



## Views on a greener CAP

Contribution of the European Environmental Bureau  
to the Advisory Committee on the Common Agriculture Policy, 7 March 2002

### 1. The general picture

Agriculture is important for food and fibre production, and plays a role as an economic sector in rural areas. Currently, most agriculture policy instruments and budgets are focused on these two functions. Farming has a third function, i.e. maintaining cultural landscapes and biodiversity (the latter mainly in marginal areas). However, it is only relatively recently that policy instruments were targeted at this role. From an environmental perspective, the latter function of agriculture is very important. Therefore the EEB thinks there should be more targeted policy support for the environmental and landscape function of farming. In addition, support aimed at the first two functions should no longer be used for activities which cause environmental damage.

Generally, the EEB thinks the bulk of agricultural financial support must be shifted from quantity to quality, meaning product quality but also quality of production in terms of environment, landscape and regional development. In the longer term, the largest share of CAP funds are to be spent on payments related to environmental and social benefits. The remainder of the CAP-budget should be reserved for some basic market measures to counteract disasters and extreme price fluctuations. Export subsidies should be ended.

The abovementioned financial shift is often translated into a shift of funds from 1<sup>st</sup> to 2<sup>nd</sup> pillar - something the EEB indeed also advocates. However, this is not all, and not quite the same. Money spent under the 2<sup>nd</sup> pillar, rural development, does not necessarily bring about environmental benefits. And vice-versa, money spent under the 1<sup>st</sup> pillar *should* in theory not be environmentally damaging; after all the EU has made multiple commitments to integrating environmental concerns into the CAP. The EEB's aim in further reforming the CAP is to ensure all payments bring about environmental and/or social benefits. There are three conditions to do so:

- shifting money from the 1st to the 2nd pillar
- improving rural development so that environmental and social targets are reached
- and ensuring any remaining 1st pillar payments are not damaging to, and ultimately beneficial for, the environment.

Some steps in this direction were made with Agenda 2000. The EEB would, however, like to go further and faster than that. The debate on EU-enlargement provides an excellent opportunity for also opening up the discussion on the future of the CAP, since the two issues are so clearly linked. Indeed, it makes little sense to separate the issue of enlargement from the debate on the future of the CAP. Therefore the EEB strongly advocates using the mid-term review as the starting point for further CAP reform.

The EEB thinks a sizable budget for agriculture remains necessary if we are to maintain agriculture-related biodiversity, cultural landscapes, viable rural communities and long-term food production. Member states and the EC should carefully investigate the sustainability-impact of any cut in the CAP-budget, especially in an enlarged EU.

The general picture painted above is substantiated below, with some necessary changes to the CAP in the medium term (section 2), necessary changes in the short term (section 3) and steps to be taken regarding EU-accession (section 4).

## **2. Recommended changes to the CAP for the medium term (2006 reform to 2010)**

For the medium term (2006 – 2010) the EEB would like to see the following steps.

- A general, rapid phase-out of production-linked subsidies and price support.
- Establishment of a basic payment for farmers working above an agreed level of environmental performance, and applicable to arable land and grassland. There should be ceilings for such payments per farm. It should be seen as a socio-economic payment, which also delivers some environmental benefits. Most likely, it should come in the shape of an area-premium, but other approaches should be investigated. Key criterion for deciding upon the shape and level of the payments should be whether they deliver the desired environmental quality and social objectives.
- Further payments for public services like caring for cultural landscapes and nature or delivering other environmental services like water management. There currently is no reward in the market for such services. In addition, there could be special payments for certain approaches to farming which supply indirect environmental or other benefits. Examples are organic production and particular crop rotations. Naturally, the different types of payments should apply equally in both the old and the new member states. The payments are paid for from a separate EU budget line, but planned in the framework of the rural development plans.
- Improved rural development. The shift of funds to rural development can lead to environmental benefits, notably through agri-environment programmes and the LFA-payments. But in future there should be clear guarantees that rural development is aimed at enhancing environmental and social capital – especially if and when substantially more funds are spent in the 2nd pillar. The process of developing rural development plans also needs to be improved. The highest priority for the next round of RDPs after 2007 is to ensure that they become coherent and integrated. This means: established on a smaller-scale regional level, taking a fully integrated approach and building upon local and regional expertise. This should also be stimulated by more flexibility from national and EU-level. The RDPs can learn a lot from Leader, which does include many of the above characteristics.
- Rural development should benefit regional economies as well as the environment. This means rural development is not exclusively targeted at farmers and farm-related activities; other actors in the region can often produce similar benefits.
- Lower national co-financing rates for rural development. With current co-financing rates (50% for most instruments in richer member states, 75% in the poorer ones) this would entail soaring national expenditure for rural development. Therefore, the national share should be decreased.
- An end to all export subsidies by 2007 and a rapid phase out of subsidies which stimulate overproduction and thereby create a need for the EU to sell below production cost on the world market. This would strengthen the EU's negotiating position in the WTO enormously. Naturally, the EU should also demand phase out of other active export promotion instruments such as export credits elsewhere in the world. The funds for export subsidies should not flow back into the coffers of the member states, but should be shifted to payments for environmental and other public goods in rural areas.
- Some basic market support should remain. Though most EU support will flow into rural development and payments for green services, some government involvement in the market remains necessary to counteract extreme events. There should be a basic safety net against severe price fluctuations and also to support basic security of long term food production. A further option worth investigating is state-involvement in

multi-risk insurance for extreme events e.g. flooding, disease.

### **3. Recommendations for the 2003 mid-term review**

The above section outline the desired direction for CAP-reform. The EEB is aware that not all the above changes can be introduced in 2004, i.e. as a result of the mid-term review.

However, with several member states the EEB is of the opinion that the 2003 review can be used as a trigger to further reform. The EEB does recommend that, as a minimum, the following changes are effectuated at the mid-term review.

The EC and the MSs should establish a time table for preparing the post-2006 CAP-reform between now and 2006, so as to be able to set further change in motion efficiently and effectively.

- The EC should prepare a sustainability assessment of the CAP and possible new proposals.
- Modulation should be made compulsory for all member states. It should be up to the member states to decide rules for capping support (social standards, size of farm or general cut) and how to spend the resulting savings. However, the EEB would like to see a guarantee that a large share of the modulated funds are diverted into agri-environment. In any case member states must be required to demonstrate the social and environmental benefits from their national modulation schemes.
- Cross compliance should be made compulsory for all member states as of 2004. In the first year, cross compliance must be set at least at the level of environmental legal requirements. This means farmers not complying with national laws (EU-derived or of national origin) are to have their compensation payments cut. For subsequent years the member states send annual plans to the Commission for further building up cross compliance.
- Between 2003 and 2006 the budget share for rural development should be substantially increased. Within in the RD budget, at least half should remain reserved for agri-environmental measures.
- In the trade debate, the EU must take a pro-active role in making world trade more fair (for small producers and poor countries) and more sustainable. Trade rules must be made subject to international environmental agreements such as the Conventions on Climate change and on Biodiversity. Sustainable development issues should be made central to the WTO debate. If the EU does not do this, nothing will happen.
- The EU should start the phase-out of export subsidies by 2003, aiming for a complete end by 2007, and redirecting the money saved to payments to farmers for environmental services.
- Developing countries should be granted food sovereignty (not to be confused with self-sufficiency). This means they should have the right to independently decide about their own food security strategies, which may include restricting imports to protect their home production and market. It should be noted that the richer nations already reserve the right to decide their own food sovereignty via their large and influential agriculture policies and farm subsidies.
- As for access to the EU market, the EU should maintain current quality and hygiene standards for imported food products, but abolish other import restrictions. In the meantime the EU should build up extensive support (knowledge, direct aid, investments, debt-swaps) to developing countries to build up expertise to cope with such EU quality requirements. Furthermore, the EU should rapidly investigate possible ways to new transparent rules for access to the EU internal market, based on quality criteria linked to product and production method. These criteria should cover environment, food quality and animal welfare.

### **4. EU-accession**

It is very important to continue to use rural development for restructuring of agriculture in the accession states. On the other hand, agri-environment programmes should also be given ample

attention, allowing farmers and governments to learn to work with such programmes, since these will, in the EEB's view, become much more important in the future.

As far as 1<sup>st</sup> pillar payments are concerned, the EEB sees merit in the EC-proposal for the phase-in of payments for farmers in CEEC. The merit is in the fact that these payments are not related to commodity produced. As such, they can be the first step towards a system of decoupled area premia – in line with the above recommendations.

A more contentious issue is the proposed phase-in of the payments over a period of time. On the one hand it is an unfair treatment of farmers in the new member states. On the other hand, if the new member states received full compensatory payments from the first year of accession, a subsequent phase-out of those payments would encounter much more resistance. Such a phase-out is necessary, as outlined above, in order to shift support from production to environmental services. The Fifteen can make the proposed phase-in much more acceptable to the accession states, by committing themselves to a simultaneous phase-out of compensatory payments. This commitment does require a direct link between the debate on accession and the discussion on the future of the CAP. This inevitably means that the mid-term review should go further than mere adjustments to the Agenda 2000 regime. The debate on a further reform of the CAP should start in 2003.

In sum, the EEB thinks the next necessary steps to improve the proposed approach to EU-accession are:

- start the phase-out of compensatory payments in the current member states
- commit the money thus saved to rural development and agri-environment
- establish environmental conditions (at least at legal level as a starting point) to the area-payments in CEECs and direct payments in the old member states and
- continue to use rural development in CEECs for targeted support to regional development, improved food quality and environmental measures.