

AREAS FACING NATURAL CONSTRAINTS (ANC) - UPDATE

1. Purpose

To update the JPMC on the timescales, progress and a next steps timeline on work being undertaken to introduce ANC from 2018. JPMC members have been invited to a workshop on 16 June where there will be an opportunity to discuss the options for ANC in more detail.

2. Introduction

ANC is to be introduced in 2018, however 2016 is the key year for development. 2017 will focus on negotiation with the European Commission and finalising delivery arrangements

The development process will shortly move from agreeing the principles and establishing the evidence base to the next phase – developing options for:

- Scheme designation – the area that we need to pay on will change from the current Less Favoured Area designation; and
- Scheme design – the scheme rules and payment rates will also be amended to reflect new EU rules, but also to reflect the change in Basic Payment Scheme payments.

3. Rationale

The Rural Development Regulation states that:

“Payments to farmers in mountain areas and other areas facing natural or other specific constraints shall be granted annually per hectare of agricultural area in order to compensate farmers for all or part of the additional costs and income foregone related to the constraints for agricultural production in the area concerned.”

In addition ANC support will deliver towards the SRDP priorities, and SG National Performance Framework and the Future of Scottish Agriculture outcomes.

4. ANC under Pillar 1

There is the option to provide ANC support under Pillar 1. Due to the timescales and limits on the levels of ANC support permitted under Pillar 1, ANC will remain under Pillar 2 during this period. However, given the intention of ANC to provide income support to farmers there is an argument to develop the new P2 ANC scheme in such a way that it aligns with Pillar 1 characteristics so that later integration could be considered.

5. EU rules

The Pillar 2 scheme falls under articles 31 and 32 of the Rural Development Regulation EU 1305/2013, which is supported by a guidance fiche. In summary the rules for ANC include:

- An area based scheme – no links to production permitted
- It is an income support scheme – socio-economic and environmental benefits are recognised as secondary benefits but cannot form part of the payment
- Payments must be based on income foregone and additional costs in relation to the constraint

- Any variation of the payment must be based on the constraint or farming system (but the uses of farming system are limited)
- There is a minimum payment of €25/ha (if IF/AC do not reach €25 land does not warrant a payment) and a maximum payment of €250/ha
- We must apply degressivity at an area threshold
- Pillar 1 minimum activity requirements apply
- There is limited opportunity to set eligibility criteria
- All decisions must be justified

6. Work done to date

6.1 Key Principles

Working with the ANC Working Group to develop a set of key principles underpinning the new scheme, which are summarised below:

- Support must be based on need
- ANC must be simpler and more transparent than LFASS
- Needs to take Pillar 1 income support into account
- Desire to remove historical links
- Desire to keep active farming rules and minimum and maximum stocking densities (however, since the principles were agreed it has become clear that the Commission would not allow this.)
- Payment rates should be varied for land with different natural constraints, but no use of the adjusted top-up methodology
- Payment top-ups will not be a feature, voluntary coupled support under Pillar 1 is correct mechanism
- Degressivity will be applied to manage the budget

6.2 Evidence base

SG has undertaken a range of research for the development of an evidence base to inform ANC. This has focused on 5 key projects:

- Evidence of land abandonment
- Distribution of LFASS payments
- Distribution of new P1 payments
- Assessment of support needed to maintain farming in marginal areas
- Payment calculations

This work has been submitted to independent evaluators to provide impartial recommendations, their final report is due soon. All reports are available on our website.

7. Options

7.1 Scheme designation:

SG has been working with the James Hutton Institute to apply the biophysical criteria and prepare options for fine tuning for the designation. For the next stages we propose to use two approaches – an inclusive designation and a more targeted option.

7.2 Scheme design:

We are also considering options for how we want to design ANC payments, and are gathering data to allow us to undertake modelling. All options for the scheme design and payment rates are area based with no historic links or use of base years (as currently used in LFASS).

Options for zoning the ANC area to allow for different payment rates include the use of the Basic Payment Scheme regions and Less Favoured Area fragility categories. We will also consider recommendations made by the independent evaluators as part of this process.

8. Next steps timeline

- Spring 2016 - further development of options and modelling
- June 2016 - stakeholder workshop
- Autumn 2016 - full public consultation & roadshows
- Spring 2017 - final decisions
- 2018 - first ANC scheme year
- 2019 - first payments

Members of the JPMC can register for the ANC Workshop on 16 June at <https://www.eventbrite.co.uk/e/anc-development-workshop-tickets-24839754374> by the end of May.

All papers for the ANC Working Group which includes the reports to inform the evidence base area available at

<http://www.gov.scot/Topics/farmingrural/SRDP/ANC2018>

EU Rural Development Team

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