



Greener Fields: further reform of the Common Agriculture Policy

JULY 2002



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The European Environmental Bureau (EEB)

The EEB is a federation of 133 environmental citizens' organisations based in all EU Member States and most Accession Countries, as well as in a few neighbouring countries. These organisations range from local and national, to European and international. The aim of the EEB is to protect and improve the environment of Europe and to enable the citizens of Europe to play their part in achieving that goal.

The EEB office in Brussels was established in 1974 to provide a focal point for its Members to monitor and respond to the emerging EU environmental policy. It has an information service, runs 11 working groups of EEB Members, produces position papers on topics that are, or should be, on the EU agenda, and it represents the Membership in discussions with the Commission, the European Parliament and the Council. It closely co-ordinates EU-oriented activities with its Members at the national levels, and also closely follows the EU enlargement process and some pan-European issues.

This paper was edited by Gijs Kuneman, chair of the EEB's Agriculture Working Group, after discussions within the Group and consultation of the members in 2001 and 2002.

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POSITION PAPER
OF THE EUROPEAN ENVIRONMENTAL BUREAU (EEB)

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I Summary of the EEB's position

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Why are we interested in farming?

From an environmental perspective, agriculture is one of the most important of all sectors. In many areas, farming generates important natural and cultural values. However, current farming systems frequently are environmentally damaging, cause excessive suffering to farm animals, and are extremely wasteful; for instance, by degrading soils and extracting water at unsustainable rates, not only in the EU but also elsewhere in the world.

What kind of farming do we want?

The EEB works towards a vision of sustainable food production and consumption in Europe based on four principles:

- Farming in balance with its natural surroundings. This means reduced resource use, reduced emissions, reduced chemical inputs and reduced intensity compared to current practice.
- Farming both in productive and in less productive regions. Farming should remain in productive regions because that is where most of the food can be produced efficiently, and in more marginal areas for social and environmental reasons.
- More localised production and consumption at Euro-regional levels, for reasons of culture, environment and animal welfare. International trade still remains, but is not the focus for production, policy or funding.
- Focus on food quality. This includes quality in the sense of safety, traceability and transparency of the food chain, but also quality of production, i.e. environment and animal welfare, as well as variety and cultural identity.

What is the role of policy?

Though it is hard to isolate the exact impact of the Common Agriculture Policy (CAP) on developments in agriculture, the role of the CAP as an agent of change is beyond doubt. The EEB believes that CAP should be changed so that it only stimulates sustainable farming. EU CAP-funds should be shifted from production to environmental and other services in the framework of rural development.

What are the necessary changes to the CAP?

The EEB recommends the following steps for reform of the CAP in 2007 or shortly after.

- Price support and other support directly related to production should be phased out;
- The remaining funds should be shifted to rural development and to area payments decoupled from production; Member States should be allowed to differentiate the area payments, e.g. setting a ceiling per farm;
- Rural development is to be based on integrated (regional) programmes, and established by a bottom up approach with full stakeholder involvement;
- Rural development should become the core of the CAP. At least half of the funds in rural development are to be earmarked for agri-environment;
- Trade should be focused on sustainability. Access to the EU internal market for third-world countries should be improved and export subsidies abolished.

What should be changed in the short term?

- The EC and the Member States should establish a timetable for preparing the post-2007 CAP-reform between now and 2006, so further change can be set in motion efficiently and effectively. In support of that work, the EC should prepare a sustainability assessment of the CAP and possible new proposals;

- Export subsidies should be phased out by 2005;
- Steps should be made in decoupling all direct payments from production starting in 2004;
- Between 2003 and 2007 the budget share for rural development should substantially increase. Within in this budget, at least half should remain reserved for agri-environmental measures;
- In order to increase the rural development budget, modulation should be made compulsory for all Member States, and percentages for cutting support should increase over the years. Alternatively, or in addition, degressivity of income support could be considered;
- Cross compliance should be made compulsory for all Member States, i.e. environmental and animal welfare conditions should be set for all direct payments;
- National co-financing rates for rural development should decrease;
- Rural development programmes should be set up in a more integrated way instead of in a piecemeal way, also integrating environmental concerns better. More stakeholders should be involved and more variety and flexibility in elements of the programmes should be sought. These improvements should be reflected both in the mid-term review of the Regulations as well as in the actual implementation by the Member States;
- Farmers in accession states, when joining the EU, should receive decoupled area-payments to which the same environmental conditions apply as in the rest of the EU (cross compliance). These payments are to be phased in, and subsequently be transformed into the basic area premium and agri-environment payments.



II EEB Position Paper

II EEB Position Paper

1. Introduction

In 2002 and 2003, the EU decides on the changes to the Common Agriculture Policy (CAP) in its so-called mid-term review. A further round of reform follows in 2006/7. This paper outlines the views of the European Environmental Bureau on the direction of those changes.

The paper first provides a general vision on sustainable food production and consumption. It then outlines objectives for sustainable agriculture and farm policy. In section 3 the paper describes the context for a better CAP, going into the policy areas which have an important influence on agriculture, but which are outside of the scope of the CAP itself. Section 4 gives the recommended changes to the CAP in the medium term. These are condensed into concrete recommendations for the mid-term review in 2002 and 2003 in the last section.

2. Vision

The EEB's vision of sustainable food production and consumption in Europe is based on four principles.

Firstly, farming in Europe should attain a better balance with its natural surroundings. In many places, agriculture generates valuable natural and cultural values. However, current farming systems are frequently environmentally damaging, cause excessive suffering to farm animals, and are extremely wasteful; for instance, by degrading soils and extracting water at unsustainable rates. The ultimate aim is to shift agriculture in Europe towards organic production, i.e.

make it truly natural. However, the EEB is aware that, for the near future, much of the agricultural land will be farmed in conventional ways. Efforts in policy and practice should therefore be generally devoted to shifting production towards reducing resource use, emissions, chemical inputs and intensity.

The second premise is that agricultural production should take place both in productive and in less productive regions. It should remain in productive regions because that is where most of the food can be produced efficiently, both from an economic and an ecological perspective. It should also remain in (many of) the more marginal areas for social and environmental reasons. Firstly, farming often provides a social fabric for remote rural areas. Secondly, farming has shaped attractive cultural landscapes over centuries if not millennia, a landscape we have come to cherish. And finally, agriculture still provides high natural value, for example through extensive grazing. If agricultural production ended, it is likely that such landscapes would disappear and biodiversity would decline.

The third principle is that European agriculture should focus on more regionalised production, for reasons of culture, environment and animal welfare. The aim is to connect and close the flow of farm produce, fodder and manure between regions within the EU. There are a number of reasons for doing this. Firstly, sustainable production means closing cycles of production as much as possible, i.e. ensuring minerals from animal waste are returned to the land, while avoiding over-concentration of manure in one region. Currently, certain areas of Europe are huge net importers of resources. One example is the import of fodder, leading to an enormous net-input of minerals in intensive areas in Europe, as well as leading to excessive transport streams. A second reason to regionalise production is equity: the global footprint of the EU should be drastically reduced. Currently, the EU uses large areas of land elsewhere in the world for food and fodder production, contributing to global losses in biodiversity. Thirdly, reducing the transport of live animals will reduce the suffering of farm

animals, diminish the risk of spread of diseases and also make it easier to trace animals in the chain, thus improving transparency and safety. It should be noted that, with more regionalised production, interregional and international trade will, and should of course, continue. In particular, third world countries should be given fair trade-relations with the EU. However, interregional and international trade should not be the prime focus for policy and funding.

The fourth and final principle is focus on food quality. This includes quality in the narrow sense, i.e. safety and hygiene, traceability and transparency of the food chain. Food quality also means quality of production, taking into account environmental care, animal welfare etc. But quality should also be seen in a broader sense, including regional identity, taste and variety. Thus, the aforementioned regionalisation overlaps with the widely-felt interest in keeping regional cultural identity alive via regional specialities.

3. Objectives

The formal objectives of the CAP as written down in the Treaty of Amsterdam are largely obsolete. In 2004, when the EU further revisions of the Treaty are decided, new objectives for the CAP should be defined. The EEB proposes that the new, greener CAP should be based on the following objectives.

A CAP as part of a sustainable rural development policy should:

- Maintain and encourage the management of the rural areas for the benefit of people and nature;
- Produce regular supplies of high quality, healthy food and products for consumers;
- Help achieve a fair price for food products, in which external costs are internalised;

- Provide reasonable incomes for the farming community and prevent land abandonment;
- Support employment and contribute to the economy and culture of rural areas;
- Promote the sustainable use of natural resources including soil, water, air and energy;
- Promote fair trade in agricultural products;
- Respect the sustainability of the global environment;
- Work with (rather than against) other policies to meet common objectives for Europe's rural areas.

In order to reach the broad objectives above, the agricultural sector itself should meet the following objectives:

- a reduction in input-intensity of the conventional farming systems, combined with the maintaining of extensive production systems. This should lead to a diversified agriculture, ranging from moderately intensive in certain areas to extensive in other areas;
- a steady increase in organic farming and marketing of organic produce;
- a drastic reduction in pesticide and fertiliser use, with ultimately a phase out of all chemical pesticides;
- avoidance of methods of increasing productivity which have, or may have, hazardous side-effects, require stronger inputs of toxics, energy and nutrients, have negative effects on food quality or produce new risks to health, biodiversity etc. The precautionary principle should apply in case of planned introduction of genetically modified organisms;
- no large scale agricultural land abandonment or depopulation of less productive regions.

4. Context for a better CAP

This paper focuses mainly on the EU's CAP instruments, i.e. subsidies and market organisation. However, there is a range of other policy areas which influence sustainable agriculture and the CAP, and which must therefore be given sufficient attention. These are briefly described in this chapter.

4.1. Internalising external costs and good agricultural practice

The effects of environmental damage are literally not taken into account in the pricing of products and services. The same goes for animal suffering and social injustice. In the short term a product can be produced more cheaply by abusing the environment; for example, the clear-cutting of forests instead of the sustainable harvesting of trees. These non-covered or external costs are born by society as whole via the costs of water purification, loss of health, and loss of biodiversity. It is clear that a free market exacerbates this problem, leaving it to the market to regulate production and demand.

The EU officially aims to reduce negative effects by internalising the external costs. This can be done by legislation. For instance, the Nitrates Directive requires all farmers to reduce nitrate-leaching at their own costs. External costs can also be internalised via taxation; for instance, with a levy on pesticides.

The EEB thinks the EU should move forward more rapidly and actively on internalising the external costs of agriculture. A harmonised levy on pesticides and on nitrogen will help reduce inputs, and therefore costs of pollution, and can also help alleviate the remaining pollution costs. Internalised costs are a prerequisite for an efficient economy, and any move to more liberalised trade should be accompanied by internalisation. The fact that the Treaty still requires unanimity for all Council decisions concerning tax is an inhibition to levies harmonised at EU level. The EEB has repeatedly argued for changing the Treaty in this respect.

Interestingly, agriculture also produces external benefits: benefits to the society as a whole, which are not paid for. An attractive landscape, shaped and maintained by farming is an example of a benefit which society gets for free. This is the core of the EEB's argument for shifting subsidies from production to green services: we should start paying farmers for the external benefits they provide and move away from subsidising intensive (= often polluting) production leading to external costs.

Somewhere between the external costs and external benefits lies a borderline called Good Agricultural Practice (GAP). In most Member States, this borderline is still to be formally defined. In chapter 4, we present some of our thoughts about GAP.

4.2. Legislation

The EEB would like to see stricter laws on animal fodder, animal welfare and environment.

Concerning the environment, the EEB is pleased with the Nitrates Directive, though not with the implementation record of most Member States. The EEB encourages the Commission to pursue legal procedures pushing the Member States to implement the Directive. Concerning the Water Framework Directive, the EEB has made clear that there are promising elements, but also gaping holes in the directive (see the EEB paper "Making the EU Water Framework Directive Work"). If pollution by diffuse sources, i.e. agriculture, and the overuse of aquifers, are to be adequately addressed, concrete Daughter Directives need to be put in place soon, setting concrete standards and targets. In addition to water, soil is the other basic resource directly influenced by farming. The recently published Communication towards a thematic strategy for soil protection concerns a first and tentative step towards an EU soil policy, something the EEB is very pleased with. However,

it is still a long way from establishing effective rules, as it still lacks soil protection objectives, deadlines and legislative actions to drive integration. Finally, pesticide legislation needs further strengthening. The EEB urges for a new Directive on Pesticide Use Reduction to be put in place as soon as possible (see www.eeb.org for details; proposed text for PURE directive).

The above issues of nitrates, water quality, soil preservation and pesticide use should be clearly reflected in the definition of good agricultural practice, which should become the minimum standard for all EU farm subsidies.

In addition to environmental policy, laws on animal fodder and animal welfare are important. The EEB is pleased to see the Commission taking steps to reduce the use of growth promoters and antibiotics in animal fodder. Furthermore, the EEB hopes that the ban on the use of animal waste products in fodder for herbivores will be maintained.

Finally, on genetically modified organisms, the EEB wants to maintain the existing moratorium until clear and strict rules on traceability, labelling and liability, both for GMOs and products derived from GMOs, are in place. Furthermore, the EEB recommends working towards the extension of the tracing and labelling system to cover meat, eggs and dairy products from animals fed with GM food. The Commission's proposals on amending the new Directive 2001/18, in order to legalise illegal GMO imports and on resuming GMO approvals through voluntary agreements with industry should be rejected.

4.3. Fairer and more sustainable international trade

World trade, and thus implicitly the WTO, has enormous influence on agriculture, the environment and global equity. There are great environmental and social risks in fully liberalised trade, and there are major flaws in the set-up of the WTO. However, given that there is global agreement on the WTO

agenda and negotiations have already started, the EEB thinks we should make the most of the Doha agenda.

First and foremost, the WTO-negotiations should be a broad, wide-ranging round. Environment and other consumer concerns must be part of the deal (as indeed foreseen in the agriculture chapter of the agenda agreed in Doha). The World Summit on Sustainable Development in Johannesburg should provide the momentum for this. The EEB hopes that the Summit leads to a “global deal”, in which the governments make a definitive link between sustainable development, equity and trade. Ideally, consumer concerns are elaborated in the framework of multilateral agreements like the Rio Convention on Biological Diversity (CBD). The text of the Doha agenda does open the door for this. The Global deal should also start a process towards more transparency and democracy within WTO. The EU can and should play a proactive role in making trade in general sustainable.

Where agriculture is concerned, the EU must realise that it is, unlike most members of the Cairns group, not a “natural exporter”. It does not have the necessary characteristics of large available areas of land, suitable climate and soils and low population density. The EU should not aim to compete on the world market, certainly not at the detriment of net-importing third world countries. Instead the EU should aim to promote sustainable agriculture and food security all over Europe without limiting other countries to do the same.

The EU has emphasised the importance of consumer concerns, i.e. concerns for quality, environment and animal welfare. The fears of developing countries that such consumer concerns will lead to further trade barriers, are understandable and justified. After all, the nations in the North have so far shown little willingness to honour their commitment to opening up markets to developing countries. The everything but arms deal now allows market

access to all least developed countries, but not yet for rice, tobacco, sugar and bananas. The EEB thinks the least developed countries should get full market access now.

Nevertheless, consumer concerns are true concerns - certainly to the EEB. Therefore, the EEB has taken the position that all products on the EU internal market should be subject to the same quality requirements, regardless of their origin. This concerns quality which can be measured in the product itself: hormones, microbes, pesticide residues, GMOs etc. The EU should, however, actively support developing countries with finance, debt-relief and knowledge, helping them to learn to work according to such quality demands.

The EEB is also concerned about the environmental impacts of agricultural production of imported produce: use of pesticides, damage to natural values due to farming etc. However, the EEB is well aware that it will be impossible to set and verify generic environmental standards for imported production worldwide. Thus, the EEB does not propose establishing import requirements based on environmental performance during production elsewhere in the world. The EEB does urge further multilateral agreements to be made on the use of chemicals. Where animal welfare is concerned, the EEB thinks this is a valid concern that should be recognised in the WTO.

Due to cultural, economic and legislative demands, farmers in the EU work under different circumstances than most of their competitors elsewhere in the world. For instance, they provide European citizens with cultural landscapes which, in many cases, also supply natural value. If and where they do, farmers should be allowed to receive compensation for this. Therefore the EEB is fully in favour of payments for such “public goods” above agreed minimum (good agricultural practice) standards.

It is to be expected that these internal subsidies will meet some opposition from trade partners. Developing countries may argue that internal subsidies indirectly distort markets. In that case, the EU has an excellent offer it can make in return: it can and should eliminate direct export subsidies. The EEB urges the EU to do so, starting with a rapid phase-out in 2004.

Eliminating export subsidies, however, may not be enough to help net food-importing developing countries. With or without such subsidies, their national markets are constantly confronted with relatively low-priced food from the world market. The EEB thinks such nations should be allowed to decide about their own food supply, and close off their market for certain periods to certain products. The WTO should provide such a mechanism (generally called a “development box”).

5. Recommended changes to the CAP in the medium term (2007 reform and onwards).

The current CAP is in force until 2007. Between now and 2007, adjustments can be made in the so-called mid-term review of most large market regimes as well as rural development. The following section looks at the desirable changes to be made to the CAP after the current regime runs out in 2007. It considers payments for public goods, standard-setting, rural development and remaining market instruments. Subsequently, section 5 focuses on the shorter term: the mid-term review.

5.1. Payments for public goods

It is likely that the current trend in agriculture will continue: some farmers will focus entirely on production, and primarily aim at international trade. Others focus on other functions in addition to agricultural production, such

as caring for cultural landscapes and nature or delivering other environmental services, like water management. The EEB thinks the first group should not be entitled public support except in exceptional situations (see market instruments below, section 4.4.). The second group, the multifunctional farms, supply public goods for which there is no reward in the market. Therefore these farmers should receive public payments for the services rendered.

In addition, the EEB thinks special payments should also be considered for certain approaches to farming which supply indirect benefits. One example is organic, which generally leads to lower environmental pollution than conventional farming. A second example could be particular crop rotations used by farmers, which contribute to biodiversity. Thirdly, one could consider supporting the production of protein crops if used for animal fodder within the EU. This will help close the cycles described in chapter 1.

The EEB recommends setting up a system of payments in a pyramid-like approach. The basis is formed by a basic area-payment, linked to basic environmental services. This premium is available for those multi-functional farmers who work according to good agricultural practice. This kind of payment should apply throughout the EU, regardless of the size of the farm. Member States should be allowed to modulate the payments. A common approach will be that they cut part of the support to large farmers, in order to recirculate the sum saved to smaller farmers or to more specific environmental schemes.

In other cases, particular problems may arise from the fact that the basic premium is area-based. For instance, land prices and rent may rise because premia are linked to the land, making it hard for smaller farmers to survive, with social and environmental consequences. In such and other cases, Member

States should be allowed to adapt the schemes so that environmentally-benign systems are promoted.

On top of the basic area premium, further payments are available for special measures like maintenance of nature, landscape elements, special field margins etc. Such payments should also be generally applicable to most farms in the EU, though not all farmers will participate in the schemes. A further layer of payments concerns more specialised measures like wetland or woodland managements, which can only be applied in particular areas. Most of the payments mentioned above will be area-based. There will be exceptions; for instance, payments based on the quantity of particular nature values produced or the relative quality of nature provided.

Naturally, the different types of payments should apply equally in both the old and the new Member States.

The above system should be in place by 2007, probably phased in between 2004 and 2010. This means all production-linked support should be phased out in the same period. During that period, cross compliance (environmental conditions to production support) is a useful tool for greening production subsidies. It also helps farmers to get used to the idea that public support is (to be) linked to environmental performance.

5.2. Setting standards

Currently in agri-environment schemes, farmers are paid a sum based on their extra costs incurred (for instance, the time invested in pruning hedges) or the income foregone (for instance, lower yields due to extensive production). Member States are allowed to add an incentive of maximum 20% of the extra costs or income losses, with a possibility for a higher incentive in exceptional circumstances. The approach based on the income foregone takes

recent conventional agricultural production as a benchmark. Several things can be found fundamentally wrong with this approach. Firstly, conventional production supported by high inputs of pesticides and fertiliser should not be taken as the normal state of affairs in farming. Secondly, the new payment system for the CAP should explicitly be a payment for a service, and should not be seen as an add-on activity which inhibits “normal” farming and is therefore compensated. It symbolises the move away from subsidy to payment. Therefore in future, the CAP should move towards a system which appraises the value of a public good and translates this into an appropriate level of payment. Whether the “price” for the public service is determined via costs of inputs (mainly labour), hedonic pricing or some form of regional “markets” where offer and demand meet, remains to be seen. The fact is, the EU should now prepare for a shift from compensation to payments for public goods.

An important benchmark in this respect, which is already partly developed, is Good Agricultural Practice (GAP). Member States are obliged to define GAP under the Nitrates Directive and the Rural Development Regulation (RDR). The definition should include hygiene, environment and animal health and animal welfare requirements. The RDR prescribes that farmers eligible for agri-environment support must work at a level of performance above GAP. In other words: GAP currently defines the threshold between what can be reasonably expected from a farmer without extra payment and activities for which he should be compensated.

The EEB thinks GAP should

- (1) be more sharply defined, and
- (2) should become the benchmark for all payments under the CAP.

Regarding the first point, in the RDR GAP is referred to as ‘the standard of farming which a reasonable farmer would follow in the region concerned’.

From an environmental perspective this definition is weak. Where environmental damage is commonplace e.g. soil erosion caused by intensive olive production, it is evident that the usual practice undertaken by a reasonable farmer will lead to a degradation of natural resources. Further clarification is needed as to where GAP refers to good practice to maximise production at all costs or good practice to minimise environmental impact whilst maintaining a sustainable level of production. Currently the definition is set at regional or national level, but an EU-level framework for GAP may be required. This EU-framework will ensure environmental progress on the one hand, by setting standards sufficiently high, and a level playing field on the other hand, by preventing Member States from becoming free-riders.

As for the actual level of GAP, the EEB thinks the principle of integrated production should become standard reasonable practice for conventional farming. This means chemical inputs are only used as a last resort, when all other methods have been exhausted. With the appropriate information supplied to farmers, so that they have a good understanding of their responsibilities and management options, most - if not all - should be able to work according to integrated production methods. If well defined, this standard would provide big steps forward in reducing pesticide use and nutrient loss. For this reason, integrated farming could eventually be taken as the central requirement for GAP. This may, however, not be feasible in the short term. To work towards integrated farming, member states should require participation in training programmes as part of GAP.

The definition of GAP should at least include balanced input and output of nitrogen, sustainable soil management, suitable grazing pressure, sustainable water use, no (further) destruction of landscape features, farm certification for pesticide use and avoidance of GMOs. Where agri-environment contracts are given out, the farmer must work according to GAP on the whole farm, not only on the area for which agri-environment scheme applies.

The EEB feels that all CAP payments should in the near future be made conditional on compliance to GAP. Even if GAP were defined only at the level of legal obligations this would mean progress for the environment. It would end the situation where farmers willingly breaking the law still receive tax payers' money in the form of farm-subsidies. Thus, subsidies no longer stimulate farming systems which damage the environment, and can even provide positive incentives to farmers. Cross compliance can play a role as a transitional instrument in the move towards broad application of GAP.

Meanwhile, the mid-term review of the CAP should aim to eliminate incentives which counteract the move towards broad application of GAP. An example is the high premia for irrigated arable crops, which give an adverse incentive, away from responsible water use.

5.3. Rural development

The EEB has welcomed the establishment of rural development as the second pillar in Agenda 2000. Notably the agri-environment programmes and the LFA-payments have provided environmental benefits. Nevertheless, recent research by WWF, IEEP and several EEB members indicates that rural development can still be vastly improved (project "Europe's Rural Futures - the Nature of Rural Development"). Five key concerns are described below, derived from that study (and a sixth one has been added). Each of these can already be addressed by the individual Member States, as well as at the Mid-Term Review of the CAP and the mid-term evaluation of the Rural Development Regulation in 2003 and 2004. Further steps can, and should, be taken when further reforms are started in 2007.

The following steps are needed to improve rural development.

- More funding: the tightly constrained budget for the second pillar is thwarting its true potential;

- A broader focus: in the current plans, the modernisation and competitiveness of the agricultural sector remain the dominant focus of the plans. Much more so than is currently the case, Member States should incorporate strong targets and indicators of sustainable rural development balancing economic, social and environmental outcomes;
- More participation: public participation in the design, implementation and monitoring of policies is recognised as a legitimate requirement by Member States, but often certain interests (either environmental, local, regional, or non-agricultural rural economic) have been excluded. If their needs are overlooked, this will affect the successful achievement of a sustainable rural development package;
- More diversity and flexibility: the existing Regulations do offer the possibility for countries to tailor their plans to meet their specific local needs. Nonetheless, not all Member States make use of this, often despite their rhetoric. Controls and procedures often inhibit creative and innovative approaches. On the other hand, the Rural Development Regulation itself and the Commission's interpretation of the rules could be adapted so as to offer more flexibility. In this respect, the Leader programme is a good example of the flexibility needed;
- Better environmental integration: rural development has the potential to make an important contribution to environmental protection. Most national programmes take a minimalist approach in the assessment they offer, simply reviewing environmental issues rather than analysing them. They set general environmental objectives, which do not necessarily relate to identified environmental priorities. Furthermore, few Member States so far seem to seek coherence with existing environmental legislation, although several Member States address Natura 2000 site management in the rural plans. A more integrated approach to planning, including the environment, is the only way to achieve real sustainable rural development;

- A more integrated approach: so far in many cases, the plans are a collection of existing measures, rather than a coherent set of actions in the region. Furthermore, there is need for better co-ordination with other plans which are effective in the same region (EU-funded, national and regional). A complicating factor is the fact that rural development in many places is funded through the CAP Guarantee Section. This inhibits the pooling of resources with Structural Funds and national and regional funds into one rural fund for the region.

Currently all rural development payments are co-financed by the Member States. As stated, the EEB would like to substantially increase the budget 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 RD. It must be assumed that most Member States do not have this budget available (and thus would oppose any large-scale shift to the 2nd pillar without changes in co-financing rates). The EEB proposes to reduce the national co-financing rates

5.4. Market instruments

As stated above, the bulk of the CAP funds should be shifted to payments for green services. However, given the special character of agricultural production and markets, it is likely that there will always be some government involvement in the market. Instead of current price support, export subsidies and area and headage premia, the EEB recommends establishing income support based on risk calculation. This could be in the form of insurance schemes (income or production), income stabilisation funds and/or basic price support as a safety net. The private sector should be the main source of funding for insurances or funds, but there should also be government support for such schemes.

5.5. Overview: what this means for the reform of the CAP in 2007

The proposals outlined above lead to the following concrete recommendations. The EEB recommends the following steps for reform of the CAP in 2007 or shortly after:

- Price support and other support directly related to production should be phased out
- The remaining funds should be shifted to rural development and area payments which are decoupled from production; Member States should be allowed to differentiate the area payments, e.g. setting a ceiling per farm .
- Rural development is to be based on integrated (regional) programmes, and established by a bottom up approach with full stakeholder involvement
- Rural development should become the core of the CAP. At least half of the funds in rural development are to be earmarked for agri-environment.
- Trade should be focused on sustainability. Access to the EU internal market for third-world countries should be improved and export subsidies abolished.

6. Recommendations for the 2003 mid-term review

The former chapter outlines the desired fundamental reform of the CAP. Together with several member states, the EEB is of the opinion that the mid-term review in 2003 can be used as a trigger towards this fundamental reform. The EEB recommends that, as a minimum, the following changes are effected at the mid-term review.

The EC and the Member States should establish a timetable for preparing the post-2007 CAP-reform between now and 2006, so further change can be set in motion efficiently and effectively. In support of that work, the EC should prepare a sustainability assessment of the CAP and possible new proposals;

- Export subsidies should be phased out by 2005.
- Steps should be made in decoupling all direct payments from production starting in 2004;
- Between 2003 and 2007 the budget share for rural development should substantially increase. Within this budget, at least half should remain reserved for agri-environmental measures;
- In order to increase the rural development budget, modulation should be made compulsory for all Member States, and percentages for cutting support should increase over the years. Alternatively, or in addition, degressivity of income support could be considered;
- Cross compliance should be made compulsory for all Member States, i.e. environmental and animal welfare conditions should be set for all direct payments.
- National co-financing rates for rural development should decrease;
- Rural development programmes should be set up in a more integrated way instead of in a piecemeal way, also integrating environmental concerns better. More stakeholders should be involved and more variety and flexibility in elements of the programmes should be sought. These improvements should be reflected both in the mid-term review of the Regulations as well as in the actual implementation by the Member States;
- Farmers in accession states, when joining the EU, should receive decoupled area-payments to which the same environmental conditions apply as in the rest of the EU (cross compliance). These payments are to be phased in, and subsequently be transformed into the basic area premium and agri-environment payments.

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