



CAP Health Check Consultation 2007/8

– a response from the European Forum on Nature Conservation and Pastoralism

What is EFNCP?

The European Forum on Nature Conservation and Pastoralism is a EU-level NGO which aims to highlight the positive relationship between certain types of low-intensity agricultural systems and nature conservation (High Nature Value or HNV farmland). The environmental and socio-cultural public goods produced by European agriculture are delivered primarily by this low-intensity, economically marginal agriculture.

HNV farming systems are marginal in the market but are not out of the market. The fundamental issue for policy is to allocate production between low-input and high-input FS while keeping the low-input characteristics.

The Forum highlights that if farming in HNV areas is to become and remain socio-economically sustainable, and to continue to provide the current benefits for nature, it requires greater consideration in the design and delivery of EU agricultural and rural development policies. It should NOT be targeted merely by certain measures within Pillar 2 of the CAP. Its needs should be a major consideration in the design of the CAP as a whole.

Overall approach to the Health Check

EFNCP welcomes very much the decision of the Commission to undertake the Health Check and, given the complexities of the issues raised, agrees that the primary focus should be addressing the ‘unfinished business’ of the Mid Term Review reforms.

From the HNV farmland viewpoint Mid Term Review and the subsequent reforms included a mixture of steps forward and steps backward. While there is potential for Member States to take advantage of several instruments for the benefit of farmers in these areas, there are also numerous elements in the current policy package that work to the disadvantage of HNV farmland, or that limit the effectiveness of measures that are potentially beneficial.

EFNCP believes that the Health Check and the CAP as a whole should be directed to achieving concrete objectives on the ground in farming businesses and on farmland, specifically the delivery of non-market public goods (including the conservation of nature). This entails a coherent repartition of production across the EU territories. We need to avoid perpetuating a situation where over-intensification occurs in the better agri-ecological situations while land abandonment takes place where farming systems are less productive, in marginal areas. Other aims concerning the mechanisms themselves (such as simplicity or fairness) should be subsidiary. The critical test for any proposal needs to be its likely effectiveness in moving towards this over-riding primary objective.

Since the CAP is to be central to the fortunes of HNV farmland for the foreseeable future, EFNCP believes that it is imperative for the CAP to retain public support, while re-targeting it to HNV goals and overall land-use at EU scale. In particular, the reality of CAP delivery, which the public sees, must match the theoretical logic of the policy itself, to which the public is largely indifferent.

CAP money is limited, but large amounts currently are being wasted on subsidising intensive, competitive farming; EFNCP believes that all public funds should be explicitly used to



deliver specific public objectives. The current situation where Pillar I is seen as either delivering the status quo (without further detailed justification) or as being a temporary feature on the way to some ill-defined future dominated by Pillar II is one which has to change. Pillar I is central to the economies of most HNV farms and for them at least it can be fully justified – its future should be determined with reference to real cases not fundamentalist dogmas, of whatever colour.

Our vision is that the current HNV farmland in the EU will be maintained and as policies develop will be expanded in the future. However the current prognosis is more pessimistic. Farming systems which manage the land in a manner that maintains nature value must become increasingly attractive as a vocation, so that their position is maintained alongside other economic developments in Europe's rural areas. While this could involve an increased market orientation on the part of HNV farmers, it means also greater targeting of CAP support on this type of farming.

We recognise that bureaucracy is off-putting to farmers and should be reduced if possible, but we believe that the viability of farms delivering public goods is the central issue and this must be reflected in the Health Check. Of course the natural constraints that make these areas important for nature also work against economic viability – thus the need (and justification) for Pillar 1 support.

The Unfinished Business from Mid Term Review

1) The destabilising effect of decoupling

From EFNCP's perspective the primary effect of the Mid Term Review reforms was to expose the lack of economic viability of many HNV farmland areas. The decision of some Member States to retain the 'old' system for as long as possible and then to opt for the partial decoupling options where these were available at least in part reflects a fear that farming in marginal areas (much of it of HNV) will decline or disappear. The Commission on the one hand wants to encourage public good delivery (the conservation of nature on farmland). But on the other it has produced a CAP mechanism which, for example in Western Ireland and NW Scotland, offers farmers the prospect of doubling or trebling their net incomes by moving to a situation in which they minimise their agricultural activity, to the detriment of current nature values.

Meanwhile, decoupling is not likely to significantly change the intensification strategy and overall payment streams in most favourable areas, thus keeping the uneven competition between the different types of farming systems (HNV – non HNV).

2) GAEC and minimal agricultural activity

The Mid Term Review reform has shown that the idea of a single benchmark for Good Agricultural and Environmental Condition is not deliverable in an equitable manner in practice. It is right that agricultural support, of whatever scale or type, should not be delivered to farmers who break the law. It is *not* right that marginal farmers are penalised for *not* carrying out activities that are unviable (e.g. grazing of poor, remote pastures). However, the solution taken by some Member States, with the agreement of the Commission, which is that these basic farming activities should not be a pre-condition for support, then results in an encouragement to abandon (since the effects of *de facto* abandonment can be hidden for many years).



If farmers are delivering public goods, they should not be expected to pay for it themselves. This is particularly the case in a situation where farmers whose public goods delivery is minimal, and for whom the element of cross-compliance which goes beyond legal requirements costs very little, receive the vast majority of the CAP payments.

Under the current situation, a marginal farmer with a minimal or negative net income can be penalised for not maintaining stone terraces (in Spain) or for failing to graze or mow a remote pasture (all countries). The same farmers are receiving very small Pillar 1 payments. This situation must change. Economically non-viable activities of this sort currently are not paid for by Pillar 1 and so must not be part of basic GAEC.

3) Integration of HNV farmland objectives

Concurrent with Mid Term Review reform, the Commission was increasing the profile of HNV farmland and its importance in Rural Development policy. However this happened in a way which was not co-ordinated with Mid Term Review and the drawing up of the 2007-13 RDPs. Only now is the draft guidance on the identification of the HNV farmland (for monitoring, but in reality for all purposes) published. EFNCP believes that *all* CAP instruments have a role to play in supporting HNV farmland and delivering the Commission's objectives in this regard. There is a danger that, in the effort to increase the effectiveness of Pillar II, the crucial role of Pillar I is neglected. The distinction between the two Pillars in Member States which have decoupled is more historic than current, (except in as much as the distribution of Pillar I does not reflect even in principle the delivery of any specific public good). A much more realistic distinction would be that between low-intensity farmland (and farming) and intensive, industrialised agriculture.

Simplifying the SFPS

EFNCP believes that CAP payments should be directed at the effective delivery of non-market public goods associated with low intensity production patterns. We do not believe that paying a decoupled Single Farm Payment on a historic basis achieves this, not least because money under this system tends to be distributed almost in inverse proportion to the non-market public goods delivered (the more intensively farmed land receiving the highest payments).

When we consider the alternative proposed – a regionally-based set of reference payments – we need to refer back to first principles. What are the non-market public goods for which we are paying? They cannot, for example, be legal requirements: that would substitute 'polluter pays' with 'pay the polluter'. They cannot either be the status quo – requiring so many hectares of corn or 2 LU/ha of cattle is the coupling which the EU has rejected so publicly at the WTO. They boil down, fundamentally, to the maintenance of a minimum level of legally-compliant agriculture. Is a regionally-based system of payments an efficient way of delivering that?

EFNCP believes that a regionally-based system can be the preferred mechanism for the most fundamental support, but with three essential caveats:

- It must be conditional on a minimum agricultural activity on the land in question (ideally by the claimant), for 2 reasons. First, that it does not reward inactivity and keeps a link with production. Secondly in order to ensure that it is not capitalised automatically into land values.
- It should approximate to the costs of delivering that minimum activity. This is to avoid overpaying for no reason (we believe in *efficient* delivery); to avoid punishing the most marginal producers and again to avoid capitalisation of the payment. The definition of



the regions used clearly then becomes crucial, but not in order to avoid redistribution (which we believe is unavoidable, desirable, even essential) but to avoid capitalisation.

- The Commission should have special regard to the situation of apparently landless livestock farmers, at least where they deliver significant non-market public goods and ensure that mechanisms proposed can accommodate their needs. For example, work carried out by Rafael Caballero on the sheep/cereal systems of La Mancha suggests ways forward which are equitable to both arable farmers (who have legal title) and sheep farmers (who have customary rights on the same land) and should inform Commission discussions. In Germany we know that the few remaining wandering sheep flocks have been effectively cut off from CAP payments by the adoption of the regionally-based area payment without reference to the its likely impact on their system.

To what extent should Member States be compelled to move in this direction? In most cases resistance to such a shift would seem to be based on an unwillingness to redistribute funds – because there will be winners and losers and it will be the most intensive farmers that will tend to be losers. We are not aware of any examples where this can be justified on the basis of public-goods delivery. On the contrary, in most cases a move to regional payments would benefit marginal areas and it seems perverted that countries with the most inequitable payment pattern should be allowed to continue with a historic payment, to the detriment of efficient delivery of positive externalities from agriculture *and* the EU's WTO position. The selection of regional boundaries is of course crucial.

Cross-compliance

The current cross-compliance structure, which combines legal requirements and GAEC, is unhelpful. The polluter pays principle means that adherence to the former should not be compensated from public funds. Furthermore, the EU should be aiming in WTO discussions to ensure that as many of these standards as possible are introduced as standards for goods imported into the Community.

Within GAEC there is a further conflation of damage-avoidance measures (*prevention* of soil erosion, *protection* of permanent pasture, protection of terraces and landscape features from *deterioration*), with other measures requiring positive action. Their cost varies considerably from place to place (achievement of certain stocking densities, control of vegetation, repair of terraces and landscape features....).

The former, while imposing higher requirements on EU farmers than on their global competitors and thus worthy of payment, truly belong as part of a minimum standard. The latter however are transitional to being agri-environmental in nature (and indeed are supported by agri-environment schemes in some MS). Minimum standards in these cases impose the highest costs on those least able to bear them, not on the ones creating most damage. Examples are marginal livestock farmers (minimum stocking) or farmers in exceptionally fine cultural landscapes (where Member States insist on refurbishment of stone walls etc.). EFNCP believes that these actions should be 'over and above GAEC', properly costed and properly paid for. And paid for out of the *Second* Pillar.

Cross-compliance has a role in preventing damaging agricultural practices, but it is not a suitable mechanism for maintaining marginal farming systems that deliver public goods, such as HNV farming. The requirement within GAEC to prevent scrub encroachment on permanent pasture is not the right way to achieve this objective, for many reasons. It is very difficult to monitor, especially on the vast areas of common grazing that are common in HNV



areas. It encourages a rigid approach from authorities, who require all shrubs to be removed from pastures, which is not desirable from a conservation perspective. And the requirement is a far greater burden on the marginal livestock farmer than equivalent requirements on more intensive farmers who receive far higher CAP payments. For example, an ex-tobacco farmer only has to run a disc harrow over his land once or twice per year, in order to receive a Pillar 1 payment worth several thousand Euros per hectare.

Partly-decoupled support

It is clear that many marginal farmers would be better off if they took their SFP and limited their agricultural activities to the greatest degree allowed by the local interpretation of GAEC. From our perspective, the only legitimate way to encourage these farmers who, far from damaging the environment, are delivering public goods at very little cost to the taxpayer, is to cost their activity and pay for it properly.

EFNCP sees partly-decoupled support as a way of forcing these farmers to engage in activity they would otherwise abandon, *without* paying the true cost of the activity. These are farmers for whom the Mid Term Review reform has delivered the worst of both worlds. Other farmers (mostly those who farmed intensively – and most damagingly – in the past) are freed-up to compete with them while receiving payments out of all proportion to their costs, while the former are forced to spend some or all of their SFP on maintaining uneconomic systems.

Partial decoupling should be replaced by targeted support. EFNCP supports the use of Art. 69 to support minimal agricultural activity in farming systems of environmental or other public goods value. It sees Art. 69 as a suitable ‘broad and shallow’ complement to LFA support (though the latter requires changes to the way in which payments are calculated), with the one paying for the extra costs caused by location and the other for the extra costs of certain preferred management systems. As such, we believe that Art. 69 belongs in Pillar 2 and as such should be eligible for receipt of modulated support and matching MS funds. It should however remain in principle a 100% EU-funded CAP instrument, with matched-funding being applied only to the modulated element.

For Art. 69 to be efficient and effective, the Commission must allow its targeting on certain vulnerable farms. The impression that the Commission feels that the ‘unfair competition’ concept somehow applies to a greater extent to Art 69 than to other support measures must be avoided. We have some sympathy with the COPA view that asymmetrical application of Art. 69 by different MS leads to unfairness and would have no issue with a mandatory % of Pillar 1 being redirected for this purpose. However, it is equally clear that within MS targeting is an essential prerequisite of implementation.

In the new policy environment, we believe two aspects of Art. 69 must change. Firstly, at a time when individual sectoral ‘regimes’ are being merged, the concept of money being redistributed ‘within the sector’ is passé. Secondly, the idea of using the non-time-limited Art. 69 for improving the quality and marketing of agricultural produce allows for ongoing aid for items which are more properly paid for either by the market or by short-term, pump-priming, assistance. Article 69 therefore should be a mechanism specifically for environmental objectives. Member States should not be choosing between environment and market objectives, they should be pursuing both, but with separate measures and funds.



Upper and lower limits in support levels

On the question of lower limits, EFNCP believes it is important not to disguise administrative simplicity with a matter of principle. The viewpoint that some producers who ‘are not farmers’ can be easily distinguished with reference to the CAP payments they receive is not one we support, especially as we know that some MS have at various times restricted the eligibility for payment for part-time farmers, or pensioners, for example. We do not like the term “pseudo-farmers” as used by the Commission – this reflects Commission’s attitude to many of the traditional (often part-time) farming systems of HNV areas. In many HNV areas, the majority of farms are small, part-time units. Withdrawing support from these, partly with the idea of encouraging more professional and dynamic farms to take over the land, may appear an attractive strategy in purely economic, financial and administrative terms. But the EU and national institutions should be aware that this approach conflicts with the declared priority of supporting HNV farming.

In principle we favour the availability of CAP payments to all producers who meet the various criteria, and the setting of those criteria with reference to wider objectives wherever possible. Thus, from our perspective the test for setting lower limits is what effect that would it have in real landscapes and on real HNV farmland. If a small, part-time farm is delivering public goods, that farm should be eligible for CAP support.

At the other end of the scale, our guiding principle is the same – what is the likely effect on the delivery of non-market public goods, particularly HNV farming systems? We remind the Commission that income is very different to profit, and that in some areas where farms are very large (uplands of UK and Ireland, cereal farms of the Portuguese Alentejo, for example), returns are very low. In theory we would favour more targeted support at these farms through other measures but the example of modulation teaches us that taking money is easy whereas giving it back through targeting seems much more difficult. We remind the Commission that for someone whose Pillar 1 payments are double the net income, a 10% modulation results in a 20% drop in profit, whereas for someone whose Pillar 1 payments represent only half their income the same modulation results in a 5% drop in profits.

Cereals intervention

No comment to make.

Cereals set-aside

Set-aside has provided an unintended environmental benefit in intensive farming areas of low nature value. How this is provided in future is not within the scope of EFNCP’s focus except in one critically important way. The ‘extra’ benefits provided by set-aside are now provided ‘free of charge’ by the SFP. It is completely unacceptable that money is taken from the RD budget, which is already under considerable pressure, to add to the income of what is generally the most profitable and least environmentally-valuable sector of agriculture. In addition, it is risky to count on farmers’ willingness to volunteer set-aside areas while cereal prices are increasing (notably due to the biofuels strategy). In a modified form it is right that the same benefits should continue to be provided through the First Pillar: they belong as part of GAEC.



Dairy quota

EFNCP welcomes the recognition that HNV dairy systems, especially in the Alpine zone in the EU-15, but more widely spread in the ‘new’ Member States, are vulnerable to changes to the quota regime. Action through Art 69 type measures is essential, though it is unclear whether the maximum 10% budget to be reallocated is sufficient to cover the needs. In addition, opportunities to add value by ensuring the criteria set are compatible with the delivery of wider positive externalities is desirable to ensure that the proposed measures are as acceptable as possible to the taxpayer.

Nevertheless, another possible strategy could be to maintain the dairy quota (which interest mainly is to be inexpensive and thus not subject to strong budgetary constraints) while improving it through a set of criteria allowing environmental benefits (e.g. localisation in regions with land abandonment risks, stocking density). This needs to be undertaken in countries where the actual management of quotas is made by actors/institutions whose interest is to maintain environmental and public goods.

Experience with the dairy quota system suggests that quotas could and should (we believe) have a very positive role to play in maintaining production in certain areas, and in requiring a minimum land area per tonne of milk produced in order to maintain a land-based model of dairy farming. However, in practice most Member States have not chosen to use quotas in this way.

Other measures of supply control

No comment to make.

Managing risk

No detailed comment to make, except to point out that the CAP budget is struggling to deliver the present CAP objectives in marginal areas without adding other burdens onto it.

Climate change, bio-energy, water management, biodiversity

We support in principle the proper funding of Axis 2 measures to address these objectives and we agree that a First Pillar which distributes payments inequitably and without any reference to the cost of compliance with GAEC is the obvious source for such funding. However in the UK, with its high modulation rates, we have seen that in practice many HNV farmers have suffered a reduction in the essential income supplied by the First Pillar, but are unable to substitute income from the Second Pillar, let alone receive greater reward for their delivery of public goods.

In Extremadura (Spain) – a region internationally recognised for its biodiversity, much of it on farmland – we have seen a situation where the regional agricultural authorities have chosen to take no action in support of HNV farming. Pillar 2 funds are used primarily in support of the most intensive farming sectors (especially irrigation), and for the afforestation of marginal farmland. Agri-environment schemes represent less than 2% of FEOGA expenditure in the region, and are directed mainly towards market objectives (for example, supporting Integrated and Organic Production in the fruit sectors). The region with one of the most important populations of Great Bustard in the EU has no agri-environment scheme to



encourage appropriate farming for the species, or for any other species or habitat. An example such as Extremadura illustrates how faith in Pillar 2 and Axis 2 as the solution for environmental issues is totally misplaced.

The biofuel strategy should be more deeply evaluated and possibly revised with regards to its potential risks (i) directly to semi-natural habitats which could be ploughed in some “intermediary” areas; and indirectly through (ii) an intensification on existing cropland (iii) a huge rise in feed prices for livestock farmers.

The Commission must be much stronger in insisting that MS follow the Strategic Guidelines and target at least Axis 2 measures in an appropriate manner.

Strengthening rural development

Again, it would seem churlish for an NGO interested in the encouragement of environmentally beneficial farming systems and the support of HNV farmland to be wary of mechanisms which transfer money from general to targeted support and which offers the possibility of topping up that money with MS finance. However our experience is that while the taking is certain, the receiving is haphazard, often difficult to access and sometimes less well targeted than the original payments. There is also a misconception that detailed, prescriptive management is in some ways more “targeted” than the more general system-orientated support that HNV farmland requires.

If the attraction of modulation is to be increased for us, we need to see a higher proportion of CAP spending in broad and shallow support (whether Art. 69, which we believe should be in Pillar 2, LFA or agri-environment), to which access is more or less guaranteed. We need to believe that more targeted measures, for which there is certainly also a need, will be focussed on RD priorities which reflect not just local power politics but the delivery of Community objectives.

In this sense, the Axis 2 objective of maintaining HNV farming needs to be made more explicit, and more clearly linked to nature conservation. There needs to be a wider understanding within the agricultural and environmental authorities of Member States that maintaining HNV farming means providing broad economic support to low-intensity, often marginal farming systems. It needs to be made clear that policies such as those pursued in Spain for the previous funding periods, where the preferred options for marginal farming are intensification or afforestation, are in clear conflict with this new HNV priority. On the other hand, transferring funds from Pillar 1 for use on Natura 2000 management plans, or building Natura 2000 visitor centres, is also not meeting the HNV objective. Ultimately, the need is to continue to use CAP for supporting farming activity, but to shift the focus onto the type of farming that delivers public goods.

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