CAP REFORM – DIRECT PAYMENTS ANALYSIS

This paper shows how the new CAP package will affect farmers in the main agricultural sectors and geographic regions of Scotland.

While implementation decisions taken in Scotland have decided the final shape of the package, the two changes most likely to affect an individual farmer's pillar 1 payments are the move from historic to area based payments (e.g. for the new Basic and Greening Payments) and the reduction in the pillar 1 payment pot.

The information presented below is illustrative. A number of factors affecting the payments will not be known until the Scottish Government collects claim details from applicants (e.g. on the number of beef calves or number of hectares declared). A number of assumptions have therefore been made to complete this analysis.

Furthermore, the figures shown are for 2019. In 2015, payment rates will be different as transition arrangements mean historic Single Farm Payment values will be taken into account and payments will be based on the lower 2015 budget.

The budget settlement

Scotland's future budget will see a significant reduction. In 2011, following all transfers to pillar 2, Scotland's farmers received around €583 million in Single Farm and Scottish Beef Calf Scheme Payments. In 2019, following a transfer of 9.5 per cent to pillar 2, approximately €531 million will be available for Direct Payments, a reduction of around €52 million (nine per cent) compared to 2011.

Policy decisions

In 2015, Scotland will move to area based Basic and Greening Payments. Land on a farm will be paid according to land quality with three payment regions:

- **Region 1** - Arable, Temporary Grass or Permanent Grass – Initial estimates suggest rates will be around €200-220/ ha including greening
- **Region 2** - Rough Grazing in the Non-LFA and with LFA grazing categories B,C and D - Estimated rates will be around €35/ha including greening
- **Region 3** - Rough Grazing with LFA grazing category A land and unclassified LFA land - Estimated rates will be around €10/ha including greening

This modelling assumes that subject to agreement with the Rest of the UK, Coupled Support will be paid to:

- Sheep on farms with the majority of their land in Region 3 and who have less than 200 hectares of better quality (Region 1) land. Initial estimates give a rate at around €25 per Breeding Ewe.
- Beef Calves on all farms with a top up available for Islands. Mainland payments will be front loaded and initial estimates give a rate at around €170 on the first 10 calves on mainland farms and €85 on all subsequent calves.

Including the top up, the first 10 calves on island farms will receive €235 with a rate of €150 on all subsequent calves.

Top up payments of approximately €15 per hectare will be made as part of a Young Farmer Scheme.

Payments will only be made to farms with eligible land and farmers with large claims will have Basic Payments above €150k reduced by 5% with an cap on total Basic Payments set at €500,000.

The results that follow show estimated rates for the end of the reform period (2019) and include all farms with 3 or more hectares who submitted a Single Application Form in 2011.

Some of the decisions taken overturn assumptions made when presenting information for the consultation, as such the figures shown below for the consultation are slightly different to those published in December 2013.

Change in Payments by Sector

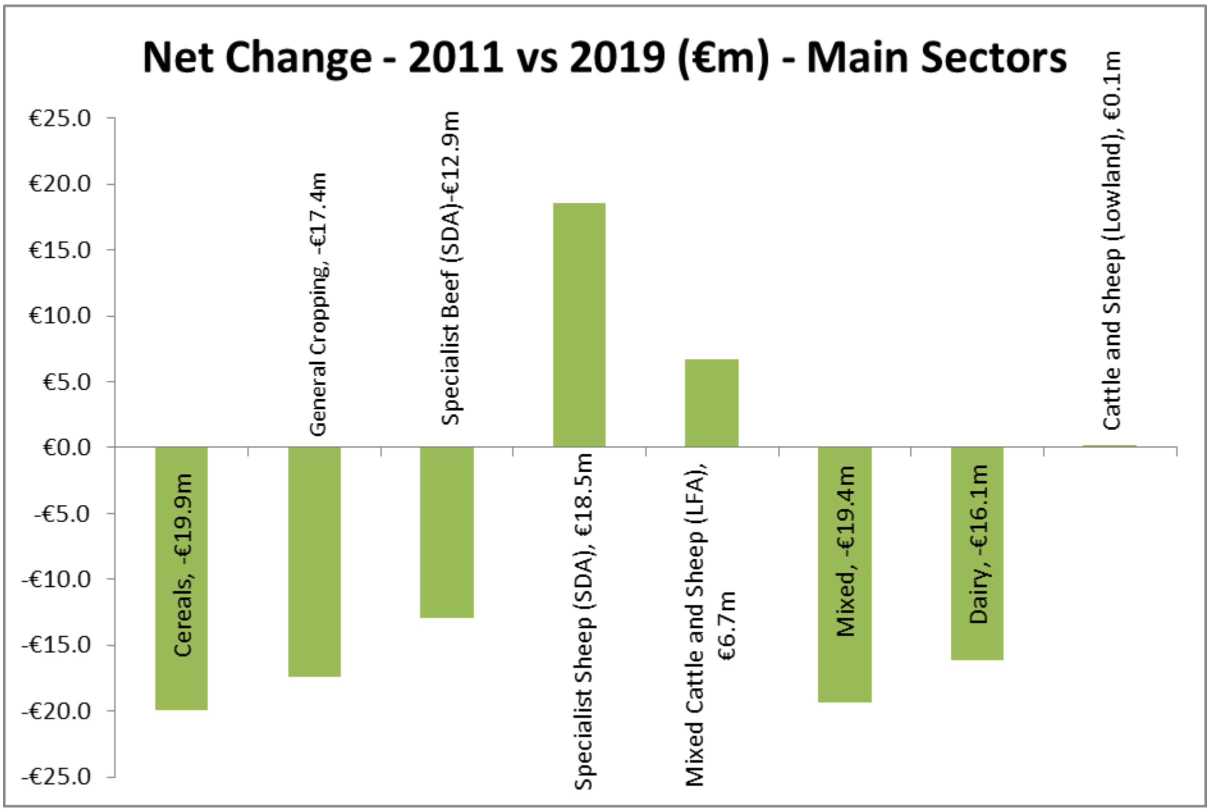
The table below shows the total budget allocation for each of the main agricultural sectors in Scotland in 2011, in the consultation scenario and with the final policy.

Sector	Number of Businesses	2011 Total Spend	2019 Consultation Total Funding	2019 Final Policy Funding
Cereals	2280	€83.8 m	€63.8 m	€63.8 m
General Cropping	1565	€83.1 m	€65.9 m	€65.7 m
Specialist beef (SDA)	4390	€133.6 m	€117.6 m	€120.7 m
Specialist sheep (SDA)	4145	€33.6 m	€52.3 m	€52.2 m
Mixed Cattle and sheep (LFA)	2005	€74.0 m	€79.5 m	€80.7 m
Dairy	1083	€53.2 m	€36.9 m	€37.1 m
Cattle & Sheep (Lowland)	285	€3.4 m	€3.7 m	€3.5 m
Mixed	1736	€88.7 m	€68.6 m	€69.3 m
Horticulture	163	€1.4 m	€1.6 m	€1.5 m
Specialist Pigs	47	€0.6 m	€0.4 m	€0.4 m
Specialist Poultry	268	€1.3 m	€1.5 m	€1.5 m
Other	3309	€21.0 m	€19.6 m	€15.9 m
Unknown	64	€0.0 m	€3.7 m	€3.4 m
Total*	**21340**	**€577.8 m**	**€514.9 m**	**€515.7 m**

*Future funding varies and is lower than the 2019 budget because of deductions for Young Farmer Payments and Degressivity

Compared to the consultation scenario, the decisions taken have meant an increase in funding for the "Beef", "Mixed", "Dairy", and "Mixed Cattle and Sheep" sectors. While "Specialist Sheep" businesses receive marginally less funding than in the consultation, the targeting of payments to better land means more active sheep farmers will see increased payments.

The diagram overleaf shows the **net** difference in direct payment funding for each of the main agricultural sectors. For brevity, results for smaller sectors are not shown.



Overall, this analysis of the **net** changes within each sector, shows that the 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:	Number of Businesses	2011 (€m)	2019 (€m)	Comparison of 2011 vs. 2019		
				Gains (€m)	Losses (€m)	Net Change (€m)
Cereals	2280	€83.8	€63.8	€3.9	-€23.9	-€19.9
General Cropping	1565	€83.1	€65.7	€3.8	-€21.2	-€17.4
Specialist beef (SDA)	4390	€133.6	€120.7	€17.3	-€30.3	-€12.9
Specialist sheep (SDA)	4145	€33.6	€52.2	€22.5	-€4.0	€18.5
Cattle and sheep (LFA)	2005	€74.0	€80.7	€16.8	-€10.1	€6.7
Mixed	1736	€88.7	€69.3	€5.5	-€24.9	-€19.4
Dairy	1083	€53.2	€37.1	€2.6	-€18.7	-€16.1
Cattle & Sheep (Lowland)	285	€3.4	€3.5	€1.1	-€1.0	€0.1

Change in Payments by Geographical Region

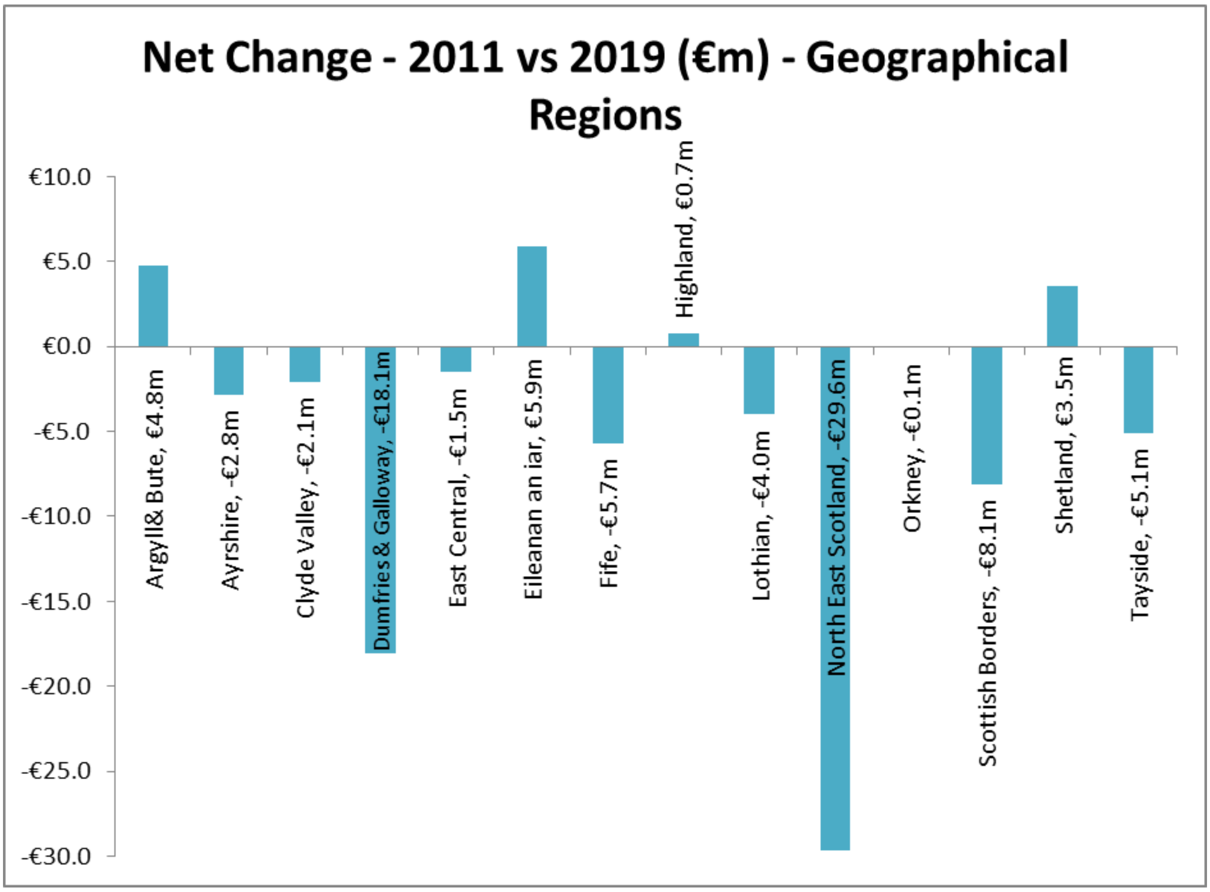
The table overleaf shows the total budget allocation for each of the main geographical regions in Scotland in 2011, in the consultation scenario and with the final policy. Although some of the total sums may seem similar between the two scenarios modelled, the distribution of payments within a region will be different.

Region	Number of Businesses	2011 Total Spend	2019 Consultation Total Funding	2019 Final Policy Funding
Argyll & Bute	1070	€20.9 m	€24.7 m	€25.7 m
Ayrshire	1175	€34.1 m	€30.5 m	€31.3 m
Clyde Valley	1060	€30.7 m	€27.9 m	€28.6 m
Dumfries & Galloway	2013	€84.3 m	€63.8 m	€66.2 m
East Central	603	€18.7 m	€16.9 m	€17.2 m
Eileanan an Iar	1983	€3.6 m	€10.1 m	€9.5 m
Fife	526	€24.0 m	€18.2 m	€18.3 m
Highland	4248	€70.7 m	€80.1 m	€71.4 m
Lothian	521	€23.4 m	€19.1 m	€19.4 m
North East Scotland	3559	€123.6 m	€93.8 m	€94.0 m
Orkney	731	€16.7 m	€14.9 m	€16.6 m
Scottish Borders	1171	€59.5 m	€49.5 m	€51.4 m
Shetland	1006	€5.5 m	€8.1 m	€9.1 m
Tayside	1674	€62.0 m	€57.2 m	€56.9 m
Total*	**21340**	**€577.8 m**	**€514.9 m**	**€515.7 m**

*Future funding varies and is lower than the 2019 budget because of deductions for Young Farmer Payments and Degressivity

Compared to the consultation scenario, the decisions taken have meant an increase in funding for most regions including Dumfries and Galloway, Scottish Borders and Orkney. The regions that lose funding compared to the consultation scenario (Highland, Tayside, Western Isles) will generally do so as a result of reduced payments for farms with large amounts of poor quality rough grazing. More active farmers in these regions should see an increase with more targeted spending.

The diagram below shows the **net** difference in Direct Payment funding for each of the main geographical regions.

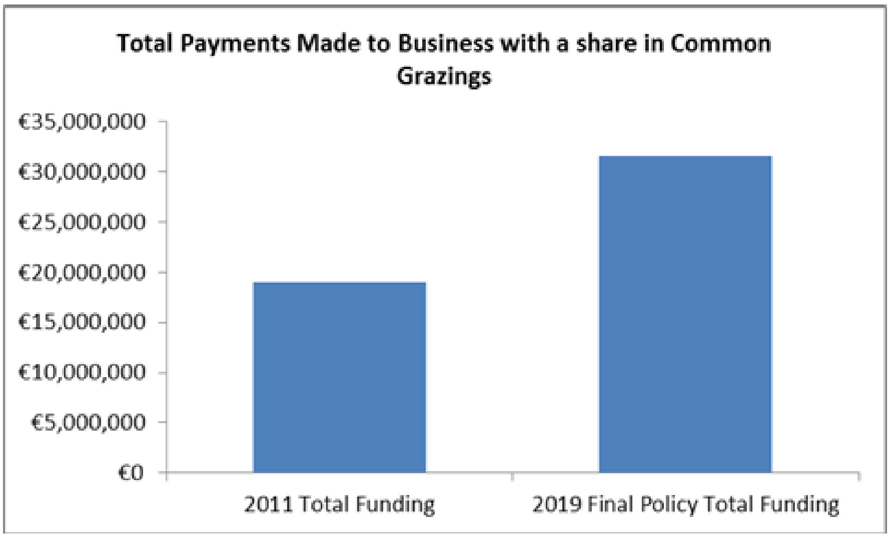


Again, the net results mask the scale of the redistribution that is occurring for businesses within each geographic region which is summarised in the following table. For example, within the two regions that overall lose the most (NE Scotland and Dumfries & Galloway) there are some businesses which will gain and others which lose funding.

Geographic Region:	Number of Businesses	2011 (€m)	2019 (€m)	Comparison of 2011 vs. 2019		
				Gains (€m)	Losses (€m)	Net Change (€m)
Argyll & Bute	1070	€20.9	€25.7	€8.2	-€3.5	€4.8
Ayrshire	1175	€34.1	€31.3	€4.6	-€7.4	-€2.8
Clyde Valley	1060	€30.7	€28.6	€4.3	-€6.4	-€2.1
Dumfries & Galloway	2013	€84.3	€66.2	€7.9	-€25.9	-€18.1
East Central	603	€18.7	€17.2	€2.8	-€4.3	-€1.5
Eileanan an Iar	1983	€3.6	€9.5	€6.0	-€0.1	€5.9
Fife	526	€24.0	€18.3	€0.7	-€6.4	-€5.7
Highland	4248	€70.7	€71.4	€23.4	-€22.7	€0.7
Lothian	521	€23.4	€19.4	€1.4	-€5.4	-€4.0
North East Scotland	3559	€123.6	€94.0	€7.5	-€37.2	-€29.6
Orkney	731	€16.7	€16.6	€2.1	-€2.2	-€0.1
Scottish Borders	1171	€59.5	€51.4	€4.7	-€12.9	-€8.1
Shetland	1006	€5.5	€9.1	€3.8	-€0.3	€3.5
Tayside	1674	€62.0	€56.9	€8.1	-€13.2	-€5.1

Crofters

Crofting businesses are included in the tables above in either Specialist Sheep, Specialist Beef or Mixed Cattle and Sheep sectors and in geographical regions such as Highland and Shetland. To provide more detail on payments to crofters, the following chart isolates payments made to approximately 4,300 businesses with a share in a Common Grazing. While some individual crofting businesses will have lower payments, the new system will generally see crofters receiving a large increase in pillar 1 payments. In 2011, crofters received around €19m, under the new policy crofters are estimated to receive around €32m.



Additional Land

Research by the James Hutton Institute showed that, in 2011, Scotland had 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 is declared by an eligible, active farmer.

If additional land were to come into the system by 2019, this would reduce the per hectare rates for businesses currently claiming Single Farm Payments. However, the majority of the additional land shares the characteristics of Region 3 land and would be more likely to receive a low payment rate and have less budgetary impact.

Rebuttals;

3 Payment Regions;

- Was the single most difficult decision to make.
- Listened carefully to arguments for and against both 2 and 3 Region payment models.
- In taking decision had to consider the diversity of land quality within Scotland's Rough Grazing and ensure payments are targeted to active farmers.

- Had to make sure we reward active farmers on the better quality RGR and avoid overcompensating those less active or soft shoe farmers on the poorer quality RGR.
- By including a VCS Scheme for sheep in the poorer quality RGR, we can reward the active farmers in that region.

Full convergence to flat rate by 2019

- Listened carefully to arguments for immediate transition to full area based payments.
- Package of measures for New Entrants and other previously disadvantaged farmers will see them get Regional Average payment in 2015.
- Therefore full convergence by 2019 is the fairest way as it gives existing farmers time to adjust and gives new entrants Regional Average from day one.
- The Scottish tunnel would only have benefited those with large historic entitlements. These farmers have known since 2005 that the CAP would change and have had time to adjust accordingly.
- The tunnel received only 13% support from consultation respondents, whereas internal convergence by 2019 received 20% support.

Limit entitlements to 2013 or 2015 area whichever is less

- This should dissuade landowners from terminating short leases in an effort to declare more land in 2015.
- This should also dissuade businesses from trying to second guess the system, by purchasing entitlements in the run up to 2015, to try and manipulate the CAP to maximise their support.
- In addition this will help prevent new land, previously unclaimed, coming in and being eligible for support which would dilute payments.
- This is a fair outcome and combined with the minimum activity / Scottish clause will help to reduce slipper farming, which in turn means a fairer share of the CAP for all active farmers.