5 years to improve animal welfare beyond the statutory level. The cost of statutory measures will be met at farmers' own cost.
Food quality	Incentive payments for farmers who participate in schemes designed to improve the quality of agricultural products, marketing and promotion. Additional public support for producer groups undertaking consumer information activities, including for products produced under quality schemes, is available.

## **Annex E: The Scottish Executive Consultation Process (and Consultation Response Form)**

Consultation is an essential and important aspect of Scottish Executive working methods. Given the wide-ranging areas of work of the Scottish Executive, there are many varied types of consultation. However, in general Scottish Executive consultation exercises aim to provide opportunities for all those who wish to express their opinions on a proposed area of work to do so in ways which will inform and enhance that work.

While details of particular circumstances described in a response to a consultation exercise may usefully inform the policy process, consultation exercises cannot address individual concerns and comments, which should be directed to the relevant public body. Consultation exercises may involve seeking views in a number of different ways, such as public meetings, focus groups or questionnaire exercises.

Typically, Scottish Executive consultations involve a written paper inviting answers to specific questions or more general views about the material presented. Written papers are distributed to organisations and individuals with an interest in the area of consultation, and they are also placed on the Scottish Executive web site enabling a wider audience to access the paper and submit their responses<sup>2</sup>. Copies of all the responses received to consultation exercises (except those where the individual or organisation requested confidentiality) are placed in the Scottish Executive Library at Saughton House, Edinburgh (K Spur, Saughton House, Broomhouse Drive, Edinburgh, EH11 3XD, telephone 0131 244 4552).

The views and suggestions detailed in consultation responses are analysed and used as part of the decision making process. Depending on the nature of the consultation exercise the responses received may:

- indicate the need for policy development or review;
- inform the development of a particular policy;
- help decisions to be made between alternative policy proposals;
- be used to finalise legislation before it is implemented.

If you have any comments about how this consultation exercise has been conducted, please send them to: CAP Reform Consultation, Room 245, Pentland House, 47 Robb's Loan, Edinburgh EH14 1TY, or email to [capreform@scotland.gsi.gov.uk](mailto:capreform@scotland.gsi.gov.uk).

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<sup>2</sup> [www.scotland.gov.uk](http://www.scotland.gov.uk)



**CONSULTATION RESPONSE FORM  
CAP Reform: Opportunities for Scotland**

Please complete the details below and attach it with your response.  
This will help ensure we handle your response appropriately.

Name:

Address:

Are you responding as

an individual

on behalf of a group or organisation

Do you agree to your response being made public?  
(in the Scottish Executive Library and/or on the Scottish Executive website)

Yes

No

Where confidentiality is not requested, we will publish your full response,  
including your name (and address where provided).

**If you do not wish these personal details to be published, please tick this box:**

Are you content for the Scottish Executive CAP Reform consultation team  
to contact you again in the future for consultation/research purposes (if need be)?

Yes

No



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