

SPICe Briefing Hill Farming

7 May 2010

10/29

Tom Edwards

This briefing has been prepared for Members of the Rural Affairs and Environment Committee. The briefing paper:

- Describes hill farming in Scotland and looks at evidence of a recent decline in sheep and cattle numbers on hills farms
- Describes the findings of the Royal Society of Edinburgh's inquiry into the Hills and Islands of Scotland
- Sets out the main sources of Government support that are available for hill farmers
- Highlights the views of some stakeholders about the future for hill farming and the uplands



Picture: AtWag/iStockPhoto



CONTENTS

EXECUTIVE SUMMARY	3
HILL FARMING IN SCOTLAND	5
DECLINING LIVESTOCK ON HILL FARMS	7
IMPLICATIONS OF THE DECLINE	9
<i>Environmental impacts</i>	9
<i>Socio-economic impact</i>	9
THE ROYAL SOCIETY OF EDINBURGH'S INQUIRY	10
FARMING IN THE HILLS AND ISLANDS	12
SUPPORT FOR HILL FARMING IN SCOTLAND	13
THE SINGLE FARM PAYMENT	13
LESS FAVOURED AREA SUPPORT SCHEME	14
<i>EU review of the LFA scheme</i>	14
<i>House of Lords EU Committee report</i>	15
<i>LFASS 2010-13</i>	16
THE PACK INQUIRY.....	16
LAND MANAGERS OPTIONS AND RURAL PRIORITIES.....	18
STAKEHOLDERS' VIEWS ON HILL FARMING AND THE UPLANDS	18
SOURCES	20

EXECUTIVE SUMMARY

Hill farms typically combine improved pastures and rough grazing on the open hill. The poorer weather and soils of upland areas mean that hill farms tends to be extensive beef cattle and/or sheep rearing enterprises, with some dairy farming. Under the Common Agricultural Policy (CAP), hill farmers in areas designated as Less Favoured Areas (LFA) are eligible for additional support payments. Around 85% of Scotland is designated as LFA.

In recent years, concern has been expressed about declines in sheep and cattle numbers on Scotland's hill farms. Figures from the agricultural census show that the number of beef cows in the LFA have declined by 12% since 2000, and sheep numbers in the LFA have declined by 25%. Sheep numbers outside the LFA have also declined to a similar extent. Analysis by the Scottish Agricultural College has shown that in some areas sheep numbers have declined by as much as 60% since 1999. Analysis by RSPB Scotland over a longer timescale shows the UK's sheep flock and cattle herd increased from the 1960s to peak in the 1990s, and, despite recent declines numbers, have not fallen to historic levels.

During the latter part of the 20th century livestock numbers in parts of the uplands were thought to be too high, resulting in overgrazing. This situation has now reversed in some areas, and problems of undergrazing are now occurring, which leads to changes in vegetation and upland wildlife. A particular concern is for High Nature Value farming systems, where grazing animals are important in preserving habitats that are rich in biodiversity.

The recent declines in livestock on hill farms are more a result of farmers scaling back production, partly in response to subsidy changes which occurred in 2005, than they are a result of farmers leaving the industry altogether. The reduction in livestock has reduced labour demand and the number of part time farmers is increasing. There has also been a long-term decline in farmworkers. Reduced agricultural activity could also have a knock-on effect on supply chain infrastructure, such as haulage companies, feed manufacturers, livestock marts and abattoirs. There is already evidence of this with the closure of a haulage firm and a mart in the Highlands. Such closures can result in a spiral of decline, where closure of supply chain businesses increases costs for remaining farmers, forcing them out of business.

It was against this backdrop that the Royal Society of Edinburgh established a Committee of Inquiry into the Hills and Islands. The Committee reported in September 2008. The report considers the rural economy of the hills and uplands as a whole: farming, crofting, forestry and sporting estate management; tourism, energy and food policy; and housing; transport, telecoms and public services.

The Committee of Inquiry found that hill and island areas are disadvantaged compared to lowland and more densely populated areas, but they provide vital environmental goods and services. Continuing financial and other support from government is needed to support hill and island areas, particularly for land management. The report concluded that the survival of hill farming depends on both a sustained upturn in prices, and the continued provision of public support.

The Single Farm Payment is the main means of supporting all farmers in Scotland under the CAP. Farmers in Less Favoured Areas (LFA) are also supported under the Less Favoured Area Support Scheme (LFASS). The Royal Society of Edinburgh's analysis showed that Single Farm Payments were worth £220-250m per year to farmers in the LFA, while LFASS payments are worth c.£60m. Farmers are also supported by schemes under the Scotland Rural Development Plan, of which the main ones are the non-competitive Land Managers Options Scheme, and the competitive Rural Priorities Scheme.

Single Farm Payments were introduced in 2005, replacing previous sectoral subsidy regimes. Crucially, the payments are "decoupled" from production and farmers are not obliged to maintain previous levels of stocking and cropping to receive them. In Scotland the payments have been implemented on a historic basis, which means they are based on average receipts under the former schemes. Reform of the CAP is set to take place by the end of 2013. It is expected that as part of the reform all Member States will move to pay Single Farm Payments on an area basis. The Scottish Government has set up an inquiry into the future of agricultural support under the chairmanship of Brian Pack. One of the recommendations of his interim report was that area payments should be introduced in Scotland from 2014 onwards. The final report of the inquiry is expected in June 2010.

UK hill farmers have received additional government support since the 1940s. This additional support for hill farmers in LFA has formed part of the Common Agricultural Policy (CAP) since 1975. Farmers in LFAs were supported through annual headage payments per breeding ewe / beef cow under the Hill Livestock Compensatory Allowance (HLCA) from 1975 until 2000. Since 2001, support to farmers in the LFA has been paid on an area basis.

In 2003, the way the Less Favoured Area system is implemented across the EU was criticised in a report published by the European Court of Auditors (2003). Since then a review of the designation of LFAs has been initiated by the European Commission. The Commission's proposals for new designation criteria were not agreed by the Council of Ministers in 2005. The Commission launched a consultation on a new set of common criteria for designating LFAs in 2009. The redesignation of LFAs has been considered by a House of Lords Committee. The Committee found that the criteria proposed by the Commission might not take into account the challenges of farming in the UK's cool maritime climate, where it is an excess of water that creates the problem, rather than a shortage. Changes to the designation of LFAs are expected to come into place at the same time as the CAP reforms, from 2014 onwards.

Separately, the Scottish Government has been making changes to the way the LFA scheme will operate from 2010-13. It has increased payments to farmers in the fragile and very fragile LFA categories by 19% in 2009 and 38% in 2010¹. The Government has also updated the statistics on which LFA payments are based so that payments will go to active farmers.

¹ Taking advantage of the weakening pound which has increased the value of EU funds in the Scotland Rural Development Programme when converted from euros.

HILL FARMING IN SCOTLAND

Farming in upland Britain is often called hill farming. The higher rainfall and lower temperatures on the hills result in a shorter growing season. This, together with the generally poorer quality soils and the steeply sloping terrain limits the area that can be ploughed for cropping or intensive grassland management. This means that hill farms tend to be beef cattle and/or sheep rearing enterprises, with some dairy farming. A typical hill farm would have some flatter fields in a valley bottom grouped around the farmhouse and buildings. This better quality 'in-bye' land would be used to grow grass for conserving as hay or silage to feed to stock in winter, and would be used by cattle for summer grazing and by sheep at different times of year, e.g. at lambing time or during winter. The farm would also have some unimproved rough grazing on the surrounding hills which would mainly be used for sheep grazing. Hardy sheep breeds like the Scotch blackface, and cattle breeds like the Highland and the Galloway are capable of surviving on hill grazings all year round with limited additional feeding. Other cattle breeds would normally be housed in winter.

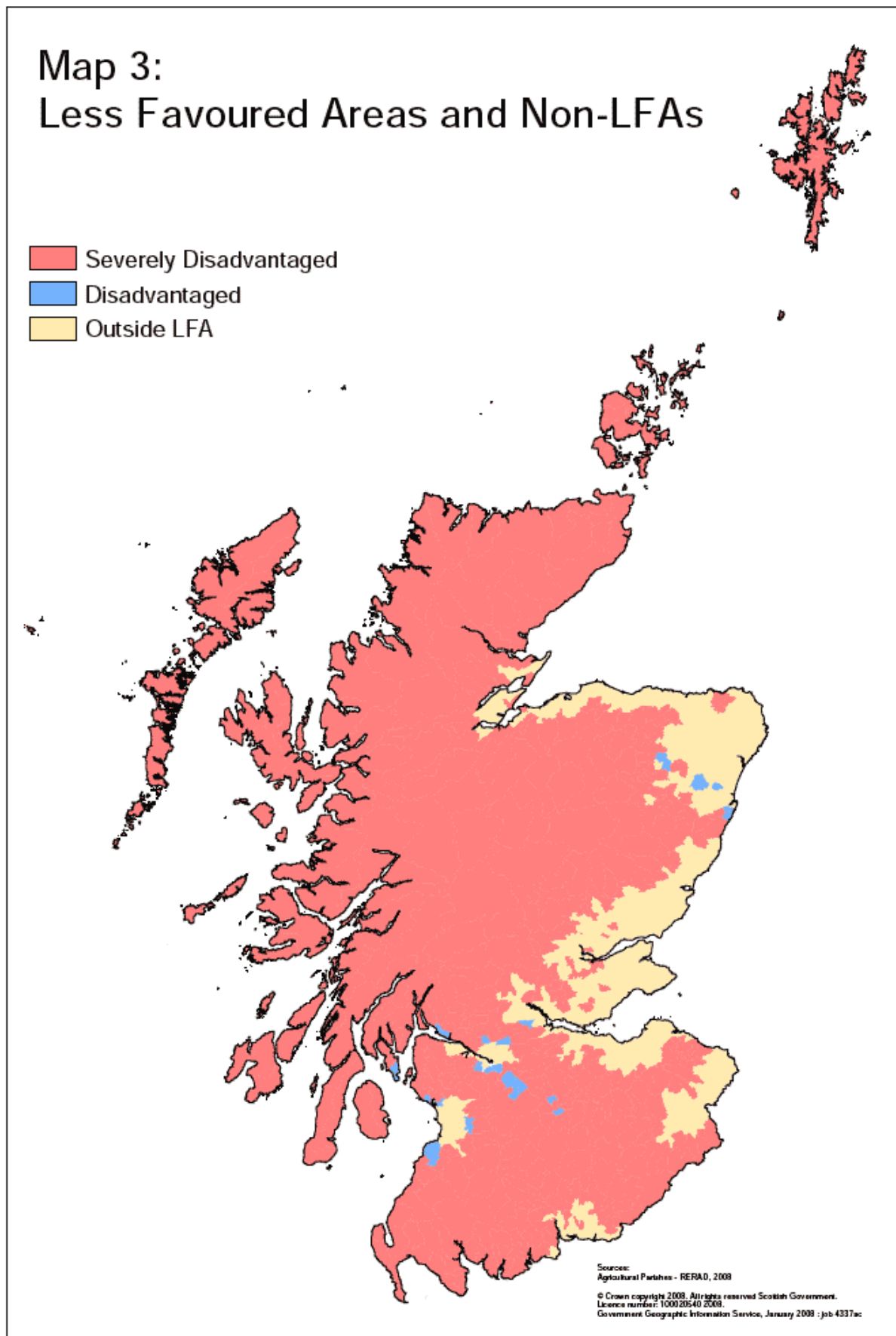
The Royal Society of Edinburgh (2008) described the structure of farming, and the production systems, in Scotland's hill and island areas as follows:

The agriculture of Scotland's hill and island areas [...] is dominated by livestock production. Nevertheless, the agricultural land use of the area is extraordinarily diverse, as a result of major physical differences of geology, soils, topography and climate. There are also important differences in landownership and tenure in the area. Crofting tenure creates a distinctive structure of land use in the north and west, while to the east and in Orkney, Argyll, and on the better quality soils of Islay and Mull, farming predominates. In Highland Perthshire and in the Southern Uplands, there are no crofts and farms are generally quite large. The central areas of the highlands and parts of some of the Hebridean islands are dominated by sporting estates, which are based more on deer in the west and a mixture of deer forest and grouse moor in the east; game fishing can be important in both areas. In addition to areas that comprise Hills and Islands [...], there are other parts of the LFA where the land is of better quality and the options for farmers are greater.

Livestock are predominantly sheep for store lamb production on the higher and poorer quality ground, where there is less capacity to produce winter keep, and cattle in larger numbers on lower ground, where that capacity is greater. In Orkney and Caithness, parts of Easter Ross, the Moray Firth and the Grampian Highland fringe, there is a significant amount of better quality land that can be ploughed, and there is scope for more intensive production systems. There is a second area of such land in the fringe areas of the Southern Uplands, and also in Islay and Bute, where there is a strong tradition of dairying. In such areas, better soils provide some opportunities to grow root crops and cereals that allow greater numbers of stock to be overwintered and cattle and sheep to be finished for market.

Under the Common Agricultural Policy (CAP), hill farmers in areas designated as Less Favoured Areas (LFA) are eligible for additional support payments. Around 85% of Scotland is designated as LFA, as shown in the map overleaf.

Figure 1 – LFAs and non-LFAs in Scotland

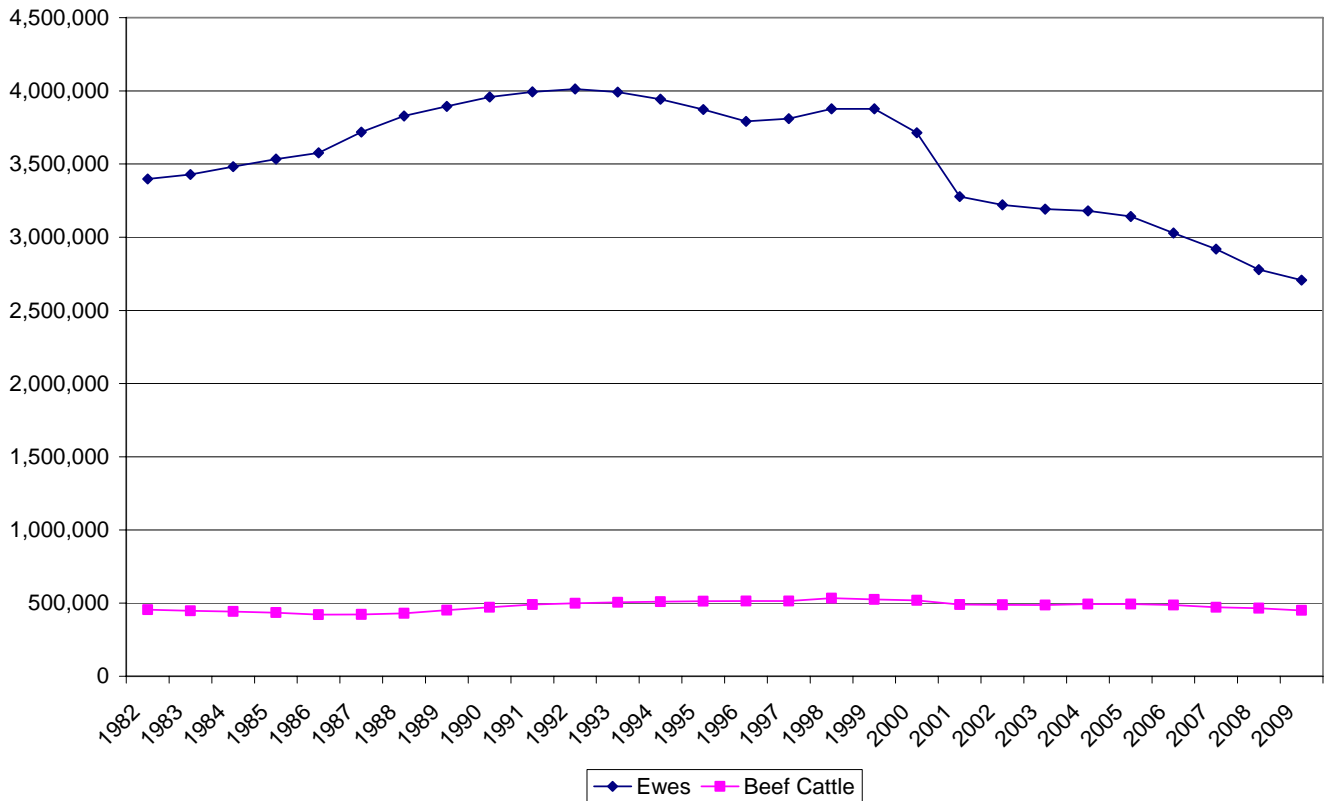


Source – Scottish Government (2009a)

DECLINING LIVESTOCK ON HILL FARMS

In recent years, concern has been expressed about declines in sheep and cattle numbers on Scotland’s hill farms. The chart below looks at the national picture, showing the total number of beef cows and breeding ewes in Scotland since 1982, using figures from the agricultural census.

Figure 2 – Breeding ewes and beef cows in Scotland 1982 - 2009



Source: Scottish Government (2010a)

The chart shows that breeding ewe numbers rose during the 1980s to plateau around 4 million in the early 1990s. Losses during the foot and mouth disease outbreak of 2001 were not replaced, numbers then stabilised at around 3.25 million until 2005, since when numbers have fallen again, and are now around 2.75 million. The decline since 2005 coincides with the introduction of the Single Farm Payment, which removed the requirement for farmers to keep the same numbers of livestock as previously. The number of breeding beef cows increased from 450,000 in the 1980s to over 500,000 during the 1990s, and has since fallen back to around 450,000.

The table overleaf shows beef cattle and breeding ewe numbers from the agricultural census for less favoured areas (LFA) compared to non-LFA. The years chosen are the year before the foot and mouth disease outbreak of 2001, the year immediately prior to the introduction of Single Farm Payments - 2004, and the most recent year for which LFA and non-LFA livestock numbers have been published by the Scottish Government - 2008.

Table 1 – Cattle and sheep in LFA and non-LFA areas in Scotland

	2000	2004	2008
Beef cows			
LFA	434,106	411,494	380,457
non LFA	84,116	84,488	84,718
Total	518,222	495,982	465,175
Breeding Ewes			
LFA	3,380,948	2,932,228	2,531,846
non LFA	332,027	277,443	246,657
Total	3,712,975	3,209,671	2,778,503

Sources: ERSA 2001, 2005 and 2009

These figures show a decline in beef cows numbers concentrated in the LFA, -12% from 2000 to 2008. Outside the LFA the numbers of beef cows have slightly increased. For breeding ewes, the percentage decline in numbers is similar for both LFA and non-LFA areas, at around 25% between 2000 and 2008.

The Scottish Agricultural College (SAC 2008) recently published an analysis which looked at beef cattle and sheep numbers nationally, regionally and at the parish level, and concluded that:

- Sheep numbers have declined dramatically since 1999, most notably in the North West.
- Many areas have seen a reduction of between 35 and 60 percent. Cattle numbers have also declined, although not so dramatically and not in the same areas.
- The reduction in sheep numbers is part of a process of down-sizing coupled with a number of farmers leaving the industry.
- The decline in cattle numbers in some areas is a combination of down-sizing and farmers withdrawing from production. However, in many areas the changes are due to an increase in intensity as some farmers have expanded as others leave the industry.
- Declines in livestock numbers appear to have accelerated after the introduction of the Single Farm Payment and the decoupling of livestock numbers from payments.
- The decline in livestock numbers is complex with a great deal of spatial variation even within single geographical areas (such as Highland).

Changes were also highlighted by the Committee of Inquiry on Crofting (2008) which found that:

- Between 1982 and 2007 on holdings of less than 30 hectares in the crofting counties, the cropped area of land fell by 49%. The area of oats fell by 83%; potatoes by 79%, barley by 46% and stock feeding crops by 51%

- Grassland for grazing increased by 47% and grassland for mowing reduced by 24% between 1982 and 2007
- In the HIE area, the number of ewes dropped by 18% (from 1,185,256 to 971,442) between 2001 and 2006, representing 86% of the decline in overall Scottish ewe numbers and indicating a significant regional factor. There was an accelerated decline in numbers between 2006 and 2007 when they dropped by 6% in the HIE area (compared to 3.8% for Scotland as a whole) from 971,442 to 916,248

A paper by the RSPB Scotland (2009) presents an analysis of livestock numbers going back to the 19th century. This shows that numbers of both sheep and cattle remain historically high, having increased post war to reach a high in the 1990s.

IMPLICATIONS OF THE DECLINE

The implications of declining livestock numbers were considered by the SAC (2008). The report considers the environmental implications of reduced grazing; and the socio-economic implications.

Environmental impacts

During the latter part of the 20th century, grazing levels in parts of upland Scotland were thought to be too high, leading to heather loss and damage to other vegetation and soils. This situation has now reversed in many places, with little or no grazing by livestock, leading to problems associated with undergrazing.

Studies have shown that removing sheep grazing leads to changes in upland vegetation, which then has implications for other wildlife. For example, in the absence of grazing longer grass leads to increased abundance of field voles, which are an important food for predators such as birds of prey; stoats and foxes; while the removal of sheep leads to a reduction in carrion which is important for Golden eagles and crows and ravens. While this could be seen as one species losing out at the expense of another, of particular concern are the implications for “high nature value” farming systems (HNV). These are low-intensity farming systems where farming practices support a high biodiversity of species. In Scotland, the areas of HNV farmland coincide with the areas that are experiencing the greatest declines in livestock numbers, suggesting that the HNV farming systems in these areas are in decline. In particular, a reduction of grazing in systems that are already extensive could lead to a decrease in biodiversity (SAC 2008). The RSPB (2009) analysis suggests that the effects of livestock declines are likely to be most negative for birds in the Hebrides and Northwest Highlands.

Socio-economic impact

Research has shown the importance of agriculture in many rural economies and communities, either directly, or indirectly, through upstream and downstream linkages to other businesses. Declining production on Scotland’s hill farms could therefore have implications for the local economy and for local communities.

SAC’s (2008) research found that the reductions in sheep and cattle were the result of farmers downsizing rather than leaving the industry completely. This is backed up by data which shows the number of full time farmers and their spouses working full time or more than half-time is decreasing, while the number of farmers/ spouses working less than half time is increasing. As

with declining livestock, the picture is not uniform, although parishes in the North and West are experiencing the greatest decline in full-time farm occupiers. As might be expected from downsizing farms – less stock means less labour required, data on the number of employees show a long-term decline. One consequence of declining cattle and sheep numbers is therefore a requirement for less skilled labour, which means core farming skills are in danger of dying out.

In terms of the wider impact on the rural economy, the SAC report said:

Reduced agricultural activity could also have a knock-on effect in terms of the loss of related supply chain infrastructure, such as cost-effective haulage and availability of, and potentially greater distance to, marts and abattoirs. Market and regulatory pressures on the infrastructure have exacerbated an already difficult operational environment for the businesses concerned. Casualties of the current situation have been Thurso Mart and more recently an Oban-based haulage firm that traditionally served the Inner and Outer Hebrides. A loss of infrastructure places greater pressures on existing producers and their viability, leading to more stock reductions, and in turn, further strain on the infrastructure (and so on). This situation is commonly referred to as a spiral of decline.

The potential effect of declining livestock on tourism is unclear. Research has shown that “scenery” is most often cited by visitors to Scotland as the reason for their visit, and there is a significant interaction between land-use and the scenery. However, isolating the contribution of a particular land use, such as hill farming, to the attraction of an area for tourists is difficult. The SAC found that there was a lack of sufficient research to show exactly what it is that visitors value about a particular landscape to allow the importance of different types of land use to be determined.

THE ROYAL SOCIETY OF EDINBURGH’S INQUIRY

The Royal Society of Edinburgh initiated an inquiry into the future of the hills and islands in Spring 2007 because of concerns about the future of farming in these areas, and the effect the decline of farming might have on rural communities. The inquiry was conducted by a Committee of nine members, chaired by Professor Gavin McCrone FRSE. The inquiry received over 80 submissions; took oral evidence from witnesses from 30 government, non-government and industry organisations; and inquiry members took part in a programme of visits throughout the Highlands and Islands, and also visited Ireland and Brussels.

The inquiry report was published in September 2008. The report considers the rural economy of the hills and uplands as a whole: farming, crofting, forestry and sporting estate management; tourism, energy and food policy; and housing; transport, telecoms and public services.

The report gave a concise overview of the hills and islands of Scotland:

The Hills and Islands of Scotland are in a state of flux. The decline of population that lasted from the mid-19th to the mid-20th century has been reversed. These positive demographic changes mask much variety, with some areas experiencing rapid growth and others significant decline. In the Hills and Islands natural resources are still the base on which the area’s prosperity rests. The traditional primary industries are economically less important than they once were, but the value of the land and water resources remains the foundation on which a range of economic activities are built. They also provide a setting for a range of new activities and for those people who have moved into these areas to enjoy the quality of life it offers.

This social and economic transition has not taken place painlessly. Market forces, public policy and charitable intervention have shaped the way in which a range of social, economic and environmental factors have affected the region, sometimes consensually, sometimes in conflict. Significant changes in recent years have forced a need to rethink the future for these areas. Over all areas of policy and practice, climate change now casts its shadow. At the same time, major changes in the CAP have been implemented and others can be expected. The old model of forestry and its policy support system has been overhauled. Factors, such as the strength of the pound, the price of oil and the 'credit crunch', impact in particular ways on different sectors of the economy of the Hills and Islands.

The Committee of Inquiry concluded that hill and island areas are disadvantaged compared to lowland and more densely populated areas, but they provide vital environmental goods and services. Continuing financial and other support from government is needed to support hill and island areas, particularly for land management.

The report made 66 recommendations. Among the key issues identified by the report were that:

- The Government should develop a strategic land use framework to reduce land use conflicts [Since the report was published the Government has been preparing a [land use strategy](#), which the Climate Change (Scotland) Act requires be finalised by March 2011].
- Scotland's share of EU Pillar 2 (rural development) funds is too low, which seriously disadvantages Scotland's farmers. This should be revised post 2013.
- Delivery of Scotland's Rural Development Programme should be delegated to regional bodies which are able to take funding decisions [in the current programme applications are considered at regional level but final funding decisions are taken centrally]
- The Committee supported the Government's target of increasing forest cover to 25% of the land area, but saw no prospect of it being achieved without measures to attract land out of other uses, such as a carbon trading scheme.
- Public support for tourism should be radically restructured with the establishment of new agencies and the transfer of powers and resources from existing ones
- Action is needed to provide local food processing facilities to support the development of local food
- The Scottish Government should have an explicit policy to achieve and maintain community viability in the remoter areas of the mainland and on the islands
- Specific support is required for regional development in communications technologies, education facilities, road, ferry and public transport, and affordable housing to improve demographic structure and stimulate environmental growth
- Transaction costs of doing business with public agencies must be reduced [in June 2008 the Scottish Government established [Scotland's Environment and Rural Services](#) (SEARS) a partnership between nine public bodies which offer a one-stop shop to land managers.]
- Public bodies that deliver policy seem to have become more rather than less centralised - Decision making and delivery of public resources should be shifted from the centre to the regions to help reflect the diversity and variety of Scotland's hills and islands

FARMING IN THE HILLS AND ISLANDS

The Royal Society's report made the following assessment of farming in the hills and islands:

Farming in the Hills and Islands, at least in the greater part of the area, requires support if it is to yield a positive income at all; and without such support it could not continue to operate as it does now or provide wider public benefits. There is a serious income crisis and, despite recently improved market conditions, a more favourable exchange rate and the development of organic and local food, the overall financial situation is bleak. There are some opportunities to diversify, but these are limited and not available to everyone. The survival of this sector of farming thus depends both on a sustained upturn in prices and the continued provision of public support.

The report made some specific recommendations for changes to agricultural policy:

- Improving the funding for agri-environment schemes should be a priority for the Scottish Government in CAP reform, so that post 2013 all farmers would be able to participate in a scheme.
- The Scottish Government should plan for a change to the Single Farm Payment scheme to make payments on an area basis as soon as possible, and should consider doing so in phased steps before 2013. The inquiry said that a simple shift to a flat rate area-based payment would be "illogical and inappropriate".
- A clearer definition of the public benefits which the Single Farm Payment delivers is needed. The Scottish Government should take steps to ensure that these benefits are fully understood by land managers and by the public, and that they are properly enforced.
- There should be a whole farm plan for each unit in receipt of subsidy which shows how public goods are being delivered.
- The criteria for support for land defined as Less Favoured Area should be changed to give greater emphasis to the delivery of environmental and climate change public benefits rather than solely agricultural production.

On Less Favoured Areas the report noted that European Commission officials had told the inquiry that they see a case for moving this to Pillar 1 after 2013, on the grounds that it is essentially an agricultural support measure, similar to SFP but for disadvantaged areas. The report also highlighted a study on the Less Favoured Areas Support Scheme carried out by the Macaulay Land Use Research Institute (MLURI) which found that livestock farming throughout the LFA was heavily dependent on the scheme and that where farming is a full time occupation, any reduction in payments would have greater impacts than where farming is part time.

SUPPORT FOR HILL FARMING IN SCOTLAND

The Single Farm Payment is the main means of supporting all farmers in Scotland under the CAP. Beef cattle producers also receive payments from the Scottish Beef Calf Scheme. Farmers in Scotland's LFA are also supported under the Less Favoured Area Support Scheme (LFASS), which is discussed in detail below. Proposals for changes to both the Single Farm Payment and the LFASS are being considered by the Pack Inquiry whose interim report is described below (Scottish Government 2010b). The LFASS is one of the schemes under Scotland's Rural Development Programme (SRDP). The programme also includes other schemes which farmers can apply to, of which the most important are the Land Managers Options Scheme, and Rural Priorities.

THE SINGLE FARM PAYMENT

The CAP reform of 2003² was the most significant reform of the CAP in a generation. It introduced the Single Farm Payment, which was 'decoupled' from production, meaning the link between payments and the number of livestock kept was severed. Instead farmers are required to keep their land in Good Agricultural and Environmental Condition (GAEC) in order to receive the payment. The 2003 CAP reforms allowed Member States an unprecedented flexibility in deciding how to implement them. Scotland chose to implement the payment on a historic basis, which means payments are based on the average of the amount farmers received under the previous schemes from 2000-02. In England, the Single Farm Payment has been implemented differently, under a so-called dynamic model, where the basis for the payments is progressively shifting from a historic basis, to an area based payment. In Scotland, the so-called "national envelope" provisions were used to create a Scottish Beef Calf Scheme, which gives a payment per head for every beef calf reared in Scotland, with a higher payment for the first ten calves.

During recent changes to the CAP made as part of the so-called Health Check, the European Commission and others have expressed the view that continuing to pay Single Farm Payments on a historical basis is politically untenable in the longer-term, because farmers are being paid for things they did in the past. This has given rise to widely held expectations that there will be a shift towards area-based Single Farm Payments following the next major reforms of the CAP, which are due to conclude by the end of 2013.

The Single Farm Payment is worth more than twice LFASS payments and agri-environment schemes combined to farmers in the LFA, as the analysis by the Royal Society of Edinburgh (2008) indicated:

It is difficult to estimate precisely how much of the SFP is paid to LFA farms, because it is paid at 'farm business' level and some farm businesses are partially in the LFA and partially outside.

Nevertheless, figures supplied by the Scottish Government for 2005 show that 47.5 per cent is paid to wholly LFA farms, 29.4 per cent to farm businesses partially in LFA and 23.1 per cent to non-LFA farms. It seems reasonable therefore to assume that some £220-£250 million of the SFP is directed at the LFA as well as the £60 million of LFASS. Of the remainder, comprising some £49million in various agri-environment schemes, a substantial part also goes to the LFA, but it is not possible to divide it accurately. As

² The rules on the reforms were agreed in 2003, but were brought in by Member States between 2005 and 2007, in Scotland they were implemented in 2005

explained in Chapter 1, the LFA covers parts of Scotland which are not strictly hill or island areas, so that these areas will receive less than the LFA as a whole. Nevertheless, the amount going to these areas must be substantial.

LESS FAVOURED AREA SUPPORT SCHEME

UK hill farmers have received additional government support since the 1940s. This additional support for hill farmers in LFAs has formed part of the Common Agricultural Policy (CAP) since 1975. Farmers in LFAs were supported through the Hill Livestock Compensatory Allowance (HLCA) from 1975 until 2000. The HLCA was an annual headage payment paid per beef cow or breeding ewe kept in the LFA. The scheme was thought to have resulted in overstocking in some areas, resulting in overgrazing, and so from 2001 onwards, LFA support has had to be paid on an area basis.

The scheme was changed in 2003. Instead of having different payment rates for improved grassland and rough grazing in different types of area, LFA farms were assigned into different payment categories based on their stocking densities. Very fragile areas are island areas within the LFA. Fragile areas are mainland areas which are more disadvantaged by higher transport costs due to their remoteness. All other LFA land is classified as "Standard" LFA.

EU review of the LFA scheme

In 2003, the way the Less Favoured Area system is implemented across the EU was criticised in a report published by the European Court of Auditors (2003). The Court found that the fact that over half of the EU's agricultural area was classified as LFA, and the use of different criteria to designate LFAs in the Member States, posed a risk of overcompensating farmers. The Court called on the European Commission to review the scheme.

The European Commission began this process in 2005, when it presented its proposals for revising EU rural development policy from 2007-13. Some changes were made to the provisions on LFAs in the Rural Development Regulation, but Ministers decided to delay their implementation and keep the existing system in place until 1 January 2010. In the previous regulation, three types of LFA were recognised:

- Mountain areas (this also includes areas North of 62°N)
- Areas with specific handicaps
- So called 'simple' or intermediate LFAs (all LFAs in Scotland are designated in this category)

The Commission had hoped to get Member States to agree on a new system for classifying intermediate LFAs, but the EU Agriculture Council did not agree with the Commission's proposals. The Commission was asked to submit a report concerning the future payment system and the definition of Less Favoured Areas that would apply after 2010.

EU rural development regulations set out common rules for supporting farming in Less Favoured Areas. In accordance with these, the Less Favoured Area Support Scheme (LFASS) is one of several funding schemes in the [Scotland Rural Development Programme 2007-2013](#) (SRDP, Scottish Government 2007). The Scotland Rural Development Programme provided for an interim LFASS to cover 2007, 2008 and 2009, with the intention that it would be replaced following EU wide changes from 2010.

The EU wide review expected to be completed in 2010 has been delayed. The European Commission (2009) adopted a Communication with proposed new criteria for classifying intermediate LFAs on the 21 April 2009. The Commission has identified eight soil and climate criteria as a basis for objectively and clearly classifying LFAs. The eight criteria are: low temperature, heat stress, soil drainage, soil texture and stoniness, soil rooting depth, soil chemical properties, soil moisture balance and slope. However, before presenting a legislative proposal, the Commission stated that it “needs more data to assess their feasibility”, and is asking Member States to provide simulations using national data to show how the proposed criteria might work.

The communication asked Member States to send their simulations to the Commission by 21 October 2009. The next step is that the European Commission will produce a legislative proposal, which is expected in the first half of 2011. The intention is that the new system would be in place in 2014.

House of Lords EU Committee report

The Environment and Agriculture Sub-Committee of the House of Lords European Union Committee (2009) conducted an [inquiry](#) into the review of the LFA scheme, and reported in June 2009. The Committee supported the idea of moving to common criteria for classifying LFAs, and also the use of physical criteria related to soil and climate, rather than any socio-economic criteria. However, the Committee expressed reservation over whether the criteria chosen by the European Commission adequately reflected the challenges of farming in the cool maritime climate of the British Isles. The Committee’s report explained that:

The Macaulay Land Use Research Institute, UK Government and Scottish Executive argued that the criteria should include "field capacity days", a measure which reflects the wetness of the climate and the period of time that the field is at field capacity (the maximum amount of water that a particular soil can hold). This, in their view, would more effectively take into account the specificities of the UK and Irish maritime climate than the soil-water balance criterion proposed by the Commission.

The idea behind the field-capacity days measure is that it would reflect the ability to cultivate soil and land capability, because farmers cannot drive tractors on their land when the soil is waterlogged, because that could damage the soil permanently. The Committee’s report also highlighted a potential effect of removing socio-economic criteria:

A final twist in the debate was rehearsed by several of our Scottish witnesses. It was anticipated that application of the biophysical criteria could lead to the exclusion from the scheme of parts of Scotland, such as areas around Caithness and Orkney, which continue to face the permanent disadvantage of being situated far from their markets, and whose land, while of poor quality, is of less poor quality than most other land in Scotland. One solution, advocated by the NFUS, would be to apply socio-economic criteria. Another option, highlighted by the NFUS, Scottish Executive, Scottish Crofting Foundation and Scottish National Heritage, would be to explore the possibility of using Article 18 of the Rural Development Regulation to designate mountain areas and Article 20 to designate islands as areas with specific handicaps. Whilst this would appear to solve the potential problem for Orkney, it might not be sufficient to capture all areas currently designated as LFA.

LFASS 2010-13

Expectation that the changes to LFA support at EU level would be delayed led the Scottish Government (2008) to publish a [consultation paper](#) on options for the LFASS from 2010-13. The consultation sought views on options for a second interim scheme, and on how to respond to possible changes in European legislation. This consultation ran from September to December 2008. Consultation responses were published in February 2009 (Scottish Government 2009b).

The options in the consultation were broadly:

1. to continue the 2007-2009 interim scheme with no significant changes
2. to create a closer link with livestock-related activity, but in a way that did not create a direct link with current levels of production. The government argued that this scheme could help deliver environmental benefits from LFASS and address other concerns such as problems facing new entrants and others taking on land that did not attract LFASS in 2006 and the loss of the cattle-"top-up" link. The previous scheme rewarded the environmental and socio-economic benefit of maintaining cattle in LFAs, and encouraged beef production. However, this option would increase complexity and administrative costs.

The Cabinet Secretary for Rural Affairs and the Environment, Richard Lochhead MSP, made a [statement](#) to Parliament on government support for agriculture and food on the 10 June 2009 (Scottish Parliament 2009a). One of the elements of the statement was to announce additional support for farmers in the LFA. The Cabinet Secretary announced that payment rates for farmers in the fragile and very-fragile LFA categories would be increased by 19% in 2009 and 38% in 2010, a total of £15 million additional spending over two years. This increase has been made without reducing spending on other schemes under the SRDP because the weakening pound has increased the value of EU funds in the SRDP when converted from euros (Scottish Parliament 2009b). The Cabinet Secretary also announced that the stocking levels used to determine the payments under the scheme would also be rebased, to ensure a link between payment and activity. The Less Favoured Area Support Scheme (LFASS) payments for 2007-09 were calculated on certain frozen LFASS 2006 historic values, including grazing categories. For LFASS 2010, it is the intention to rebase using 2008 data, so that payments go to active farmers. The Government has set up an LFA technical working group which it has consulted on changes to the regulations. The precise detail of how the rebasing is to be done is still being worked on with the technical working group. The group's next meeting is on the 21 May 2010. Changes would come into effect for the LFASS 2010 payments which will be made towards the end of the year. New regulations will be needed to give effect to the changes.

THE PACK INQUIRY

Under the chairmanship of Brian Pack, the Scottish Government established an Inquiry into the Future of Support for Agriculture in Scotland which began work in June 2009. The Inquiry produced its [interim report](#) for consultation in January 2010 (Scottish Government 2010b). The report invited comments by the 5 March 2010.

The interim report suggests radical changes for the future delivery of agricultural support in Scotland. Thus far, the discussion has centred on the future for Single Farm Payments (SFP), but in its final report the Inquiry also hopes to address the future for Less Favoured Area support, and the future of the Scotland Rural Development Programme.

The inquiry considered 3 options:

1. Continuing with the status quo – Single Farm Payments made on the historic basis³, and retention of the Scottish Beef Calf Scheme [SFP to beef producers are top-sliced and the money is used to pay a headage payment on beef calves, up to a ceiling per farm].
2. Continue with SFP on the historic basis plus greater use of flexibilities provided by the CAP health check to address the negative impacts of decoupling [i.e. equivalents to the Beef Calf Scheme in other areas]
3. Move towards Single Farm Payments on an area basis, rather than a historic basis.

The advantage of option 1 is stability, but it does not address inactivity; does nothing to halt declining livestock numbers; and does not give payments to new entrants.

Four options were presented for greater use of measures under option 2, not all of which could be funded by the amount available, so there would have to be a choice between them:

- Suckler cows in the LFA receive a payment of £150 per head up to a maximum of 40 cows
- Extend the Scottish Beef Calf Scheme to include dairy beef, intended to encourage more beef production
- Offer a £30 per beef cow payment for eradication of Bovine Viral Diarrhoea
- A headage payment of £15 per lamb tagged in NW Scotland

On option 3, the inquiry has taken as read that there will be no move towards area payments in Scotland before 2014. One proposal had been to move gradually towards area payments so that the SFP was 50% historic basis and 50% area basis by 2014, a so-called hybrid. England chose to introduce the Single Farm Payment this way from 2005 onwards, and the ensuing IT problems are one of the reasons for the serious delays in making payments which followed the introduction of the system.

The inquiry considers it would be best to move to area payments in Scotland in one step, whilst recognising that this would cause serious winners and losers issues. The interim report proposes that area payments should be linked to the Macaulay Land Use Research Institute's Land Capability Classification, with higher payment rates per hectare for more productive land. Two thirds of the SFP fund would be used for area payments. The remaining third would be used for top-up payments to farmers for measures such as animal health; optimising energy and fertiliser use; reducing greenhouse gas emissions; and for sectoral support as per option 2.

The inquiry proposes that for livestock farmers, a minimum stocking density should apply to receive the payment. Below this minimum no payment would be received. The rationale for this is that support should go to active farmers, to maintain the "engine room" of Scottish agriculture; in particular to maintain beef production; and because of food security considerations. It was acknowledged that farming's role in supporting biodiversity is not prominent in the report. The assumption is that maintaining production will ensure that farming continues to deliver the non-market benefits anyway. The level of stocking density proposed could pose a problem to crofters and farmers in some areas, who were not inactive, but who could not keep greater stock numbers because of the poor quality of their land.

On LFAs the interim report says:

³ This means payments are based on the amounts farmers received under previous schemes in a reference period 2000-02

With eighty-five per cent of Scotland's utilisable area being designated as "other less favoured area" [under EU regulations], the future shape of support for these physically disadvantaged areas is crucial to Scotland's wellbeing.

At present, LFASS is distributed under Axis 2 of Pillar 2 [i.e. under the Rural Development Programme], but in these proposals (in which 'Pillars' have no role) LFA payments are presented as distinct because although much agricultural activity in the LFA can contribute to environmental objectives, LFA payments are not simply agri-environment payments. As stated earlier in the report (p. 19), where agri-environment payments cover the income foregone and costs incurred linked to specific environmental commitments going beyond the mandatory baseline, LFA payments compensate for the natural disadvantage by covering the additional costs and income foregone related to the natural handicap. As such, and for the sake of clarity, it is suggested that LFA payments be viewed as distinct.

Beyond this broad point, it is considered inappropriate to comment further at this time as various discussions are currently ongoing to revise the payment base for the 2011 scheme year to better reflect activity. It is intended to make recommendations on future support for the Less Favoured Area in the final report building on the current work being carried out between officials and stakeholders.

The final report of the Pack Inquiry is expected to be published in June 2010.

LAND MANAGERS OPTIONS AND RURAL PRIORITIES

Land Managers Options and Rural Priorities are included in [Scotland's Rural Development Programme](#).

Land Managers Options are a set of 22 measures from which land managers can apply for funding for a range of options up to a maximum per business based on the area of land managed. The scheme is non-competitive and is open to all land managers in Scotland.

Rural Priorities offer 75 different funding options for farmers and land managers, including nearly 50 agri-environment options. The scheme is administered regionally, and each region has determined the priorities for funding in its area. The scheme is competitive, and awards are made in funding rounds by scoring applications against a number of pre-determined criteria.

The operation of these schemes was the subject of an independent [review](#) by Peter Cook, which reported in June 2009 (Scottish Government 2009c). The Scottish Government announced its response to the review in a statement to Parliament on the 10 June 2009 (Scottish Parliament 2009a).

STAKEHOLDERS' VIEWS ON HILL FARMING AND THE UPLANDS

The National Farmers Union of Scotland (NFUS 2008) produced a "[manifesto for the hills](#)" which set out its views on how the decline in hill farming should be addressed. The NFUS' proposal contains three interlinked elements:

1. While the Scottish Beef Calf Scheme on its own is not enough to retain cattle in the hills, it makes a contribution, and should be retained

2. LFASS payments should be re-based so that support only goes to active farmers. Environmental options should also be available e.g. for keeping cattle; or for moving animals off sensitive areas in winter. Fragility markers (standard; fragile; very fragile) should be retained, but anomalies should be corrected, e.g. including dairy farmers who are currently excluded from the scheme.
3. Land Managers Options should be improved. The allowance per farm for the options should be increased. NFUS suggested 10 additional options including: reseeding grants; bracken control; support for shepherding; support for hill grazing to manage vegetation; and grants for maintaining and improving fences and dykes.

Responding to the European Commission's consultation on LFAs, the Scottish Rural Property and Business Association (SRPBA, 2008) [described](#) what it saw as the approach to addressing the decline in hill farming:

- a) redefinition of LFAs to reflect areas that face a true physical and climatic handicap. The redefinition should address the European Court of Auditors' concerns over the classification of LFAs.
- b) identify the real monetary value of public goods. Basing payments on income forgone is not sufficient to keep people farming in LFA areas, or to maintain environmental benefits or public goods. Understanding the true monetary value of public goods, e.g. stone walls, clean drinking water, biodiversity must be costed if we are to achieve the true price of the provision of goods.
- c) recognition of the complex and interdependent linkages between environmental management, provision of public goods and socio-economic issues. SRPBA believes that the provision of socio-economic, environmental management and public goods outcomes should all be considered within the redefined LFA. These factors are interdependent. If we cannot sustain a viable farming community to manage the land, we will not be able to achieve environmental management or public good benefits.

RSPB Scotland (2009) states that it "believes that the way funds are currently distributed through the existing agricultural schemes does not adequately reward land managers who provide public goods" and presents map-based analysis which shows a disconnect between the areas which receive the highest Single Farm Payments and LFASS payments and the areas where livestock losses are of greatest concern from a biodiversity point of view. It says that it would like to see:

a dedicated system of support for High Nature Value (HNV) Farming systems built into future reforms of the CAP. In the shorter term, Scotland could move towards a better system of support for livestock farming and the environmental and other public benefits it provides through:

- Changes to Less Favoured Area Support Scheme (LFASS) so it targets support at the areas that need it most, and the farming and crofting systems which deliver the most for wildlife and the wider environment
- An area-based Single Farm Payment (SFP) that redistributes support to the hills and islands
- Suitable Rural Development Contracts (RDC) Rural Priorities and Land Managers' Options measures, which are fully funded, suitably targeted and possible to access no matter the size of the area managed.

SOURCES

Committee of Inquiry on Crofting. (2008) Final Report. RR Donnelley: Edinburgh. Available at: <http://www.croftinginquiry.org/Documents/final-report.html>

European Commission. (2009) *Towards a better targeting of the aid to farmers in areas with natural handicaps*. [Online]. Available at: http://ec.europa.eu/agriculture/rurdev/lfa/comm/index_en.htm

European Court of Auditors. (2003) *Information note by the European Court of Auditors on Special Report No 4/2003 concerning rural development: support for less-favoured areas*. [Online]. Available at: <http://eca.europa.eu/portal/pls/portal/docs/1/1095550.PDF>

House of Lords European Union Committee – Environment and Agriculture Sub Committee. (2009) *13th Report Session 2008-09 - The Review of the Less Favoured Areas Scheme*. HL-98. London: Stationery Office. Available at: <http://www.publications.parliament.uk/pa/ld200809/ldselect/ldeucom/98/9802.htm>

National Farmers Union of Scotland. (2008) *Manifesto for the Hills*. [Online]. Available at: http://www.nfus.org.uk/uploadedfiles/Manifesto_for_the_hills.pdf

Royal Society of Edinburgh. (2008) *Committee of Inquiry into the Future of Scotland's Hills and Islands – Report*. Edinburgh: RSE. Available at: http://www.rse.org.uk/enquiries/hill_and_island_areas/full_report.pdf

RSPB. *The Uplands – Time to Change*. Available at: http://www.rspb.org.uk/Images/uplands_tcm9-166286.pdf

RSPB Scotland. (2009) *Threats to bird species from livestock changes*. [Unpublished].

Scottish Agricultural College. (2008) *Farming's retreat from the hills*. [Online]. Available at: <http://www.sac.ac.uk/mainrep/pdfs/retreatreport.pdf>

Scottish Rural Property and Business Association. (2008) *EC Review of Less Favoured Area Schemes*. [Online]. Available at: <http://srpba.com/uploads/3392/EU%20LFA%20Consultation.pdf>

Scotland's Environmental and Rural Services. Available at: <http://www.sears.scotland.gov.uk/>

Scottish Government. (2001). *Economic Report on Scottish Agriculture*. [Online]. Available at: <http://www.scotland.gov.uk/Publications/2001/07/9677/File-1>

Scottish Government. (2005). *Economic Report on Scottish Agriculture*. [Online]. Available at: <http://www.scotland.gov.uk/Publications/2005/06/2290402/04046>

Scottish Government. (2008) *Consultation on Less Favoured Area Support Scheme in Scotland (2010-2013)*. Edinburgh: Scottish Government. Available at: <http://www.scotland.gov.uk/Publications/2008/09/17083528/0>

Scottish Government. (2009a). *Economic Report on Scottish Agriculture*. [Online]. Available at: <http://www.scotland.gov.uk/Publications/2009/06/16142957/0>

Scottish Government. (2009b) *Analysis of Responses to the Public Consultation on the Less Favoured Area Support Scheme in Scotland (2010-2013)*. [Online]. Available at: <http://www.scotland.gov.uk/Publications/2009/05/26091655/0>

Scottish Government. (2009c) *SRDP First Stage Review Report*. [Online]. Available at: <http://www.scotland.gov.uk/Topics/farmingrural/SRDP/SRDPReviews/FirstStageReview/ReviewReport>

Scottish Government. (2010a) *Abstract of Scottish Agricultural Statistics 1982 to 2009*. [Online]. Available at: <http://www.scotland.gov.uk/Publications/2010/03/16160036/0>

Scottish Government. (2010b) *Inquiry into the Future of Support for Agriculture in Scotland*. [Online]. Available at: <http://www.scotland.gov.uk/Publications/2010/01/20141055/0>

Scottish Government. *Land Use Strategy for Scotland*. Available at: <http://www.scotland.gov.uk/Topics/farmingrural/Rural/rural-land/land-use-strategy>

Scottish Government. *Scotland Rural Development Programme*. Available at: <http://www.scotland.gov.uk/Topics/farmingrural/SRDP>

Scottish Parliament. (2009a) *Official Report 10 June 2009*. Col 18148. Edinburgh: Scottish Parliament. Available at: <http://www.scottish.parliament.uk/business/officialReports/meetingsParliament/or-09/sor0610-02.htm#Col18148>

Scottish Parliament. (2009b) *Written Answers Monday 17 August 2009 to Friday 21 August 2009*. S3W-25432. Edinburgh: Scottish Parliament. Available at: <http://www.scottish.parliament.uk/Apps2/Business/PQA/default.aspx?pq=S3W-25342>

This page is intentionally blank

This page is intentionally blank



SPICe

The Information Centre

Scottish Parliament Information Centre (SPICe) Briefings are compiled for the benefit of the Members of the Parliament and their personal staff. Authors are available to discuss the contents of these papers with MSPs and their staff who should contact Tom Edwards on extension 85198 or email tom.edwards@scottish.parliament.uk. Members of the public or external organisations may comment on this briefing by emailing us at spice@scottish.parliament.uk. However, researchers are unable to enter into personal discussion in relation to SPICe Briefing Papers. If you have any general questions about the work of the Parliament you can email the Parliament's Public Information Service at sp.info@scottish.parliament.uk.

Every effort is made to ensure that the information contained in SPICe briefings is correct at the time of publication. Readers should be aware however that briefings are not necessarily updated or otherwise amended to reflect subsequent changes.

www.scottish.parliament.uk