



## **The Less Favoured Area Support Scheme in Scotland [2010-2013]**

The Royal Society of Edinburgh (RSE) welcomes the Scottish Government's consultation on The Less Favoured Area Support Scheme in Scotland and the opportunity afforded to comment on the proposals. At the request of the Society's General Secretary, Professor Geoffrey Boulton, the following response to the consultation has been prepared by the RSE's Committee of Inquiry into the Future of Scotland's Hills and Islands, chaired by Professor Gavin McCrone.

The report of the Inquiry into the Future of Scotland's Hills and Islands, acknowledged explicitly that there is a case for continuing to support land management in the hill and island areas.<sup>1</sup> There were a number of reasons for this conclusion, but in particular. The report considered support to be essential for the provision by land management of 'public goods' for which land managers do not receive any or adequate payment. These include: environmental benefits such as biodiversity; maintained or enhanced landscape; the sequestration of carbon; maintenance of public access; management of water supply and water quality; the security of a continuing and adequate food supply at reasonable prices; and maintaining the viability of rural communities. The LFASS is an important component of that support for areas that suffer from natural handicaps - remoteness, poor and fragile soils, harsh climate, steep slopes, and land above 200m.

The Macaulay Institute's study for the Scottish Government showed that livestock farming in the Less Favoured Area (LFA) depended for viability on LFASS in addition to the Single Farm Payment (SFP) for viability. The Government's own figures, which we use in the RSE Inquiry report, show clearly that LFA livestock farming has a net farm income substantially less than the cost of the support it is presently getting. It has to be concluded, therefore, that without support it would cease to be viable and, while some farming might remain, this would be on a much more extensive basis than at present and would probably be confined to the better land within these areas. There would undoubtedly be more land abandonment and an even sharper decline in livestock numbers than is taking place at present.

In this context, our observations on the potential redeployment of funding resulting from re-designation and change in the basis of payment, as outlined in the EC Discussion Paper,<sup>2</sup> are summarised as follows:

- where farming is a full time occupation, any diminution in LFASS will have a greater consequence than where farming is part time; (*this has implications for example for farming in the Southern Uplands and in the Highlands in contrast to part time farming in Highland and Island crofts*). However we in no way intend to down play the livestock crisis, which is also affecting crofting in the Highlands and Islands, nor its potential consequences. These are set out in a paper *Turning the Tide, The Role of the New LFASS*, by Rural Analysis Associates);

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<sup>1</sup> Royal Society of Edinburgh, Report of the Committee of Inquiry into the Future of Scotland's Hills and Islands, September 2008

<sup>2</sup> Review of the 'Less favoured Areas' Scheme. European Commission, 30 June 2008

- the options based on biophysical criteria (Options 2 and 3) are inappropriate for Scotland, particularly those related to climate
- we are attracted to the idea of High Nature Value (HNV) farming (Option 4) but recognise the need to delineate these areas and ensure that adoption does not add to the already high administrative burden
- if LFASS is to remain within Pillar 2 it should reflect the purpose for which Pillar 2 payments are made.

With these issues in mind, as a preamble to our detailed response, the following observations are made:

- a) That, for the longer term a fuller case needs to be developed for a ***European Land, Environment and Climate Change*** funding policy – see below;
- b) Ultimately Pillar 1 and Pillar 2 funds should be combined to provide for such a policy in which the public benefits/outcomes should be explicit, transparently administered and accountable, and extend beyond agriculture; (*the two Pillars are at present differently funded, which may be a problem if SFP and LFASS were to be combined in some way, but the issue of whether the two Pillars continue in their present form after 2013 will need to be considered*);
- c) That support needs to provide for maintenance of landscape, biodiversity, public access, water management, soil conservation and climate change mitigation;
- d) That the payments made to deliver such outcomes should reflect their cost, and the natural handicap of mountain and remote areas; and
- e) That the public benefits sought will require active land management across the whole of Scotland with respect to diverse land uses.
- f) We agree with the new plans for the CAP reform which allow up to 10% of the SFP to be re-allocated under Article 68 schemes for the sectoral targeting of aid and the increased proportion of this money that may be coupled to production from 25% to 35%.

For the short-term interim arrangements (i.e. before 2013), LFASS should be designed to accommodate and facilitate such an approach so that ***any change beyond 2013 would be as seamless as possible, while accepting that the present Regulation is concerned with agricultural land only. In practice, this would require that any changes made in the Single Farm Payment and the changes envisaged for the LFASS should be compatible.*** Both systems should:

- Be area based;
- Be paid to the individual responsible for the day to day management of the eligible area;
- Reflect the cost of delivering a specific set of public goods/outcomes;
- Be conditional upon active engagement in agriculture; and
- Focus on landscape, biodiversity, access, water management, soil conservation and climate change mitigation.

***In addition***, to reflect the natural handicap of certain areas, there should be an additional payment made related to agreed criteria (the LFASS component).

A further more general issue is that whatever basis is used to determine payment must reflect the additional costs and income foregone relating to the handicap in the area concerned, with the minimum and maximum amount as agreed for similar Less Favoured Areas across the EU as a whole. ***The RSE report<sup>3</sup> commented in relation to the SRDP that partial use of economic principles to manage so called external effects is unacceptable, especially where such an approach systematically under-rewards many land managers for the ecosystem services that they provide for society.***

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<sup>3</sup> RSE Committee of Inquiry into Future of Scotland's Hills and Islands, September 2008, page 105

## The Longer Term

For the longer term there is a need to move towards a radical change in European Funding Policy post 2013 and adopt what the report calls a '*Land, Environmental and Climate Change Policy*'. Implicitly, this indicates that policy would not necessarily be developed only within an agricultural context but would provide for a more integrated approach to land use and the public benefits that can be derived from it. In particular, this would have regard to environmental sustainability, and adapting to and mitigating the effects of climate change. A view needs to be taken about future funding policy: the continued use of Pillar 1 and Pillar 2 designations and their relationship to the Axes that are the foundation of European Rural Development Policy. It is accepted that there are major pressures on the European budget and that to cater for the needs of new Member States the constraints on the budget will be severe. It has to be recognised, however, that, if farming is to continue in Scotland's LFA, it will have to receive continuing support comparable to what it receives now. Within this broader policy context, there is a continuing need to address the specific difficulties of maintaining land management in these areas; and if such a policy is to be effective, Member States will also have to be prepared to find new funding to support it. This broader policy should be developed to achieve environmental objectives, particularly in relation to landscape, biodiversity and climate change, while at the same time retaining the capacity to produce food and fibre.

To a significant extent, these objectives are interdependent. Biodiversity is dependent on the presence of a managed grazing animal; the productivity of the grazing animal is dependent upon maintaining a variety of grazing habitats and allocating livestock to pastures of different quality; climate change mitigation is dependent upon managing the grazing and cultivation of land to minimise greenhouse gas emissions; carbon sequestration is dependent upon tree planting and the minimal disturbance of high carbon content soils, particularly peat; and retaining landscape integrity is dependent upon all of these activities.

However, the importance of funding in relation to securing a continuing and adequate food supply should be stressed. After many decades in which there has been ample cheap food and indeed surpluses in Europe, there is growing concern about the outlook for world food supplies. This becomes an issue of market failure if market prices do not properly reflect future risk. There will be differing views on the scale of that risk and how much it is worth paying to insure against it, just as there will be differing views on the value of other public goods. But a secure food supply must be one of the most important requirements of any policy for land management. In March 2008, the British Government's new Chief Scientific Adviser, in his first public speech<sup>4</sup>, highlighted the threat to world food supplies, which he considered to be an issue as serious as global warming. He also argued that with climate change, food shortage caused by drought would only get worse.

While it is acknowledged that the free market is a good way of ensuring an efficient allocation of resources in the absence of external effects and other forms of market failure, it does not have foresight and is likely to under-rate risk. Accordingly, with something as important as a secure food supply, additional measures to provide that assurance as a public good are likely to be necessary. What seems likely is that grain, oilseed (and possibly biofuel) crops will take up an increasing part of farming on more fertile areas, displacing livestock production and potentially driving up meat prices. The rush for biofuel production is now being questioned. But if, as seems most likely, land continues to be used for cereal and biofuel production, this highlights the necessity of maintaining the capacity (land and husbandry skills) for livestock farming in our hill and island areas, as these cannot be used for such crops.

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<sup>4</sup> 'Sustainability in a Changing World' by Professor John Beddington, 6 March 2008

The LFA provides 58 per cent of Scotland's beef and 78 per cent of sheep output; it is therefore a major part of Scottish agriculture. If Scotland relied on imports to replace this, prices would rise at least to some extent. At a time when world population is expected to rise from 6 billion to 9 billion by mid century, with several major countries becoming wealthier and therefore changing their diet in favour of meat products, there are issues about the long run security of imported supplies. If livestock farming were abandoned in much of the LFA, it would be extremely difficult, if not impossible, to get it back.

To leave LFA farming unsupported and to rely on imported meat products would not only risk security of supply in the longer term but would also carry biosecurity risks and acceptance of animal welfare standards in some exporting countries that are well below those required in Britain. Brazil is now a major exporter of beef and is the country with the greatest potential to increase exports, yet there is widespread concern on environmental grounds about the steady removal of the Brazilian rainforest. It would not serve the interests of halting climate change to abandon Scottish or European livestock agriculture in favour of expanding exports from Brazil.

With this preamble as background, the specific questions within the Consultation Paper are addressed below:

***Q1. What are your views on the use of 'mountain area' designation and 'specific handicap' designations for islands?***

If the present designation of LFAs in Scotland as 'intermediate areas' proves unacceptable not only in Scotland, but elsewhere in Europe, much will depend on what is put in its place: whether the designation is more tightly drawn or abolished altogether. The 'mountain area' designation could be the most appropriate alternative. However, prior to negotiations with the EC on the criteria to be used, it is not clear to what extent this designation would include the current area receiving the LFASS payment. Clearly the proposed 500m (1,644 ft) limit and slope criteria would not be acceptable as much of the disadvantaged area would be excluded. On balance, a limit of 150-200m (492-656ft) would be compatible with climatic and soil limitations in Scotland but only if this is broadly interpreted to include the valley floor in such areas and coastal areas that are adjacent. For example, much of the Tay, Earn and Tummel valleys are below 200m, as is the Spey valley east of Grantown. Strath Oyckell and Loch Shin are below even 150m, as is much of the farming land in Argyll. The suggestion of including whole parishes where there is a substantial area above the critical height may offer a solution. Clearly, the same altitude limit is not appropriate all over Europe: what is appropriate for the Alps would not be right for Scotland or Scandinavia - latitude is also a major factor. Special account will need to be taken of the high proportion of high organic soils in Scotland, particularly the areas of deep peat that exist in the current LFA: they represent an important carbon store and a fragile resource.

Given this basis for negotiation, the 'mountain area' designation has the merit that will serve as a basis of additional payments into the longer term, since the core mountain and hill areas of Scotland are unlikely to be contested. It also covers the areas that are likely to be most vulnerable to the removal of active management and livestock grazing, which we believe to be fundamental to the long-term environmental sustainability of these areas in landscape conservation, biodiversity, soil conservation and climate change mitigation. The designation would also continue to provide an appropriate land designation for the development of a policy focussed on land, environment and climate change, if this were to be adopted. Equally, it provides a rational vehicle for the development of 'high nature value farming', if that is ultimately the framework that the EC uses as a means of supporting land management in the future.

For Scotland's islands, the 'specific handicap' designation would be appropriate in view of the major disadvantage they suffer from remoteness and cost of transport, as well as climate and soil quality. It would meet the broad concerns that we have for island economies: their environmental sustainability and the need to create opportunities for livestock agriculture. Our calculations lead us to the conclusion that the inclusion of the Scottish islands would not exceed the UK 10% limit that is imposed on Member States for the use of this designation, assuming that the other regions of the UK do not also make excessive use of it.

**Q2. What are your views on the approach to calculating payments?**

The proposals in Annex 4 reflect the extent of handicap associated with agricultural land use in the mountain, hill and island areas, according to land capability, economic returns and the level of agricultural activity as reflected by stocking density. Depending on the option used to calculate eligible area (adjusted hectares), there is also the possibility of ensuring that grazing intensity is broadly compatible with sustainable use and plant productivity (grazing potential). We would reject Option (b) on the grounds that it will over-compensate applicants and does not give an incentive to adopt stocking densities close to the grazing potential for the land class: it fails to fully meet the environmental requirements that we would expect of payments being made under Pillar 2 Axis 2.

Option (a), on the other hand, applies the hectare value at holding level, and ensures that grazing intensity is broadly compatible with sustainable use and plant productivity (grazing potential): it would be our preferred option. However, this option could be refined further to ensure that both overcompensation and under-utilisation is avoided by applying the hectare values in Table 6 (Annex 4) but only if the stocking density was greater than the minimum permissible stocking density and did not exceed the maximum permissible stocking density for each land class as per Table 5, the payment being based on the hectare value for each land class range. This would require a minimum stocking density (x) to be set for Land Class range 6.1 – 7 and a maximum stocking density (y) for Land Class range 3.2. (The hectare value is currently used in the interim scheme)

Land Category (MLCA Classes)	Average Stocking Density (livestock units per hectare, 2006)	Stocking Density Limits (livestock units per hectare)	Suggested Hectare Value
6.1-7	0.10	x-0.19	0.167
5.1-5.3	0.34	0.2 – 0.39	0.333
4.1-4.2	0.57	0.4 – 0.59	0.667
3.2	0.62	0.6 – y	0.800

*Example*

Applicant has 100ha within land class range 6.1-7, standard fragility tier, and an average stocking density of 0.14 (i.e. lying between x and 0.19) thus qualifies for a payment of

$$100\text{ha} * 0.167 * \text{£}56/\text{ha} = \text{£}935.20$$

Applicants that had stocking densities below x and above 0.19 would not be eligible for payment.

This alternative scheme would prevent overcompensation and would encourage applicants to stock close to the grazing potential but would require collection and verification of animal numbers.

While this adds to administrative costs, it is the only way that accountability in relation to the objectives of the scheme can be assured. The risk-based inspection process used for the current interim scheme (2003-2009) could be adapted to ensure compliance without incurring excessive administrative costs. However, there may be complications arising from WTO rules since payments would be linked to current levels of activity. This would need to be challenged on the basis that to meet environmental objectives it is essential to control the intensity of grazing; this can be most readily achieved by controlling stocking density. It is also important to retain a means of encouraging mixed grazing by having 'top up' arrangements as we have in the present scheme – see answer to **Q6**.

As a starting point for developing the scheme which according to the Regulation requires to be based on '*making an effective contribution to compensation for existing handicaps and avoiding over-compensation*', the proposals are a good starting point but, as stated in the Consultation Paper, will require further refinement.

In general, we agree with the analysis of the disadvantages and advantages of the proposed scheme as outlined in Annex 4 but think our alternative proposals may help to overcome some of the difficulties re overcompensation and under-utilisation.

For the longer term and in order to ensure a range of public benefits from LFASS, the basis of the payment per hectare requires further refinement. This is because the proposed scheme merely determines a way of allocating the funds made available by the EC/Scottish Government, which in terms of the costs and value of the public benefits derived, remains somewhat arbitrary. There needs to be an evidence-based assessment of the value of the public goods to be delivered by the LFASS to determine the amount of Government funding that should be allocated to it. Consequently, we question the validity of continuing to use the arbitrary 'hectare values' used in the current scheme, which we assume were used to reflect the agricultural activity associated with the previous headage-based scheme.

An alternative, which should be considered for the longer term, would be to adopt an approach based on the concept of 'high nature value farming'. This would carry forward the framework of the arrangements outlined in Annex 4 but on a much simpler basis. Payments would be area-based, related to soil capability and made to those who met the criteria set out for high nature value farming within 'mountain and specifically handicapped' areas. These would include: the presence of livestock not exceeding the grazing potential of the farm and not less than the lower stocking density limit; specific management for the maintenance and enhancement of carbon retention, biodiversity and landscape value. This would be implemented through a Rural Development Contract, in which agreed outcomes were specified, and payments would be made on the basis of evidence that management was in place to achieve them. There would be penalties if they were not achieved.

### ***Q3. What are your views on this rationale and these objectives for LFASS 2010-1013?***

We agree with the rationale and objectives outlined in Section 4 of the Consultation Paper for the second interim scheme, but are doubtful that there will be effective uptake of agri-environment measures and delivery of environmental benefits through the SRDP. This is not because we doubt that LFASS is designed to maintain a land management presence in these areas; but rather because we doubt the appropriateness of the SRDP options for a significant proportion of hill farms and crofts which lack the ability to compete with larger enterprises for limited funds. Indeed, the current basis of funding Pillar 2 and the lack of parity with other Member States ( to which attention is drawn in the report of our Inquiry) puts into serious question the UK support for Pillar 2 measures and the Scottish Government's aspirations for the Scotland Rural Development Programme. We

recommended in our report<sup>5</sup> that ***‘the funds available under the Scotland Rural Development Programme need to be substantially increased if its objectives are to be achieved and should include relevant expenditure by all government agencies. The Scottish Government should make it clear that it does not accept the present inadequate EU funding of Pillar 2, which puts Scottish farmers at a serious disadvantage compared with their counterparts in other Member States, and should press the UK Government in the forthcoming negotiations on the EU budget to get it increased, even if some erosion of the UK’s rebate is necessary to achieve this’.***

***Q4. Would you be in favour of continuing the current interim scheme with no significant changes?***

No. In order to move to a scheme that will be acceptable post 2013 it will be important to use the second interim period to make progressive adjustments towards the proposed scheme as set out in Annex 4 of the Consultation Paper or some modification of it.

It is essential that the payments that are made through the scheme be made only to those actively engaged in agriculture. Annex 4 provides a means of ensuring this for the longer term but in the shorter term, the risk-based inspection process used in the current interim scheme (*para 3.5*) needs to be strengthened. Inspection should go beyond those farms ‘where there appears to have been a significant reduction in activity’ and include inspection of a sample of farms on the basis of gathered intelligence and where there is the greatest risk of abandonment.

We support the view that there should be more explicit links between LFASS payments and delivery of environmental benefit. The details as set out in Annex 4 (post 2013) attempt to do this through controlling stocking density. Any interim measure that makes that more readily achievable should be adopted in the shorter term. We would also support the view that the more fragile and remote areas that align themselves with ‘mountain and specific handicap’ designations should receive additional funding in the shorter term to reflect the increased payments that they will receive if the proposals in Annex 4 are adopted post 2013, particularly if adjustments associated with peripherality were to be incorporated into the analysis.

***Q5. Would you be in favour of continuing the current interim scheme, but with some readjustment of payments? Do you have alternative suggestions?***

Our response to **Q4** indicates the changes that we would support and would wish to see in a second interim scheme: accordingly, we would also support an increase in the minimum payment and a redistribution of payments aligned to the outcomes envisaged, following adoption of the scheme outlined in Annex 4 for a post 2013 scheme. In view of the fact that redistribution is an inevitable consequence of changing the designation and requirements of the LFASS in 2013, it would be preferable to make these adjustments over as long a time scale as possible.

***Q6. What are your views on the principle of creating a closer link with livestock-related activity?***

Since livestock-related activity as expressed in terms of stocking density is the only measure that acts as a surrogate for achieving environmental benefits (landscape conservation and biodiversity), it is crucial to retain this link and monitor its effectiveness. It is the only land management measure that, through the current LFASS, can be used to deliver the *‘environmental benefits that are dependent on continued active land management in these areas’* - a declared objective of the scheme.

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<sup>5</sup> RSE Committee of Inquiry into Future of Scotland’s Hills and Islands, September 2008, page 105

**Q7. What are your views on the approach set out on (i) creating a closer link with livestock-related activity, (ii) helping new entrants and others taking on land that did not attract LFASS in 2006, and (iii) re-establishing the cattle top-up link?**

Despite the administrative cost implications, we support the proposals as outlined in the Consultation Paper as a means of moving towards the requirements of a scheme based on post 2013 (Annex 4) proposals. We regard the presence of cattle in the LFA as being crucial to achieve appropriate environmental objectives and therefore support the re-establishment of the cattle 'top-up' link that was lost to those landholders who took land that did not attract LFASS in 2006.

All landholders who would be eligible for the LFASS payments as proposed in Annex 4 should also be eligible for payment in the second interim scheme. Thus payment should be based on the requirements of a scheme that is not locked into an historic basis of funding (i.e. 2006); it should be a scheme that allows all newcomers to have access to the LFASS.

Payments should be made on the basis of a Single Application Form submitted each year of the second interim scheme (as opposed to just taking the 2008 data). This would align with our view that payments would ultimately be based on an amended version of Option (a) as proposed for the post 2013 scheme (Annex 4) i.e. based on a holding's stocking density for each year. If the scheme is to achieve its environmental objectives, be transparent and be accountable, it should not be based on historical data. Data provided by the applicant on an annual basis is essential. The inspection process requires to be refined and strengthened and the penalties more demanding but proportional to the offence.

**Q8. How could delivery of environmental benefits be improved?**

We believe our minor amendment proposed for the post 2013 scheme (Annex 4), to include minimum and maximum stocking rates for each land class, is important for the reasons outlined in answer to Q6. In managing land to achieve landscape, conservation and biodiversity objectives, the relationship between stocking density and required habitat status and productivity is crucial: the control of this relationship on each holding is fundamental to the delivery of the environmental benefits of the scheme.

The Inquiry Report<sup>6</sup> addresses land management issues that relate to 'responding to climate change' and makes the following observations and recommendation. *'The type of grazing and the overall levels of grazing are important. Cattle should only be used where this will meet the management objectives of the site. Generally speaking, they should be used in very limited numbers and at low densities, where their less selective feeding will aid vegetation management, and, for the most part, not on wetter sites where they are more likely to cause significant damage. A reduced number of domestic livestock should be used on sites where deer are numerous and control measures are ineffective or not practicable. Overall, the level of grazing should also take into account the need for grazing to achieve biodiversity and landscape diversity objectives. A delicate balance will need to be drawn. **The Scottish Government should, as part of its revised climate change policy, institute greater regulation of the intensity of herbivore grazing on carbon-rich soils. In particular, the Government should facilitate the development of sustainable deer management within a revised regulatory and incentive-based framework ...'***

We are of the view that more requires to be done to protect our hill soils, particularly peat soils, as a contribution to mitigating the effects of climate change (by reducing GHG emissions). While the stocking densities that are set for the different land classes seem appropriate, they do not take into

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<sup>6</sup> RSE Committee of Inquiry into Future of Scotland's Hills and Islands, September 2008, page 94

account the presence of wild herbivores, especially deer; additional measures therefore require to be introduced that modify the allowable stocking densities, where it is known that there is a significant impact from the presence of wild herbivores. This could be done through the LFASS by the applicant making a declaration to the effect that the holding is subject to wild herbivore grazing; and he/she therefore seeks an adjustment to the declared permissible stocking rates (min) on which to base his/her claim without affecting eligibility and rate of payment. However, this would also depend on having a revised regulatory and incentive based framework relating to the control of deer populations in hill and mountain areas.

The environmental benefits associated with traditional farming activity that included grass for hay, fodder crops for additional winter feed, and permanent pasture are all features that increase the biodiversity associated with land in the LFAs and add to the natural heritage value of these areas. We support the view that incentives that retain these features should be instituted explicitly within the scheme by providing 'top-up', payments on a per hectare basis.

***Q9. What are your views on reallocating a proportion of LFASS money to other measures within the SRDP?***

Until such time that the amount allocated as a whole to the SRDP (see response to **Q3**) is substantially increased, we would resist strongly the suggestion that funds should be reallocated from the LFASS to other measures within the Programme. All the evidence suggests that the existence of agriculture in these areas is highly dependent upon a combination of the Single Farm Payment and the LFASS payment. It is our contention that, **despite fluctuations, for many farmers LFA farming requires subsidy 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<sup>7</sup>**. This includes the contribution made through the LFASS. However, we support the possibility of introducing more specific 'environmental measures' into the LFASS as indicated in our answer to **Q8** and as indicated in our response to **Q2**.

One way of justifying the LFASS within Pillar 2 and within the SRDP would be to require that all payments under the LFASS would be subject to a Rural Development Contract: in this way some of the additional measures which we support in our answer to **Q8** could be incorporated cost effectively.

**Additional Information and References**

Any enquiries about this submission and others should be addressed to the RSE's Evidence & Advice Manager, Dr Marc Rands ([evidenceadvice@royalsoced.org.uk](mailto:evidenceadvice@royalsoced.org.uk)).

Responses are published on the RSE website ([www.royalsoced.org.uk](http://www.royalsoced.org.uk)).

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<sup>7</sup> RSE Committee of Inquiry into Future of Scotland's Hills and Islands, September 2008, page 63