They've only gone and done it! Lord Bew and Boris Johnson – 2 unlikely bedfellows for Scottish agriculture

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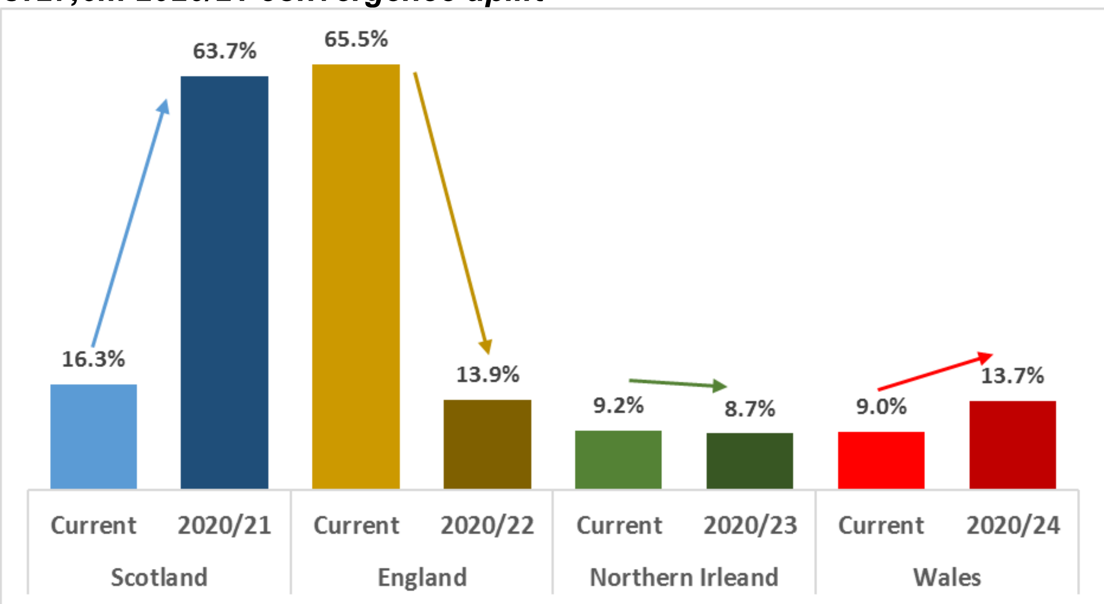
For a number of years now the Scottish Government, the Scottish farming industry and the Scottish Parliament have all been calling for a re-think on how the UK Government allocated the extra CAP money the EU awarded us for the 2014-2020 period. After years of toing and froing between Holyrood and Westminster the UK Government appointed Lord Bew to chair an independent panel to provide advice on how this money should be allocated going forward –Scotland's interests on the panel were well represented by Jim Walker.

Who doesn't want a £210m headache?

Earlier in September the UK Government's Spending Review allocated an additional £160m for Scottish agriculture, fulfilling PM Boris Johnson's leadership campaign pledge to "*address the historic injustice*" over the EU convergence uplift (this appears to be 6 years of the full convergence monies). Shortly after that announcement the Bew Review was published with the UK Government quickly accepting the majority of the panel's recommendations, including increasing Scotland's allocation of EU convergence uplift monies from 16.3% to 63.7%. This equates to an additional £51.4 million support over 2 years. In total this appears that The questions have already started on how Scotland will / should spend this windfall – but to answer that we firstly need to acknowledge why we received this money in the first place.

Image caption: Lord Bew's panel recommendations for allocation of €127,6m 2020/21 convergence uplift



Why did the UK get convergence monies?

In 2013 the EU announced that a process of "*external convergence"* should occur between Member States as they felt that the historic allocations of CAP support based on production levels in the 1990s and early 2000s were no longer meeting the objectives for today's CAP. As such any Member State whose average Direct Payment rate was less than 90% of the EU average in 2013 would be awarded a convergence uplift to take them at least to €196/ha by 2020. England (€265/ha), Wales (€247/ha) and Northern Ireland (€339) were each, on average, already above the 90% EU average convergence threshold in 2013. However, direct payments in Scotland were significantly lower on average (€130/ha), and indeed were low enough to pull the overall UK rate below the convergence threshold. As a result of Scotland's low payment rate, the UK was awarded an uplift of £189.1 million (€222.3m) of additional CAP funding for the 2014-2020 period. Despite the EU's rationale for convergence funding to narrow the payment gap across the EU, the UK Government chose to distribute the money across the UK administrations based on the historic allocations formulae used for all other CAP money allocations. This meant that Scotland only received 16.3% of the uplift. What it meant was that the €32m annual convergence budget led to an average uplift of about €2.20/ha in direct support across the UK, ranging from €1.36/ha in Scotland to €3.14/ha in Northern Ireland. Had the full allocation come to Scotland it would have meant the equivalent of a €8.31/ha uplift a year – or if it were to be distributed only across Basic Payment Scheme regions 2 and 3 then uplifts of €15.24/ha could have been granted to our rough grazing areas.

What changed with Lord Bew's panel?

Lord Bew's panel have clearly concluded that the UK Government's 2014 decision about allocating the uplift was not equitable, nor in the spirit of the EU's aims for convergence. The panel, I suspect with a large dose of Jim Walker influence, on hearing evidence came to the conclusion that the only equitable way to distribute the uplift money would be to base it on the number of hectares that each country contributed to the UK's convergence uplift The calculation was therefore based on 2013 direct payments rates (Single Farm Payment plus Scottish Beef Calf Scheme plus Pillar II transfers). In Scotland 3.1 million hectares (73% of claimed area) was below the 90% threshold, accounting for 64% of all UK hectares contributing to the uplift.

How to spend the money – what options?

The basis of Scotland receiving this money (both the historic and future elements) is clearly based on the principles of convergence and indeed "internal convergence" is already occurring in Northern Ireland and Wales by the fact that they have opted for a single Basic Payment Scheme region. Further, in England the convergence uplift they received in 2014 to 2020 appears to have supported uplifts in the payment rates for their moorlands, with Defra noting: "*This will ensure that upland farmers with large areas of moorland are not put at a disadvantage…and will distribute direct payments more equitably across English farms.*"

- Scotland still has 2.3 million hectares of Basic Payment Scheme Regions 2 and 3 getting less than €60/ha in direct support and there will be justifiably strong arguments that the uplift windfall should be focused on these areas.

- There may be calls from the industry that the monies should be more evenly distributed across the whole of Scotland, and you can sympathise with these calls, particularly in a challenging economic climate. However, we have to remember that Region 1 land already receive a healthy amount of Direct support, and many would contend that such an approach would go against the arguments that were strongly made for Scotland receiving the uplift in the first instance.
- With the enforced changes to the Less Favoured Area Support Scheme (LFASS) there is likely considerable mileage in using the monies to cover any shortfalls in the disadvantaged areas.
- Another alternative, that may be attractive to some, would be to increase payments through the Scottish Suckler Beef Support Scheme and the Scottish Upland Sheep Support Scheme, with upland farmers likely to receive the lion's share of any support.
- Could the Scottish Government utilise the monies more strategically rather than providing a short-term windfall gain? There may be merits in using some of the money as a hardship fund or using it to proactively support on-farm developments to improve efficiency, help mitigate climate change whilst having positive impacts on farmer's bottom lines.

The thorny issue of State Aid

The challenge for all of these approaches to allocating this windfall is that they may fall foul of the EU's State Aid rules which limits the amount and nature of UK monies being spent in agriculture. The £160 million is indeed new, additional, UK expenditure whilst the 2020/21 uplift coming to Scotland could likely be classed as use of the EU convergence uplift (in order to not negatively impact on farmers in Northern Ireland and England the UK Government have agreed to increase the budget available in these administrations). Therefore, the approach is likely going to need some brain power and creative thinking before allocating it.

State Aid rules are not really an issue if there is a no-deal Brexit, as we would be free to support agriculture without the bounds of the CAP in such a situation. This could include measures the EU itself is looking at in the event of a no-deal, such as: public intervention, private storage aid, withdrawal schemes and targeted aid. If, however, the UK leaves the EU with a deal, or remains in the EU then State Aid rules become a challenge in how the Scottish Government can legitimately distribute the monies, and this will need serious consideration and discussions with Brussels.

On a final note – with all the wranglings going on at Westminster I do hope the cheque is in the post. At least if we get the money into the Scottish Government we can jump over the hurdles of how to spend it on our own terms.