

**PART 4**

**POTENTIAL AND TRENDS 2006-13**

**32. EXISTING POLICY COMMITMENTS AND POTENTIAL FUTURE POLICY DEVELOPMENTS FOR SCOTLAND WITH RESPECT TO AGRICULTURE AND THE ENVIRONMENT**

**TIMETABLE OF COMMITMENTS**

A number of EU and international legislations and regulations, most directly the CAP and the Rural Development Regulation, but also, for example, the Water Framework Directive, Kyoto Protocol and the Gothenburg agreement on biodiversity, set the framework for commitments and obligations for land management in Scotland. Below that, British policy initiatives such as the Sustainable Development Strategy define policy commitments at UK level to be fulfilled by Scotland. The Scottish Executive has responded by developing, in collaboration with a wide range of stakeholders, several strategies for different land use sectors, e.g. agriculture and forestry, and land use related-topics such as biodiversity and organic farming, which translate the international and UK-wide commitments into national policy drivers. All these different policy legislations and national strategy documents define a number of specific commitments to be fulfilled by the Scottish Executive at a certain point of time. Table 28.1 provides a summary of some of the most relevant commitments for agriculture and the environment and when they need to be achieved.

Some of the commitments listed have been fulfilled on time such as the implementation of the CAP reform measures (decoupling and cross compliance). For other commitments like the Water Framework Directive, the first steps have been achieved (the implementation of the Water Environment and Water Services (WEWS) (Scotland) Act 2003), and detailed timetables have been put in place to achieve the final commitment. **On the other hand, commitments related to organic farming and forestry appear unlikely to be achieved on time.**

**ORGANIC FARMING**

Arable land and improved grassland under organic conversion or production decreased from 47,875 ha in 2003 (the year the Organic Action Plan (SEERAD, 2003) was implemented) to 43,395 ha in the following year. In relation to the commitment and target of the Scottish Executive to increase the share of arable land and improved grassland Scotland's total organic area to 30 percent, this share has only slightly increased from 14 percent in 2003 to 16 percent 2004 (SEERAD, 2005a).



**Given these latest figures, a significant change in the amount of arable land and improved grassland converted to organic production is required (a yearly increase of 4.66 percent in the share) to fulfill the commitment that these areas comprise 30% of Scotland's organic area by 2007.** However, with the decoupling of direct payments from production and the introduction of the Single Farm Payment (SFP) in 2005, farmers began to express more interest in converting to organic production. The next couple of years will show to what extent the introduction of the SFP has had a positive impact on the development of organic farming.

## **FORESTRY**

Forestry cover of 25% of the land in 2050<sup>1</sup> would require a huge expansion of woodlands in Scotland given that in 2005 Scotland's tree cover extended to about 17% of the land area (about 1.3 million hectares) (Forestry Commission, 2005). Over the next 45 years, tree cover in Scotland would need to expand by 0.65 million hectares to reach a land cover of 1.95 million hectares in 2050. **That would require yearly new planting of more than 14,000 hectares, assuming that the uptake rate does not decline over time, which seems unlikely, given that in later years increasing competition with other land uses would limit the uptake.** For example, better agricultural land is less likely to be used for afforestation. In this context and taking into account the significant lower uptake figures for forestry schemes and new planting over the last few years, the target seems rather ambitious. Moreover, it is not guaranteed that such an extensive tree cover would bring maximum environmental benefit in terms of biodiversity. Other habitats such as peatland habitats are characterized as being species rich and important for biodiversity as well as being an important pool and sink for carbon (Chapman et al., 2003). Substituting such habitats by woodlands does not necessarily increase the biodiversity and environmental benefits.

## **ENVIRONMENTAL COMMITMENTS**

With respect to environmental commitments, the Forward Strategy for Scottish Agriculture (FSSA) (SEERAD, 2000), outlines the commitment to develop policy in partnership with the farming sector and to integrate environmentally-friendly incentives as a part in a complementary and complex whole. There are a number of agri-environmental initiatives and schemes designed to deliver this commitment. However, lack of farmer and local involvement in development and implementation of schemes has been a recurrent problem. One consequence of this is a lack of transparency in aspects of scheme delivery. For example lack of transparency is a major criticism of the scoring system used in agri-environment schemes. Some farmers and crofters may not be certain how many points are required to secure entry into the scheme, or how the point scoring system can contribute to the measures that may be most suitable on their land. And, IACS businesses already involved in other agri-environment, conservation or woodland schemes are given additional points making it more difficult for new entrants. While some revisions to the Rural Stewardship Scheme have been conducted such as including specific crofting prescriptions, generally, agri-environment schemes such as the Rural Stewardship Scheme (RSS) favour large ecologically diverse holdings by a scoring system with high weighting of the diversity of habitats and make it difficult for land with

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<sup>1</sup> The Scottish Forestry Strategy (Forestry Commission, 2000) is under review in 2005 and, at the time of writing this report, it is not sure, if the commitment of increasing the forestry cover to 25% of Scotland's land area by 2050 remains in the revised strategy.

a limited range of habitats to enter even if these are of exceptional quality, although now additional points are given to smaller holdings with less than 20ha.

Local targeting of specific problems and issues has been identified as one of the key elements of successful agri-environment policies (Wright et al., 2005). If schemes are devised locally, or if there is more local flexibility, and a degree of local priority-setting for schemes, this can provide an opportunity for farmers and other stakeholders to become more involved in the process of agri-environment scheme development, giving them a sense of ownership of this process, which could result in more targeted schemes and more participation, consequently improving potential environmental benefits (Burton et al., 2005; Schwarz and Burton, 2005). In addition, given the strong linkages between biodiversity commitments, resulting from the Gothenburg summit and the Scottish Biodiversity Strategy (SEERAD, 2004), and the potential policy tools (agri-environment support) to deliver biodiversity benefits through land management, **biodiversity targets and measures need to be specifically considered in agri-environment schemes, clearly defined at local level.** Moreover, while the Scottish Biodiversity Strategy aims to fulfill its commitments by 2030, the Gothenburg Summit sets a significant earlier date of 2010 to halt biodiversity decline. The first set of Implementation Plan actions will be assessed at the first reporting round in 2007.

### **INTEGRATED APPROACH TO LAND USE POLICY**

It is clear from Table 32.1 that the commitment to the different government commitments, obligations and strategies are strongly inter-related. For example, in addition to the above described relation between biodiversity objectives and commitments in the FSSA, the Partnership Agreement between the Labour and Liberal Democrat Parties in the Executive sets the target to implement Land Management Contracts (LMCs) by 2007, while at the same time the Organic Action Plan requires to take into account support for organic farming in the development of LMCs. These commitments to LMCs imply the availability of sufficient funding for LMCs, in particular Tier 3, to provide meaningful support and environmental benefits. Moreover, objectives of the Water Framework Directive (WFD) to improve water quality and the Kyoto Protocol to reduce GHG emission can only be fulfilled in Scotland if CAP implementation, the Scottish Rural Development Plan and Strategy and the FSSA explicitly take into account the objectives of the WFD and Kyoto Protocol and design policy tools and incentives accordingly. Another example is the strong relation between forestry expansion and social and cultural aspects of farming and related obligations in the uptake of forestry measures by farmers, in particular in the lowlands, which points to the need for stronger consideration between the strategies for forestry and agriculture. **Overall, environmental benefits would potentially be improved by an integrated approach to define an integrated land use strategy, including aspects related to the water environment, instead of following a sectoral approach.**

Future policy changes such as the new Rural Development Regulation (RDR), to be implemented in 2007 for the programme period 2007-13, have an important impact on the above commitments and objectives and the translation of such EU-wide policy changes into a national policy framework, in this case a new Scottish Rural Development Plan (SRDP), will provide scope to revise and adjust existing support for environmentally friendly land use and management. Alongside the new SRDP, Scotland will be developing a Scottish Rural Development Strategy for the first time, to form one

component of the UK rural development strategy. The development of such a strategy provides the perfect opportunity to integrate high policy commitments and objectives across the wide sphere of rural development and encourage an integrated approach.

In June 2005, the Agriculture Council of the EU agreed on the new Regulation on rural development support through the European Agricultural Fund for Rural Development. The new regulation aims to make farming and forestry more competitive (axis 1), to manage land in an environmentally friendly and sustainable manner (axis 2), to improve the quality of life and diversification of the rural economy (axis 3), and to encourage bottom-up local development strategies of local action groups based on the LEADER concept (axis 4). The agreement defines rules for rural development expenditure from 2007 to 2013 setting minimum allocation of funds for each of the four axes. Compared to the initial proposal, the minimum rates for axis 1 and axis 3 have been cut from 15 to 10% each. The minimum rate for axis 2 remains unchanged at 25%, while the minimum rate for axis 4 (LEADER type schemes) has been reduced from 7 to 5% (EU-Commission, 2005; Agra Europe, 2005). However, it is important to note that only minimum rates have been defined and member states have the scope to increase spending for specific axis, for example axis 2. But due to the minimum allocation for axis 1 and 3, spending for axis 2 is constraint to 80% of the rural development budget. Historically, Scotland has spent over 90% of its limited rural development funding on axis 2-type measures (such as LFA support and agri-environment) so the ceiling that will be imposed on Axis 2 from 2007 could potentially reduce agri-environment spend. In the absence of an EU budget agreement, however, the regulation can not be precise as to how much money will be available for rural development in 2007 - 2013 and it does not tackle the issue of the allocation of rural funding per member state (Agra Europe, 2005). Budgetary agreements at EU level are not expected to be reached until late 2005 or even into 2006.

Axis 2 of the new RDR, to manage land in an environmentally friendly and sustainable manner, includes measures in relation to agri-environment, Natura 2000 management, forestry and LFA support. Strategic guidelines for the application of the new RDR and the new axes at member state level have been produced by the EU-Commission. The guidelines do not have the status of a directive, but nevertheless have to be taken into account by the member states. As outlined in these guidelines, measures in axis 2 should be used to achieve environmental objectives, such as biodiversity and preservation of high nature value farming and forestry systems, water and climate change. Moreover the guidelines require direct contribution of measures in axis 2 to the implementation of the agriculture and forestry Natura 2000 network, to the Gothenburg commitments to halt biodiversity decline by 2010, to the WFD objectives and the Kyoto protocol targets for climate change mitigation (EU-Commission, 2005). These are a number of important environmental commitments to be taken into account when axis 2 measures, including future LFA support, are designed and defined at national level. This is particular relevant for the LFASS, or any future successor of the scheme, being one of the main spending priorities in the Scottish Rural Development Plan. The nature and objective of the LFASS, to ensure that agricultural activities continue in naturally disadvantaged areas, more remote and peripheral regions, need to be more directly linked to the environmental policy commitments.

As outlined in the guidelines, axis 2 incorporates both agri-environment and forestry-environment measures, potentially increasing the integration between support for agriculture and forestry. In terms of the payment mechanisms, environment schemes

with payments which emphasise positive management and providing public goods rather than providing compensation for income foregone could potentially increase environmental benefits. However, this would require changes to the new RDR which outlines that payments are based on income foregone and additional costs incurred. Moreover, from an environmental perspective and to fulfill Scotland's environmental policy commitments it is crucial that not only axis 2 receives enough funding, but also that environmental objectives are embedded in measures aiming at increasing agricultural competitiveness (axis 1). The EC strategic guidelines will be used to guide the Scottish Rural Development Strategy and Plan.

In Scotland the new Land Management Contracts (LMCs) could provide new opportunities to further integrate farming support with wider rural development, increasing environmental benefits. As outlined at this stage, LMCs are a three-tier whole-farm support approach which combines agri-environment and socio-economic farm support in one policy approach (SEERAD, 2005b). The concept behind LMCs is of a whole farm system of support where farm businesses undertake to deliver a range of economic, social or environmental benefits in return for support payments. LMCs are seen as a method of providing payments to farmers for public goods which are otherwise difficult to capture. While Tier 1 (SFP, with cross-compliance) and Tier 2 (LMC Menu Scheme) were introduced in 2005, Tier 3 will be introduced in 2007, probably containing elements of existing agri-environment schemes, mainly the Rural Stewardship Scheme, forestry schemes, and Natural Care. However, public good provision through LMCs could potentially be improved, if LMCs form part of a wider rural development programme of measures aimed at environmental improvement. An integrated approach to LMCs as an integral part of rural development schemes is likely to deliver environmental advantage as joined up delivery mechanisms will ensure that sectorally focused policies do not conflict. This is important with respect to economic development programmes.

A recent study on LMCs conducted by Wright et al. (2005) concluded that environmental advantages are likely to result if the higher tiers of the LMCs take account of regional environmental priorities (such as those identified in Local Biodiversity Action Plans or the SNH Natural Heritage Futures series) and have flexibility to determine local management options. In this context, evidence from some schemes (e.g. the Goose Management Schemes which are part of SNH's Natural Care Scheme) suggests that more local involvement in setting environmental priorities and in developing detailed management prescriptions is likely to lead to more local 'ownership' of schemes and therefore likely to lead to greater uptake. Moreover, the reviews of agri-environment schemes, such as the RSS, shows that the availability of highly skilled advisors is crucial to the success of a scheme, e.g. in determining if the correct management option has been chosen for a specific site. A complex system such as LMCs, in particular if higher tiers are locally designed, requires sufficient highly skilled advisory staff with excellent local expertise and knowledge to advise and support potential applicants and contractors.

Finally, anticipated future CAP reforms such as a revision of the Single Farm Payment, for example moving from the historic-based payment to area payments, are expected to have a large impact on land management and public good provision. Changing to flat area-based system would significantly change the support level for individual farms and lead to redistribution effects of subsidy receipts between different regions in Scotland. Implementing the SFP in two stages, first as historic based payment and then after a

couple of years, revising the scheme to an area based scheme would allow the farming sector to adjust to the rather big policy change over time without experiencing decoupling and higher modulation rates and redistribution effects at the same time. It can not be viable to continue with the historical entitlement single farm payment in the longer term because it will not lead to sufficient delivery of the environmental and rural development objectives sought by CAP reform, and it would become increasingly untenable to deliver public funding on the basis of the agricultural activity that went on in an increasingly remote historical period. However, while in Scotland, at this stage, no concrete intention or timetable to change the SFP to an area-based payment has been indicated, in England the SFP has been implemented as a hybrid between historic-based and flat rate payments and will be transformed to a regional area-based payment in 2012 (DEFRA, 2004).

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