



# **Proposal for a new EU Common Agricultural Policy**

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European Forum on Nature Conservation and Pastoralism

International Federation of Organic Agriculture Movements-  
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WWF – World Wide Fund for Nature

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# FOREWORD

## **The Common Agricultural Policy: meeting the environmental and food challenges of the future**

European agriculture is at a crossroads. In 2010, the European Commission will produce a communication on the future of the Common Agriculture Policy. By 2013, European governments and the European Parliament must agree a new framework for European farming and rural development. At the same time, CAP expenditure, which accounts for 40% of the current budget, will face increasing pressure as decisions are taken on the future of the EU Budget.

Five farming and environmental NGOs have therefore come together with proposals for a transformation of the CAP to help farmers to rise to the challenge of sustainable farming, and to reward those who deliver the environmental benefits that society values so highly. The CAP has come a long way – but we believe it is still failing citizens, farmers and the environment, and requires radical change to justify the 53 billion Euros it distributes annually on behalf of European taxpayers and to ensure the environmental benefits society need from farming are actually delivered. Agriculture can be a driver for both degradation and enhancement of natural resources. Therefore, our aim is a fully legitimate CAP that supports the transition toward sustainable farming in the EU.

The current system is built mainly on historic and obsolete mechanisms. Support is still directed towards those who produced more under the “old” CAP, rather than those who deliver the most environmental benefits and contribute to maintaining a sustainable resource base which is necessary for ensuring long-term food security. Consequently, most of the money still goes to a very small number of large or resource intensive farms, and all too often to those engaging in unsustainable practices. The policy does not sufficiently encourage farmers to shift towards genuinely sustainable food production or to adopt forms of land management that meet the real challenges of the future: mitigating and adapting to climate change, securing functioning ecosystems, improving water resources, recovering our lost biodiversity and guaranteeing our long term capacity for ongoing food production.

Our proposals aim to ensure a coherent European policy for agriculture. This would take the form of a contract between society and farmers, with support available for those who produce environmental benefits, underpinned by a strong common framework of standards applying to everyone. Within this common policy, Member States would be able to allocate resources to farming systems and practices that benefit the environment or provide other public goods, in line with national priorities. Payments would shift from subsidy entitlements towards agreements underpinning payments for public goods in a transparent and accountable way. We propose a range of tools for supporting good practice, including a basic flat rate payment, based on robust commitments, to deliver above and beyond the mandatory baseline, and higher payments for systems delivering higher benefits. Targeted agri-environment payments would address more specific issues and protect valuable habitats and species. We also envisage a range of public investments in sustainable farming and local communities to help to build a knowledge-based, resource efficient and viable farming sector. We believe that

sustainable farm businesses will help maintain vibrant rural and marginal communities, and vice versa.

We hope to engage in a genuinely open debate on setting the future course of European farming and land management, and thereby determine the role of the future CAP. We therefore encourage you to comment on the proposals we set out here to help us improve them over the coming months. Equally, we hope you will adopt some of our ideas in your own thinking.

We ask politicians, farmers, environmentalists and all other stakeholders to take the ecological and financial crises as an opportunity to change the CAP so it can support truly sustainable farming, which provides foods, fibre and energy as well as biodiversity and other public goods. This approach will protect the natural resources on which we all depend.

Change is inevitable, both because of the environmental and production challenges facing European farmers and society, and because financial constraints will ensure that all public expenditure faces intense scrutiny. Embracing change, in a way that provides a clear direction of travel, and supports Europe's farmers and land managers as they start to prepare for the challenges of the future, lies at the heart of our proposals.

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# **Proposal for a new EU Common Agricultural Policy**

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## ***Vision***

Our Vision is for a European agriculture that produces healthy, safe and high quality food, while using natural resources in a rational and environmentally sensitive way. An agriculture that can maintain its productive role far into the future in the face of climate change, the broader environmental crisis, and the pressures arising from a world population that is growing in numbers and wealth.

Our Vision is for a thriving countryside where farmers and rural communities help to enhance landscapes and biodiversity, and where a clean, healthy and wildlife rich environment is regarded both as an asset for the well-being of society and for underpinning economic activity.

We believe in an agriculture which works in harmony with nature, where innovation and the preservation of past knowledge both have a role to play. We believe in holistic solutions that address complex problems on the basis of science, knowledge and understanding, while refusing short sighted and misguided technological fixes.

Our Vision is underpinned by a commitment to those types of agriculture that can meet society's expectations in the long term. We are calling for a reformed policy that fully rewards farmers and land managers for the delivery of the public goods and services that society needs and desires, but which are not rewarded by the market. We want a policy that is fair and equitable to all, which maintains vibrant rural areas, encourages the wise use of resources, avoids waste, and which respects the investment made by taxpayers.

We are proposing a new contract between farmers and society.

## ***1. Introduction***

### **Aim of the document**

This document offers a blueprint for supporting the changes needed in European farming to achieve our Vision. It sets out clear objectives tailored to Europe's needs, and the suite of measures required to meet them. It shows how the Common Agricultural Policy (CAP) budget can be used effectively to pursue common European objectives.

The document has been developed by five NGOs<sup>1</sup> engaged in nature conservation and in the promotion of sustainable farming. Our aim is to provide a constructive basis for an open and inclusive debate around the future of the CAP.

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<sup>1</sup> BirdLife International, European Environmental Bureau, European Forum on Nature Conservation and Pastoralism, International Federation of Organic Agriculture Movements and WWF.

## **The Sustainability Challenge**

Farming and wider land management are key activities for addressing some of the greatest challenges facing mankind this century. Stemming the collapse of biodiversity, mitigating and adapting to climate change, and maintaining plentiful and clean water resources, are some of the environmental challenges that require profound changes to the ways in which Europe's land resource is used and managed.

Agriculture accounts for about half of the European land area and consequently has far reaching implications for the conservation of natural resources. Farming has shaped European landscapes for so long that much of Europe's biodiversity has co-evolved with traditional farming activities, and many species and habitats currently depend on specific agricultural management. This, as well as the sensitivity of food production, makes farming inherently different from many other economic sectors.

### **The Main Environmental Impacts of European Farming**

European farming plays a major role in the management and wise use of natural resources. Ensuring positive and sustainable outcomes for society depends for the most part on having the right type of farming, with the right practices, in the right place. Inappropriate farming patterns can have disastrous consequences for the natural environment. Farming can have either positive or negative impacts with respect to the following key environmental issues:

- Water: over-exploitation and pollution v. sustainable water use and maintenance of sustainable watersheds
- Soil: erosion and degradation v. conservation and improvement
- Biodiversity: degradation and decline v. conservation, enhancement and positive management
- Landscape: degradation and decline in character v. conservation and positive management
- Fire and flooding: direct causation v. contribution to prevention and improved resilience
- Climate: greenhouse-gas emissions v. Carbon storage and production of renewable energy<sup>2</sup>.

The primary role of farming will continue to be food production. At the same time, farming and land management perform a complex set of functions, including the provision of a range of environmental benefits and the maintenance of rural social fabric, especially in more marginal areas. As the world population grows, the impacts of climate change start to take

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<sup>2</sup> Renewable energy can contribute to GHG emissions reduction by displacing fossil fuels but it is important to note that bioenergy is almost never "carbon neutral" and some forms of biomass based energy, notably many biofuels pathways can have very poor GHG emissions performance or even be worse than fossil fuels. Correct GHG accounting and robust sustainability standards are essential.

their toll, and land is increasingly expected to perform functions such as Carbon storage and energy production, Europe will face hard choices about the wise use of its countryside.

Climate change and the threat of largescale ecosystem degradation present long-term challenges for food security that Europe must address. The challenge is to ensure that European agriculture continues to perform its multiple functions while protecting the natural resources we need and treasure.

Trade-offs and choices over appropriate land use are inevitable, depending on the specific needs and objectives in any given locality. For example, high input farming maximises production per unit of land, with the potential to free land for ecological purposes, but it often has serious environmental impacts, including a long term deterioration of soil fertility. Conversely, less intensive systems have a lower environmental impact and greater ecological stability, but often have lower productivity and require more land. Appropriate approaches are likely to vary from region to region and indeed, the full extent of the environmental and social costs and benefits of different technologies and management systems are not always known. The World Bank facilitated International Assessment of Agricultural Science & Technology for Development (IAASTD<sup>3</sup>), offer a refreshing assessment of the environmental and social impacts of farming systems and offers a useful insight into the urgent need to shift toward more sustainable world farming.

While certain issues are still to be resolved, it is clear that a change of direction is needed, so that Europe's agriculture can better combine food production with the maintenance of ecosystem services, in order to provide a sound basis for both rural societies and our semi-natural ecosystems.

Changes to agriculture over the last 50 years have brought undeniable benefits in terms of providing plentiful and safer food. However, this has been based primarily on the unsustainable use of natural resources and has brought significant negative environmental effects. The increase in artificial input use has resulted in broader societal concerns about pesticide residues on food and the potential health implications of exposure to agricultural chemicals.

EU farming has also become heavily dependent on fossil fuels (both directly and through the use of artificial nitrogen fertiliser) and on imported animal feed and phosphorus. These dependencies have produced a large ecological footprint and increased the vulnerability of the EU food system to external shocks.

A radical transition is needed toward truly sustainable farming practices that can provide long term optimal yields, while using natural resources efficiently. Such practices need to be sensitive to biodiversity and ecosystem functionality and result in the production of high quality, safe and healthy products.

### **A wasteful and ineffective policy**

53 billion Euros are spent on the CAP each year, and although successive reforms have removed most of the perverse incentives to over-produce, many forms of agriculture continue to harm the environment. For example, close to 15 % of EU land is affected by erosion caused

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<sup>3</sup> International Assessment of Agricultural Knowledge, Science and Technology for Development (IAASTD)-report agreed at an Intergovernmental Plenary Session in Johannesburg, South Africa in April, 2008.

by unsustainable land use practices<sup>4</sup> and diffuse pollution from agricultural sources is responsible for 50% of the nitrogen load in the Baltic Sea and 40% in the Danube<sup>5</sup>. Agriculture accounts for over 60% of total water use in southern EU countries, 9 % of the EU's total greenhouse gas emissions are directly attributable to agricultural activities, and this figure would increase if soil Carbon emissions<sup>6</sup> and the indirect effects of European agriculture, such as the production of fertiliser and protein feed overseas, were taken into account. In addition, "farm modernisation" and infrastructure investments often lead to the loss of important habitats or increase water demand, as well as job losses in certain cases. In short, the large sums of money currently being spent on the CAP are not being used to address the environmental challenges outlined above.

One of the principal defences of the current CAP is that it maintains farm incomes and the economic health of the sector, yet the number of people working in agriculture in the EU is in continual decline, falling by 18% in the EU-15 between 1995 and 2005. Current direct payments fail to support those farmers or land managers who specifically require financial help, or those who are delivering most for society by providing environmental goods and services. Indeed, 85% of direct payments go to just 18% of farmers, with the largest farms in the old EU Member States benefiting the most. Wider structural change has led to the loss of labour intensive farms, replaced by resource intensive farms, with considerable impacts on the environment and rural vitality.

Over time, the CAP has fallen out of tune with Europe's changing needs and most of the current policies reflect past policy developments rather than present or future objectives. The present CAP is mostly untargeted, with direct payments based on historical criteria heavily skewed in favour of the most resource intensive farms. More sustainable farming systems, and those farmers and land managers delivering most for the environment, systematically receive smaller direct payments. Only a small share of the overall CAP budget is targeted at the achievement of clear policy objectives.

While Rural Development policy has the potential to respond to society's changing needs, it often fails to do so. For example, the Less Favoured Area (LFA)<sup>7</sup> measure is intended to maintain sustainable farming in areas where abandonment may lead to the loss of cultural landscapes and cause environmental harm. However, in practice, payments are not targeted at the most disadvantaged farms or those following the most environmentally sustainable practices.

A radical reform is needed - both in the objectives of the CAP and in its delivery mechanisms - with adequate financing allocated to measures that can deliver the policy's revised objectives. Reshaping the CAP to meet modern policy objectives will inevitably entail a considerable redistribution of funds between beneficiaries. Without such a radical reform, the environmental and social public goods that are valued highly by the public run the risk of being lost – sometimes irreversibly – and the EU will fail to meet its own and international commitments, including those related to climate change, water and biodiversity.

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<sup>4</sup> European Environment Agency (2007) State of the environment report No 1/2007

<sup>5</sup> European Environment Agency (2005) Source apportionment of nitrogen and phosphorus inputs into the aquatic environment, Report No 7/2005

<sup>6</sup> Current agricultural practices often act as a driver of carbon emissions from soils, for example, a long term study by Cranfield University in the UK found that since 1970 (the UK joined the EU in 1973), agricultural soils lost on average - 4.4 Mt yr<sup>-1</sup>. Source: Carbon losses from all soils across England and Wales 1978-2003 (2005) Pat H. Bellamy, Peter J. Loveland, R. Ian Bradley, R. Murray Lark & Guy J.D. Kirk Nature 437 pp245 – 248.

<sup>7</sup> Currently called Natural Handicap Areas

## **A new policy is needed**

Addressing the great challenges of our time requires action at multiple levels, from the local to the global. As a global environmental leader, the EU should play a key role. The EU has the governance structure needed to pursue collective action at the required scale. A thoroughly reformed CAP can be a potentially valuable tool for such a coordinated action.

Agriculture policy uses a complex set of tools, including market management, public support, production standards and promotion. While deep changes are needed to all of them, the reform of CAP payments is a particularly urgent issue. If better used, CAP payments could become a powerful catalyst for far-reaching change.

The CAP currently absorbs over 40% of the total EU budget and is under particular scrutiny as part of the ongoing EU Budget Review. The review of Europe's budget presents a critical opportunity which, if seized upon, could result in a fully legitimate policy that provides solutions to environmental problems, responds to society's expectations, and helps to achieve key EU objectives (environmental, cohesion and others). If this opportunity is missed, and the pressure to cut European spending leads to a significantly reduced CAP budget, it will rob Europe of a key tool for steering land use and farming along the sustainable path that is so badly needed.

The model we propose here is based on the assumption that EU budget resources will be maintained and reallocated towards the objectives identified in this blueprint. If implemented in a coherent way, it could provide the European taxpayer with real value for money. In contrast, any attempt to "greenwash" the current CAP is not an acceptable strategy as its contradictory objectives are too firmly embedded. Such an attempt must be strongly opposed.

We hope this contribution will help to unite environmentalists and farmers, who are ultimately pursuing the same objective: healthy agro-ecosystems that support farmers and land managers, society, biodiversity and other natural resources, both now and in the future.

## **Public money for public goods**

A key principle for a new system of CAP payments should be to reward farmers and other land managers for the provision of public goods. At the same time, public spending on agriculture should not undermine public goods delivery.

Some of the most important public goods associated with agriculture include farmland biodiversity, conservation of agricultural genetic resources, watershed functionality, attractive agricultural landscapes, Carbon storage, resilience to wildfire and other natural hazards, ecosystem resilience in the face of climate change and rural vitality.

These public goods are highly valued by society and yet their ongoing provision is often under threat due to land use change, in particular through agricultural intensification or abandonment, driven by market forces, policy choices and technological change.

Because of the defining characteristics of public goods they cannot be provided by the market. These are the characteristics of non-rivalry and non-excludability, which mean that no-one can be excluded from enjoying the benefits provided by farmland biodiversity or attractive agricultural landscapes, for example, and users cannot be charged for them.

As there is no market for the public goods, their provision is largely dependent on State intervention. As such, public payments are needed to reward farmers and other land managers for their provision, although the CAP should only intervene where they are under threat and there is a risk that they may be lost, sometimes irreversibly.

Environmental improvements which go beyond basic good practice should be considered as public goods. Section 4 discusses the importance of respecting the Polluter Pays Principle and ensuring there is a minimum standard that applies to all landholders. Payments should not, as a general rule, be made to farmers or land managers for respecting this mandatory baseline.

This paper sets out how a system of public payments under the CAP could support the provision of public goods in Europe, as well as other legitimate policy objectives such as creating conditions for the provision of safe and healthy food or enhanced farm animal welfare.

### **Certain farming systems consistently deliver more public goods**

Certain farming systems deliver a wide range of public goods in larger quantities. Where farming systems can be reliably and consistently associated with providing such public goods, there is a case for targeting support at them.

High Nature Value (HNV) farming systems are a prime example. These are typically low-intensity farming systems which have a lower impact on the environment compared to more resource intensive forms of production and are characterised by a high proportion of semi-natural vegetation and farmland features. These include extensive livestock systems, low-intensity permanent and arable crops and small-scale mixed farming systems with a high density of semi-natural features. They play a key role in maintaining biodiversity, provide Europe's most distinctive landscapes (which are the basis for an important part of the tourism industry) and represent the backbone of rural societies in many remote and marginal regions. These systems are under threat in many parts of Europe because of low farm incomes, due in part to the failure of the historic system of CAP payments. They struggle to compete on a free market due to lower yields, difficult market access and higher labour requirements, and can fall victim to land abandonment or agricultural intensification, both of which can have detrimental environmental and social effects. A critical issue for Europe is the maintenance of these systems. If properly supported, they can be prime examples of environmentally and socially sustainable farming.

Organic farming is a modern approach to farming, contributing to all aspects of sustainability, while providing high quality food. It is a well established and legally defined system of production, backed by Europe wide certification, that delivers, on average, a higher level of environmental public goods (including reduced water pollution and greenhouse gas emissions, better soil conservation, improved biodiversity delivery) and societal benefits (enhanced animal welfare, rural employment and reduced pesticide residues in food) than conventional farming. The degree to which public goods are provided varies depending on the type of production. However, where it improves the sustainability of farming across Europe, Organic production is an approach which should be supported through the CAP.

Besides food production, more sustainable farming systems such as HNV and Organic deliver a wide range of public goods while not being sufficiently remunerated through product prices. Less sustainable food systems, in contrast, externalise their environmental costs, producing

cheaper commodities, but at the expense of society. This market failure has to be tackled and public payments can be part of the answer, at least in the short term.

While systems delivering high levels of public goods warrant particular support, we also need significant investment to improve the environmental performance of farming across the board. Conventional farming systems can deliver public goods, most clearly evidenced through farmer entry into agri-environment schemes which reward the maintenance and delivery of wildlife habitats and other ecosystem services. However, this is highly dependent on the management decisions taken by the farmer and is often not an inherent product of a conventional farming approach. Incentives, investment grants, advice and other forms of public intervention can help to accelerate the transition toward sustainable and resource-efficient farming. Public support for conventional farming systems must however be tied specifically to the delivery of public goods.

Farmers and land managers, whether conventional, Organic or HNV, should be offered help to implement knowledge based and innovative practices, dynamic and locally adapted management systems and appropriate technologies to improve environmental delivery.

In section 5, we outline a set of tools that can help to facilitate the transition to sustainable farming and reward those systems already delivering public goods at a significant scale.

### **Sustainable production needs sustainable consumption**

Promoting sustainable production methods is only part of the answer however. Consumption patterns in Europe, as in other developed regions, are currently unsustainable, and the world could not sustain the production levels needed if everyone followed a European diet. Shifting EU production toward more sustainable models can only work if it goes hand-in-hand with a reduction in EU resource consumption.

Increasing the sustainability of our food system (both on the production and consumption sides) requires a global approach that extends beyond Europe's borders. It is clear that international efforts are needed, but these go beyond the scope of this paper.

A considerable part of the world's land and resources are dedicated to meat and dairy production, which often generates significant environmental and health problems. While meat and dairy production generally have a much higher footprint than crop production (both inside and outside the EU), the method of production is also crucial. Ruminant husbandry is the only way to convert pasture into food for humans while at the same time maintaining the role of grasslands in Carbon storage and habitat provision. This means that ways must be found to reduce overall meat and dairy consumption while shifting consumption toward grass fed livestock products (as opposed to grain and protein crop based feed). As a minimum, public support that promotes animal products from resource intensive farming systems should be phased out.

Food waste is another major area that needs tackling. Some estimates suggest that as much as a third of European food is wasted, adding huge and unnecessary pressure on global resources (as well as contributing to methane emissions).

Directly connecting producers to consumers within sustainable food systems can help to raise awareness of environmental issues on both sides. Through their consumption choices, more

informed and responsible consumers can also motivate farmers to produce higher food quality and maintain a healthier environment.

Finally, demand for bioenergy must be matched to the planet's environmental capacity and be tied to actual and quantifiable greenhouse gas savings and sustainable land use. Full consideration needs to be given to the indirect effects resulting from the displacement of food production to other parts of the world when land in Europe is used for bioenergy production.

## **Scope of the document**

This document outlines a model for a new CAP payment system together with some suggestions for the improvement of agriculture related environmental legislation. A number of issues are not examined, including regulation of agricultural markets, international trade agreements, food quality and safety legislation (including certification systems and sustainability criteria), animal welfare standards, land use planning and consumption related policies. We acknowledge the importance of these issues and the need for tools to address them. We believe however, that an intelligent and efficient use of EU public funds can contribute to environmentally sustainable and socially sound economic activities in Europe's rural areas. We therefore have chosen to focus the document clearly on this question.

We believe that any CAP measures that go beyond the scope of this document should be coherent with the described environmental objectives. While market regulation falls outside of our scope, we believe that targeting support at more sustainable farming and ensuring a robust mandatory baseline, can contribute to the sound functioning of EU and world markets, notably by preventing unfair competition.

## ***2. Policy Objectives***

EU agriculture policy must move away from a logic of dependency and compensation to one of public goods delivery based on a new contract between farmers and society. This fundamental transformation would reward land management activities that deliver tangible benefits to society and would prohibit the use of public funds to support activities which have adverse environmental impacts.

The CAP must contribute to EU priorities such as sustainable development and environmental protection. The original CAP objectives must be fundamentally revised, with public payments rewarding the provision of public goods and those actions that clearly respond to society's broader interests.

With the aim of ensuring greater coherence and integration of Community policies, the CAP should contribute to other EU strategies (e.g. EU Strategy on Sustainable Development) and policy objectives such as halting the loss of biodiversity. It should also contribute to EU international commitments such as those under the Convention on Biological Diversity and the UN Climate Convention. Such a transformation would bring the CAP in line with the Budget Heading - "Preservation and management of natural resources" - under which it falls.

We believe that the following objectives can legitimately and effectively be pursued through the CAP:

- To create the environmental conditions to sustain long-term agricultural production through the protection of ecosystems and their services (soil, air and water) and the sustainable use of natural resources;
- To accelerate the transition toward resource-efficient farming that is less dependent on fossil inputs and more resilient in the face of climate change and other external pressures;
- To promote conditions for the production of safe, healthy and high quality food;
- To maintain and enhance (wild) farmland biodiversity by halting and reversing declines;
- To maintain (domesticated) agricultural biodiversity ;
- To contribute to achieving ‘good status’ in European freshwater systems and adjacent coastal waters;
- To contribute to climate change adaptation and mitigation;
- To support the maintenance of landscapes and a rural heritage rich in aesthetic, cultural or historical value;
- To contribute to the rural vitality of areas highly dependent on agriculture and where this is important to support the viability of those farming systems which underpin the delivery of public goods;
- To promote enhanced animal welfare;
- To support sustainable food systems which better connect producers and consumers.

A key objective of the policy should be to accelerate the transition towards more sustainable farming systems that can combine high productivity with reduced environmental impacts and careful resource use. Innovation and a knowledge-based approach to farming must be central to this transformation. The transition towards sustainable farming needs to incorporate the general principles of Integrated Production. These principles include a variety of complementary strategies such as using robust and well adapted plant varieties, caring for healthy plants and soil, management of nutrient cycles, reduction of greenhouse gas emissions, maximisation of Carbon storage and a significant reduction in the use and dependency on chemical inputs (fertilisers and pesticides). While some key elements of the Integrated Production approach should become legally binding, others could be supported through public payments. There is also an important role for Farm Advisory Services to promote sustainable practices that cannot be adequately secured through regulation or public payments (due to difficulties in enforcement or inspection).

While supporting the transition of the more productive farming systems, special attention should be given to the maintenance of HNV farming systems, the often traditional extensive systems on which much of Europe’s biodiversity depends. While these systems often have lower levels of productivity and economic profitability, they deliver high levels of public goods that need to be recognized and rewarded.

As Organic farming systems offer a model of enhanced sustainability in farming and generally deliver more of the environmental benefits mentioned above, as well as incorporating enhanced animal health and welfare standards, they also warrant specific system support.

### ***3. Operational principles of a new CAP payments system***

In the longer term, we propose to replace all current CAP subsidies with a new system, described in section 5, which comprises five core schemes, accompanied by wider support measures for sustainable land management and rural development. While a transition period will be needed along with effective mechanisms to ensure that the transition is smooth, we believe that the debate should focus on the desired end point. The system we envisage would be based on “payments for public goods”. Certain payments would support the economic viability of farming systems delivering public goods, others would compensate for specific commitments or obligations, while others would support the transition toward more sustainable farming practices.

A sound policy, capable of delivering against its objectives, needs to be dynamic, accountable and efficient. To this end, we believe that the entire future CAP payment system must be based on the following operational principles, many of which are already established in the current CAP Rural Development framework:

#### **3.1 Contractual basis**

In our Vision, farmers and land managers will not be automatically entitled to the receipt of public payments, as is the case for a majority of farmers under the current Single Farm Payment system. The payments must be justified on the basis of a clear public interest, such as the delivery of public goods. Payments will be designed to support the delivery of public goods<sup>8</sup> and will be based on a written agreement between society and the recipient. They will be time-bound and will specify the farm’s eligibility criteria, any pre-conditions (in terms of the mandatory baseline) and the commitments made by the recipient (going beyond the mandatory baseline). This clear contractual basis would give legitimacy to the payments and ensure that both the recipient and taxpayers fully understand what is required and what is being rewarded. Such clarity would also help farmers to develop an economically sustainable farm business.

#### **3.2 Targeting**

All payments should clearly aim at the achievement of specific and well defined policy objectives. It must be clear what any payment is trying to achieve, and results should be quantifiable and measurable against robust baselines. Support must not be directed to generic or unverifiable commitments or to commitments that cannot deliver the desired results. As Member States will be free - within agreed limits - to allocate different levels of funding to the different payment schemes, they will also need to ensure that each scheme is targeting the most relevant land and farmers. National targeting could be based on a combination of criteria such as location, farming type, presence of particular environmental problems or assets.

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<sup>8</sup> In practice, payments would not support the direct delivery of public goods, but rather the management practices or farming system that is needed for their delivery. However, there must always be a clear and specific causal link between the practices and systems supported and the environmental and social outcomes desired.

### **3.3 Programming**

Many of the challenges we face require a continent-scale response, however, the EU is too diverse for a 'one size fits all' solution. The programming approach, currently applied (albeit imperfectly) in Rural Development policy, is a way to combine subsidiarity with EU level policy coherence. In our Vision, general rules, guidelines and European priorities would be decided in common, with Member States and regions determining the details of schemes, relative budget allocations and national/regional priorities for approval by the Commission. The Commission would also monitor programme delivery to ensure coherence and to prevent misuse.

### **3.4 Strategic approach**

Member States will need to develop an overarching strategy for the deployment of CAP schemes, and to obtain Commission approval- before the elaboration of national and regional plans. This will guarantee the coherence of all CAP spending both within and between Member States and prevent conflicting and contradictory spending. It is essential that all schemes are targeted in a way that maximises their effectiveness. Targeting can take many forms (targeting of particular farming systems, habitats, regions etc.) but under our Vision, there would be no more untargeted spending and only schemes with a clear link to the policy's objectives would be approved.

### **3.5 European Money for European Goals**

Increasing budgetary pressures means that there is a need to prioritise expenditure. In our Vision, the principle that EU funding should support EU objectives would inform funding decisions and priorities. For example, in the area of biodiversity, this means that priority would be given to European objectives such as Natura 2000 habitats, species and areas.

### **3.6 Partnership principle (consultation)**

Effective planning can only be ensured through systematic and inclusive consultation of stakeholders, leading to full integration between objectives. Experience from Rural Development planning suggests that improvements are needed, including:

- A defined consultation procedure, including guidance on the number and composition of stakeholders;
- Equal involvement of agriculture and environment ministries and civil bodies;
- Sound procedures: adequate consultation time; support to cover stakeholder expenses for consultation meetings, studies etc; meeting timings, especially at regional level, to allow broader participation (including representatives that would need to take time off their main occupation);
- Ensuring an independent advisory role for the scientific community and involvement of extension actors;
- An obligation for Member States to take stakeholder requests into consideration and to explain explicitly why any requests are rejected.

### **3.7 Accountability**

Beneficiaries of public payments should be fully accountable with respect to complying with the terms of the agreement. Effective and efficient controls are indispensable. In order to increase efficiency while reducing the burden to individual farmers and land managers, more use should be made of modern technologies, such as satellite imaging and remote sensing (e.g. to monitor landscape features, buffer strips, nutrient content of soils etc.). Environmental data relevant to baseline obligations and payment schemes should be integrated in the Land Parcel Information System, to make full use of this system's potential for policy management.

Even more importantly, national and regional financial authorities should be fully accountable for the achievement of agreed EU objectives.

### **3.8 Budget**

The budget allocations to Member States should be decided on the basis of objective criteria and solidarity principles, ensuring fair treatment among old and new Member States and reflecting the European importance of public goods associated with farming in different countries. Such a process should result in fixed national allocations. These would avoid perverse situations where Member States choose tools that maximise their financial return rather than those which would deliver against the policy's overarching objectives. The allocation of funds to the policy's five main schemes (see section 5 below), within a country's overall allocation, should be based on the programming process within minimum and maximum thresholds decided at EU level. While the system we propose is likely to result in major redistributions in funding patterns, we believe this should not deter us from ensuring efficiency and pursuing concrete objectives.

The set of tools proposed in section 5 is based on the assumption that the size of the CAP budget will be comparable to the current one. If, however, the size of the overall budget is reduced, a greater targeting of resources would be required. The measures capable of delivering the highest levels of public goods (agri-environment and support to specific farming systems such as HNV and Organic) must be a priority. Under these circumstances, EU governments would need to recognise that reducing expenditure whilst maintaining outcome delivery would only be possible by making more extensive use of binding legislation to deliver basic good practice.

### **3.9 Monitoring and evaluation**

In our Vision, all payment schemes would be subject to thorough and regular assessments of impacts to allow for ongoing improvements. This requires a robust monitoring and evaluation framework which includes:

- An obligation to dedicate adequate funding for the collection of field data in relation to environmental variables;
- Robust indicators of scheme impacts and targeted research into the effectiveness of all schemes<sup>9</sup>, to ensure their successful delivery;

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<sup>9</sup> This does not mean monitoring on every field and every farm but a robust sampling approach for each scheme.

- Independent monitoring and assessment bodies to carry out the planning and delivery of schemes;
- An obligation to publish monitoring data and incorporate findings into improvements and periodic reviews.

### **3.10 A Dynamic and cost-effective system**

Subsidies are only one of a wide range of policy tools and should only be used when this is the most effective instrument. The cost effectiveness of the system should be regularly assessed using the results of monitoring and evaluation, with areas for improvements identified. This is especially important as new research, accumulated experience and technologies will redefine and improve standards of sustainability. These developments should also be used to update the conditions and criteria of the different payment schemes while adhering to existing commitments.

### **3.11 Coherence**

All measures must be assessed, prior to implementation, to ensure that they do not unintentionally or indirectly produce negative environmental effects or undermine other sustainability objectives. Member States will be required to demonstrate the coherence of all measures, both within their plan(s) and with other EU programmes (such as cohesion and environment funds or environmental legislation). Farmers and landowners will commit to respecting relevant EU legislation as part of their agreements (including any investment aid).

### **3.12 Transparency**

All relevant data about public payments and the commitments of beneficiaries would be in the public domain and easily accessible.

### **3.13 Trade distorting effects**

All schemes must be assessed, prior to approval, to ensure that they do not unintentionally or indirectly have trade distorting effects or harm the potential for developing countries to develop sustainable local markets.

## ***4. Environmental regulation as a firm baseline***

Our model is based on two fundamental principles. The first is the “polluter pays principle” which is enshrined in the EU Treaty and should apply to all farming activity, regardless of whether public payments are received or not. The EU needs more effective systems to control compliance with environmental legislation on farmland, such as national laws on water extraction.

A second principle is that farmers and land managers should be rewarded for the provision of public goods where this requires action that goes beyond the legally binding reference level.

In our proposed model, there would be a clear distinction between voluntary commitments delivering public goods that are rewarded financially under an agreement, and the underlying

environmental legislation which must be respected as a pre-requisite for receiving payments. Current cross-compliance rules include a range of legislation which should be maintained<sup>10</sup> as a baseline for all payments.

However, there are still key gaps in cross-compliance that must be explicitly added to the mandatory baseline:

- The Water Framework Directive
- The future EU Soil Framework Directive
- Sustainable Pesticide Use Directive (including the integrated pest management annex)
- Regulation on Maximum Residues Levels in Food
- Emission reduction elements of the future Industrial Emissions Directive<sup>11</sup>

These Directives must be properly implemented and translated at national level into meaningful requirements for farmers and land managers.

National legislation on priority environmental issues, such as water extraction for agriculture, would be part of the mandatory baseline on which any payment is conditional and would be properly enforced.

It is important to inform and advise farmers and land managers about their legal obligations and on the ways to meet them<sup>12</sup>.

In addition, some key rules should be added to current legislation. The most important are:

- Robust protection against conversion of permanent grassland<sup>13</sup> over 15 years old, except where there is clear evidence that the action will not damage biodiversity or reduce Carbon stocks;
- Robust protection against removal and deliberate damage of landscape elements<sup>14</sup> including, as a minimum, hedgerows, tree lines, pockets of native vegetation, ponds, ditches, streams and dry stream beds, terraces and stone walls. This is needed to

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<sup>10</sup> Key environmental legislation in this respect is the Birds and Habitats Directives, Nitrates and Groundwater Directives (and other relevant legislation on water quality and waste disposal), Sewage Sludge Directive, Regulation on authorisation and marketing of pesticides. Sanitary and animal welfare rules should also be maintained as part of the baseline, but a profound revision must be undertaken on rules affecting the livestock sector. These often place an unreasonable burden on extensive grazing, further contributing to its decline. It must be noted that while most sanitary problems in the last few decades were caused by intensive livestock operations, the rules introduced in response to this crisis have systematically penalised extensive livestock systems which were not responsible for the problems.

<sup>11</sup> Current IPPC

<sup>12</sup> See Section 5.20 on training and advisory services to farmers.

<sup>13</sup> The legal protection against conversion of grasslands should not exclude the possibility of supporting HNV farming systems for actively maintaining high proportions of their land as semi-natural grassland.

<sup>14</sup> As in the case of grasslands, safeguards against the removal of landscape elements should not interfere with the possibility of supporting systems with an exceptional density of landscape elements (under the proposed HNV support) or for rewarding farmers for maintaining a set % of their land in Environmental Priority Areas which can include pre-existing landscape elements.

prevent biodiversity loss and degradation of landscapes and ecosystem functionality (including vital services to farming such as pollination);

- Establishment of unsprayed and unfertilised buffer strips of natural vegetation along all water courses and water bodies. The width of the buffer should be determined by objective data in relation to soil type, slope, type of land use etc. This is a key measure for water protection and to ensure a minimal level of habitat connectivity;
- Requirement on farms with a significant percentage of arable or those with a high livestock density to establish a nutrient budget<sup>15</sup>;
- Rules forbidding stubble burning<sup>16</sup> and practices causing severe soil degradation such as non-contour tillage of steep slopes.

The legal protection of landscape features and permanent grasslands over 15 years old is important because of their significant environmental value. It is also important that farms with a high proportion of such features should be remunerated for the public goods that they provide, by means of the HNV payment (see Section 5.3.1). Where maintenance of these features requires exceptional management costs (e.g. maintenance of terraces), these may be compensated additionally through Agri-Environment payments (see Section 5.4). These payment schemes should be established simultaneously with the legal protection.

While farmers and land managers should not be compensated for respecting legislation, an exception should be made when spatially explicit planning tools impose restrictions on certain farmers or land managers within the same region/landscape. This particularly concerns Natura 2000 management plans and WFD river basin management plans<sup>17</sup>.

## ***5. Architecture of the new CAP payment system***

### **5.1 Common features of all agreements**

Our proposal replaces the current CAP with a system comprising five support schemes agreed at EU level (each of which are described in more detail below). Member States would establish national and regional programmes distributing their national funding allocations across all five schemes, setting, within agreed EU guidelines, the premia levels and specific details of commitments. Commission oversight would ensure coherence, effectiveness and fair treatment of all farmers and land managers. Each scheme would have specific objectives and rules. Schemes are modular and can be combined, but enrolment in the Basic Farm Sustainability scheme would be a condition for access to all other schemes. As such and where relevant, a farmer or land manager could commit to delivering public goods under more than one scheme<sup>18</sup>.

The five area based schemes are as follows:

- Basic Farm Sustainability Scheme

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<sup>15</sup> Simplified arrangements should be found to avoid excessive burden in the case of small farms

<sup>16</sup> Derogations could be foreseen in exceptional cases where burning can be shown to have lower environmental impacts than alternative management.

<sup>17</sup> See section 5.18-19 for a full explanation of the suggested mechanism.

<sup>18</sup> As different schemes reward different commitments, double funding would not arise.

- HNV System Support Scheme
- Organic System Support Scheme
- Targeted Agri-Environment Scheme
- Natura 2000 and WFD Compensation Scheme

These would be accompanied by wider support measures for sustainable land management and rural development.

We propose an approach that combines different types of spending:

- Decoupled payments to support a package of commitments or specific farming systems;
- Agri-environment payments to reward farmers and land managers for specific commitments (on an income forgone and cost incurred basis);
- Compensatory payments for certain binding prescriptions (e.g. in Natura 2000 sites);
- Several types of investment grants and;
- Several forms of public expenditure on services and processes.

All schemes must be implemented in accordance with the operational principles set out in section 3 and aim to achieve specified objectives, as set out in section 2. While Member States would be free to choose how to allocate their share of the CAP budget among the different schemes, they would be bound by maximum and minimum spending (per scheme) agreed at EU level, following the model of the current minimum spending rules for the 3 axes of Rural Development. Member states would also need to motivate their funding allocation choices. Countries with a larger extent of HNV farming would, for example, be expected to allocate a relatively larger proportion of CAP funds for supporting their HNV farming systems.

A mechanism for setting the payment levels for the first three schemes (Basic Farm Sustainability, HNV and Organic) will need to be developed, finding a compromise between EU level coherence and the need to accommodate regional differences to ensure an appropriate balance in take-up between schemes. Payment levels for Agri-environment schemes are discussed in section 5.4

Agreements for area based payments under the Basic Farm Sustainability, HNV, Organic, and Agri-Environment schemes, will be offered with a variable length of between 1 - 10 years, to accommodate those farmers and land managers wishing for business plan stability as well as those leasing land or facing problems in accepting long term commitments. Agreements could be extended up to 20 years for restoration projects where a successful outcome depends on a long-term commitment.

## **5.2 Basic Farm Sustainability Scheme (BFSS)**

### **Aim**

The aim of this scheme is to support farmers and land managers that commit to a set of concrete and meaningful best practice rules that can deliver better land stewardship and more sustainable farming. It is meant to support the “green transition” of large areas of mainstream

farming and deliver landscape level improvements for resource protection and ecosystem functionality. It is also designed to steer a wide set of farmers and land managers away from dependency on fossil fuels and artificial fertiliser. In particular, this agreement would aim to:

- Provide habitats for common farmland biodiversity and improve habitat connectivity, contributing to wildlife adaptation to climate change;
- Improve landscape structure and quality from both the ecological and aesthetic/cultural points of view;
- Improve the sustainability of farming by making it less vulnerable to pests, diseases and climate change, more efficient in nutrient cycling and with less impact on natural resources, especially soil and water.

### **Rationale**

This scheme would potentially be available to all farmers and land managers. It provides a simple way of rewarding farmers and land managers for good land stewardship, helping to improve environmental quality and habitat connectivity in the wider countryside, and helping in climate change adaptation. This scheme would reward any farmer or land manager who commits themselves to measures, listed below, that go beyond the mandatory baseline.

The suggested payment approach would be a flat-rate area payment, decoupled from production, with the amount decided at national/regional level (within an agreed EU ceiling).

All non-built surfaces of a holding, including any landscape elements, natural vegetation and small forest plots (with maximum size to be defined at national level) would be eligible. Grazed forest or wooded pasture would qualify but forests managed for commercial timber extraction would not<sup>19</sup>.

Mechanisms should be put in place to ensure that graziers are able to access this payment on all their forage area, including short term leases and forage used “in common”. Mechanisms may include joint agreements with other graziers using the same land, and payments calculated in proportion to grazing rights.

This scheme is designed to help farmers evolve their practices toward progressively higher sustainability levels.

### **Proposed commitments:**

- 10% of total farm area is mapped through the Land Parcel Information System (LPIS) and appropriately managed as ‘Environmental Priority Areas’ (EPAs). These EPAs could include hedgerows, specified landscape features<sup>20</sup>, semi-natural grassland, rotational fallows and other species rich and extensively managed land. EPAs could include pre-existing elements and any elements that are mandatory (e.g. buffer strips

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<sup>19</sup> The absence of an EU wide legal baseline for forest management and the long rotation time of harvest operation in many forestry systems make it very difficult to apply the same logic to forestry as we are using to enhance the environmental impact of farming. However, a thorough discussion on the tools needed to support public goods delivery by forest owners and managers is actively encouraged.

<sup>20</sup> The commitment to maintain 10% of the land as an EPA is compensated under this scheme. However, where landscape elements require expensive or labour intensive periodic maintenance, as is the case with terraces and stone walls, such works could be financed under agri-environment on a cost incurred basis.

along water courses). EPAs would need to be declared and registered on the Integrated Administration and Control System (IACS);

- A requirement for crop rotation on arable land sufficient for retaining soil fertility and structure and for suppressing major pathogens and pests;
- Management of all non-crop vegetation (field margins, fallows, hedgerows, ditches etc.) outside the wildlife breeding period, with dates to be fixed nationally;
- Maximum (total) livestock density appropriate to regional conditions;
- Minimum percentage of on-farm forage for livestock;
- Basic good practice rules (e.g. stubble management; Member States will be allowed to include any relevant crop or landscape specific commitment);
- Good practices to combat soil erosion and degradation;
- Good water management practices.

### **5.3 Support to systems delivering high levels of public goods**

Extensive evidence shows that both HNV farming systems and Organic farming are capable of delivering across a whole range of public goods. The public goods arise out of the complex interactions between different management practices and often cannot be reduced to single specific practices. This requires a holistic approach in which public money is used to support the farming systems as a whole. This does not undermine the targeting principle as monitoring and assessment would still need to show that the supported systems actually deliver the public goods for which they are receiving support.

Since the negative externalities of resource intensive farming practices are not internalized, these systems are subjected to competition distortion and should therefore be supported.

#### **5.3.1 HNV System Support Scheme**

##### **Aim**

This agreement would support the maintenance (or recovery) of farming systems that deliver high levels of public goods but are threatened by marginalisation, abandonment or conversion. These are primarily low-intensity livestock systems based on semi-natural forage, and in some cases low-intensity cropping systems. HNV farming is defined on the basis of the definition developed by the European Environment Agency and the Joint Research Centre, and elaborated for DG Agriculture under the Common Monitoring and Evaluation Framework<sup>21</sup>.

##### **Rationale**

HNV systems deliver high levels of public goods. They are the key to the survival of much of Europe's natural biodiversity but often also play a key role in rural vitality, supporting the tourism and recreation industry, and preserving cultural and gastronomic traditions. In most

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<sup>21</sup> Andersen et al. 2003; Beaufoy and Cooper 2008

cases, HNV systems suffer from low competitiveness, and face decline and ultimate collapse if not adequately supported.

Each Member State should identify its HNV farming systems on the basis of farm-level criteria such as low input use, share of semi-natural vegetation and landscape features, presence of habitats used by rare and threatened species etc.. The definition of HNV zones is not required but may be used to prioritise the targeting of support.

Commission (or comitology) approval will be required to prevent misuse and ensure a level playing field. Member States will be required to show that the HNV systems they intend to support are associated with significant biodiversity values i.e. by specifying the species, communities and habitats they support (at system level, not on individual farms).

Eligibility for the HNV system support is based on farm level criteria. Member States should be allowed to choose between a flat rate payment and differentiated payment based on:

- Increased support to the most extensive/ecologically valuable farms (for example, with higher payments for lower stocking densities, higher proportions of semi-natural vegetation, mosaics of small parcels, presence of particular habitats/species etc.);
- Increased support on the basis of natural handicap criteria including extremely remote and sparsely populated areas. This element is a far more tightly targeted successor to the LFA scheme under the current CAP and links payments specifically to those farms providing public goods.
- Supplementary HNV payments would be available to farms maintaining specific HNV practices that are shown to contribute significantly to biodiversity or other public goods, for example shepherding, transhumance, late cutting of hay meadows, hand mowing, semi-natural understorey in permanent crops, etc.

HNV support would be an addition to the Basic Farm Sustainability scheme. It would be possible to combine HNV system support and Organic system support.

#### **Proposed commitments:**

A condition attached to the HNV system support should be a minimum level of maintenance appropriate to the respective habitat. Land not in the appropriate condition may be entered into the LPIS<sup>22</sup>-IACS<sup>23</sup> system but will not be eligible for area payments until the management is adjusted. In the case of scrub control for example, capital payments will be available for a fixed number of years in order to achieve favourable conservation status.

### **5.3.2 Organic System Support Scheme**

#### **Aim**

The aim of Organic system support is to increase the coverage of Organic in European farming through support for conversion to, and maintenance of, Organic farming. Organic farming has a high potential to contribute to the solution of future challenges as loss of biodiversity, climate change, soil erosion, and water pollution. Organic farming is defined on

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<sup>22</sup> Land parcel Information System

<sup>23</sup> Integrated Administration and Control system

EU level in Council Regulation 834/2007, which stipulates, among other commitments, broader crop rotations, closed nutrient cycles, conservation of organic matter in soils, no use of synthetic pesticides and fertilizers, lower stocking densities.

### **Rationale**

Organic farming delivers on average enhanced levels of public goods and other societal benefits, such as higher rates of soil carbon sequestration and reduced negative impacts on water quality, as discussed in section 2. All these advantages are delivered within a consistent system; the advantage of a systems approach is that it helps to deliver against all dimensions of sustainability in a holistic way. As long as the negative externalities of certain conventional farming practices are not internalised, organic products are subject to competition distortion. Moreover, certification and segregation from the conventional food chain induces extra costs.

For the delivery of a higher level of public goods, as well as to compensate for the market distortion, Organic farming will require specific support to achieve a larger share of the Utilised Agricultural Area.

Payment (additional to the Basic Farm Sustainability Scheme and, when relevant, to HNV system support) would be made through a differentiated per hectare payment of land cultivated under organic rules. This would apply to organically certified land and to land managed organically during the conversion period. Member States would set differentiated per hectare payment rates for different broad types of cultivation (grassland<sup>24</sup>, arable land, permanent culture, etc.) and to ensure that payment for the conversion period covers the extra costs of conversion not compensated by the market.

Organic Farming is currently the only legally defined systems approach to sustainable farming.

### **Proposed commitments**

To be certified by a recognised inspection body and to manage land according to EU Council Regulation 834/2007.

## **5.4 Targeted Agri-Environment schemes**

### **Aim**

Targeted agri-environment schemes should be used to develop solutions to specific problems, such as species or habitat conservation, mitigation of problems such as soil erosion or salinisation, water pollution, peatland restoration and the maintenance of agro-biodiversity (e.g. rare breeds). Agri-environment schemes should not be used to support generic good practice, low input farming or Organic farming per se, as these will be addressed by other schemes (the Basic Farm Sustainability scheme, and the HNV system and Organic system support schemes). Agri-environment schemes can be combined with these schemes as appropriate.

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<sup>24</sup> Member states may provide higher support for grassland with significantly low stocking densities for organic farmers that do not participate in the HNV scheme.

## **Rationale**

Current agri-environment measures have been shown to provide targeted solutions for a wide range of environmental problems, from species conservation to erosion control. While decoupled area payments are a better way of supporting certain farming systems, agri-environment payments (compensating for income forgone and/or costs incurred) allow for very specific and targeted commitments that are tailored towards clearly identified problems.

Agreements would last between 5 and 10 years but could extend to 20 years for activities such as habitat restoration or for habitats that require a long period of establishment to attain prime quality. Collective agreements (for example, with a municipality or farmers' association as intermediary) should be developed to better reach small farmers and land managers, those with short-term land leases or to facilitate landscape-scale agri-environment schemes.

Payments would be calculated on the income forgone/cost incurred formula but this could include explicitly opportunity costs, own labour cost and transaction costs. Payments for the continuation of pre-existing activities that deliver specific public goods should be provided for explicitly. Payment would also cover any non-productive investments linked to the achievement of agri-environment scheme objectives. Member States may be allowed, under Commission control, to experiment with approaches that may improve the cost effectiveness of agri-environment schemes, such as auctioning, discretionary approaches, outcomes based approaches and payment by results. .

## **Proposed commitments:**

Commitments will be identified in Member State plans and tailored to local conditions. However, these must be very specific and should not duplicate the commitments of other schemes.

One option to secure maximum environmental delivery for agri-environment schemes would be to require Member States to create agri-environment packages, with specific objectives and measurable outcomes, to be offered to farmers and land managers with the relevant species, habitats and/or environmental problems on their land.

## **5.5 Natura 2000 and Water Framework Directive compensation schemes**

### **Aim**

These schemes aim at providing compensation to farmers or land managers subject to specific, spatially explicit restrictions or prescriptions arising from planning tools arising from EU Nature and water legislation to ensure that unequal burden among neighbouring farms is avoided.

### **Rationale**

Unlike the other schemes proposed in this document, which are based on a voluntary commitments by farmers and land managers, this tool would provide compensation for income loss and cost incurred by mandatory and territorially explicit prescriptions. A territorial planning decision for nature or water protection purposes will be compensated in those cases where rules are not imposed across the board but affect only certain farmers and

land managers. Natura 2000 management plans and certain measures arising from WFD river basin management plans are the most obvious examples<sup>25</sup>.

While general prescriptions applying to all farmers and land managers, even if limited to a particular region, should be seen as a basic licence to operate, there is a case for compensation where planning tools place a particular burden on certain individuals but not on their neighbours. Rules that apply to all farmers or land managers within a given wide area (such as Nitrate Vulnerable Zones) should not be compensated.

**Proposed commitments:**

This is not a voluntary scheme and it is based on mandatory prescriptions. Actual measures might be the same as agri-environment measures but would be mandated by a planning tool.

**5.6 Wider support measures for sustainable land management and rural development**

While public payments can be vital tools for rewarding farmers and land managers for the delivery of public goods, much of the transformational change that is needed will have to be delivered by a broad set of investments, public services and public interventions that can currently (albeit partially) be found under Axes 1, 3 and 4 of Rural Development policy.

Key tools in this context are:

- Public services which support sustainable farming and land management;
- Capital investment grants;
- Support for management planning and cooperation
- Support for struggling communities contributing to sustainable land management

All these investments must be coherent with the policy's overarching objectives.

**5.6.1 Support measures for sustainable farming and land management**

**Aim**

To support farmers and land managers in knowledge based sustainable farming and land management practices, disseminate best practice and improve the human capital of the European countryside.

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<sup>25</sup> When solving general environmental problems requires spatially explicit action, an element of competition distortion can be introduced and the affected farmer may not be responsible for the underlying problem. For example, floodplain wetland restoration may require some farmers to abandon arable production, although their methods are no different from other farmers in the same river basin. In such cases, farmers should be compensated.

## **Rationale**

In many cases, public goods can be delivered, and negative environmental impacts minimised, simply by implementing good practice that is in a farmer's self interest. In these cases, public payments are not needed but access to knowledge can be a significant barrier to adoption.

Similarly, public payments can only be successfully rolled out when farmers and land managers are fully aware of them and have access to relevant, timely and informed advice.

This tool aims at helping national and regional authorities to provide the range of services that are needed in order to build a knowledge based sustainable farming sector and support the delivery of the overall policy.

## **Contents**

- **Advisory services:** A key area for EU investment is the provision of high quality and unbiased advice to farmers and land managers, who in many countries currently often have few alternatives to the information provided from input or machinery sellers.

The EU should support Member States in establishing and running effective advisory services, using agronomically and environmentally competent advisors who work directly with farmers and land managers. In cases where engaging with advisors and trainers requires a significant time investment, it can be legitimate to compensate farmers and land managers to facilitate participation. Extension services should cover HNV systems, Organic production, and the full spectrum of sustainability issues (biodiversity conservation, water and nutrient management, pesticide use, climate change adaptation and mitigation, energy efficiency, diversification of farm activities, animal welfare, the legal basis for support and innovation etc). Advisory services will help farmers and land managers to choose and enter environmental schemes that are most appropriate to their land.

- **Alert systems:** There is a growing need to establish public alert services to help farmers manage extreme weather events, as well as pest and disease outbreaks, factors which will increase as climate change advances. Such systems can help to reduce unnecessary pesticide use by helping farmers apply and target treatments in an efficient and timely manner.

### **5.6.2 Capital investment grants**

#### **Aim**

Investment grants should help overcome situations where a lack of capital acts as an obstacle to farming practices or systems delivering public goods, for the maintenance of farming systems capable of such delivery, or for rapid adoption of innovative sustainability practices.

#### **Rationale**

One off capital investment grants (e.g. machinery purchase, Information and Communication Technology, physical infrastructure) can be a powerful tool to help farmers and land managers adopt more sustainable practices or maintain the economic and social viability of their activities. However, using public funds in this way can only be justified when it is clearly linked to the delivery of public goods. No public funding should be directed to measures

aiming exclusively at improving the competitiveness of individual producers. Producers who wish to invest in their economic activities should seek capital on the financial markets or access normal support offered to any other SME (structural funds, state aid etc). There is a case for government to intervene to facilitate access to credit for farmers, land managers and rural populations, but this is best pursued by engaging the banking system in an explicit way, rather than using public funds to make productive investments.

Participation in HNV system support, Organic system support or agri-environment schemes is a prerequisite for any capital investment grant – diversification, improved competitiveness, processing and marketing etc (with the exception of 5.6.2.5 which is open to participants of the Basic Farm Sustainability scheme ). Any investment grant should be coherent with the objectives of the support scheme(s) the beneficiary is enrolled in and ensure good value for taxpayers' money.

Investments should be available to HNV farmers and land managers to help them to meet EU legislative requirements if the costs are prohibitively high. This would be a transition support tool and would not be available once a HNV farmer or land manager had reached the mandatory baseline.

## **Contents**

EU capital investments would be limited to the following areas:

- 5.6.2.1 Support for HNV systems (e.g. investments to improve competitiveness while maintaining or improving the delivery of public goods);
- 5.6.2.2 Support to investment in Organic farming (e.g. new machinery or livestock housing needed for Organic conversion and Organic-specific technologies also post-conversion);
- 5.6.2.3 Processing, marketing and promotion of products from HNV farming and Organic systems;
- 5.6.2.4 Diversification, if related to the objectives of the scheme in which the farmer/land manager is participating;
- 5.6.2.5 Innovation and introduction of environmental best practice and sustainable renewable energy production.<sup>26</sup>

Capital support for HNV and Organic systems could extract better revenue from activities such as extensive grazing by promoting on farm processing, product marketing or helping farmers to meet demanding hygiene standards. Diversification aid could also help HNV farmers and land managers to build tourism and recreation facilities to improve the economic viability of their farm business. Investments could also be used to connect consumers to HNV and Organic producers through local market creation.

Investment aid to support the introduction of environmental best practice technologies or management practices (such as the replacement of inefficient irrigation systems with water

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<sup>26</sup>This type of capital investment would be available to farmers and land managers entering the Basic Farm Sustainability scheme, where relevant. Energy production would be linked to robust sustainability standards to ensure real and significant GHG emission savings and no significant harmful impacts on biodiversity, water etc.

saving devices and a switch to practices preserving soil fertility) can also be a legitimate use of public money. This should include investments enabling or improving organic management of farms. The installation of small scale renewable energy production can contribute to climate mitigation (as long as it delivers significant emission savings and is realised within stringent environmental safeguards).

All investment must be coherent with the overall policy objectives and must be screened to ensure they do not lead to environmental degradation, undermine public good delivery or the evolution toward more sustainable farming. For example, no investment aid should go to irrigation expansion, to the conversion of valuable habitats or to the production of bioenergy that cannot meet strict sustainability criteria and demonstrate significant GHG savings over its full life cycle (including indirect displacement effects). No public money should go to investments whose only outcome is increasing the economic performance of the beneficiary without clear and quantifiable benefits to society. With the exception of HNV systems, public investments should also not be used to help farmers comply with existing legislative standards as this would violate the “Polluter Pays Principle”. It would also provide a hidden subsidy to unsustainable activities as compliance with environmental rules should be a key cost associated with those farming activities with high negative environmental impacts (e.g. in the case of intensive housed livestock operations with high levels of waste). In the case of HNV farming, compliance costs can be particularly high and may lead to the abandonment of activities that support the provision of high levels of public goods. Only in these cases may an exception be made and public support used to meet legal requirements.

### **5.6.3 Support for management planning and cooperation**

#### **Aim**

Supporting sustainable farming practices through cooperation among farmers and participatory planning processes.

#### **Rationale**

Sustainable farming and the sound management of natural resources often requires spatially explicit planning of land management activities over wide areas. For example, grazing often raises issues of cooperation between livestock farmers, landowners (who might not own livestock) and local authorities managing public or common land. Flood management is another obvious example where effective management requires cooperation among many land owners/managers. In many such circumstances, public funding is needed to ensure sound planning and management and to facilitate farmers and land managers entering into cooperative arrangements.

#### **Contents**

Examples of activities that could be supported under this heading are:

- Drawing up management plans for Natura 2000 sites;
- Support for farmers for drawing up farm level management plans;
- Establishing cooperative structures for the management of common land and to facilitate recycling and by-product use (e.g. linking bioenergy installations to farmers)

producing woody waste or integrating livestock and arable farms to manage manure, compost and grazing of fallows);

- Establishing marketing networks to facilitate market access for HNV and Organic producers;
- Participatory establishment of local territorial plans for the revitalisation of marginal or remote areas at risk of abandonment. Such plans, drafted by or in cooperation with local stakeholders could integrate different support tools into a coherent strategy to prevent local HNV systems and their communities from collapse, or to orient agriculture towards HNV systems. These plans would provide the basis for funding from CAP measures and could also provide much needed synergies with measures funded by cohesion policy and national policies (creation of non land related jobs, education, social services, entertainment, cultural heritage restoration etc.).

#### **5.6.4 Support for Rural communities threatened by abandonment.**

##### **Aim**

To prevent the decline of extremely marginal rural communities in the EU, where this decline threatens the maintenance of very significant levels of public goods.

##### **Rationale**

In certain rural locations of extreme marginality, populations are in a process of severe ageing and decline. Farming is often the main economic activity, but is itself in decline and lacking successors. Large-scale abandonment of HNV farming poses a severe risk to cultural landscapes of high environmental value.

The main public goods in these cases concern biodiversity and cultural landscapes resulting from traditional farming. In southern Europe, they may also involve landscapes resistant to wild fires and soil degradation. In some cases, there is a high presence of Natura 2000 sites and habitats requiring management, especially grazing. These are the basis for future potential economic activity, such as tourism, a potential that will be lost in the event of total abandonment.

Maintaining the public goods in these situations probably cannot be achieved solely through payments to farmers and land managers (such as those covered by sections 5.2 to 5.6.3). The decline of the community as a whole needs to be reversed. While the CAP cannot be expected to solve all of the problems faced by such areas (e.g. provision of basic services to the population), targeted support for local development initiatives can play an important role in reversing community decline and helping to maintain a viable farming activity.

##### **Proposed measures**

Measures included in this scheme would target local communities, and not only farmers and land managers (who can access the support schemes described above). This scheme needs to be flexible and accommodate a wide range of interventions, but they would all need to be tightly linked to the achievement of the final objective of revitalising declining communities so that they can maintain the provision of public goods.

The scheme would be targeted at locations generally found within existing Natural Handicap Areas (previously LFA), but only to the most marginal situations within these areas. Member States would identify these areas on the basis of natural handicap criteria, including extreme remoteness, and also extremely low population density. They would be required to prepare a specific plan for each area, setting out clear objectives in terms of public goods, and showing how a package of measures will pursue these objectives.

Commitments would be similar to those currently in EAFRD Axis 3 applied through integrated programmes for the designated areas, with the Axis 4 approach to local delivery an option to be encouraged

Possible measures in local strategies for these communities include:

- Measures to facilitate implementation of Natura 2000, Water Framework Directive and Soil Directive requirements with involvement of the local community, such as Local Action Groups formed by farmers/land managers with this specific objective;
- Measures for fire prevention (grazing and vigilance of remote areas) involving HNV farms, especially in associations;
- Provision of local small-scale infrastructure to improve viability of local activities that deliver public goods, such as livestock handling facilities and watering points on common pastures;
- Grants to local NGOs and associations dedicated to conservation of defined public goods;
- Restoration of local cultural heritage;
- Promotion of local tourism and other economic activities linked to public goods, including information, sign-posting etc.

The following investments should not be covered as they are more appropriate for policies outside the scope of the CAP, such as the EU cohesion policy:

- Tourist accommodation, except on HNV farms;
- New roads and tracks for motorised access;
- Electrification other than via small-scale solar and other renewable energy installations (e.g. for remote farms).

**Annex 1: Schematic Diagram**

**Legend:**

**On green:** Decoupled payments

**Orange** (Agri-environment, N2K/WFD): Compensatory payments – Income foregone

**Red:** Investment grant

**Grey:** Other tools not involving directly payments to farmers.

**B.F.S.S:** Basic farm sustainability scheme

**S.L.M:** Sustainable land management

**M.P & C:** Management planning and cooperation

**S.S.C:** Support for sustainable communities

