

## **Message from Cabinet Secretary Richard Lochhead**

My vision for Scottish agriculture is for Scotland to be a quality food producing nation, with farmers able to compete in worldwide markets through the reputation of their produce, while working in harmony with our natural environment to the benefit of all. Farmers are the backbone of our rural communities and they often work in very difficult circumstances, on land with low agricultural potential but high environmental value. I want the diversity of agriculture that is found across Scotland to flourish, be resilient and nurture new skills.

The new CAP is central to delivering this vision and in the recent negotiations I argued for a Fairer, Simpler and Greener CAP that:

- Recognises the need for a balance between using land for food production and protecting valuable habitats.
- Brings in new entrants whilst tackling inactive slipper farming.
- Addresses the needs of key sectors including less favoured areas and livestock whilst recognising the potential impact on the rest of the industry.
- Balances the need to allow farmers time to adjust to the changes with the need for a fair deal for new entrants as soon as possible.
- Supports farmers in helping Scotland meet its international targets for biodiversity, water quality and climate change.

We now know the shape of the future CAP. It is flexible but lacks simplicity. As a result, tailoring support to Scotland's needs comes at a price, in terms of complexity and deliverability. The choices we make will have to strike the right balance.

Those choices will be all the more critical because the UK Government has negotiated Scotland to the bottom place in the European league table for future Pillar 1 funding levels.

This allocation means that the choices we make over the next few months will be critical. However we choose to make the move from the current historic basis for payments to area-based payments, the process will inevitably flatten out differences in payment entitlement values within a region. It will also mean that funding will move up the hills to poorer quality land which is often of high environmental value. We will need to find ways of mitigating the impact of this change for others, including our livestock sector, the powerhouse of Scottish agriculture.

The future will be very different, with a number of new payments replacing the current Single Farm Payment (SFP). The value of the entitlements to the new Basic Payment will almost certainly be lower than the value of existing SFP entitlements. But Greening payments and, for eligible young farmers, a further top up payment will also be provided as part of future direct payment support. Other types of Pillar 1 (direct payments) or Pillar 2 (SRDP) payments will also be available. So in

considering the future, we must think about the total package of support that will be available to farmers.

After considerable analysis and lengthy discussions with stakeholders, the Scottish Government view is that Scotland's needs are best served by:

- Having two payment regions based on land type so as to balance change with simplicity. Region 1 would be arable land and permanent grassland and Region 2 would be rough grazing.
- Using the National Reserve to ensure new entrants get a fair deal from Day 1.
- Moving to full area-based payments within the next CAP. My preference is to avoid the "Irish tunnel" which would mean that in 2020, some 20 years after the last reference period, payments would still contain an element of these very old and irrelevant subsidies.
- Using our maximum allowance of 8% of the national ceiling for voluntary coupled support for the beef sector, to help this sector adjust to the changes from the move to area-based payments.

Another key aspect of the reforms is the Greening of the CAP. I am keen that we tackle the threat of climate change within the scope that Europe's proposals afford.

We have a measure of flexibility over how to implement some of Europe's standard Greening measures. In particular, we can designate further areas of permanent grassland for special protection under the Greening permanent grassland measure and we can also decide which features we wish to be part of the Greening Ecological Focus Area (EFA) measure. In addition, within the European framework, we can implement the Good Agricultural and Environmental Condition (GAEC) part of cross-compliance in a way which meets Scottish needs.


We also have the option of "equivalence" under Greening potentially enabling us to replace Europe's standard Greening measures with alternatives designed to deliver similar or a higher level of benefit for the environment. We will, however, want to pay heed to complexity and compliance costs when we consider new approaches. I would like to hear your views on how we get the best outcome for Scotland from these various options.

The wide range in the size of Scottish holdings is an additional complexity that we need to consider since future payments will relate to the size of the holding. We might be able to help small holdings using the Redistributive Payment option which transfers funding from large to small businesses by paying top ups on the first 54 hectares of any claim. However the sums likely to be transferred by this mechanism look relatively small. I would like to hear your views on whether we should consider this option and do not intend to rule it out at this point.

There is a danger that in striving to fine-tune support for Scottish agriculture within the European framework we disproportionately increase the level of red tape and

bureaucracy. We need to guard against this. Our aim must be to introduce a package of measures that maximises the opportunities for Scottish farmers without being overly complex.

I look forward to hearing what you think about these ideas in this consultation, which will take you through each topic in turn and then seek your views on the proposed package of measures.

A handwritten signature in black ink that reads "Richard Lochhead". The signature is written in a cursive style with a large initial 'R'.

Richard Lochhead

12 December 2013