AREAS OF NATURAL CONSTRAINT (ANC)

WORKING GROUP – FINAL REPORT

Guiding principle

The ANC scheme should be focussed on ensuring that an appropriate level of support goes to areas facing natural or other specific constraints which contribute, by encouraging continued use of agricultural land, to maintaining the countryside as well as to maintaining and promoting sustainable farming systems. The scheme will be based on a calculation of additional costs incurred and income forgone as a result of the natural or other specific constraints.

Defining Areas of Natural Constraint

The ANC Working Group agreed in principle to seek to include all land facing natural or other specific constraints, as outlined in the guiding principle, that is affected by one of the biophysical criteria to ensure all holdings on ANC land receive support where appropriate. It is noted that this risks over-compensation which we would attempt to off-set through eligibility criteria.

Criteria for land designation

The Commission have proposed that LAU2 is used to define an area of land, this means local government electoral wards in Scotland. We may have the flexibility to use other options, such as agricultural parish.

The Commission has also proposed that where that area has 66% of its Utilised Agricultural Area (UAA) affected by any one of the ANC criteria then it is classed as ANC. Alternative thresholds of 60% and 50% are being discussed.

The biophysical criteria currently proposed ensure that most, if not all, naturally constrained holdings in Scotland would fall within the ANC boundaries. The group agreed that the scheme should seek to apply the criteria as currently proposed by the Commission.

The Working Group agreed that we should not seek to use the mountain areas classification as these areas would be included, and would receive an appropriate level of support based on costs and income calculation, by our approach as outlined above.

The James Hutton Institute, on behalf of the Scottish Government, are carrying out mapping work to establish the impact of the proposals on differing percentage of UAA limits (50, 60 and 66) and definition of area options (LAU2
or agricultural parish). This will allow us to propose the best options for Scotland with the aim of including all holdings on naturally constrained land.

**Eligibility criteria**

We can apply eligibility criteria which excludes farm types, ensuring we do not overcompensate. These farm types should represent a minority in the total area as most areas where the constraint does not play a role should be excluded during the fine-tuning exercise.

Criteria currently applied to LFASS that we could seek to continue:

- **Length of use** – in current scheme land must be managed actively for 6 months, 1 day.

- **Maximum stocking densities** – prevents those who are able to farm more intensively, suggesting they are on land that does not constrain production, from receiving support.

- **Minimum stocking densities** - are one way of ensuring support is going to active farmers and that some level of grazing is maintained, thus delivering environmental benefits. There are likely to be a significant number of potential beneficiaries stocking at levels that are very low in agricultural terms but which are entirely appropriate for environmental purposes. A derogation is perhaps the best way to address the problem these might give rise to in setting a minimum level - but if the minimum were set too high, the number seeking a derogation could be significant and administratively burdensome. While we are not yet at the point of proposing a minimum stocking density at this stage, the environmental implications of the level at which it is set should be taken into account.

  Some further analysis will inform our recommendations on any minimum level in order to avoid excluding from payment the most environmentally important holdings (e.g. mapping stocking densities at parish or ward level against the occurrence of designated sites or HNV farmland).

- **SG will also investigate the option of activity being verified as part of SG inspections.**

  To reflect the principle of the scheme the aim is that ANC would not discriminate by agricultural production type, but is based purely on the natural or other specific constraints (the previous LFA scheme supported forage areas only). If eligible land falls within the ANC area, and the calculation demonstrated a loss of income/increased costs at €25/hectare or more, then it should receive support, but further consideration impact will be done once these calculations are complete.
Fine tuning

Scottish Government will scope potential for Land Capability for Agriculture (LCA) to be used to fine-tune in land which faced specific natural constraints but who fall outwith the ANC designation. This can apply only to homogenous areas – areas affected by specific constraints shall comprise farming areas which are homogenous from the point of view of natural protection conditions and their total extent shall not exceed 10% of the area of the Member State concerned.

The group agreed that we should seek to include Islands due to the specific natural constraints they face. This would only be necessary if any areas within an Island fell outwith the defined ANC.

The Commission also propose that fine-tuning is undertaken to ensure that ANC areas are excluded where the constraints have been overcome by investments or by economic activity. Given that most of Scotland is defined as ANC using current criteria we may have to look at excluding a significant amount of land which has clearly overcome the constraints set out by the Commission in their proposals. This should be enabled via the calculation of additional costs and income foregone.

Payment rates

Payment rates are calculated from costs incurred and income foregone. The Scottish Government will instigate this exercise which will be subject to independent verification.

The minimum payment is €25/hectare, up to a maximum of €250/hectare (€300 for mountains). The Working Group have recommended that we apply different payment rates for different categories of land with natural constraints where the payment rate calculation supports this, but we do not use adjusted hectare methodology.

We are working with the Hutton Institute to scope out options for how we will measure the different categories of land with natural or other specific constraints, potentially through LCA classifications.

Payment top-up

As the scheme is to be based on the level of the natural or other specific constraint, backed up by calculation of additional costs incurred and income foregone, the group agreed that top-ups were no longer relevant. The Working Group felt that the current support under LFASS for the livestock sector should be continued under Pillar 1 via the Beef Calf Scheme.

Budget management (size thresholds and Pillar 1 top-up)
Once the area has been defined, and the Scottish Government can calculate with reasonable certainty the total cost of support, there are two options available to manage the budget and prevent over-compensation. The two options are:

The Commission have proposed that size thresholds be set by the managing authority (the Scottish Government), above which payments will be degressive. This threshold is to be defined in the programme and may be a way to manage the budget. Work on identifying appropriate thresholds will be undertaken if required at a later date.

The second option available is to transfer funds from pillar 1 (5%) to identified ANC recipients. Clearly this would require careful consideration as it would have an impact on Pillar 1 payments and it is important we continue to see growth in our agricultural sector, and maintain viable food production. The Working Group felt it was important to get the scheme right under Pillar 2, however if necessary Pillar 1 could be used to meet any higher payment rate on the land with greater constraints.

**Analytical work**

Analytical work will be undertaken to develop the propositions above. This will include: the rational for this type of support; the investigation of methods to fine-tune in areas that might fall out of the ANC (e.g. using LCA); instigating work to calculate additional costs and income forgone; and examining eligibility criteria. RESAS will also collect and review data on the land and businesses that are likely to be included in the new scheme alongside information on the current recipients and land in the LFASS. This information will be used to inform payment calculations and to assess the potential impact of the new ANC scheme,

**Consultation questions**

We intend to consult on the proposals for the SRDP 2014-2020 in early 2013. Suggested consultation questions for ANC include:

Q. Should we use the ANC article to provide support to eligible farmers in areas of natural constraint?

Q. Should we give higher payments for areas which are deemed to be facing greater natural constraints?

Q. Do you think we should use the option to top-up ANC funds with a transfer from Pillar 1? (may wish to rephrase once we have a clearer idea of budgets)
Q. Do you agree with the eligibility criteria outlined above? (outline length of use, maximum and minimum stocking densities)

Other suggested topics for potential questions:

Determining disadvantage
Size thresholds
Islands
LCA question
Support for livestock sector
Payment rates
Fine-tuning (in and out)