**Scottish Environment LINK Proposal for CAP Replacement**

Scottish Environment LINK recognises that reforming agricultural support will be key to transforming Scotland's food, farming and land use systems, and supporting the achievement of climate and nature targets.

This paper sets out our proposals for future agricultural policy. It provides an overview of current agricultural policy in Scotland, highlighting opportunities for change, and sets out the proposed structure, foundations, principles, and objectives that should form a replacement for the Common Agricultural Policy.

## 1. Context

Scottish Environment LINK (LINK) wants to see a thriving farming and crofting sector in Scotland, providing truly sustainable food for people while tackling climate change and restoring nature, in Scotland and internationally.

New agricultural policy will be vital for delivering against the Scottish Government's climate and nature ambitions. There is now an opportunity to create a policy and mechanisms which work for Scotland, while also remaining aligned with Common Agricultural Policy (CAP) objectives and learning from developments in other parts of the UK. New policy must achieve policy coherence and be guided by the Scottish Government's National Performance Framework[1].

Our work is informed by the following key concepts:

### 1.1 A more resilient local food system

LINK wants to see 'a Scotland in which we eat more of what we produce and produce more of what we eat', and we believe it is not only possible but essential that we balance this with environmental targets. While fair trade is essential for food security and prosperity, a stronger domestic food economy reconnects us with our land and sea, adds value to our primary produce and invites us to enjoy a greater diversity of less processed food. Brexit, the impacts of COVID-19, and the current crisis in Ukraine have reminded us of the need to balance openness to trade with a more resilient domestic food system which relies less on imported inputs of feed and fertiliser.

### 1.2 A transition to agroecology

[1]Scottish Government, *National Performance Framework: Outcomes-focused policy making in Scotland: A guide*, February 2021, https://blogs.gov.scot/national-performance-framework/2021/02/09/how-to-solve-a-problem-like-policy-for-outcomes-or-outcomes-focused-policy-making-in-scotland-a-guide/

Agricultural policy has traditionally been siloed, viewing nature in one corner, and productive farming in the other.

By contrast, LINK sees quality food production and good human health as profoundly dependent on a healthy ecosystem. We believe that agroecology - farming with nature, understanding and working with natural processes - has to become the norm. A shift towards agroecology would allow for land sharing - combining food production and environmental benefits on the same land - rather than land sparing, where food is produced in deserts, and nature confined to oases. Agroecology also has an important social dimension, as it is about making food for people, not simply producing commodities.

**1.3 A systems approach**

Nourishing people is the central purpose of farming, and Scottish Government policy states that we need to provide at least as much food for people in future as we do now. However, our current system is hugely inefficient.

We put nitrogen on grassland rather than using clover. We look down on beef from the dairy herd, even though it is far more efficient in climate terms. We use (and subsidise) most of our limited arable land to produce cereals for alcohol production and animal feed.

Even the most efficient chickens, farmed fish and pigs convert 3 or 4 units of human edible protein and calories to 1 unit of human edible protein, while for beef cattle the feed conversion ratio is 6-10 units. Feeding human-edible cereals to ruminants negates their key role in turning inedible grass into meat and milk.

We could produce a wider range of pulses, fruit and vegetables (including in glasshouses) for direct human consumption, reduce waste along the supply chain, reduce reliance on imported protein and fertiliser, and add more value to primary produce in Scotland.

Along the way, we could see a more diverse range of people in Scotland contributing as food producers not just consumers - whether that's in their own gardens and allotments, in community gardens and community bakeries or as market gardeners, smallholders, crofters, farmers or fishers.

**1.4 The need for reform**

Scotland cannot achieve its goals for climate and nature without a transformation in food, farming and land use. Farm support policy is a key element in that change.

The current basic payment system lacks any clear policy objective and is both inequitable and inefficient. While it is sometimes described as 'income support', this system does not focus support on low income farming households. In fact, it does quite the reverse with the lion's share of the

money currently subsidising the biggest farms on the best land, with better access to markets, at a time when land values are at a historic high and continue to rise rapidly[2].

LINK agrees with NFU Scotland (NFUS) that the basic payment scheme creates inertia in farming practices, and we welcome the Scottish Government's commitment to reform this scheme as part of CAP replacement. We also agree with NFUS that the current farm support budget should be retained and repurposed.

Our proposals would clearly impact differently on different farms and crofts, depending on a whole range of factors. However, we think that Track 2 of the National Test Programme provides an opportunity to model how this approach could enhance both the financial and environmental performance of a wide range of farm types.

[2] Scottish Land Commission, *Rural Land Market Insights Report*, April 2022, https://www.landcommission.gov.scot/downloads/62543b9498bb1_Rural%20Land%20Market%20Insights%20Report%20April%202022.pdf

## 2. Objectives

LINK supports the Scottish Government's recently published next step in delivering a vision for Scotland as a leader in sustainable and regenerative farming,[3] and note its alignment with the ten objectives of the current CAP. We see the focus of any CAP replacement scheme as supporting the implementation of this vision document. We also welcome the development by the European Commission of country-level metrics and indicators for monitoring progress on specific objectives.

| Scottish Government Vision | CAP 10 objectives |
|---|---|
| 1. Continue delivering high farming standards, including to enhance animal health and welfare | A - to increase competitiveness<br>B - fostering knowledge and innovation<br>C - to protect food and health quality |
| 2. Contribute to our Good Food Nation ambitions and Local Food strategy, particularly to create more localised supply chains, enhance producer value and cut food miles | C - to protect food and health quality<br>D - fair incomes for farmers<br>E - to improve the position of farmers in the food chain<br>F - vibrant rural areas |
| 3. Deliver emission reductions in line with our climate targets | G - climate change action |
| 4. Contribute to the restoration of nature through biodiversity gain on the land they farm | H - environmental care<br>J - to preserve landscapes and biodiversity |
| 5. Support land use change that contributes to our climate and biodiversity goals in line with the recommendations of the Just Transition Commission | G - climate change action<br>H - environmental care |

[3] Scottish Government, *Sustainable and regenerative farming - next steps: statement,* March 2022, https://www.gov.scot/publications/next-step-delivering-vision-scotland-leader-sustainable-regenerative-farming/#:~:text=Our%20vision%20for%20Scottish%20Agriculture&text=Scotland%20will%20have%20a%20support,environmental%2C%20social%20and%20health%20terms.

| | |
|---|---|
| 6. Encourage more farmers and crofters to farm and produce food organically | G - climate change action<br>H - environmental care |
| 7. Improve business resilience, efficiency and productivity, including through adoption and deployment of technology and innovation | A - to increase competitiveness<br>B - fostering knowledge and innovation<br>D - fair incomes for farmers |
| 8. Take a whole farm approach to reducing emissions and environmental impact | B - fostering knowledge and innovation<br>G - climate change action<br>H - environmental care |
| 9. Accelerate adoption of approaches and measures which minimise, reduce and remove the use of agrochemical inputs and increase the use of non-chemical related actions | D - fair incomes for farmers<br>G - climate change action<br>H - environmental care |
| 10. Enable more local employment on the land, more women to enter farming and more new and young entrants into farming | F - vibrant rural areas<br>K - to support generational renewal |
| 11. Identify and develop the skills needed for regenerative and sustainable farming, changes of land use and adaptation to the changing climate. | B - fostering knowledge and innovation<br>G - climate change action<br>H - environmental care |
| 12. Encourage co-operative approaches to optimise collaboration and knowledge exchange | B - fostering knowledge and innovation. |

## 3. Principles

Any new scheme must conform to some agreed principles for design and delivery. LINK propose the following:

### 3.1 Intervention logic

The current subsidy regime lacks any intervention logic, with the Basic Payment Scheme operating effectively as a public subsidy for land ownership.

Future schemes should articulate the outcome(s) they are designed to deliver – for example objectives 1-12 of the vision statement above, or objectives A-K of the new CAP. Schemes should also set out why they are a good way to deliver that outcome, for example through a prospective impact assessment.

These outcomes should in turn be relevant to the Scottish Government's National Performance Framework.

### 3.2 Monitoring, evaluation, audit and review

Schemes should be subject to continuous monitoring and to periodic evaluation and audit so they can be reviewed and improved.

### 3.3 Equity

Schemes should include elements which are designed to tackle the pervasive inequalities in the current system of farming and land management. They should promote equity:

- gender, age and racial equity (avoiding direct and indirect discrimination), for example including a New Entrants Scheme that actively encourages minorities into farming.
- between owners and other land users - tenants and also graziers, contract farmers, for example introducing measures which encourage all parties to work together to deliver for climate and nature and to share risk and reward fairly.
- between farming types so that those farming on poor land, on small areas or in remote locations are supported fairly.
- between farmers and crofters, avoiding very high payments for some and very low payments for others.
- between new entrants and incumbents - new entrants should be able to access support from the day they occupy the land. Scottish Government should seek more imaginative ways to help new entrants overcome the high capital threshold to enter the industry.
- between those who are already doing the right thing ( for nature, climate, animal welfare) and those who need more encouragement to do so. It would be unfair to reward those who need to improve from a low baseline more than people already delivering a high level of ecosystem services.

- between farmers and crofters and those who work on their land, including migrant workers, helping to ensure best practice in labour practices. We welcome the Scottish Government's commitment to consider options to see agricultural workers paid the living wage[4].

**3.4 Leverage**

Schemes should complement rather than crowd out private investment and support blended public-private finance. They should not support business investment which would have happened anyway, or provide the lowest effective intervention rate. They should leverage co-benefits such as Fair Work, health, and a just transition to net zero, and should aid the elimination of tax avoidance.

**3.5 Differentiation**

Elements of the scheme should be specific to a particular sector, context or locality. There is a case for some investment in local food (Objective 2 of the Scottish Government's vision) to be delivered by local authorities (on the basis of their Good Food Nation plans), or by enterprise agencies. LINK recommends that Regional Land Use Partnerships are given a stronger role in developing priorities and allocating resources. There is also a case for island-specific measures.

**3.6 Deliverability**

The costs of administering the scheme and due diligence should be proportionate.

[4] Scottish Government, *Programme for Government 2021-2022*, September 2021, https://www.gov.scot/binaries/content/documents/govscot/publications/strategy-plan/2021/09/fairer-greener-scotland-programme-government-2021-22/documents/fairer-greener-scotland-programme-government-2021-22/fairer-greener-scotland-programme-government-2021-22/govscot%3Adocument/fairer-greener-scotland-programme-government-2021-22.pdf

**3.7 Transparency**

Payments should go only to named individuals and to companies whose directors and major shareholders are readily identifiable individuals. The list of beneficiaries including municipality of residence should continue to be published as per current CAP guidelines.

We recognise the growing private market in carbon and ecosystem services will increasingly influence decisions about how best to use finite public funds to tackle the climate and nature emergencies through farming and other land management.[5] We note the recent publication of the Scottish Land Commission's Rural Land Market Insights report, and its findings on the potential impact this could have on diversity and accountability of ownership, as well as community engagement[6].

**3.8 Managed change**

Delivery of better outcomes for climate and nature must take precedence over ensuring continuity of current levels of public funding for existing farming and crofting businesses. While change must be managed to ensure a just transition, the focus must be on value for money.

[5] Scottish Government, *Interim Principles for Responsible Investment in Natural Capital,* March 2022, https://www.gov.scot/publications/interim-principles-for-responsible-investment-in-natural-capital/

[6] Scottish Land Commission, *Rural Land Market Insights Report*, April 2022, https://www.landcommission.gov.scot/downloads/62543b9498bb1_Rural%20Land%20Market%20Insights%20Report%20April%202022.pdf

## 4. Foundations

### 4.1 Whole farm approach

Scottish Government, in line with its statutory responsibility to support whole farm planning, should support all farms to create a whole farm approach which combines financial and environmental information[7]. This would enable farmers to take a more holistic view of changes they need or want to make to maintain current good practice, and to improve profitability and environmental performance.

Whole farm plans could also provide the evidence base for establishing contracts to deliver services, which are outlined below. Data collected by the Scottish Government as part of Track 1 of the National Test Programme could provide a useful starting point for developing a whole farm plan.

### 4.2 Contracts

Contractual relationships represent an exchange of promises between two parties. In this case, farmers would be committing to deliver positive management in return for public financial support from the Scottish Government. These contracts would formalise relationships, clarify reciprocal expectations, and provide a measure of certainty for business planning. Contracts could operate on a five-year timeframe, with payments still operating on an annual basis.

To allow the Scottish Government to manage the delivery and roll-out of contracts, a phased approach should be taken. Larger businesses, and those with greater capacity, should be the initial focus of this. This approach could also be tested as part of Track 2 of the National Test Programme.

### 4.3 Supporting infrastructure

Sector-wide or industry-wide measures which increase the efficiency or profitability of the sector as a whole should form a key part of future policy. These include:

- **Support for advice.** Agricultural Knowledge and Innovation Systems, which includes all the ways farmers learn and innovate, are key to the transformation to agroecological farming, which the Scottish Government's Vision for Agriculture proposes.

  While there are many examples of good practice in Scotland, including the Knowledge Transfer and Innovation Fund and Farming for a Better Climate, the current system is fragmented, with weak links between the advisory services and research institutes. Scotland's farm advisory services are also significantly under-resourced when compared with other countries, including Ireland and Denmark.

[7] s35, Climate Change (Scotland) Act 2009

Investment in green skills is a core part of a green recovery from COVID-19. However, the Climate Emergency Response Group notes slower progress in agriculture than in other sectors when it comes to investing in green jobs.[8]

A recent PWC study showed financial institutions are spending, on average, 14% of annual operating costs on change management functions in order to drive greater productivity gains. The current advisory service equates to less than 1% of spend, indicating that the sector is out of step with other sectors of the economy when it comes to investing and preparing for change.

- **Support for cooperation (marketing, innovation and research).**

- **Support for landscape-scale climate and nature action.** This must be linked to Regional Land Use Frameworks and the Scottish Government commitment to deliver nature networks across Scotland. Without coherence in this area there is a risk that taxpayers' money, efforts by farmers, local community action, and eNGO work will not add up to the sum of its parts.

- **Support for animal health and genetics.** As well as existing national efforts to reduce or eradicate diseases, the enhanced Scottish Veterinary Service might provide a core level of publicly-funded support to help farmers improve animal health. This could include the use of technicians to provide AI assistance to beef and sheep farmers to support low methane genetics.

- **Support for processing infrastructure**. Strengthening short supply chains and revalorising waste streams is of particular importance. This was also noted by NFUS as being key to a successful green recovery from COVID-19.[9]

- **Support for data capture and validation**. This would include monitoring biodiversity outcomes, for example.

**4.4 Enhanced regulatory baseline**

At present, all applicants must abide by legal requirements set out in regulations and law, and meet Cross Compliance rules which go slightly beyond the legal baseline. LINK believes that there is a

[8] Climate Emergency Response Group, *Assessment of Scotland's progress towards CERG priorities*, January 2022, https://cerg.scot/wp-content/uploads/2022/04/CERG-2021-internal-assessment_FINAL_Jan22-for-web.pdf

[9] NFU Scotland, *Submission on a Green Recovery to the Scottish Parliament ECCLR Committee*, 2020, https://archive2021.parliament.scot/S5_Environment/General%20Documents/ECCLRGR070_-_Green_Recovery_-_NFUS.pdf

strong case for raising the regulatory baseline, so that all applicants are expected to do more in order to be eligible for payments. This is a way of getting better value for public money.

We believe that cross compliance could be improved by requiring all farms to manage at least 10% of their land for nature. This would also drive innovation – for example undersowing cereals with clover and drilling the next crop into living mulches. There would potentially be support in actual tiers or schemes that facilitated positive management.

The regulatory baseline should also include a requirement for all farmers, crofters and land managers to undertake Continuing Professional Development. This underscores the need for appropriate supporting infrastructure outlined above to be put in place by the Scottish Government.

With regard to the law, the 'polluter pays' principle is a core element of Scotland's environmental legislation and policy, yet this principle recedes into the background when we consider agriculture. LINK believes that the polluter pays principle should be given increased prominence when thinking about future agricultural support. While land managers can be fined for breaches of the law, we are currently operating under a 'public pays' system of environmental governance.

To illustrate, agriculture currently generates considerable negative environmental externalities. Scotland's nitrogen balance sheet shows significant losses of nitrogen to water and air from agriculture. Nitrogen waste is a major contributor to greenhouse gas emissions and biodiversity loss, while ammonia is a major air pollutant. Similarly, pesticides have a widespread negative impact on biodiversity. In this context, our current approach is to provide public money to help farmers meet legal requirements - resulting in the public paying for these externalities.

There is a clear role for using public money to prevent environmental harm, but regulation is often the fairest and most effective way to achieve the desired outcome, thus freeing up funds to be spent on delivering environmental enhancement. The polluter pays principle should therefore be much more central to thinking about future public spending in agriculture.

## 5. Structure

### 5.1 Tier 1 Active farmer/crofter income support (Vision objectives 2, 10: CAP objective D, F, J)

*Intervention logic* – Farm incomes are significantly lower than median incomes. This is particularly the case for smaller farms in more challenging areas. This, along with disproportionate land prices resulting in part from basic payments, discourages new entrants. There is value in supplementing farm incomes especially where the maintenance of active farming contributes to environmental care, social cohesion, rural population and landscape preservation. This payment should also support market gardeners.

Active farmer/crofter payments could provide direct income support on a flat rate per person (not per hectare) basis (say £5,000 per year) to all occupiers (owners, crofters or tenants) who spend x% of their time or generate x% of their income from farming. Eligibility for this payment should not be a requirement for support under Tiers 2 and 3.

Active farmers/crofters would be expected to meet certain basic requirements in addition to GAEC - for example, periodic soil testing, animal health and welfare plan, nutrient budget – and to upload that data annually to a government portal. They would also be expected to undertake CPD.

### 5.2 Tier 2 Support for green and resilient businesses (Vision objectives 1,2,7,8, 9,11,12: CAP objectives A,B,D,E)

*Intervention logic* – All farmers and crofters want to be profitable and resilient, and to practice sustainable and regenerative agriculture. In many cases they also have to adapt to a changing climate. Their supply chains are also pushing them to reduce emissions. However, they face barriers to making changes.
This tier is designed to lower the barriers and reduce the risks to farmers, either on a transitional or long-term basis. This tier of support is a combination of capital grants or loans and management payments to farming and crofting businesses. The intention is to support farmers in a process of change that moves them into a more environmentally positive and profitable position. Support for some measures would not necessarily need to be long-term because they could pay for themselves; this support could be seen as a mechanism to nudge the industry into a new place. At the same time, a measure of ongoing support may be required for some farms to maintain long-term sustainability and profitability while delivering wider societal benefits.

#### 5.2.1 Capital grants and low interest or interest-free loans

These would be designed to enable businesses to make investments which would otherwise be unaffordable, unattractive, or uncertain.

Match funding should be required for measures that have financial or other business benefits on farm e.g. reducing inputs. The greater level of private benefit to result from capital funding, the higher the requirement for match funding should be. Means testing should be considered where match funding would be prohibitive, for example for new entrants or small scale agroecological farmers

Public money should be prioritised for investments which bring co-benefits to climate, nature, communities, and health. These could include:

- Loans for renewable energy installations, to promote a revival in onshore wind and solar energy projects following changes in UK energy strategy arising from the Ukraine crisis. As a general principle all farms should be net energy producers.
- Glasshouses and polytunnels, to extend the range and yield of fruit and vegetable crops grown in Scotland.
- Buildings and/or equipment to enhance animal welfare and health, or reduce emissions.
- Woodland expansion for commercial use, for example for quality timber products that lock carbon long-term.
- Support for farm diversification to promote resilience, as diversified farms generate £16,000 extra income on average[10].
- Low carbon equipment provided to individual farmers or machinery rings, for example minimum tillage seeders, slurry separators and injectors, precision guidance, drones, dryers.
- Mobile or temporary fencing, or no-fence grazing technology to support a return to rotations in all-arable systems.

### 5.2.2 Management payments

Management payments could be used to de-risk changes to management models. Long-term, this should both increase profitability and reduce negative impacts on nature and climate, for example:

- protein for people: supporting farmers to grow peas, bean, lentils for human consumption
- arable farmer introducing rotations and renting ground to a livestock farmer
- replacing nitrogen with clover
- undersowing cereals with clover/grass
- catch crops
- intercropping cereals and legumes
- moving to minimum tillage
- reducing pesticide use
- reducing stocking levels and inputs to enhance profitability

[10] Scottish Government, *Scottish Farm Business Income: Annual Estimates*, March 2022, https://www.gov.scot/publications/scottish-farm-business-income-annual-estimates-2020-2021/

- changing to smaller cows
- use of methane feed additives (which should also benefit productivity)
- adoption of low methane breeding
- conversion to and maintenance of organic farming
- integrating trees on farms, or agroforestry, in arable and pasture systems

These could support change over a five-year cycle on the basis of a whole farm plan.

### 5.3 Tier 3 Climate nature and people payments (Vision objectives 1,3,4,5,6,8,9,11: CAP objectives G,H,J)

*Intervention logic* – Some of the measures which are beneficial for nature and climate (and thus provide public goods) currently bring no commercial benefit to farmers, although we recognise that this may change in future. Therefore, public money should be used to support these activities.

Whereas measures under Tier 2 deliver public benefit and are profitable for farming businesses within a reasonable timescale, measures included under Tier 3 while represent a net cost to the farmer in terms of reduced income, or increased expenditure of time and/or money.

These measures include destocking on peatland; the creation of hay meadows; particular land management practices to benefit particular species; creation of hedges,'non-productive' wildlife corridors, and riparian management which includes managed grazing. Other mechanisms through which farms can provide services to people and communities, including through public access, educational visits, and social prescribing, should also be supported.

The current agri-environment measures should be expanded and made available to a wider range of people and delivered in a targeted way. It is important to ensure that this funding is directed at addressing key priorities and targeted funding should help ensure positive outcomes and value for money

Many schemes (for example for water quality and nature networks) operate best at a catchment level, and support should be available to farmers to be able to collaborate. This could be provided through supporting infrastructure discussed above, including funding facilitators and advisors who can coordinate coherent catchment level initiatives.

There are significant opportunities to expand private investment in land-based activities which benefit nature and the climate. This investment should be in line with the Scottish Government Interim Principles for Responsible Investment in Natural Capital. We recognise the growing private market in carbon and ecosystem services will increasingly influence decisions about how best to use finite public funds to tackle the climate and nature emergencies through farming and other land management.

LINK believes that farmers should be wary of selling carbon offset credits to buyers upfront, as this could harm their own decarbonisation efforts. It is likely to be more beneficial for farmers to work together with food businesses to reduce emissions and sequester carbon within the supply chain. This will require new standards that guarantee the permanence and accurate measurement of carbon stored. Those making carbon neutral or net zero claims, through the purchase of carbon credits generated from land, should have to demonstrate that they are also reducing their own emissions

Regional Land Use Partnerships and the Frameworks these will produce can provide an opportunity to maintain landscape scale connectivity and ensure the community is actively participating, while aggregating investments to a viable level for blended finance. At the same time, schemes must build in safeguards to protect farmers - especially tenant farmers and other non-owners - and to ensure significant community benefit.