The new Common Agricultural Policy in Scotland.

An introduction to what it means for you.
On 11 June 2014, I announced how the new Common Agricultural Policy (CAP) will be implemented in Scotland between 2015 and 2020, including plans for Direct Payments and the Scottish Rural Development Programme.

The move from historic to area payments represents the most radical distribution of CAP payments ever – and we have strained every sinew to forge, from challenging circumstances, to create a production-based and sustainable agricultural policy.

All this against a backdrop of atrocious budgets negotiated by the UK Government – Scotland is now bottom of the European league tables for both Pillar 1 and 2 funding.

We estimate that by 2019 Scotland will only have around €128 per hectare, whereas the minimum for all other member states will be €196. The EU average will be €260 and the UK average will be €225. This is because the funding formula (based on per hectare) agreed by Europe, only applies to Member States. As we don’t have our own seat at the top table, Scotland has lost out on a £850 million Pillar 1 uplift alone over the next CAP. Sixteen other countries also negotiated a Pillar 2 uplift but we remain stuck at the bottom.

A combination of budget constraints, the move to area payments, and mandatory deductions under EU rules, means many active intensive farms in particular now face reductions in payments. Of course, many that face deductions were over compensated under the historic system and it’s only right their payments reduced or stopped. Indeed, inactivity will now mean no payment and slipper farming is tackled under our proposals. Crucially, new entrants frozen out previously will be included in the new CAP from day one.

Scottish Government policy focuses on rewarding activity, tackling inactivity and supporting sustainable production.

Our producers will continue to put food on our tables, and on tables around the world, protect our environment and support our rural communities. Scottish agriculture underpins our rural economy and rural communities.

Scottish agriculture itself is underpinned by CAP. It is therefore vital that the new CAP supports farming and food production, as well as responsible land use, and strikes the right balance between flexibility and complexity.

I know CAP is complicated and we’re trying to make it easier by developing a system that is much clearer, simpler and smarter. Find out more about Rural Payments and Services on page 4.

I’m confident this is the best possible CAP package for Scotland, under the circumstances, and will lay the foundations for a successful Scottish agricultural sector for years to come.

Richard Lochhead, MSP
Cabinet Secretary for Rural Affairs and the Environment
**The new CAP in Scotland**
This section tells you more about the new Common Agricultural Policy (CAP), the new schemes and the main changes.

**The new online service**
A new online system, Rural Payments and Services, will launch later this year. This section includes more information about the new service and how we are trying to make the transition from paper to online as easy as possible.

**Direct Payments**
The new arrangements replace the current income support measures: Single Farm Payment (SFP) and Scottish Beef Scheme (SBS). Agricultural land will be divided into three regions, there will be new Greening rules and a young farmers payment. If you claim through SFP and SBS now, or you think you might be interested in National Reserve in future, you will need to know what's changing.

**Scottish Rural Development Programme**
The new programme is designed to deliver our key priorities of sustainable economic growth, protecting the environment and tackling climate change and vibrant rural communities. This section covers the new Scottish Rural Development Programme and the support that will be available.

**What's happening and when?**
We’re working hard to get everything ready for the new schemes starting next year. Our timeline shows what you can expect, when more information will be available and when we will hold roadshows across Scotland.
The Common Agricultural Policy (CAP) has changed regularly since it began in 1957. This booklet gives an overview of what the latest changes will mean for you.

CAP is the agricultural policy of the European Union (EU). CAP implements a system of agricultural support and funding to target support at environmental, economic and community development across rural Scotland. Last year, over £650 million was invested in Scotland’s rural economy through the CAP programme:

- Farming support to maintain food production and sustain jobs and farming businesses
- Locally based projects to help protect and sustain Scotland’s unique environment
- Investment in new forestry across the country
- Support for the diversification of agricultural businesses, including farm shops and agri-tourism projects
- Community based investment to help revitalise and sustain local rural economies, including renewables, historic environment, tourism, landscape and biodiversity, and rural businesses
- Investment in Scotland’s growing food and drink sector, a major contributor to our economy

The new CAP starts in 2015. This booklet outlines what the new CAP means for you in Scotland.

What it means

Although most of CAP will be the same across the EU, there are some decisions taken by the UK or at a Scottish level. To make sure you had a say, we have consulted with you and other stakeholders over the last year.

To make it easier for you to find out more about the new schemes and to apply for funding, we’re building a new online service. Rural Payments and Services will be easier, simpler and smarter. See page 4 for more information.

Direct Payments (Pillar 1) will be worth around £470 million in 2015 with £3.3 billion in direct support to our farmers and crofters between 2015 and 2020.

The Scottish Rural Development Programme (Pillar 2) will be worth over £1.3 billion for 2014 to 2020. The Programme document is subject to approval from the European Commission and we aim to open the new schemes in January 2015.

The main changes

The new CAP in Scotland includes tough new rules to make sure only genuinely active farmers are entitled to Direct Payments as well as specific support for new entrants, the environment and Scotland’s livestock producers.
The main changes include:

- Strict activity requirements that farmers will have to meet to be eligible for Direct Payments. This will remove land with no agricultural activity from the payment regime, which is currently estimated at 600,000 hectares
- Basic Payments will be capped at around £400,000 per year, after labour costs
- Sporting estates whose principal activities are not agricultural will be added to the negative list to exclude them from automatically receiving direct farm payments, unless they can prove they are a genuine farm business
- The creation of three payment regions and, subject to agreement with the rest of the UK, a coupled support scheme for sheep for producers in the third region
- A five year transition between 2015 and 2019 for the move from historic to area-based farm payments, a move which is required by Europe. New entrants, who have previously been excluded from receiving direct farm payments, will get the regional average from day one of the new CAP
- A new £45 million three year beef improvement scheme in Pillar 2. This is in addition to the 8% coupled support scheme for beef in Pillar 1 which is being retained. Subject to agreement with the rest of the UK, beef producers on the islands will be eligible for higher coupled support payments than mainland producers, with an uplift of around €65 per calf
- A greener CAP, with farmers being rewarded with Pillar 1 top-up payments for taking action to protect biodiversity and reduce emissions, and confirmation that rural development funding for agri-environment and climate change schemes will increase by more than £10 million per year as proposed in our consultation
- A separate capital grant scheme for crofters in the rural development programme

For more information on:
Direct Payments (Pillar 1), see page 5
The Scottish Rural Development Programme (Pillar 2), see page 9

Keeping you updated
We have been developing the new CAP and new online service with your involvement and we will continue with this approach. We’ll keep you informed with changes and how they affect you throughout the rest of this year and 2015.

This booklet provides you with an overview of how the new CAP will be implemented.

We’ve also produced two other documents you may find useful:

- Direct Payments guide
- Scottish Rural Development Programme guide

You can see copies of these online at
www.scotland.gov.uk/topics/farmingrural/agricultural/CAP

To find out more about our new online service, see the updated timeline or get involved, go to www.ruralpayments.org
We know land managers, farmers, crofters, agents and other customers want one system that is easy to use, so we’re building a new online service for all of the CAP schemes.

We are working with Scottish Natural Heritage and Forestry Commission Scotland to develop a new online service that will make submitting an application or making a claim clearer, simpler and smarter.

We don’t expect to have everything online until 2017 and we’re doing everything we can to make the transition from paper to online as smooth as possible. We’re hosting regular focus groups throughout Scotland and we’re using the feedback to help us shape the new approach and to deliver what customers really want and value – now and in the future.

- Easy to follow scheme guidance and information
- Jargon-free language and no unexplained acronyms
- Better help and search tools
- Up-to-date map information
- Auto updates and reminders
- Information and communications secure and in one place

We’re building the new online service in stages. Later this year we’ll contact a small number of customers and agents to use the new online services in a pilot. We’ll roll out the pilot to more and more customers and agents each month. They will be able to create an account and update their personal and business information. They will also be able to see maps of their land on-screen to help them get ready for 2015.

We’ll invite more and more people to use the new system until it’s ready for everyone. From early next year, we’ll start to add more parts to the service so you can apply online for:

- Direct Payments
- Voluntary Coupled Support for Beef and Sheep
- Less Favoured Areas Support Scheme
- Agri-Environment and Climate Change Scheme
- Forestry Grant Scheme
- Legacy claims for the Rural Priorities Scheme

Guidance, information and forms for all CAP schemes will also be available on Rural Payments and Services by early 2015. You will be able to access the paper forms for all schemes through www.ruralpayments.org.

We’ve developed an online introduction to Rural Payments and Services and a short film to guide customers and agents through what’s coming. Go to www.ruralpayments.org to find out more and sign up to take part in one of the focus groups or pilot.

We’ll continue to make updates, so you can apply for more of the schemes online. By the end of March 2017, we hope to let you submit applications online for all of our services and manage all of your activity through a single customer account, similar to the services you may already use for online banking.
Direct Payments

The arrangements for Direct Payments will run from 2015 to 2020 and we will introduce new support measures to replace the Single Farm Payment Scheme (SFPS). Over the period, the new support measures will inject £3.3 billion into Scotland’s agricultural sector.

The majority of farming businesses will be allocated a new payment entitlement in 2015 which will be limited to the number of entitlements held in 2013 or the number declared in 2015, whichever is the lowest. Other farmers such as new entrants since 2013 will, depending on circumstances, be allocated payment entitlements through the National Reserve. Most of a farmer’s or crofter’s payments will be made up of their Basic Payment and its associated environmental payment, known as Greening.

These are important changes. Some of the changes are radical, for example the switch to an area-based payment from support based on historic activity. And some of the changes will be familiar, such as the annual application process or requirements to comply with regulations on public health, animal and plant health, environmental protection and animal welfare.

The main elements of the reforms have been set out in EU regulations and are the same across all 28-member states. However there is still a lot of detail, necessary to implement the schemes, which needs to be worked out.

This booklet is a starting point and we will keep you up-to-date as we approach 2015. You can keep up-to-date by visiting our website at: www.scotland.gov.uk/topics/farmingrural/agriculture/CAP

Over the last year, there have been many discussions about Direct Payments and how they may be made in Scotland. The Scottish Government’s CAP Stakeholder Group met throughout the year to discuss possible ways forward. A public consultation has been carried out and a further stakeholder engagement programme has also been undertaken.

Europe published the main regulations for the future CAP in December 2013, and these require us to notify Europe of many of the key decisions by 1 August 2014. However, the delegated acts and implementing rules which set out much of the fine detail have still not been published. This document outlines the main decisions that have been taken so far which will form the basis of our notification to Europe in August. More information and guidance for farmers will be produced when all the detailed rules are known.
Direct Payments

Basic Payments

Basic Payments in Scotland will be paid on an area basis and, to reflect the variation in land across Scotland, will be based on traditional land quality.

There will be three Payment Regions which will determine the final area rates of the Basic Payment.

- **Payment Region 1 (around 1.8m hectares)**
  This will include parcels of better quality agricultural land that have been typically used for arable cropping, temporary grass and permanent grass. Rough grazing will not be included in Payment Region 1.

- **Payment Region 2 (around 1m hectares)**
  This will include parcels of better quality rough grazing which have been designated as Less Favoured Areas (LFA) grazing categories B, C, D and non-LFA.

- **Payment Region 3 (around 2m hectares)**
  This will include parcels of the poorest quality rough grazing which have been designated as LFA grazing category A.

In recognition of the difference in land quality, the budget will be distributed between these Payment Regions to achieve a balance in 2019 that reflects the variation in the productive capacity of the land.

Depending on the area of eligible land declared for the new scheme, the 2019 combined area rates for Basic Payments and Greening will be around:

- €220/ha or £176/ha for eligible land in Payment Region 1
- €35/ha or £28/ha for eligible land in Payment Region 2, and
- €10/ha or £8/ha for eligible land in Payment Region 3

(Please note: The euro / sterling exchange rate used is €1 = £0.80 for illustrative purposes only. The actual payment will depend on the exchange rate applying at the time of payment.)

In addition to this, depending on eligibility criteria, there will be Voluntary Coupled Support (VCS) beef payments for all beef producers and VCS sheep payments for farm businesses reliant on Payment Region 3.

Transition to area-based payments

The initial 2015 value of Basic Payment entitlements will take account of a farmer’s historic Single Farm Payment (SFP) value. Between 2015 and 2019, Basic Payment entitlement values within each Payment Region will converge so that by 2019, all Basic Payment entitlements have a common value of the regional area rate.

Eligibility and area of land

Farmers will be able to apply for entitlements to the new Basic Payments if they are able to demonstrate agricultural activity, for example, by having activated a Single Farm Payment (SFP) entitlement in 2013, or by having other verifiable evidence of farming activity.
In 2015, eligible active farmers will be allocated the number of payment entitlements equivalent to whichever is the smallest of the number of eligible hectares declared in 2013 or 2015.

**Negative list**

In order to ensure payments target active farmers, sporting estates whose principal activities are not agricultural will be added to the list of business types to be excluded from future Direct Payments. Regulations already stipulate that airports, railway services, waterworks, real estate services, permanent sport and recreational grounds are to be excluded from Direct Payments unless they are able to demonstrate that they are a genuine farming business.

**Minimum activity requirement – Scottish clause**

Farmers will be required to demonstrate they are undertaking some type of minimum activity on land that is naturally kept in a state suitable for grazing or cultivation. In Scotland this area is typically rough grazing land. Minimum activity requirements will include a minimum stocking density (with derogations) as well as other alternative measures.

**New entrants**

There will be a package of measures under both Pillars of the CAP specifically targeted at new entrants.

Existing new entrants will be eligible for Basic Payment entitlements if they are able to produce verifiable evidence of farming activity in 2013. They will also be able to apply to the National Reserve to top up the value of their payment entitlements to the regional average value from Day 1.

Future new entrants will also be allocated entitlements from the National Reserve and funding will be generated by further top slices to the Basic Payments ceiling.

**Capping, siphon and windfall profit**

Europe requires a mandatory 5% deduction to all Basic Payments over €150,000 (£120,000 depending on exchange rate applicable at the time of payment). This is a process known as degressivity. In addition to the mandatory 5% degressivity deduction there will be a cap on Basic Payments at £400,000 after taking labour costs into account. The money saved by these measures will be used to fund rural development projects.

Greening, Young Farmer Scheme (YFS) payments and Voluntary Coupled Support (VCS) payments are not subject to either degressivity or capping.

In order to further help new entrants etc, we will transfer part of the value of any entitlements sold without accompanying land to the National Reserve (siphon). Similarly, the excess value of entitlements will also go to the National Reserve where this has come about through a reduction in declaration of eligible land because a lease has ended or land sold (windfall profit).
Direct Payments

Voluntary Coupled Support (VCS) - beef
Subject to the agreement of the rest of the UK, Scotland intends to use 8% of its revised national ceiling for coupled support payments to the beef industry with a further amount up to 0.5% being used to top up payments for beef producers on the islands. Payments will be made for calves with 75%+ beef genetics which are born on Scottish holdings. Beef coupled support payments will be front loaded, with double the rate paid on the first 10 calves. Beef calf producers on Scottish islands will receive higher rates than mainland producers.

Voluntary Coupled Support (VCS) - sheep
Subject to the agreement of the rest of the UK and Europe, Scotland intends to target coupled support payments for sheep to help Scottish farming businesses which are reliant on rough grazing.

Young Farmer Scheme (YFS)
Top up payments to farmers up to 40 years old, at the time of applying (as set by Europe), will be available. The payments, which will be made on up to 90 hectares of a farmer’s claim, will be top ups of 25% of the regional average entitlement value.

Greening
There will be a package of Greening measures including some standard and some equivalent measures that are tailored to Scottish needs.

Under the Crop Diversification measure, farmers will be allowed to choose between Europe’s standard Greening requirement and an equivalent ‘winter soil cover’ requirement or an equivalent ‘catch crops’ requirement.

For the Permanent Grassland measure, we are required to designate important grasslands in Natura 2000 sites. A mandatory equivalent measure for farmers on permanent grasslands will require them to produce a nutrient management plan, however, the aim is to target this to the most intensive farms.

Standard measures will be implemented under the Ecological Focus Area (EFA) requirement and features such as fallow, buffer strips along watercourses and field margins, catch crops and nitrogen-fixing crops (with management prescriptions) will count towards the requirement.

Standard Greening measures will be implemented as of 1 January 2015 however if the equivalent measures have not been approved by the European Commission in time, equivalence will be implemented from 1 January 2016.
Key purpose and priorities

The key purpose of the SRDP is to help achieve sustainable economic growth in Scotland’s rural areas and the priorities remain broadly the same as the previous programme. The four main priorities are:

- Sustainable economic growth
- Protecting and enhancing our environmental assets
- Adapting to, and mitigating, climate change
- Vibrant and sustainable rural communities

A Partnership Agreement will outline how the SRDP will have a joined-up approach with other European funds in Scotland for economic growth and fisheries.
Scottish Rural Development Programme

The new SRDP will be:

- **Simple** – with a clear list of schemes
- **Straightforward** – through an improved application process for land-based schemes and a two tier approval process through a Rural Regional Delivery Partnership
- **Effective** – through better targeting, support for co-operative action and improved advice and closer alignment with other EU and domestic funds
- **Customer focussed** – with improved guidance, enhanced customer support, an expanded advisory service and the Scottish Rural Network
- **Accessible** – through targeted support for small farms and an improved application / approval process for grants under £75,000 for land-based schemes

**Timetable**

We aim to open the new SRDP to applications in January 2015, subject to approval from the European Commission.

**Support schemes**

<table>
<thead>
<tr>
<th>Scheme/priority</th>
<th>Allocation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less Favoured Areas Support Scheme (LFASS)</td>
<td>£459m</td>
<td>Continued support for less favoured areas. A review of LFASS will start in 2015 and a replacement scheme and designation will be in place by 2018.</td>
</tr>
<tr>
<td>Forestry</td>
<td>£252m</td>
<td>A range of grants for woodland creation, agroforestry, tree health, woodland improvement, processing and marketing and sustainable management of forests.</td>
</tr>
<tr>
<td>Agri-Environment Climate (AEC)</td>
<td>£350m</td>
<td>Targeted support for land managers to undertake management and capital work for environmental purposes. This includes £10m targeted support for slurry stores and £6m for footpaths and other works to support access management.</td>
</tr>
<tr>
<td>Support for Co-operative Action</td>
<td>£10m</td>
<td>Facilitation to projects to drive forward improvements at an ecosystem scale in order to achieve environmental obligations more effectively.</td>
</tr>
<tr>
<td>Beef package</td>
<td>£45m</td>
<td>To deliver economic and environmental improvements. This will include £32.5m for support towards genetic resilience, plus targeted support for the beef sector through other budget lines including Knowledge Transfer and Innovation Fund and the Advisory Service.</td>
</tr>
</tbody>
</table>
## Scheme/priority

<table>
<thead>
<tr>
<th>Scheme/priority</th>
<th>Allocation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>New entrants</td>
<td>£20m</td>
<td>Start-up grants for new entrant young farmers of up to 40 years old (as set by Europe). Further support will be available for new entrants, regardless of age, to access capital funding to improve their business. Additional support and mentoring will be delivered through the Advisory Service.</td>
</tr>
<tr>
<td>Crofting</td>
<td>£14m</td>
<td>Grants to crofters to take forward improvements on their crofts which will help to sustain their business and enable co-operative working.</td>
</tr>
<tr>
<td>Small Farms</td>
<td>£6m</td>
<td>Targeted support for small farms that face similar issues as crofters regarding sustainability.</td>
</tr>
<tr>
<td>Business support - Food and Drink Support</td>
<td>£70m</td>
<td>Support to the non-primary agricultural businesses in the food and drink sectors who are key drivers of growth and sustainability in our rural areas.</td>
</tr>
<tr>
<td>LEADER (local development)</td>
<td>£86m</td>
<td>LEADER will provide opportunities for individuals, business and communities to come together and support rural development and provide lasting benefits to the local area. £20m has been allocated for specific support for small business growth, including farm diversification which will also be made available through LEADER.</td>
</tr>
<tr>
<td>Knowledge Transfer and Innovation Fund (KTIF)</td>
<td>£10m</td>
<td>Scotland must take advantage of its strong performance in research and development and ensure that the learning from here and elsewhere can be transferred to on the ground improvement. Will include dedicated support for the livestock sector.</td>
</tr>
<tr>
<td>Advisory Service</td>
<td>£20m</td>
<td>This will launch in 2016 and is closely tied to KTIF and will play a key role in ensuring best practice and learning can be implemented on the ground. Will include dedicated support for the livestock sector.</td>
</tr>
<tr>
<td>Broadband</td>
<td>£9m</td>
<td>Budget provision for broadband.</td>
</tr>
<tr>
<td>Technical Assistance</td>
<td>£15m</td>
<td>Cost of Scottish Rural Network and SRDP implementation, evaluation and monitoring.</td>
</tr>
</tbody>
</table>
**New Online Service**

- **Rural Payments and Services**
  - [www.ruralpayments.org](http://www.ruralpayments.org)

**Pillar 1 of the new CAP**

- Direct Payments announcements made
- Direct Payments for 2015 depend on cross compliance conditions being met from 1 January to 31 December

**Pillar 2 of the new CAP**

- Scottish Rural Development Programme (SRDP)
- LEADER funding allocated in December 2014 - projects then approved by Local Action Groups on rolling basis during 2015
- LFACS claims invited (for payment in 2016)

**What's happening and when?**

<table>
<thead>
<tr>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>JUN</strong></td>
<td><strong>JAN</strong></td>
</tr>
<tr>
<td>Online introduction to Rural Payments and Services and a short film to guide customers and agents through what's coming</td>
<td>Information on how to use the new online service to support customers</td>
</tr>
<tr>
<td>Direct Payments announcements made</td>
<td>1 Jan - start of scheme year and compliance with Greening requirements</td>
</tr>
<tr>
<td>SRDP announcements made</td>
<td>Forestry applications invited</td>
</tr>
<tr>
<td>Communications and roadshows with customers and agents</td>
<td>January - formal start of new SRDP programme (subject to approval by the European Commission)</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**This is an indicative timeline for the development and introduction of Rural Payments and Services and the new CAP schemes (June 2014).**