

Options for the **2003 Reform of the CAP**

A Long Term Perspective for Sustainable Agriculture

This paper is the outcome of a seminar that took place in Brussels on 4 March 2003. The seminar was organised by SNM, the EEB, WWF and the EFNCP. The seminar was about the future of the CAP in relation to the Mid Term Review proposal and the environment. Experts from a range of interests (environment, farmers...) as well as officials from the current and future Member States presented their views, interests and concerns.

The seminar was organised and financed in context of the project 'Greening the new CAP'. This project, initiated by Stichting Natuur en Milieu (SNM) is aimed at promoting sustainable EU agricultural policy, in co-operation with the European Environmental Bureau (EEB) of which Stichting Natuur en Milieu is a member.. The project is financed by the Dutch Ministry for Spatial Planning, Housing and the Environment.

The staff of Stichting Natuur en Milieu (SNM), counting eighty people, is working towards a sustainable society. The key objective is to lobby and influence Dutch and European decision makers towards an increased biodiversity and cleaner environment. With the means of research, expert knowledge, publicity and legal actions Stichting Natuur en Milieu stimulates discussion and mobilises public opinion. Stichting Natuur en Milieu forms a close network together with 12 provincial 'Milieu Federaties' (Environmental Federations) and coordinates the strategic platform of around thirty nature and environmental organisations in the Netherlands.

WWF is one of the world's largest and most experienced independent conservation organisations, with almost 5 million supporters and a global network active in more than 90 countries. WWF's mission is to stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature, by:

- conserving the world's biological diversity
- ensuring that the use of renewable natural resources is sustainable
- promoting the reduction of pollution and wasteful consumption

The European Forum on Nature Conservation and Pastoralism (EFNCP) brings together ecologists, nature conservationists, farmers and policy makers. This non-profit-making network exists to increase understanding of the high nature-conservation and cultural value of certain farming systems and to inform work on their maintenance.

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Summary

The EC has produced a proposal for CAP reform under the current reform proposals that represents a radical change in the system of farm support provided by Pillar 1, in particular the total de-coupling of aid from production for the principal farm products. While mainly intended to establish a viable negotiating position at the WTO negotiations, the proposals also appear to reflect two of the demands of green NGOs: decoupling and mandatory environmental cross-compliance for all supported sectors. There is also some interesting innovation, especially the proposal to establish a system of advice aimed at facilitating farmers' adaptation to the new environmental, animal welfare and health requirements.

Nevertheless, there is strong concern amongst some environmental NGOs and others that the approach proposed in the current package is a high-risk way to CAP reform, with limited guarantees of sustainability and no fall-back position if things do not work out as planned. The possible effects on farming and land-use patterns are largely unknown, with the few available predictions depending on macro-scale neo-liberal models.

Some environmental benefits are anticipated as a result of de-coupling and cross-compliance, particularly in intensive farming (possible reductions in input use, stricter controls on impacts and increased effectiveness of agri-environment payments). However, there is also potential for important environmental losses, especially through the decline of socially and economically fragile farming systems of high environmental value. It appears that the socio-economic sustainability of these systems has received scant attention.

Two fundamental concerns emerge, relating to Pillars 1 and 2 of the CAP respectively:

- The proposal to set Pillar 1 payments on the basis of historic receipts would fossilise a profound imbalance in the distribution of aid, that directs most support to the producers and regions with more intensive and competitive farming. The new regime would continue to marginalise the farming systems that generate most of the environmental benefits associated with the European model of agriculture, and that are also most fragile and vulnerable to abandonment under a more market-led policy. There are no mechanisms calculated to increase the viability of these farms. Rather, the proposed total decoupling of support may well increase their vulnerability and open up new pathways to their running down and abandonment.
- The proposals offer little to strengthen Pillar 2, nor do they put forward any significant improvements in its workings. This is a fundamental failure, as the Rural Development measures are essential for maintaining and enhancing the special values of European rural areas, and include the only parts of the CAP designed to steer support in favour of marginal areas and farms. Pillar 2 also includes some of the principal instruments available in the Union for supporting effective implementation of cornerstone environment policies, such as the Natura 2000 ecological network and the Water Framework Directive.

For WWF, SNM and EFNCP, this is not the right approach to reform and does not represent a sound strategy for promoting a sustainable model of farming in the EU. A more gradual evolution is advocated, leading towards a CAP in which:

- Environmental objectives and sustainability are central to the formulation of the whole policy, rather than being addressed through add-on tools or as spin-offs from liberalisation
- Overall support provided by the CAP is re-distributed, with priority given to maintaining environmentally valuable land-uses
- Pillar 1 payments are not calculated in proportion to real or historic production or receipts, but are linked to the land and the way in which land is used
- Until Pillar 2 is far more developed than at present, and can act as effective support to the widespread High Nature Value (HNV) systems across the EU, a dismantling of Pillar 1 should not occur
- Pillar 2 is strengthened, both through a major increase in financial resources and changes in the way objectives are set and measures designed, so as to give real impetus to sustainable rural development across the more marginal areas of the EU, including the maintenance of HNV farming as an integral part of the rural economy and landscape.

1

Introduction

This paper is the outcome of a seminar organised by SNM, EEB, WWF and EFNCP in March 2003 to discuss the future of the CAP in the light of the EC's proposals for reform (MTR proposals). A cross-section of interested parties from around Europe participated in the seminar, including farmers' organisations, environmental groups and officials from various governments and from the EC. All presentations and discussions were non-attributable.

The aim was to examine and exchange views on the MTR proposals, with a particular focus on Pillar 1 of the CAP. This is the area which would undergo the most significant changes under the EC proposals, with considerable implications for farming and the environment. Given the uncertainty over the effects the proposals would have on the environment, and the lack of detailed analysis undertaken to date, the organisers wanted to facilitate an open exchange of views and to inform themselves of different perspectives.

The paper examines the environmental implications of the MTR proposals, based largely on the presentations and discussions at the seminar, and discusses how environmental concerns could be addressed either through modifications to the existing package or through alternative approaches.

Environmental issues and the NGO perspectives



Agriculture in the European Union (EU) has numerous and widespread impacts on the environment. These include soil erosion and depletion of water resources, which are key concerns in southern Europe, or pollution of ground water and the decline in biodiversity, which are more prominent issues in northern and central regions.

The underlying causes of these impacts are the intensification and specialisation of farming systems that have taken place over the past 30 years. This is not to say that modern farming systems are inevitably damaging to the environment: the management practices of individual farmers are an important factor and steps can be taken to reduce or eliminate impacts. However, intensive, industrialised farming systems generally will not generate significant environmental benefits.

On the other hand, over large areas of Europe land-uses survive that not only are compatible with strict environmental requirements, but that also make an important contribution to the maintenance of valued semi-natural habitats and species, as well as controlling fire-risks, conserving soil and producing distinctive products for a minimum input of fossil energy. These types of farming and forestry, sometimes called High Nature Value (HNV) systems, are the most compatible with the conservation of natural resources and values.

Furthermore, it is extremely difficult to replace the biodiversity benefits of semi-natural habitats once they have been lost.

In simple terms, the objectives of environmental NGOs for farming in the EU can be summarised as:

a *Reducing the impacts of more intensive systems* – changes to farming practices are central to achieving this objective. Locally, some changes in land-use patterns are also necessary, especially withdrawing intensive farming from certain types of land, such as highly erodible soils, vulnerable water bodies and aquifers, land needed for wildlife corridors, etc. Depending on the location, this can apply to arable and permanent crops, and livestock, generally in intensive more forms. In some cases even the withdrawal of relatively extensive systems may be beneficial (e.g. extensive arable systems on very vulnerable soils).

b *Ensuring the maintenance of environmentally valuable systems* – these predominantly involve extensive livestock raising, especially beef cattle and sheep, although some dairy, goat, arable and permanent crop systems are included. Many such forms of farming are barely economic under current policy and market conditions. In some cases, changes in the farming system are needed to increase socio-economic sustainability or to achieve a better compatibility with conservation goals.

Summary evaluation of MTR proposals against broad NGO objectives

Objective	What is needed	How to achieve it	Assessment of MTR proposals
Reducing impacts of intensive farming and preventing further environmental losses.	Change bad farming practices in areas such as water use, soil management, pollution control, pest control, etc.	Cross-compliance which aims to change current practices, not maintain status quo.	Good, but need to be clear that current “usual practice” may not be good practice, and effects are greatly dependent on Member State implementation. Decoupling weakens control on land-use.
	Control damaging new developments.	Mechanisms for controlling land-use change.	
	Modify patterns of land and water use.	Agri-environment incentives.	Poor, not enough strengthening of Pillar 2.
Maintaining HNV systems in the long-term.	Improve socio-economic viability.	Breaking subsidy-output link.	Good in that payments are decoupled. Bad because link with the land is lost, making it impossible to direct land-use change.
		Target Pillar 1 and LFA aid towards these systems, with higher level of support.	Bad, no change.
	Support a productive farming system which maximises environmental benefit, not just certain practices as habitat management.	Target Rural Development grants for diversification, investments, marketing.	Bad, no change.
		Agri-environment (greatly expanded and with a new approach to supporting farming systems).	Very poor, not enough expansion of budget and no change to design and justification of programmes.

The first of these two objectives has absorbed more attention from agricultural policy makers and implementers. This pattern seems to be continued in the MTR proposals. The expected benefits of decoupling revolve mainly around reduced input use, whereas the proposals for cross-compliance (themselves a very welcome development) are most applicable to reducing the impacts of bad farming practices, rather than maintaining existing environmentally valuable land-uses. These need to be brought much closer to the heart of the CAP, otherwise the environmental losses of reform may outweigh the benefits.

Strengthening Pillar 2 is essential. Priority should be given to developing and expanding measures that help to maintain and adapt HNV systems on a long-term basis. Currently, the regions with the highest proportion of HNV land-use tend to have the least developed support schemes under Pillar 2. There are several reasons for the unbalanced use of programmes such as agri-environment, but a major factor is the fact that Pillar 2 requires a considerable input of money from national and/or regional budgets. The poorer regions tend to have the highest concentrations of traditional, low-intensity farming.

However, Pillar 1 also has a vital role to play in maintaining the most valued types of European farming. The conservation of extensive areas of landscape and diverse habitats depends on the viability of productive farming systems, not just the maintenance of certain valued practices. While most regimes under Pillar 1 are currently biased heavily in favour of more intensive farming systems, they also provide a minimum level of support and incentive for the continuation of low-intensity systems.

For many years, environmental NGOs have called for a redistribution of Pillar 1 payments, in order to direct more support towards the types of farming and areas of land that a) most need support, because of their marginal socio-economic situation and b) deliver the most environmental goods, and thus come closest to the concept of European, multi-functional agriculture.

Overall, it must be stressed that the environmental issues associated with farming are complex and wide-ranging. There are many different perspectives, depending greatly on where you are in Europe and what type of farmed environment you look at. This means that there are probably no simple formulas, and that the most appropriate responses to issues often need to be developed at the regional level. The European policy framework cannot be expected to provide all of the answers, but it should be designed in such a way as to facilitate their formulation at other levels, and to ensure a cohesive approach across the Union (e.g. common high standards).

3

Different perspectives on the MTR proposals

The MTR proposals are radical, above all in one area: the decoupling from production, animal numbers or yields of payments to farmers in the main subsidised sectors. Current direct payments for sheep, beef, the main arable regimes, plus legumes and starch potatoes, would be converted into a new single farm payment, calculated on the basis of farms' historical subsidies. The new payment would be tradable, thus breaking any direct link between the subsidy and the farmland on which it was originally paid.

Presumably such a model, if adopted, would be a precursor to future decoupling of the remaining subsidy regimes (e.g. olives, rice, tobacco etc.). A central theme of the EC's proposals is to let the market have much more influence on farming and land-use, while setting environmental limits through cross-compliance. Some people believe this is good for the environment and for rural development, that resource use becomes more rational and producers respond to markets rather than subsidies, while cross-compliance protects the environment.

However, the proposal has created great uncertainty as to its practical implementation and the possible effects on land-use and markets, including farm sectors where production is not supported by the CAP. For the environment there is great uncertainty about the potential impacts, as well as doubts about how much cross-compliance can deliver in the near future (see below).

3.1 Instability and uncertainty

A fundamental question is how long the single payment might continue once introduced. Part of its justification is greater resilience to international criticism from trading partners, yet the scheme may not be politically sustainable at home. Will the public be happy for farmers to receive such a payment indefinitely, or would it be a transitional measure, on the way to phasing out Pillar 1 entirely?

Related to this question is concern about the uncertainty of the proposed system, in a time of global instability and economic down-turn. Is it a sensible time to introduce such a drastic change in the way farming economies operate, especially with no clear time-horizon for the system?

3.2 Land-use and farming patterns

The decoupling proposal would allow farmers to change freely between crops and livestock types, so long as they complied with the requirement to keep the land in good agricultural condition. Over time, this would undoubtedly lead to changes in land-use patterns throughout the EU.

A number of unusual situations could occur as a result. For example, an extensive cattle producer could switch to out-door pig raising, while continuing to receive a large sum from the CAP. The farmer's neighbour might have a similar pig-raising business, but with no CAP support. Similar situations could occur with arable farmers moving into non-subsidised crops, such as vegetables and fruit, next to existing businesses in these sectors. Apart from the social injustice and distortion of production patterns, such changes have important environmental implications (see below).

There are different opinions on how the proposed tradability of payment rights would operate in practice. Would an active market develop, in which rights were bought and sold and thus soon lost all connection with the farm that first justified their existence? Or perhaps nobody would be interested in buying the right to a payment with no guarantee that it will exist in a few years' time? This is perhaps the area of greatest uncertainty in the EC's proposals.

Overall, there is concern that the proposal to break all connections between payments and the land (other than cross-compliance obligations), would create complexities and undesirable situations in terms of land-use.

3.3 Environmental scenarios

The reform proposals address environmental issues through quite a simplistic rationale, which seems to be as follows:

Optimistic scenario

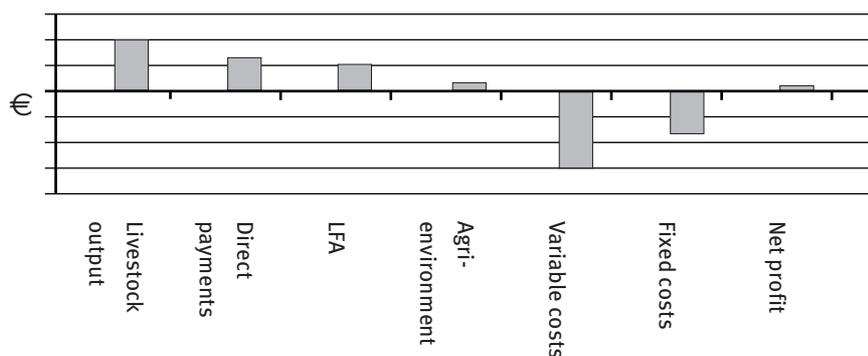
- That decoupling will lead to a reduction in farming intensity in systems where production support maintains an excessive level of input use. Economic theory and experience since the 1992 reforms suggest that this will involve a reduction in agro-chemical inputs. It may also generate significant changes in the irrigation of CAP arable crops, as farmers would have the option of changing to less water-demanding crops, or to dry-land cultivation, with no effects on their CAP direct payment. In the livestock sectors, problems of over-grazing may be reduced as the incentive from headage payments to keep more stock is removed, and agri-environment de-stocking incentives become more effective.
- That good farming practice, promoted and enforced through cross-compliance, can reduce the negative impacts of farming to an acceptable level. Strong links are established with EU environmental legislation, in an attempt to reinforce the integration between these policies and the CAP (see below for more discussion of how this might work).
- That a restriction on the conversion of permanent pasture will maintain the environmental values associated with low-intensity pastoral systems and halt the continuous decline of permanent pasture in some parts of the EU, such as in France.
- That a more market-led farming sector will generate land-use patterns more in tune with natural conditions, rather than being driven and/or fossilised by a production subsidy system. For example, poor soils currently kept under arable cropping by CAP area payments may move into pasture or forest, with benefits for soil conservation.

However, from the experience of the workshop, a more prevalent body of opinion feels that, as regards the environment, it is a high-risk approach with no guarantees of environmental improvements in land-use, and plenty of potential for environmental problems, as follows:

Precautionary scenario:

- While some overall reduction in intensity is likely to occur, the proposal for decoupling with tradable entitlement rights may also lead to the replacement of some currently low-intensity land-uses by more intensive ones, sometimes with significant environmental losses. These could include cereal crops giving way to horticulture and/or fruit plantations, cattle to pigs or, in a future scenario, traditional olive groves giving way to intensive fruit production. There is also a body of opinion that foresees a shift to more intensive mono-cropping in some arable areas.
- A land-use pattern guided more by the market may generate some welcome changes. However, any such benefits would be more by chance than design. It would be preferable to be able to steer particular changes in accordance with concrete objectives, through payments attached to the land.
- Environmental cross-compliance is very welcome for helping to reduce the impact of more intensive land-uses, but is far less applicable to the maintenance of environmental values deriving from low-intensity farming. Also, its usefulness depends very much on the effective implementation by governments of the EU environmental legislation to which it is directly linked in the MTR proposals (see below).
- Pastoral systems of high natural value consist of more than just permanent pasture with a minimum level of grazing. It is the productive farming system, with its variations and complexities, that gives rise to the habitat and landscape diversity. A strategy for the sustainable future of these systems cannot be based only on regulatory measures, such as those proposed.
- It is very questionable whether some of the most environmentally valuable land-uses (both farming and forestry, especially involving livestock grazing) can be expected realistically to compete under a more liberalised policy. Realising their market potential (e.g. for quality, nature-related products) is still a distant dream for many such systems, and otherwise their economic competitiveness is extremely low. The single payment scheme may well increase the risks of abandonment, as farmers realise that they will be better off if they stop farming and just undertake some minimum land management (see Box 1).

BOX 1 - The economics of marginal farming - what all reformers need to know



While not all marginal farming is of High Nature Value (HNV), and while a small proportion of HNV farming systems are not marginal, the farm accounts of many businesses in this category, from Sweden to Portugal, share many of the features illustrated by this Scottish example. Most items of income and expenditure are large relative to the net profit (i.e. the profit before deducting the wages of the farmer or tax). Small changes in any of them will have a relatively large effect on profit, creating an unstable and insecure business environment. These changes include the introduction of modulation, which has a larger effect on a marginal farm than on a more commercially viable operation.

Net profit is small relative to support payments. If both direct payments and Less-Favoured Area (LFA) support were available without the necessity for production to occur, this farm would be much better off if it ceased to produce. The maintenance of any HNV management would necessitate either minimum production requirements (which penalise HNV farms for being marginal by reducing their production choices) or much higher agri-environment payments.

Net profits are small relative to the incomes available in wider society. LFA payments have not thus far been adequate to even out income levels across farming. Successful rural development activity can only serve to widen this gap by increasing the opportunities available for alternative, more profitable, activity (whether on- or off-farm). HNV farming systems thus become financially increasingly unattractive. Agri-environment payments do not usually take into account non-agricultural income foregone at present.

Successfully decoupling payments from production while maintaining HNV farming systems represents a severe challenge to the CAP. The analysis above is unusual in that it looks at decoupling in the context of the single farm. More studies of this type are needed across a range of HNV areas in all of Europe's biogeographical zones. The macro-economic studies that have been undertaken also suggest significant impacts on HNV farming areas, although those impacts have received scant attention. For example, arable production may become less attractive than livestock raising in some parts of NW Europe, leading to a shift in the centre of gravity of production of beef and sheep away from marginal areas.

4

Assessing the MTR proposals against environmental objectives

Macro-economic analyses of how changes to CAP measures will affect agricultural production give only a very partial view of the diverse realities on the ground. From the perspective of the environment and the precautionary principle, a more rigorous appraisal is needed before taking the leap in the dark proposed by the EC. Two complementary approaches should be taken into account. Analyses should be tested against:

1 *Cases representing the diversity of Europe's farming and natural environments.* Test cases should specifically include the more marginal, vulnerable areas that often do not respond according to the same theoretical models as the core productive areas. Some analysis should be undertaken at the level of individual farms. One example is shown in Box 1.

2 *Clear environmental objectives.* It is not just a question of evaluating the impacts of change, but of assessing to what extent the proposals will help to deliver key objectives for rural areas, as laid down in EU strategies and legislation.

The issues at stake with CAP reform are central to the EU's own environmental goals, as established in cornerstone policies such as Natura 2000 and the Water Framework Directive (WFD).

Implementing these policies in the Member States represents a major challenge that depends intimately on how European farming and forestry evolve, yet currently governments are not meeting this challenge¹. As the main policy influencing these land-uses, the CAP is a critical factor.

SNM, WWF and EFNCP do not believe that decoupling and cross-compliance requirements on farmers alone will generate significant progress towards the EU's environmental goals.

¹ Implementation of Natura 2000 and the Nitrates Directive is being delayed by years in many Member States.

BOX 2 - Cross-compliance and over-exploitation of water

Environmental cross-compliance generally means compliance with national and/or regional laws, either pre-existing or introduced specifically as a basis for applying this CAP mechanism. Such laws may implement EU legislation, such as the Habitats or Nitrates Directives, or may result from national or regional policies. Either way, the effectiveness of cross-compliance as an instrument for achieving environmental objectives depends upon the approach taken in drawing up and implementing these national and regional laws.

In river basins that currently suffer an over-exploitation of water resources, beyond the natural recharge capacity of ground and surface waters, there is clearly a need to reduce current levels of extraction in the main consuming sectors, such as irrigated agriculture. Potentially, cross-compliance could be used to promote reduced consumption, by requiring compliance with limits set below current levels of extraction. Under their implementation of existing cross-compliance (as introduced under Agenda 2000), both Spain and France have included the requirement for the extraction of irrigation water to comply with the law (for example, a license must be held, and limits respected).

However, the policy of authorities in both countries appears to be to “legalise” unauthorised boreholes and existing levels of water extraction, rather than imposing sanctions and trying to achieve a more sustainable situation. Where there is an unequivocal and urgent need for reduced extraction, such as in Tablas de Daimiel in Spain, agri-environment incentives have been used to persuade farmers to comply with legal extraction limits set with the aim of restoring wetlands, making cross-compliance redundant.

Following this approach, cross-compliance at best maintains the status quo, on the assumption that if certain practices are widespread, they must either be considered “reasonable” and acceptable, or are simply impossible to change.

Cross-compliance could make an important contribution on some issues, such as water pollution and over-extraction, if implemented with vigour. However, it is not farmers who are responsible for implementing environmental policies, but governments. Establishing national and regional strategies for implementing the WFD is the first step, before cross-compliance can be applied to farmers. Such strategies are far from clear in many Member States, although initial tendencies are towards less onerous forms of cross-compliance that maintain the status quo (see Box 2).

Even now, European farmers are being asked to sign commitments to comply with the legal

requirements of the Habitats Directive when applying for aids under Pillar 2. Such commitments are quite meaningless unless the farmer is presented with (or, even better, is involved in developing) a local plan setting out the habitats and species concerned, and how they should be conserved. Such initiatives do not exist over vast areas of the proposed Natura 2000 network (see Box 3).

Governments must be more active in developing legal and practical measures for implementing the EU Directives, to establish an effective basis for cross-compliance. Experience to date shows that some form of incentive or penalisation system is needed if governments are to fulfil their environ-

BOX 3 - Natura 2000 and Pillar 2: a challenge not being met

Natura 2000 has major implications for the management of rural land in Spain: current official site proposals cover 8.5 million hectares (17% of the national area), but could rise potentially to as much as 15 million hectares (30% of Spanish national territory) by the time both Habitats and Birds Directives are considered satisfactorily implemented. Most of this land coincides with the more marginal rural areas, within LFAs, and a large proportion is under some form of farming or forestry management.

Authorities face major tasks in developing conservation objectives and mechanisms for Natura 2000 sites, developing new approaches to supporting and adapting human activities. At present, the Rural Development Regulation (RDR) provides the most relevant instruments for promoting an appropriate model of land-use, but action to date has been quite inadequate.

There is no attempt in the RDR programming documents to assess the implications of establishing Natura 2000, even at the most basic level. There is no discussion of the practical measures which are needed, such as the development of management plans for SACs, or of how these measures might be promoted or supported through the RDR programmes. There is no quantification of the needs of Natura 2000 (e.g. number of sites needing management plans, habitats and species needing action to achieve Favourable Conservation Status, estimates of costs, etc.). Generally, the actions proposed are not related to any specifically identified conservation needs, either qualitative or quantitative.

In Extremadura, Natura 2000 could cover most of the approximately 4 million hectares of land (Birdlife Important Bird Areas cover over 80% of the territory), yet the regional government's budget for nature conservation is only around 600,000 Euros. This contrasts with the far smaller Walloon region of Belgium that allocated nearly €10 million to Natura 2000 in 2001. Agri-environment programmes have been very slow to develop in Extremadura, and are plagued by poor administration and delays. A new set of measures under the 2000-2007 RDR programme was introduced in April 2003.

mental commitments². One penalty could be a reduced level of EU finance for Pillar 1 regimes, which governments would be obliged to make up from their own resources. In this way, farmers would not be penalised for the failures of their governments.

Decoupling offers little for either Natura 2000 or the WFD, other than some possible local benefits from less intensive resource use (e.g. water consumption near to wetlands). Even then, it will be

² Several Member States held up their proposals of sites for Natura 2000 until the EC threatened to block the approval of RDR programmes.

pure chance if de-intensification occurs precisely in the areas of environmental importance. To be implemented effectively, environmental policies need a targeted approach, with planned programmes and measures for the sustainable management of sites and river-basins.

Well-developed tools under Pillar 2 are far more relevant here than a background reduction in input use resulting from decoupling. By breaking the link with the land, the proposals for decoupling make Pillar 1 payments far less useful as a means of steering land and resource use in a way that could contribute to the objectives of environmental policies.



Alternative approaches to reforming Pillar 1

Breaking the proportional link between output and subsidy is widely seen as the starting point for re-balancing CAP support. To this extent many NGOs favour “decoupling”. However, if Pillar 1 is to evolve into a mechanism that is supportive of farming for its environmental values, rather than for agricultural output, the link between support payments and the area of land that is farmed should not be broken.

Reflecting the concerns highlighted in this paper, many Member States, the European Parliament and NGOs are looking into various models of partial decoupling. These fall broadly under two categories. *Vertical decoupling* whereby only the payments in certain sectors would be affected;

and *horizontal decoupling* whereby sectoral payments continue, and only a portion of the payments are decoupled in each sector.

There are many potentially different models of partial decoupling, more than are currently being discussed. Indeed, a form of partial decoupling has existed in the CAP since the 1992 reform in the arable sectors. It is useful, therefore, to look at the broad effects of the two categories, and to think about which model offers the best model for an evolutionary reform of the CAP.

Horizontal decoupling introduces even greater complexity to the CAP, adding yet another form of aid to those existing already, with few evident benefits:

Horizontal decoupling

Draw-backs	Benefits
<ul style="list-style-type: none">• Limited WTO gains, as a portion of payments remain production linked• Mixed messages to farmers regarding production choices ...• ... Leading to even greater difficulty to predict land-use and production changes• Administrative burden of managing a mixed payment disbursement system• Redistribution of ‘decoupled’ portion can be administratively cumbersome• Difficulty of applying cross-compliance to decoupled payment	<ul style="list-style-type: none">• ‘Decoupled’ portion could be redistributed in favour of high nature value farming areas – similarly to the initial French model for modulation• Some maintenance of the production incentive, which could help to slow the abandonment of marginal systems.

However, if the decoupled portion of direct payments were transferred to existing payment schemes in the Second Pillar, especially agri-environment or less-favoured areas, this would be positive for environmental purposes as well as simplification and efficiency.

Vertical decoupling may be a way of avoiding the problems of decoupling in HNV livestock systems, by excluding beef and sheep from the change. This would allow environmentally-focussed mechanisms to be developed in sectors, on the basis of existing regimes.

The arable sector is the most likely to be decoupled under this option. Although the potential environmental losses may be less than for livestock, there are fears of negative land-use changes and intensification.

Vertical decoupling

Draw-backs	Benefits
<ul style="list-style-type: none"> • Limited WTO gains, as a portion of payments remain production linked • Administrative burden of managing a mixed payment disbursement system • Land-use changes may be environmentally damaging in the decoupled sectors, if EC model is applied 	<ul style="list-style-type: none"> • In ‘decoupled’ sectors, support could be redistributed in favour of HNV farming, if “historic receipts” system is not applied. • Clear messages to producers about constraints and advantages in each sector of production • Possibility to develop sector specific measures to address needs of high nature value farming systems (see Box 4) • Greater ease in implementing cross-compliance in non-decoupled sectors

SNM, WWF and EFNCP believe that the CAP should be developed as a means to help steer farming and land-use in the direction of the sustainability to which the EU aspires. While not the only driver of change, a strong policy is needed as a safety-net for the special values associated with rural land. None of the decoupling options currently being discussed places this objective at the core of its definition, they only try to limit the negative effects of the MTR proposals.

The approach to CAP reform should be evolutionary, rather than revolutionary. Instead of dismantling Pillar 1 in the way proposed by the EC, it may be wiser to make it evolve towards something better, while at the same time building up Pillar 2. Rather than decoupling for WTO, the EU should be looking to make Pillar 1 payments more closely linked to environmental values, by directing them more at high-value systems, and defend them on these grounds.

BOX 4 - Some examples of opportunities to “green” existing CAP Payments

Despite all the well documented problems, Pillar 1 plays an important role in maintaining farming in remote and difficult regions and this is especially true of livestock production in the Less Favoured Areas (LFA). In the wider context the same is true of cereal and permanent crop production because existing support payments are paid to both environmentally benign and damaging systems - so there must be a case for looking at how these payments could be adjusted to achieve environmental goals through both incentives and cross compliance. There are precedents for this already, for instance the beef extensification payment that gives higher payments for lower production. This concept by definition ought to sit firmly in the green box and should open the door for a much wider range of environmental options in Pillar 1 that would also be acceptable in WTO negotiations.

There is a certain attraction in this approach, compared with uncertainty associated with all of the models of de-coupled payments under discussion or with the variety of interpretations (by National ministries) of area payments introduced to replace headage payments in the LFA. Importantly, the introduction of targeted environmental measures in Pillar 1 go straight to the issue of concern whilst not introducing much wider unpredictable change. An important aspect of the current debate is that it is focusing attention for the first time on the environmental dangers of generic reform.

Agenda 2000 introduced a number of mechanisms that could be used for targeting support more in relation to environmental needs and values, such as extensification, national envelopes and flexibility to use area payments. To date the use of these has been disappointing and there is a need for the EC to introduce much clearer objectives as well as some compunction. Opportunities to pursue this further include:

- National Envelopes could be used to specifically target environmentally benign production systems or areas (e.g. maintaining systems such as non-irrigated cereal production, keeping livestock at certain intensity, farming that maintains Natura 2000 habitats), while retaining flexibility for Member States to choose the precise method of implementation. They should be extended to other sectors.
- The beef extensification scheme should be extended to the sheep sector and livestock densities need to be lower so that the highest payment rates reflect ecologically meaningful stocking densities and provide a reward for farmers currently at that level and an (optional) incentive for those above.
- Areas payments will only produce environmental gains (over headage payments) if eventually they:
 - Are adjusted to reflect regional differences and to promote specific environmental benefits.
 - Employ payment rates based on broad categories of pasture type (for example, temporary grassland, permanent grassland, rough grazing, maquis, moorland, alpine grassland) to enable targeting the land of highest regional environmental importance.
 - Require compliance with basic management (e.g. livestock density) that influences the environment, and there should be flexibility for these to be set regionally to reflect cultural traditions, local objectives and the carrying capacity of the land.
- Include a mechanism for Member States to allocate nominal grazing rights (“virtual hectares”) to deal with the problems of common grazings and seasonally available forage areas such as stubbles and transhumant pastures.

For these reasons, many NGOs have argued for changing to a system of area payments for all sectors under Pillar 1. Area payments could be paid either on a flat rate, equal for all land within a sector, or varied according to various criteria, such as the type of grazing land (cf. Goss, Bignal, Beaufoy and Bannerman 1997³), or the environmental values associated with the land and the farming system.

An alternative to area payments is to adapt the current systems of support to environmental objectives. This is particularly relevant for livestock farming, where area payments run into complications associated with common land and the use of grazings such as arable stubbles, waste land and forests. The beef regime of the CAP has already evolved some way in an attempt to direct more support to extensive, suckler systems of beef production. This approach could be taken much further in the beef, sheep and other livestock sectors (see Box 4). Even now, Member States could make considerably more use of existing options, such as “national envelopes” and LFA payments, to further environmental aims.

3 Possible options for the better integration of environmental concerns into the various systems of support for animal products, CEAS/EFNCP, 1997

The existing CAP should evolve over a period of years, through a planned and gradual process. There are various ways of getting to a sustainable model for the CAP, but it is important for certain principles to guide the process, from an environmental perspective:

- *Environmental objectives*, as described above, should be amongst the central concerns determining the way in which reform takes place and the nature of the tools that are used.
- *Precautionary principle*. The most valuable farming systems from an environmental perspective are also the least resilient to change. Any proposal for change must fully consider the implications it is likely to have on these systems, and provide measures and means to address the impacts. Though mostly involving livestock, valuable systems exist in several other sectors, including arable, olives and other crops.
- *Strengthening Pillar 2* as an equal partner to Pillar 1 should take place in tandem with the reform of the latter, in order to achieve a more balanced policy through a complementary working of the two Pillars. Co-financing rates should be the same for both Pillars, to remove the current disincentive for a more ambitious use of Pillar 2 measures.
- *Redistributing & recoupling* CAP funding should be the priority, targeting CAP support to where farming provides primarily a public rather than a production service, and to marginal regions where socio-economic conditions are the most difficult.
- *A link to the land* is an essential basis for all CAP support payments
- *Good agricultural condition or practice*, a necessary basis for justifying any payment whether Pillar 1 or 2, must include good environmental management alongside agronomic management. This is most usefully defined at a regional or local level.

Conclusions and recommendations



There is no doubt that change is needed in order to address the environmental issues affecting European farming, both in policies, farming practices and patterns of resource use. For many years, environmental NGOs have been advocating major changes to the CAP, calling for reforms in support payments, mandatory cross compliance and a shift of resources to Pillar 2.

However, the MTR proposals do not fit with NGOs vision of a reformed CAP for three basic reasons:

- Decoupled payments would be tied to historic receipts, thus fossilising the distribution of aid.
- The tradability of payments would break the link with the land and thus remove the possibility of using Pillar 1 to steer land-uses in a more sustainable direction.
- Pillar 2 is not significantly strengthened.

Clearly the environment is not the main driver behind the current proposals to reform the system of direct payments, and impact studies of proposals for reform are rarely focused on the environmental implications. Yet, the potential impacts are far-reaching, and it is crucial to review them.

SNM, WWF and EFNCP believe the CAP is not yet ready to move to a system of fully decoupled payments. Doing so would represent a high-risk strategy for the environment given:

- Member States' poor track record in applying environmental legislation⁴, effectively applying cross-compliance and in developing adequate agri-environment programmes.
- The lack of complementary reform and significant additional funding for the Pillar 2
- That future Member States will pursue, for a further ten years, a joint model of coupled and decoupled payments⁵

⁴ The notorious examples of the Nitrates and Habitats Directives, provides compelling evidence of this.

⁵ The agreement in reached in the Copenhagen European Council in December 2002 allows Future Member States to 'top-up' their share of direct payments allocated from Brussels. Whilst the Brussels allocation would be paid in a decoupled form, and the Future Member States have the option of disbursing payments through the decoupled 'simplified payment scheme'; any top-up would have to be allocated in 'coupled' form.

Recommendations for the Mid-Term Review Payments & Budgetary Proposals

Our recommendations extend beyond what is being discussed at the time of the Mid-Term Review. Although the Commission's proposals for complete decoupling are likely to be compromised at the Mid-Term Review decisions, we believe they nonetheless clearly indicate the direction the CAP will follow, over time.

From an environmental perspective, we believe that reforms must be jointly pursued in the First and Second Pillar, at the same pace.

Our specific recommendations for the current reform process of Pillar 1 are:

- A flat-rate area payment should be adopted for all arable and permanent crops, dry-land and irrigated alike, decoupled from production levels and from historic receipts, but linked to the land and its use.
- Livestock payments should also move towards area payments
- Targeted instruments should be retained within livestock sectors to better support marginal and low-intensity systems, including a headage 'super-extensification' premium (which, in various steps, increases support the more extensive a holding) and national envelopes (allowing Member States to distribute payments according to environmental and social priorities)

- Savings from the above reforms (as well as from cuts in the arable prices) should not be redirected to support reforms in the dairy and sugar sectors. Monies saved must be transferred to the Second Pillar

- Modulation should apply from 2004, and increase to the initial proposal of 20% by 2013. The system proposed by the EC should be modified to prevent severe impacts on the incomes of marginal farmers (see Box 1).

- There are currently no 'growth' limits applied to the Second Pillar. A commitment should be undertaken to re-address this when negotiating the budget for the next financial period.

- Modulated funds should be re-allocated at EU-level, as per initial Commission proposal, according to clearly defined objective criteria including both socio-economic and environmental dimensions

- The above proposals, unless suggested otherwise, should be introduced over the transition period 2003 – 2006.

Annex

the MTR proposals summarised



The environment is not the main pressure for change to the CAP. Other pressures are more prominent at present, especially WTO and EU enlargement, while budgetary considerations are always strong determinants of policy decisions. The MTR proposals respond in different degrees to each of these pressures, and others, but seem primarily to be designed to position the EU in WTO negotiations. It should not be surprising if instruments designed to deliver on other political priorities, such as trade liberalisation, are not the most appropriate for increase the environmental sustainability of farming in the EU, even though at a general level they may appear to have some things in common.

Nevertheless, concepts such as environmental integration across policy areas, and “multi-functional” or “European-model” farming, have gained increasing prominence in the EU policy sphere in recent years, and environmental values must be at the heart of any future CAP, if it is to be politically sustainable. The EC clearly has made an effort to integrate environmental concerns into the MTR proposals, especially in the form of cross-compliance. Also, the proposal for decoupling Pillar 1 payments from production coincides in part with one of the main demands of environmental NGOs, even if the form proposed is not the one that most NGOs would favour.

Furthermore, whatever the driving forces for reform, the environmental implications of the MTR proposals are probably greater than those of any previous CAP reform or since the policy was first created some forty years ago. From the point of view of environmental NGOs, it is essential to have a full and open debate on these implications, and to examine closely the areas that should be adapted to meet particular concerns and to maximise potential public benefits from the CAP.

The main elements of the MTR proposals affecting the Pillar 1 are:

- De-coupling of direct payments for sheep, beef, and the main arable regimes, plus legumes and starch potatoes, into a new single farm payment. This will be paid on the basis of farms’ previous historical receipts but would be a single payment with no links to current production choices or output levels.
- Cross-compliance and farm audits covering environment, animal welfare and food safety. There will be a condition to keep the land in good agricultural condition. Farm audits would apply to farms receiving more than EUR 5,000 per year from the single farm payment. The original proposal for an absolute cap on income support receipts has been dropped.

- Set-aside to continue with new rules requiring 10% all non-rotational set-aside explicitly as environmental set-aside.
- Introduction of Carbon Credit - through a payment for energy crops grown for specific supply contracts with processors.
- A 5% cut in intervention prices of most cereal and protein crops
- Price cuts in the dairy sector to begin in 2004/2005 with quotas to continue until 2014/15

The main new measures affecting the Second Pillar, all proposed as new accompanying measures - that is, funded everywhere in the EU by EAGGF Guarantee funds and thus potentially also recipients of modulation funding, are:

- New “Dynamic Modulation” of payments to fund both Rural Development Programmes and other reforms (dairy and sugar). The modulation would be linked to bands of income (first EUR5000, 5000-50,000 and over 50.000), introduced in 2006 and increasing annually.
- A compulsory farm quality assurance scheme. New transitional aid for 5 years to enable farmers to meet newly implemented, higher mandatory EU environmental, welfare or health and safety standards..
- New animal welfare options to be added to the agri-environment chapter.
- Higher co-financing rates for agri-environment / welfare (65% outside Objective 1, 85% inside).
- Promotion aid to complement the marketing of high quality products under Article 33.