DIRECT PAYMENTS CONSULTATION

General Introduction

Main changes

Recent agreement on the Common Agricultural Policy (CAP) in Europe means that direct payments in Scotland will need to change from 1st January 2015. The new requirements will cover the period up to 31st December 2020.

From 2015, instead of just one main direct payment for farmers, the Single Farm Payment (SFP), several new types of direct payment to eligible farmers will be possible. Some of these payments will be mandatory whilst others are optional.

For example, we are required to make Basic Payments, Greening Payments and Young Farmer Payments and this consultation seeks your views on exactly how we should do this. We are also required to set up a National Reserve. Again we have some discretion over how we use and manage this reserve and we would welcome your thoughts on these issues.

We will also have the option of using other types of direct payment such as Voluntary Coupled Support (VCS) payments, Redistributive payments, Pillar 1 payments for Areas with Natural Constraints (ANC) and Small Farmer Scheme (SFS) payments. For these optional schemes, we need to decide whether or not we should provide these payments and, if so, in what manner.

So when considering these issues, it is important to remember that the new Basic Payments will only be part of the future support package that a farmer receives from 2015. As long as they meet Greening requirements, an eligible farmer will also receive a Greening payment and young farmers may also be eligible for a further top up. If one or more of the optional schemes are offered then an eligible farmer may also receive further additional direct payments. There will also be further options for various types of Pillar 2 support through the next SRDP.

There is a great deal to consider in relation to future direct payments. Many of the issues are complex, not easy to understand and are often inter-linked. For example, the funding for all of these new direct payment schemes comes from the total amount of European money available to Scotland for direct payments, our national ceiling. Since this amount is fixed, this means that each additional scheme we provide will reduce the amount of money that is left for the standard Basic Payment. Depending on what choices Scotland makes, the funding for Basic Payments may account for less than half of Scotland's total funding for direct payments and less than half of a farmer's future CAP support package.

So in other words, there is no direct comparison between SFP and Basic Payments. Instead comparisons should be made between SFP plus Scottish Beef Scheme (SBS) payments versus Basic Payment plus Greening payment plus any additional direct payments (such as VCS), provided in Scotland, for which the farmer is eligible.

The new Direct Payments Regulation is complex with a mixture of schemes, some of which are mandatory whilst others are optional, and all containing further elements of flexibility. In summary:

We are required to:

- Make Basic Payments, although we can decide how we do this and the time we take to reach full area-based payments.
- Make Greening payments accounting for 30% of the revised national ceiling. We can decide how we make these payments. Europe sets out three standard requirements for Greening (Crop diversification, maintaining area of permanent pasture, keeping 5% arable land as Ecological Focus Area (EFA)) and allows the option for these requirements to be delivered through equivalence.
- Make Young Farmer top up payments amounting for up to 2% of the revised national ceiling to farmers under 40 years and for up to five years of their taking charge of a business. Again we can decide how we make these payments.
- Set up a National Reserve which can include support for new entrants.

We have the option to make further direct payments if we wish and these include:

- Voluntary Couple Support (VCS) payments amounting to up to 8% of the revised national ceiling with a possible extra 2% for protein crops. We can decide how we make these payments but they can only be to the level needed to maintain levels of production.
- Pillar 1 ANC payments amounting to up to 5% of the revised national ceiling.
- Redistributive payments amounting to up to 30% of the revised national ceiling, where top up payments can be made on up to 54 hectares of a claim.
- Small Farmer Scheme payments amounting to up to 10% of the revised national ceiling where sums of up to €1250 can replace all other types of direct payment.

Further details on these schemes are set out in graphic form in documents you can access on the Scottish Government CAP Reform website (http://www.scotland.gov.uk/Topics/farmingrural/Agriculture/CAP).

CAP Reform – Direct Payments – Main Changes – Summary Overview

The summary that follows, sets out how changes to the framework for future CAP Pillar 1 might affect future direct payment support in Scotland. It covers:

1. The budget settlement – a comparison of Scotland's 2011 and 2019 direct payment budget allocation;
2. An example of one type of 2019 direct payment budget distribution;
3. Change in direct payments by sector assuming an 85%:15% budget allocation and a constant area of eligible land;
4. Change in direct payments by geographical region assuming an 85:15 budget allocation and a constant area of land;
5. Analysis of how much additional land might come into future CAP Pillar 1 payments;
6. Payment rates for a Rough Grazing region.

1. The budget settlement – comparing 2011 and 2019

In comparison to 2011, Scotland's 2019 budget for direct payments will be reduced by around €50m (9%).

- In 2011, following all (modulation) transfers to Pillar 2, Scotland's farmers received around €581 million in Single Farm and Scottish Beef Calf Scheme payments.
- In 2019, if Scotland transfers 9.5% of its budget to Pillar 2 under the flexibility provision, then approximately €531 million will be available for all Direct Payments.

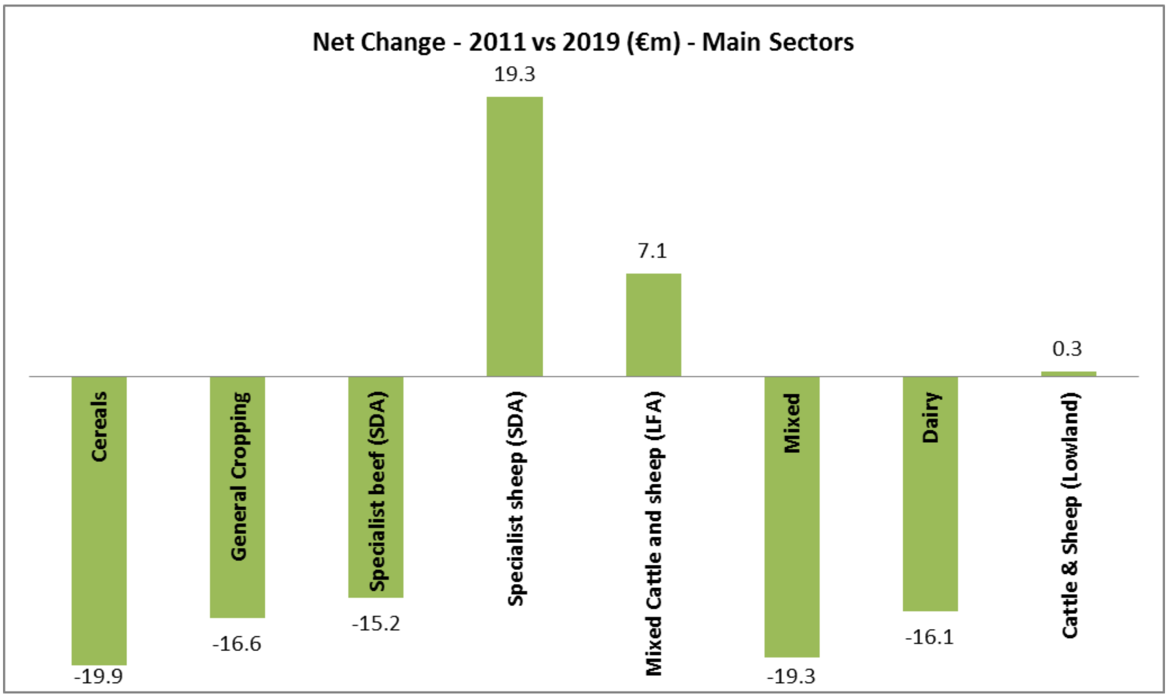
2. An example of one type of direct payment budget allocation (2019 budget):

The diagram that follows, illustrates how Scotland's budget for future direct payments might be allocated to direct payments. It assumes a 9.5% transfer to Pillar 2 under the Flexibility provision, which is the amount proposed in the current consultation on Flexibility. It also assumes that in addition to the deductions for the mandatory direct payments (30% deduction from the revised national ceiling for Greening Payments and an up to 2% deduction for Young farmer top ups), the remaining funding is then divided 85%:15% between two Payment Region based on land type, with Region 1 being Arable & Permanent Grassland and Region 2 being Rough Grazing. The final Basic Payment area rates would be the amount shown for each region divided by the area of eligible land in the region.

Scotland's National Ceiling 2019 (€m)	**€ 587**	
- 9.5% Flexibility	€ 56	Pillar 2
= Revised Scottish National Ceiling (€m)	**€ 531**	
- 30% Greening	€ 159	85% budget to Arable and Permanent Grass 15% budget to Rough Grazing
- 8% Coupled Support	€ 43	3 x Rate on first 10 calves = €173 2 x Rate between 11-50 calves = €115 1 x Rate on additional calves = €58
- 2% Young Farmer	€ 11	Top up recent business start ups aged <40
= Basic Payment and NR Ceiling (€m)	**€ 319**	
- 3% National Reserve	€ 10	New Entrants
= Basic Payment Ceiling (€m)	**€ 309**	85% budget to Arable and Permanent Grass 15% budget to Rough Grazing

3. Changes in direct payments by sector

The diagram below illustrates the types of changes in funding that would be expected when direct payments were 100% area-based assuming that the budget had been allocated to the two payment regions 85%:15% and also assuming that the area of claimed land remains constant. The results include an estimation of coupled support payments but do not include an allocation of the maximum young farmer budget and/or money that new entrants might receive from the National Reserve. The diagram shows the **net** difference in direct payment funding for each of the main agricultural sectors.



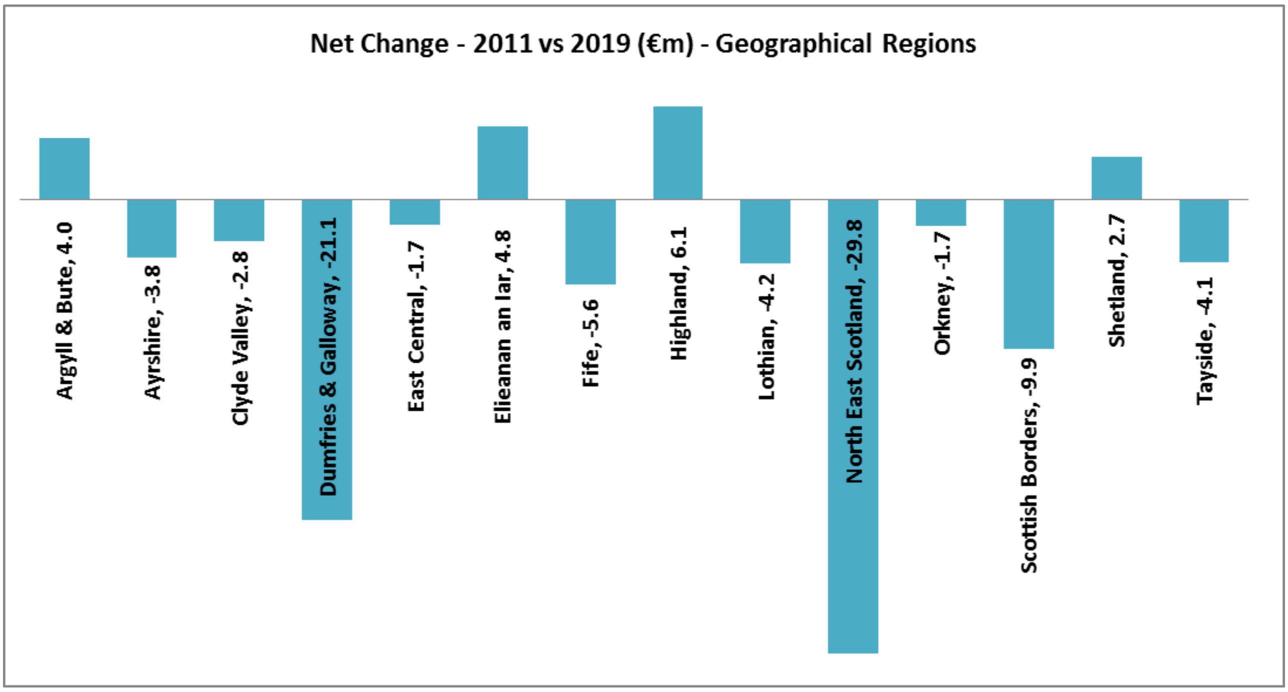
Overall, this analysis of the **net** changes within each sector, shows that he main beneficiaries of area based payments tend to be the sectors with larger, more extensive farms ("Specialist sheep" and "Mixed Cattle & sheep (LFA)). However, looking at just the overall net changes, masks the more subtle differences that occur within each sector. Because of the diverse nature of Scottish agriculture, within every sector, some businesses will gain whilst others will lose (see table below).

Main Sector:	**Businesses**	**2011 (€m)**	**2019 (€m)**	**Comparison 2011 vs 2019**		
				Gains (€m)	**Losses (€m)**	**Net Change (€m)**
Cereals	2,153	83.8	63.9	3.3	-23.1	-19.9
General Cropping	1,498	83.1	66.5	3.8	-20.4	-16.6
Specialist beef (SDA)	4,124	133.1	117.8	16.9	-32.1	-15.2
Specialist sheep (SDA)	3,839	33.6	52.9	23.6	-4.3	19.3
Cattle and sheep (LFA)	1,909	74.0	81.1	18.8	-11.7	7.1
Mixed	1,636	88.6	69.3	5.5	-24.8	-19.3
Dairy	1,057	53.2	37.1	2.3	-18.4	-16.1
Cattle & Sheep (Lowland)	235	3.4	3.7	1.3	-1.0	0.3

The table shows, for example, that under this set of assumptions, there would be an estimated €15m reduction in total direct payments to the beef sector from the move to area-based payments. However, within this sector, some businesses would receive increased support amounting to €17m whilst others will see a reduced level of funding amounting to €32m. Similarly although the specialist sheep sector shows just under a €19m net gain, some businesses will gain whilst some will lose out from the move to area based payments.

4. Change in payments by geographical region

The same analysis has also been undertaken for the distribution of future direct payments in each geographical region assuming an 85%:15% budget allocation. The diagram below shows the net changes in each administrative region.



Again the net results mask the scale of the redistribution that is occurring to businesses within each geographic region which is summarised in the following table. For example, within the two regions that overall seem to lose the most (NE Scotland and Dumfries & Galloway) there are some businesses which will gain and others which lose funding. So, although Highland region overall benefits by around €6m, there would be a significant redistribution of funding within the region, with total losses of €21.5m whilst other businesses in Highland see an uplift amounting to €27.6m. .

Geographical Region:	Businesses	2011 (€m)	2019 (€m)	Comparison 2011 vs 2019		
				Gains (€m)	Losses (€m)	Net Change (€m)
Argyll & Bute	867	20.9	24.9	7.9	-3.9	4.0
Ayrshire	1,052	34.1	30.2	3.7	-7.6	-3.8
Clyde Valley	964	30.7	27.9	3.8	-6.5	-2.8
Dumfries & Galloway	1,721	84.2	63.1	5.7	-26.8	-21.1
East Central	528	18.7	17.0	2.5	-4.2	-1.7
Eileanan an Iar	1,686	3.6	8.4	4.9	-0.1	4.8
Fife	488	24.0	18.4	0.6	-6.2	-5.6
Highland	3,638	70.2	76.3	27.6	-21.5	6.1
Lothian	478	23.4	19.2	1.1	-5.3	-4.2
North East Scotland	3,175	123.5	93.7	6.9	-36.7	-29.8
Orkney	681	16.7	14.9	1.3	-3.1	-1.7
Scottish Borders	1,034	59.5	49.6	3.4	-13.3	-9.9
Shetland	960	5.5	8.3	3.1	-0.4	2.7
Tayside	1,523	62.0	57.9	8.7	-12.8	-4.1

5. Additional land

Research by the James Hutton Institute shows Scotland has around 3.5m hectares of agricultural land classified as rough grazing (of which some 2.8m hectares is declared) and around 1.9m hectares of better quality land (of which just under 1.8m ha is declared). The additional land would only be eligible for future payments if it was declared by an eligible, active farmer in 2015.

If all of the additional land were to come into the system by 2019 this would reduce the per hectare rates for businesses currently claiming Single Farm Payments. . For example, initial analysis suggests that if in future, Scotland funded only the mandatory payments (Basic Payments plus Greening payments), then including the extra land would dilute the area rate for the Arable and Permanent Grassland Region by around 13% and by around 24% in the Rough Grazing region. The estimated reduction in the Rough Grazing region is greater because the relative amount of potential extra land in this region is much higher.

6. Payment Rates for Rough Grazing

Businesses with a large proportion of rough grazing include small holdings such as crofts as well as very large, extensively-grazed holdings. In making Basic Payments on rough grazing there is a need to ensure that extensive farmers are appropriately rewarded whilst not over-compensating very extensive producers. The two charts below demonstrate how different rates affect these groups and why it is important to strike the right balance when deciding payment rates.