



Institute ^{for}
European
Environmental
Policy

A GREENER CAP: STILL WITHIN REACH?

**Prepared by: David Baldock and Kaley Hart
Institute for European Environmental Policy (IEEP)
15 Queen Anne's Gate
London
SW1H 9BU
United Kingdom
Date prepared: 26 April 2013**

Between now and the end of June a succession of meetings will take place which will determine the final shape of the CAP for the period 2014-2020. Each of the three parties to the trilogue negotiations, (the European Parliament, the European Council and the European Commission) now has a responsibility to come to a final agreement. It must cover both the overall shape of the policy, increasingly obscured during the last year of negotiations, and an array of often detailed but crucial provisions. This is the last chance for the EU institutions to create a coherent agricultural policy which is both credible and contributes substantially to the provision of environmental public goods in Europe. However, amongst the more contentious items on the trilogue agenda are nearly all the key provisions affecting the environment. Together, these are significant enough to bring into question the purpose, coherence, effectiveness and, of course, value for money of the CAP that is now emerging.

Why it matters

This is more than a technical debate. The rationale for providing large scale support for agriculture in Europe also is at stake. This now depends heavily on the argument that public funds should be made available to secure public goods; other justifications do not command the same consensus. The critical public goods associated with European agriculture are demonstrably environmental. Consequently, the CAP proposals now on the table need to be judged against their capacity to secure the supply of environmental public goods in an effective way. If Europe's institutions are unable to agree such a policy, wider society will conclude that the CAP is so inextricably entangled in an earlier age and in vested interests that an entirely new approach is needed.

Some of the issues that are of greatest concern, but still could be remedied in the course of the trilogue negotiations, are highlighted below.

The architecture

The Commission's goal, accepted by both the Parliament and the Council, was to 'green' Pillar 1 of the CAP, devoting 30 per cent of the funds to three environmental measures. These were intended to be consistent for most farms receiving CAP support in Europe and to mark a real change from the status quo, particularly in arable and other cropped areas. The theory was that this would free up funding for public goods in Pillar 2 to deliver more ambitious environmental outcomes than at present since the measures would be starting from the higher environmental baseline established in Pillar 1. In parallel, cross-compliance would be rebalanced to complement the new green direct payments.

However, both the Parliament and the Council have damaged this construction from several directions. On the one hand they have both introduced measures to limit or weaken the greening measures in a quite remarkable variety of ways (see below). On the other, the sums which will be allocated for environmental public goods in Pillar 2 are being squeezed from several directions, not all of them immediately apparent. First, Pillar 2 funding as a whole was cut disproportionately more than Pillar 1 during the wider EU budget negotiations (the MFF) in February. Then many governments were permitted to shift a proportion of their share of CAP funds away from Pillar 2 back to Pillar 1. All Member States can transfer up to 15 per cent of their Pillar 2 allocation back to Pillar 1, where they will not have to provide any counterpart national funding, in contrast to Pillar 2, where it is

required. A group of 12 countries have the option of transferring even more (up to 25 per cent of their allocation) out of Pillar 2. Thus they are being incentivised to utilise EU funds in forms of support where environmental ambitions are less demanding and look like being weakened further, but the EU meets all the costs. Furthermore, within the context of a diminished Pillar 2, there are more options and pressures to spend funds on production related activities, under the rubric of rural development, creating a large danger that the sums being devoted to environmental measures in Pillar 2 will shrink.

The new design of the CAP included a scaling back of several elements of cross compliance. These attach environmental and other conditions to farmers' direct payments so as to reinforce respect of both existing legislation and some additional basic rules, concerning soil protection particularly, but also biodiversity and water. This loosening was defended on the basis that part of the Pillar 1 greening would have similar effects and also would apply on the great majority of farms. So some duplication and burdens on farmers could be avoided once greening was in place.

In practice, however, the proposals of the Council and Parliament to weaken the greening and exempt most farmers from it, remove much of this anticipated overlap with cross-compliance. But no reinstatement of cross compliance requirements to compensate is being proposed. So there is a real danger that key parts of cross compliance (particularly in relation to permanent pasture and crop rotations) will have been dismantled while greening is being diminished.

In essence, proposed complementary roles were proposed for:

- A greening of Pillar 1 direct payments, extending to all but the smallest farms;
- A more targeted and ambitious set of agri-environment measures in rural development (Pillar 2) policy; and
- A re-adjustment of cross-compliance, with fewer requirements but bringing in a significant new carbon dimension, for carbon-rich soils, but relaxing other measures eg for protecting permanent pasture.

Now, the three strands are being so damaged in transit that they are no longer a cohesive whole, as well as being weakened individually. Whilst there were drawbacks to the Commission's original grand design, it was a reasonably coherent model for generating additional public goods and could have been improved during negotiations, drawing on the expertise in Member States and elsewhere. However, with a few exceptions, this has yet to occur. Even some of the more forward looking governments now appear tempted to enter a race to the bottom, opting for light weight greening. Some fear that they might disadvantage their own farms in a potentially uneven playing field if they were to pursue more ambitious plans. Or they might be accused of "gold plating" EU requirements unnecessarily.

In the next few weeks there is a final chance to regain sight of the big picture and to address some key issues. These include:

Double funding

On top of the backwards steps referred to already, the environmental value added in Pillar 2 has been brought into question by the Council. Whilst the Parliament eventually voted against permitting separate CAP payments to farmers for essentially the same measures under Pillars 1 and 2, the Council rejected the Commission's proposal that agri-environment measures in Pillar 2 should build on Pillar 1 greening as the environmental baseline. Effectively, this would create the conditions for double funding. A recent Institute paper explains both the principles and problems further (Hart, 2012).

As well as being an unsatisfactory and, under the Treaty, illegal approach, double funding also undermines the logic of the reformed CAP. It would lead to a loss of transparency, poor value for money, reduced trust from wider society and general reputational damage. There would also be a risk of challenge in the WTO. It is now critical that double funding is rejected in the trilogue.

Environmental value from Pillar 2

Authorities in many countries drawing up rural development programmes will be under pressure to devote a smaller share of their Pillar 2 funds to agri-environment measures from 2014 onwards for four reasons. The overall budget will be smaller (as a result of a lower EU rural development budget, transfers to Pillar 1 highlighted earlier and lower rates of national co-financing on many measures). Second, there are more measures competing for rural development funding, including the new income stabilisation tool. Third, it is proposed that the current minimum share rule for environmental measures (previously Axis 2) should be dropped. Finally, farming organisations in most countries will argue, erroneously, that since greening is being pursued in Pillar 1 there is less need to do it in Pillar 2.

Consequently the European Parliament is correct to argue that 25 per cent of rural development budgets should be reserved solely for agri-environment and related measures. This explicit earmarking of funds for public goods is not a major departure from current practice since overall the agri-environment measure accounts for about 24 per cent of rural development budgets under the current period (clearly with differences between countries). Despite previous resistance, this should not be a difficult argument for the Council and the Commission to accept; it would provide some limit to the shrinkage of agri-environment measures.

The greening measures

A coherent and effective set of Pillar 1 greening measures could make a huge impact on the farmed environment. It could bring the CAP into a genuinely new era, especially since it is proposed to deploy more than €83 billion over seven years through the greening measures. This is not far short of the whole EU contribution to Pillar 2 over the same period (and almost four times the total allocation of EU funds to agri-environment in 2007-2013 period). While certainly there was room for improvement in the Commission's proposals, the negotiations have been dominated by efforts to water them down from so many directions that the whole initiative is close to being discredited. The trilogue is the last opportunity to secure a set of convincing measures.

First, the principle that greening applies to the great majority of the agricultural land area, excluding the smallest farms, must be maintained. If it becomes patchy, limited and excessively variable, as is occurring under European Parliament and Council amendments, then it loses its rationale as a comprehensive approach and its justification as an integrated part of farm support in Pillar 1. Under the Council's mandate over 80 per cent of farms in Europe would be exempted from EFAs, including large swathes of land in some countries, such as Scandinavia, Ireland, Cyprus, Malta, Slovenia, Romania, Poland, Greece and Austria. If EFAs applied only on farms with more than 10 hectares of arable land (with permanent grass excluded) it appears that more than half of the EU's agricultural area would be excluded. Council proposals to set the threshold at 15 ha and exclude various other farms would result in an even more diminished reach. Farms excluded would continue to get full CAP payments, including the greening component. These exemptions have clearly become excessive and must be rolled back to exclude only a small proportion of farmland if greening is to be credible.

Second, the integrity of the Commission's three core measures should be protected. If the Council's approach is adopted, **Ecological Focus Areas**, the key measure, will be restricted to only five per cent of the arable area of a farm and only where such arable land is over 15 hectares. If the Parliament has its way, the measure would be restricted to three per cent of the area, but more farms would be subject to the requirement, with a proposed threshold of 10 hectares. Under proposals from both the Council and the Parliament, EFAs would only increase to seven per cent of the arable land from 2018 following a positive evaluation by the Commission in 2017. If either of these amendments are adopted, the benefits achieved through EFAs will be very small indeed. It is estimated that many arable farms in Europe already have around three to four per cent of land which would qualify as an EFA.

Furthermore, if EFAs are defined to include green cover and nitrogen fixing crops, catch crops, coppice, and certain permanent crops, as the Council proposes, they would cease to be ecological in any reasonable sense of the word. There would be little or no increase in the area of environmentally beneficial management on the ground if such amendments were to be adopted in this form. As yet, no data have been produced to defend the credentials of the Council's list and 'ecological focus' as a concept is being rapidly degraded.

In summary, the environmental potential of the EFA measure has been hijacked and the benefits much diminished by excluding a large number of farms through geographical, size and other criteria. This has been made worse by the introduction of a series of inappropriate forms of management to allow conventional production to continue on the land in question without any attempt to produce evidence of the environmental benefits. It is imperative that EFAs are restored to seven per cent, applied to most farms, as the Commission proposed, and restricted to genuine forms of land management delivering clear environmental benefits. At the same time farm land which genuinely is an EFA, including more natural grazed areas with bushes and trees, should not be excluded from CAP support on the grounds of it being too woody.

Proposals to maintain **permanent pasture** are also being progressively weakened. Semi-natural grasslands are extremely important habitats for biodiversity and valuable carbon stores, as well as providing a range of other services. The Commission's proposal attempts

to maintain these and all other permanent grassland areas at the farm level. This is mainly because the current cross compliance rules, which apply regionally or nationally, have proved insufficient to counter significant pressures in some parts of Europe to plough such grassland for cereals, often for biofuel feedstocks. The Parliament and Council have both reacted strongly against a farm level requirement to protect permanent pasture, feeling that this is too inflexible. Rather than finding an environmentally beneficial way of improving flexibility, such as focusing the measure on semi-natural grasslands and those on carbon rich soils, they have argued instead for the requirement to revert to operating at the regional or national level and also stipulated a range of conditions under which the measure would not apply. It is unclear how a regional approach would have a bearing or be effective at the farm level and why it should justify a payment for farmers as a greening measure. A focussed approach on identifiable farms would affect a smaller area but with a more valuable outcome.

A **third** concern is that Member States will be permitted to adopt 'equivalent' national means of achieving similar outcomes to the EC greening measures before it has been established how equivalence would be assessed or whether it would generate better results with less administration, as some hope. Judging the equivalence of national certification schemes or agri-environment measures with the three Commission greening measures is not straightforward. First, it would involve projecting the potential impact of the EFAs and other measures to establish a baseline. Then, with due attention to issues such as levels of farmer participation, both the areas and the practices involved, and the regimes for inspection and verification, it would be necessary to demonstrate how voluntary certification or agri-environment could bring about an equally effective result. All this should be done prior to the commencement of a new or amended certification scheme to give some certainty that it is acceptable to the Commission and will not be subject to major revisions and potential loss of payments. Very clear and robust processes would need to be put in place. A recent report by the Institute (Hart and Menadue, 2013) demonstrates why this is so and reviews current schemes in five EU countries, showing how they compare with the EU measures. The challenges are not to be under-estimated.

Without Action

Not everyone welcomes the re-alignment of the CAP with public good objectives and some would be quite content if the entire initiative ends in disarray. Others believe that agricultural policy could bring much greater benefits for Europe as well as more public goods and greater agricultural resilience to climate change if some robust but achievable steps are taken. They may be more inclined to find fault with the European institutions that have been reluctant to grasp the nettle. If the package is not improved, environmental organisations, anticipating a tide of greenwash, will find it difficult to ward off cynicism about the CAP and many of the agricultural players who travel with it. The effect will be worse if over 20 years of investment and steady progress with encouraging improved agri-environment schemes is undone. The rest of society is unlikely to be far behind. In this sense the future of the CAP truly is on the line.

References

Hart, K (2012) [Principles of Double Funding: Briefing for the UK Land Use Policy Group](#), Institute for European Environment Policy, UK.

Hart K and Menadue H (2013) [Equivalence mechanisms used for complying with greening requirements under the new Common Agricultural Policy \(CAP\)](#), Institute for European Environmental Policy, UK.