RURAL AFFAIRS, CLIMATE CHANGE AND ENVIRONMENT COMMITTEE

AGENDA

5th Meeting, 2014 (Session 4)

Wednesday 26 February 2014

The Committee will meet at 10.00 am in Committee Room 2.

1. The Scottish Government’s implementation of the Common Agricultural Policy and Scotland Rural Development Programme 2014-20: The Committee will take evidence from—

   Jonnie Hall, Director of Policy and Regions, National Farmers Union of Scotland;
   Patrick Krause, Chief Executive, Scottish Crofting Federation;
   Sandy Simpson, Board Director, Scottish Tenant Farmers Association;
   Roger McCall, Member, New Entrants Group Policy Committee;
   Stuart Ashworth, Head of Economics Services, Quality Meat Scotland;
   James Withers, Chief Executive, Scotland Food and Drink;
   Dr Ronald Wilson, School of GeoSciences, University of Edinburgh;
   Andrew Skea, President, British Potato Trade Association;
   William Houstoun, General Manager, Angus Growers Ltd;
   Debs Roberts, Development Manager, Scottish Organic Producers Association.
The papers for this meeting are as follows—

**Agenda item 1**

Note by the Clerk

PRIVATE PAPER

RACCE/S4/14/5/1

RACCE/S4/14/5/2(P)
Scrutiny of the Scottish Government’s implementation of CAP and SRDP 2014-20

Introduction

1. In agreeing its work programme on 11 December 2013, the Committee agreed to take evidence on the implementation of the newly reformed CAP in Scotland (both the direct payments of pillar 1 and the rural development SRDP funds of pillar 2) in 2014, both of which are currently subject to consultation by the Scottish Government.

2. In addition, the UK Secretary of State, Owen Paterson MP, is scheduled to give evidence to the Committee on CAP, and other relevant matters within his portfolio, on 12 March 2014.

3. The Committee agreed the details of its CAP and SRDP scrutiny at its meeting of 5 February 2014.

Background

4. In this session of Parliament, the Committee has scrutinised the reform of the CAP extensively. Previously, this focussed on the negotiations at an EU level, with the Committee taking a wide range of written and oral evidence from UK Ministers, the Scottish Cabinet Secretary, MEPs, European officials, and stakeholders, and reporting its views to the Scottish Government.

5. The Committee last took oral evidence on CAP issues on 18 September 2013, when it heard from the Cabinet Secretary.

6. Having completed a first phase of consultation last year, the Scottish Government currently has two open consultations on CAP and SRDP issues—

   • Scottish Government consultation on Future CAP direct payments in Scotland from 2015\(^1\) - end 17 March 2014; and

   • Scotland Rural Development Programme (SRDP) 2014-2020 Stage 2: Final Proposals – end 28 February 2014\(^2\).

7. In November 2013, the Scottish Parliament Information Centre (SPICe) published a briefing paper entitled “CAP Reform 2014–20: EU Agreement and Implementation in the UK and in Ireland”.\(^3\)

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Sustainable development

8. The Committee is committed to embedding consideration of sustainable development issues in all of its work. With that in mind, and given that this round of CAP reform includes the policy objectives of ‘viable food production, sustainable management of natural resources and climate action’, and that the new payments architecture is intended to be ‘more equitable and greener’, the issue of the future allocation of agricultural and rural development support in Scotland is particularly relevant to sustainable development. The Committee will therefore be considering sustainable development issues as part of its scrutiny.

Call for written views

9. As the Scottish Government is currently conducting two consultations the Committee has not issued a general call for written views. However, organisations which have been invited to give oral evidence have been given the option to either send the Committee a copy of their submission to the Scottish Government, for reference, or to send the Committee a brief summary, or update, of their position.

10. Organisations which have not been invited to give oral evidence are also welcome to submit a copy of their submission to the Scottish Government, for reference, or to send the Committee a brief summary of their position.

11. Written submissions received to date are attached at the Annexe.

Witnesses for oral evidence

12. The Committee will take oral evidence on both pillars from two separate roundtables of stakeholders as follows—

Wednesday 26 February – farming and food roundtable

- National Farmers Union Scotland;
- Scottish Crofting Federation;
- Scottish Tenant Farmers Association;
- New Entrants Group;
- Scottish Organic Producers Association;
- Quality Meat Scotland;
- Scotland Food and Drink;
- British Potato Trade Association
- Angus Growers Ltd; and
- Dr Ronald Wilson, School of GeoSciences, the University of Edinburgh.

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Wednesday 5 March – rural development and environment roundtable

- Scottish Land and Estates;
- Scottish Natural Heritage (TBC);
- Scottish Environment Link;
- Confor (TBC);
- Scotland’s Rural College;
- Nourish (TBC);
- Scottish Agricultural Organisation Society Limited (TBC);
- The Scottish Border Regional Land Use Framework pilot project (TBC);
- The James Hutton Institute; and
- Peter Cook (independent adviser; former head of the Scottish Agricultural College’s Rural Business Unit; former adviser to the Scottish Government on SRDP).

Wednesday 12 March

- UK Secretary of State for Environment, Food and Rural Affairs; and

Wednesday 26 March

- Cabinet Secretary for Rural Affairs and the Environment and his officials.

Output

13. At the conclusion of its evidence taking, the Committee will write to the Scottish Government giving its views on the roll out of both pillars of the CAP in Scotland from 2015 onwards.

Timetabling

14. The timetable for scrutiny is as follows—

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<tr>
<th>Date</th>
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<tbody>
<tr>
<td>Wed 26 Feb</td>
<td>Evidence from stakeholders</td>
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<td>Wed 5 March</td>
<td>Evidence from stakeholders</td>
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<td>Wed 12 March</td>
<td>Evidence from the UK Secretary of State</td>
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<td>Wed 26 March</td>
<td>Evidence from Cabinet Secretary</td>
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<td>Wed 23 April</td>
<td>Consider a letter to the Scottish Government</td>
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<td>Wed 30 April</td>
<td>Consider a letter to the Scottish Government</td>
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<td>After 30 April (TBC)</td>
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Clerks/SPICe
Rural Affairs, Climate Change and Environment Committee
Annexe

Written submission from NFU Scotland

The task of shifting from Scotland’s current historic-based system of support to a new area-based system is hugely challenging and may lead to significant restructuring of Scottish agriculture.

Overall, the challenges for Scotland are: limited financial resources within both Pillars of the budget; a very diverse agricultural landscape; and very large tracts of hill grazing which itself is of highly variable quality and productivity.

However, NFU Scotland welcomes the announcement of 17 February 2014 that further measures will be adapted in order to target so-called slipper farming on Scottish hillsides. In addition, we support the Scottish Government’s intentions to use 13 per cent of the Scottish budget for coupling, and keenly anticipate the outcome of talks with the UK Government and a swift resolution on this issue.

Pillar 1

Active farming

NFU Scotland wants an effective farming activity test to be robust so that it strips out naked or unfarmed acres, and prevents them from draining scarce funding from Scotland’s limited Pillar 1 budget. We look forward to continuing to work with the Scottish Government as these rules get written into Pillar 1 implementation plans.

Realistically we consider that the most practical measure to rule out slipper farming will incorporate an appropriate stocking of livestock/grazing to reflect land capability as part of an activity test. We would like a process put in place by the Scottish Government where farmers can demonstrate that the stocking level of the farm is appropriate. In addition, safeguards need to be included where, for example, the farm is stocked with less livestock because it is subject to a stock reduction agreement, or if the stocking density is not met with other annual maintenance activity which must be carried out every year.

Payment regions

The Scottish Government suggests that having two payment regions will allow simplicity whilst also taking into account the differing quality of land in Scotland. NFU Scotland does not agree with this perspective, and maintains that more payment regions within the area-based system would result in better targeting of funding. However, it is accepted that two regions may be easier for farmers to interpret, making it easier to declare parcels correctly, with fewer boundary lines to be questioned.

Scotland’s three million hectares of rough grazing (RGR) need appropriate levels of support, but this payment region is far from uniform and can carry hugely different intensities and production. Every effort must be made to
differentiate the payments within this region. A simple flat rate (€/ha) could decimate more productive hill units, while over-compensating very extensive grazing systems which would divert funds from better hill land.

It is essential that higher area-based support payments are delivered to better and more productive land. As well as being the engine-house of Scotland’s food industries, farms on this land also carry higher input costs and are exposed to greater volatility.

The scope to differentiate payments within the RGR region is very limited, however NFU Scotland considers that options must be explored in full. Different payment rates could be applied if the rough grazing region can be split on an objective basis or through targeting payments at livestock in the RGR through the additional coupled support.

Scotland must consider a coupled support system (where farmers receive support payments linked to a particular type of production) for hill farms (those with a high proportion of RGR land), so that different payment rates are available on the basis of different stocking densities. Targeting in this way in Scotland’s hills is essential to focus the appropriate levels of support to different farm businesses, and to use Scotland’s limited funds more efficiently.

In order that any regional approach is as accurate as it can be there should be an effective appeals mechanism for cases where clearly the farmed land in question is in the ‘wrong’ region and should be assigned a different payment rate.

**Coupled support**

We have long argued that Scotland should be able to use the UK ceiling to determine how much Scottish money is available for coupled payments. The flexibility granted by the EU Commission to use up to 13 per cent of our budget will give the Scottish Government the option to boost coupled support payments if deemed necessary.

**Coupled support - beef farming**

It has already largely been agreed that 8 per cent of the budget will be used supporting our beef sector. NFU Scotland is very supportive of this.

However, NFU Scotland believes that this coupled support can be more effective in underpinning beef production if the weighting towards the first calves claimed is adjusted. Importantly, this would also help to some degree cushion the impacts of the switch to area-based payments for very exposed medium sized beef producers on relative small areas on predominantly non-RGR land.

Therefore, NFU Scotland’s preferred beef coupled payment would operate as follows. A flat, fixed rate payment on all calves up to the first 40 claims from any one business. Thereafter, a variable rate (determined by the number of claims) would apply to all other eligible calves claimed under the scheme. The new beef scheme would be open only for eligible calves of 75 per cent beef
genetics or more. Current estimates suggest that this would deliver a fixed €150 per calf for up to the first 40 claims, with approximately €80 per calf thereafter (based on about 200,000 calves currently claimed from herds under 40 cows, and 200,000 calves from the remainder.)

It is also evident that Scotland’s red meat industry must use the potential reservoir in the dairy sector to sustain the supplies that maintain the current processing infrastructure. Therefore, NFU Scotland also believes that calves of 50 per cent beef genetics from Scotland’s dairy herds should qualify for some support, but this should be at the lower variable rate identified in the preferred model above.

**Coupled support - hill farming**

Creating a flat support system for the most fragile parts of Scotland, which could see money flood into large areas of very low intensity grazing whilst bleeding critical support from hill farms where grazing levels are more intense, is clearly unacceptable and unjustified. NFU Scotland will continue to discuss with the Scottish Government how best the extra 5 per cent headroom on coupling could be used to solve emerging issues, such as preserving activity in the RGR.

Different payment rates that target support to activity in the RGR is essential if destocking of productive grazing areas is to be avoided. Opening up an appeal system to allow productive RGR to be reclassified as permanent grass – and so be eligible for the non-RGR rate – is also essential.

A lower base payment in the RGR with support targeted at hill flocks and suckler calves through two coupled schemes may not see additional money going to that region - but would target that budget to make it work more efficiently and with greater justification. That then could bolster the spend on the non-RGR land, and could push Scottish payment rates closer to those available on arable land and improved grassland in the rest of the UK.

**Transition**

Moving from historic-based Single Farm Payments to area-based Basic Payments will redistribute funding from intensively farmed land to extensively farmed land. The reality is that a significant proportion of breeding and finishing cattle enterprises and productive hill sheep farms are going to be rushed towards an area-based payment system in 2019, and are likely to reposition themselves – with cows or hill sheep the immediate casualty.

However, the new CAP rules offer Scotland various ways to allow farmers time to adjust to the new level of direct payments. NFU Scotland recognises that there are three basic options for the transition to the area-based CAP. First, introduce flat area rates in each payment region fully from 2015. Second, use internal convergence to phase-in area-based payments by 2019 at the latest. Third, use of a so-called ‘Scottish tunnel’ which narrows the range of entitlement values without bringing them all to the regional average area value.
NFU Scotland believes that the most sensible approach would be to use a ‘tunnelled’ method that would move support rates to within a range of the area payment by 2019. Whilst smoothing the way throughout what will be a turbulent period of adjustment for Scotland’s farm businesses, this approach would allow for an evidential basis to be obtained up to 2020 on the effectiveness of an area-based support system and would enable established businesses to continue to be the basis of Scottish production in 2015 and beyond.

This approach would also require an effective and continuous National Reserve to operate in the interests of genuine new entrants and those who take on more land to develop an established business. Genuine new and developing businesses between now and 2015 can therefore be supported through a robust National Reserve. Meaningful activity requirements then need to kick in – to address the existing naked acres and any other loopholes created by establishing flexibility around the historic 2013 reference point through a National Reserve.

**Greening**

The CAP greening requirements fit badly with Scotland’s environmental priorities while also constraining spring barley production and reducing Scotland’s cropping potential. The failure of European greening to fit must not prompt gold plating of implementation standards.

It is clear that there will be no quick win on equivalences for Scotland and therefore the Scottish Government must apply the European standards to optimise impacts on the ground and to avoid unnecessary costs. Those standards are now urgently required. Rotation and land management requires clear guidelines from Government to ensure businesses can plan cropping ahead to deliver compliance in 2015. This means that:

- A full menu of EFA options should be available to ensure there is value from existing features;
- Standardised measurement standards of ecological features should be defined to allow compliance management;
- Flexibility in the face of extreme weather must be defined and available;
- No Scottish requirements should be added that gold plate the EU standards.

In the medium term, we must aim to open up an equivalence option. NFU Scotland is willing to work with officials to develop greening equivalence options to fit Scotland’s arable area and climate. The present European Commission posture is not flexible, but energy must be applied to negotiate a solution that provides wins for the environment and production.

Breaking away from rigid crop diversity requirements is fundamental, especially in northern areas and on higher ground. There are real wins in precision farming techniques while the use of break crops and or winter
stubble management might deliver further carbon and environmental gains creating a balanced equivalent scheme.

NFU Scotland has already underlined the importance of Pillar 2 measures in driving the uptake of new technology and precision techniques.

With limited direct payments on cropping units supporting the development of on farm resilience through Pillar 2 is also a priority. Developing an accessible but limited scheme to allow drain repairs or upgrades is still a priority. Drainage upgrades can deliver both carbon, business and environmental benefits such as water quality through less run-off.

**Pillar 2**

It is vital that support for active agricultural management remains at the core of the new SRDP, as it is thriving farms and crofts that are pivotal to the well-being of rural Scotland – economically, socially and environmentally.

Given that about £330 million of the £1.326 billion budget will now be made up from funds transferred directly from Pillar 1, the clear message from NFU Scotland is that the Scottish Government has to prioritise farm production and farm business sustainability.

NFU Scotland places top priority on vital funding at current levels for the Less Favoured Areas Support Scheme (LFASS) to ensure farming and crofting businesses remain sustainable. This provides essential support for 85 per cent of Scotland’s agricultural land and provides crucial support for more fragile and remote areas, underpinning grazed landscapes, local economies and more vulnerable communities.

In addition, as changes to CAP Pillar 1 (direct) support are implemented in Scotland, LFASS in its current form and with current financial commitment, will act as a vital anchor of stability for many farming communities through inevitably turbulent times.

NFU Scotland also considers that productive agriculture (across all sectors) should also be supported to ensure Scotland can meet demand for the high quality produce it is renowned for world-wide. The Scottish Government is on record as wanting to ensure this important sector for the Scottish and farming economy continues to grow and modernise, and so yield even greater benefits by way of jobs, incomes and economic growth.

NFU Scotland recognises the intention to continue to protect and improve the natural environment. The Scottish Government has set ambitious targets for adapting to and mitigating the impact of climate change, along with biodiversity targets. Agri-environment measures should be more effectively targeted to try to deliver the right actions, in the right place at the right time, by farmers and crofters that are best placed to deliver. In that context, NFU Scotland supports funding to facilitate co-operative action at a landscape or catchment scale so that collective efforts yield greater returns. Targeted, accessible and simpler measures have to be in everyone’s interest.
NFU Scotland considers that priority musty also be given to accessible measures that enable a broader swathe of farms and crofts to build financial and physical resilience – and so deliver against newer rural development goals, namely water quality and climate change. Investing in improved efficiency measures and improved productivity would enable a range of farming systems to step up to these new challenges, and also improve business returns so that climatic and market volatility can be better endured.

In that regard, NFU Scotland must challenge the emphasis and financial commitment that the Scottish Government places on woodland expansion. The desire to lock up carbon in trees is laudable, but planting targets and their associated funding budgets appear more than excessive when set against either the opportunity cost of losing fertile but scarce agricultural land from food production or the possibility of achieving equivalent climate change goals through on-farm efficiency measures.

There must also be a commitment to address other areas of vital importance to farmers, crofters and the Scottish economy, including supporting new entrants, crofters and small farms, and the need to modernise and improve working practices so that the full range of agricultural businesses can adapt to new challenges – physical and financial – and deliver even more towards important rural development goals that are in the interests of wider Scottish society and beyond.

NFU Scotland, however, is yet to be convinced that an enhanced Advisory Service, a refreshed Scottish Rural Network, and an expanded Knowledge Transfer and Innovation Fund (KTIF), together with what is promised to be improved customer support, can make a realistic and significant difference to farming and crofting in terms of their potential contribution to meeting rural development goals.

NFU Scotland also recognises that the new SRDP is just part of the package of funding available through the EU. However, NFU Scotland is cautious about a more integrated approach intended to secure greater value from the investments made using the different European funds for economic growth and fisheries. The key areas the Scottish Government has focussed on (business support, skills, advice and social inclusion/local development, etc.) must ensure the various funds complement each other and do not simply drain scarce funding that should be directly accessed by farmers and crofters to undertake investment and management that drives rural development.

The Scottish Government also intends to improve the delivery of the SRDP where it has been overly bureaucratic, and NFU Scotland supports the intention completely and welcomes the removal of the Rural Priorities Scheme. NFU Scotland backs the re-introduction of a targeted range of land based schemes with a common application process. However, NFU Scotland has some doubt as whether the new SRDP will be “clearer, more effective and more customer focused to ensure it will better serve the needs of Scotland”.
Written submission from the Scottish Tenant Farmers Association (STFA)

The Scottish Tenant Farmers Association (STFA) welcomes the opportunity to comment on the Scottish Government’s proposals for reform of the CAP. At this stage we wish to only comment of certain aspects of the implementation of the CAP reform proposals.

Implementation of CAP Reform Proposals in Scotland

Activity Requirements – The Scottish Clause

It is vital to ensure that only active farmers can receive direct support under CAP. Scotland has around a million hectares of land which does not support any farming activity, and an effective Scottish Clause is required to prevent the dilution of payments made to genuine farmers.

STFA is supportive of the Scottish Government’s initiatives to ensure a robust definition of “active farmer” and believes that a range of measures will be necessary put an end to “slipper farming”.

The government’s most recent proposal will require farmers to demonstrate activity by keeping livestock at an appropriate level linked to the carrying capacity of their land, or demonstrate significant active efforts every year to maintain agricultural land in good condition.

STFA would recommend that such a test should be supplemented by further criteria; firstly a requirement to show occupation of the land and proof of active farming in 2013; secondly the farmer must be taking the entrepreneurial risk of the farming activities on the holding, and thirdly they must be in control of the day to day management of the holding.

STFA is particularly concerned that landowners will seek to take land back in hand in order to gain ownership of entitlement to SFP. This should be discouraged by the use of the criteria above to ensure that SFP is only received by those who are farming the land themselves rather than renting land seasonally. This concern relates equally to contract farming arrangements where the “farmer” frequently shares very little risk with the contractor.

National Reserve

As a result of Scotland’s current Pillar 1 payments being based on historic production levels, many new entrants who have entered farming since 2000 find themselves farming without Pillar 1 support payments.

Lack of support for new entrants is an iniquitous outcome of the historic based system and one which must be addressed at the earliest opportunity. A National Reserve should be established to support genuine new entrants and developing businesses and ensure that such holdings receive at least the average regional payment.
STFA supports proposals to ensure that new entrants receive fair support payments from the onset of the new regime and that the National Reserve be used to top up the initial value of the Basic payment allocated to existing new entrants with no or with low historic SFP. This should level the playing field from Day 1.

STFA also supports an ongoing National Reserve to ensure that future new entrants will continue to have access to SFP and there will be ongoing incentive to re-populate areas where land has been abandoned or de-stockading has taken place.

Regions and Budgets

STFA recognises that more payment regions within the area based system would deliver better targeting of funding, but appreciates the Scottish Government’s desire for simplicity in implementing the new regime.

To maintain productivity, the higher area based payments should be directed at the more productive land where farms have higher costs of inputs and carry higher risks.

Given that Scotland has large areas supporting low or no production (classed as rough grazing), available Pillar 1 funds should be directed to support the smaller but more productive in bye area.

Rough Grazings

STFA agrees with the Scottish Government that historical land type designations would be the most appropriate basis for payment regions. However, the two region model is likely to cause significant anomalies, particularly in the Rough Grazing category where some payments will cause over compensation in land types where there is minimal activity.

Scotland’s 3 million hectares of rough grazings supports hugely varying levels of production, and the proposed flat rate payment for this area is not appropriate. Under the flat rate payment, productive hill units might receive support of only £20 per ewe, while the very extensive units might receive £200 per ewe. The proposed flat rate over compensates the extensive farms while reducing support to the more productive hill farms.

A means to differentiate payments in this area must be explored to allow better targeting of funds by splitting the rough grazing area into at least two payment regions. Given limited Pillar 1 budgets, support payments in the rough grazings region must be targeted efficiently to prevent Scotland’s more productive hill farms becoming decimated.

Transition

In Scotland the move to area payments will reduce support paid to holdings which support high levels of production. Many livestock producers will see support payments halved, and a transition period may afford the time needed to allow these producers to adjust their production systems.
It is difficult to determine how long the transition period should last; on the one hand, new entrants, developers, and producers with low entitlements need to be brought up to an average level as soon as possible, and on the other hand producers with historically high payments need time to adjust their businesses. At the end of the transition period, all producers within a region should be receiving the same payments.

Whatever the length of the transition period full payment must be made to new entrants immediately and a windfall tax should been introduced to prevent misappropriation of scarce funds.

**Greening**

30% of Pillar 1 support will be paid as a ‘greening’ payment on condition that the three greening measures are met which are (i) Crop Diversification and the 3 crop rule, (ii) maintenance of the permanent pasture area, and (iii) Ecological Focus Areas of at least 5% of arable land.

STFA believe that the 3 crop rule is not suitable for many Scottish arable farms where the focus is on spring sown malting barley production. The 3 crop rule is likely to force some farms to make changes to their crop rotations which will result in no environmental gains and a risk to the supply of Scottish malting barley.

As an alternative to the three greening requirements, the Scottish Government has the option to allow farmers to deliver their greening obligations through ‘equivalent practices’ which will yield an equal or better benefit to the environment.

Given that Scotland already supports a high proportion of overwintered stubbles resulting from the spring sown malting barley crop, a Scottish menu of ‘equivalent practices’ may be a better alternative to the 3 crop rule and EFAs

**Capping/Digressivity**

Traditional family farm sized holdings often deliver higher production outputs per hectare than the larger agribusinesses which are driven by economies of scale. Given the contributions these family farms make to supporting local communities, there is a good argument for the Scottish Government to introduce greater capping deductions than the minimum European requirement of 5% deduction from all amounts over 150,000 euros, excluding greening payments. STFA would support further reductions of 25% on payments over 300,000 euros and an absolute cap at 500,000 euros. However, in order to encourage employment the Government should consider allowing labour costs to be offset against SFP.
Voluntary Coupled Support, VCS

The proposed 8% coupled support should be directed at 75% beef calves at the proposed rates. Payments should not be made to 50% beef calves because that would dilute payments made to suckler herds which is where the support is needed.

VCS should not be used to support sheep production due to the impractical regulatory burden this would impose on hill flocks.

If VCS can be increased beyond 8%, then the increase should continue to be directed at 75% beef calves to provide a meaningful incentive to maintain suckler herds.

LFASS

Of the land-based SRDP schemes, LFASS has the highest budget and will be of great importance to producers in the LFA. It is vital that this non-competitive element is continued with an annual budget of approximately £65 million.

Scot Gov proposes to introduce a new designation called Areas facing Natural Constraints (ANC) to replace LFAs sometime between 2016 and 2018.

85% of Scotland’s farmland is in the LFA, and without LFASS most businesses in the LFA would become unviable. Therefore it is vital that support payments continue through the transition phase and that the new ANC area includes all the current LFA businesses.