

REVIEW OF THE EU LESS FAVOURED AREA SCHEME

Scottish Crofting Foundation

Evidence to House of Lords European Union Committee
30th January 2009

1. This Scottish Crofting Foundation (SCF) welcomes the opportunity to input to this review of the LFA scheme. The SCF 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 should be paid for from public funds.

The past: strengths and weaknesses of the LFA scheme

2. Our comments in this regard primarily concern Scotland. The LFA scheme in Scotland is still closely linked to production: land inside the LFA boundary with historically higher levels of stocking receives higher levels of support. Comparative disadvantage is not being sufficiently addressed by payment under the scheme, nor is the delivery of public goods provided by low-intensity High Nature Value systems being adequately recognised. This - and a current loss of incentive under the Scottish LFA scheme to maintain active agriculture - is contributing to a strong decline in agricultural activity across many hill, upland and island areas.

The current review: common biophysical criteria

3. 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. We support the division of the scheme in Scotland 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.

4. 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

5. 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 UK 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.

6. Whether or not it succeeds, the record in Scotland 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. If the lack of a 'peripherality' criterion within the new LFA rules means that the extra costs it imposes on claimants on islands¹ cannot be met in the under the intermediate classification scheme, use must be made of the 'specific handicap' classification.

The current review: eligibility conditions

7. 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.

8. 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 systems² 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.

9. 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

The current review: payment calculation

10. The payments in the scheme should be limited to overcoming market

¹ 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.

² 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.

failure in the provision of the specified public goods and integrated with the operation of cross-compliance and 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.

11. 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. 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.

12. 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.

The future development of the LFA scheme **2010 - 13**

13. From a Scottish perspective we believe that LFASS 2010 - 13 should have the following characteristics:

14. 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). 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.

15. 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.

16. 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.

2013 onwards

17. 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.

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