

The CAP- the Elephant in the EU Budget Room

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The CAP is the world's largest system of agricultural subsidies, spending €55.1 billion in 2007⁴⁸. As such it has attracted over the years much criticism for its impacts on both the European environment and the economy of developing countries. It is still absorbing more than 40% of the overall EU budget so it is clear that any debate on the future of the budget must be, to a large extent, a debate over the future of the CAP. Repeated scandals about rich land owners receiving fat income support and large companies profiting from export subsidies have tarnished the image of the CAP, making it arguably the most criticized part of the EU budget. The CAP has also been a major driver for environmental degradation and it is still widely criticized for failing the environment, despite recent reforms. While it is clear to any independent observer that current CAP spending is wasteful and unjust, these observations risks clouding the fact that the CAP does represents the EU's main common tool for dealing with land use issues - a key strategic concern whose importance will only increase in the coming years.

Figure 1. The CAP in the budget

Total EU Budget (2007) 126.5 billion EUR (2 %of EU public expenditure)	Other budget lines - 55.5% of total budget		
	Protection and management of Natural Resources budget line - 44.5 % of total budget	CAP - 43.6% of total budget	Pillar I - 77% of CAP Pillar II (rural development) - 23% of CAP
		Environment - 0.2% of total budget	

A history of piecemeal reform

Introduced in 1957 as part of the Treaty of Rome, the CAP's aim was to put an end to the post war food shortage and widespread rural poverty. The main delivery tools at that time

⁴⁷ BirdLife International is a global alliance of conservation organizations working in more than 100 countries and territories. BirdLife has been one of the leading NGOs engaged in favor of CAP reform for well over a decade. For more information about the work of the BirdLife European Division on Agriculture and for BirdLife's vision document on the future of the CAP "New challenges, New CAP", see http://www.birdlife.org/action/campaigns/farming_for_life/index.html.

⁴⁸ EU Budget 2007, EC (2006).

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were guaranteed prices, intervention buying, high import tariffs, and export subsidies. These policies were so successful in encouraging production that, through a combination of intensification and expansion in the area under production, they quickly led to surpluses and the infamous butter mountains and wine lakes of the 1980s.

It was a combination of the need to address these surpluses and the growing pressure from trade negotiations that initiated the first of the major CAP reforms. The “MacSharry Reform” in 1992 aimed to reduce these surpluses by decreasing price support and introducing direct compensation payments to farmers. This process was continued by the “Agenda 2000” reform, which further reduced price support and increased farmer compensation through direct payments. A “second pillar” of the CAP, aside from normal income payments to farmers, was officially created to pay for rural development measures. From then on, this pillar was seen as the more environmentally, but chronically underfunded side of the CAP.

The third and most significant reform (“Fischler reform”) took place in 2003 as part of the Mid Term Review of the Agenda 2000 reform. This reform resulted in the replacement of most direct subsidies by a single farm payment scheme that would be based on area and historic subsidy allocations. Although many market support tools still exist within the CAP (export subsidies, intervention buying of excess production, payments coupled to production), most “pillar I” payments are now given as direct payments to farmers based on an “entitlement”. In practice it is a system of income support where aid is based on past subsidies receipt.

The role of the CAP’s “second pillar”, i.e. the rural development fund, was strengthened with the introduction of “modulation”, a process whereby funds are shifted from the first to the second pillar.

Greening the CAP, an unfinished journey

By generously rewarding production at any cost, the CAP has driven the intensification of agriculture in Europe. This, in turn, has been the main cause of the collapse in biodiversity, demonstrated by the decline in farmland bird populations⁴⁹, in the EU. With production subsidies making up over half of farmer incomes in many instances, it is clear that they have played a fundamental role in farmers’ decisions, resulting in intensification well beyond the level that would be delivered by the market alone.

Intensification has been achieved through increasing yields and stocking densities, expanding fields and removing hedgerows and other important habitats, and increasing massively the use of pesticides and artificial fertilizers. Besides the collapse of farmland biodiversity, agricultural intensification is linked to a wide range of environmental problems such as water pollution and eutrofication, over abstraction of water, and soil erosion and degradation⁵⁰.

The evolution of the CAP through two decades of reforms has supposedly been accom-

⁴⁹ Donald et al, “Agricultural intensification and the collapse of Europe’s farmland bird populations”. Proc. R. Soc. London B (2001) 268.25-29.

⁵⁰ European Environment Agency, “Integration of environment into EU agriculture policy- the IRENA indicator-based assessment report”. Report n°2/2006.

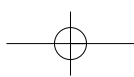
panied by a journey from a coarse and environmentally damaging system of farm support to one that now, at least to some degree, encourages more sustainable farming through the removal of the link between payments and production and the introduction of minimum standards and incentive payments for higher standards.

The 2003 reform was the most important for the environment. The decoupling of agricultural support from production finally removed the perverse incentive to over-produce and thus cause environmental damage, whilst the introduction of "Cross-Compliance" has, at a minimum, put a much greater importance on complying with EU environmental legislation and basic good practice rules, through linking compliance to the receipt of subsidies. Furthermore, the new EU Rural Development policy, which is paid for through the second pillar of the CAP, has a strong emphasis on the environment and identifies biodiversity conservation as a key objective. Though the CAP remains a long way from an environmental policy, and many parts still threaten the environment, it is certain that the CAP has become significantly greener⁵¹.

This green transformation has not however resulted in an efficient tool promoting sustainable land use in Europe's countryside. Around 80% of the total CAP budget goes to the Single Farm Payment (SFP). This payment is not linked to any clear outcome, though it is attached to basic environmental and welfare standards known as cross-compliance. These standards have not, however, been implemented effectively in most Member States and they fail to provide protection for farmland habitats and landscape features⁵². Furthermore, the SFP is predominantly paid on an historical basis, with most therefore paid to intensive farmers, disadvantaging those who have historically practiced extensive, more environmentally friendly forms of agriculture. Rural development measures, particularly agri-environment schemes, represent the most promising part of the CAP as they can benefit wildlife, the environment and the rural economy. Agri-environment schemes support farmers who adopt higher environmental standards that result in public benefits such as wildlife and clean water. These benefits are not recognised by the market, and are therefore delivered at sub-optimal levels. Agri-environment helps correct this market failure, by ensuring farmers are rewarded appropriately for the public goods they deliver. However, rural development measures lack sufficient funding, receiving only approximately 20% of the total CAP budget. Agri-environment measures receive even less. This means that the influence these measures have on farming decisions is dwarfed by the impact of Pillar I measures. Furthermore, rural development measures are often used to support environmentally destructive practices such as funding unsustainable drainage and irrigation expansion, inappropriate deforestation, using agri-environment money to pay for practices that have no clear environmental benefit, or for practices that would be followed anyway or Less Favoured

⁵¹ Schmid et al, "Phasing out of environmentally harmful subsidies: Consequences of the 2003 Reform". *Ecological Economics*(2007) 60/3; Schmid & Sinabell, "On the choice of farm management practices after the reform of the CAP in 2003". *Journal of Environmental management* (2007) 82/9.

⁵² Farmer & Swales (2004) The development and implementation of cross compliance in the EU 15.



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Area payments that go to all farmers in designated areas, regardless as to whether they practise environmentally friendly farming.

An illusory boon for farmers

One of the principal defenses of the CAP is that it maintains farmers' incomes and the economic health of the sector, yet the number of people working in agriculture in the EU has been in continual decline, falling in the EU-15 by 18% between 1995 and 2005. The SFP system does not support those farmers who specifically require financial help, nor those who are delivering the most for society through providing environmental benefits. Indeed, 85% of direct payments go to just 18% of farmers, with the largest farmers in the old EU Member States benefiting the most⁵³. Agricultural subsidies are also an inefficient way of supporting farmers. The OECD has concluded that, through increasing prices, most of the money ultimately goes to larger players in the agricultural industry, such as input suppliers and landowners⁵⁴. As little as 25% of public money spent on market support instruments stays with the farmer.

The case for public payments for land management in the EU

Environmental payments for farmers, alongside a high regulatory baseline, are a necessary policy tool if agriculture is to deliver the range of environmental and social public goods that society expects from it. Thriving wildlife, beautiful landscapes upon which rural tourism depends, clean water, and well functioning watersheds are all products of agriculture in Europe, given that agriculture is responsible for the management of approximately three-quarters of European land. Wider society values these services but they have no market value. This results in a market failure in which sub-optimum levels of these public goods are delivered, resulting in biodiversity decline, water pollution, degraded landscapes and soils.

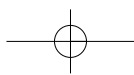
The relationship between agriculture and biodiversity in Europe is a particularly close one. Agriculture has shaped the European landscape, with much of Europe's biodiversity intimately dependent on traditional farming⁵⁵. Traditional mowing and low intensity grazing, for example, have for centuries maintained a range of semi natural, biodiversity rich grasslands that would have otherwise reverted to scrub and forest. The action of big wild herbivores and large scale geomorphologic phenomena that used to maintain open landscapes in past eras is mostly gone forever. This means that abandonment of traditional agricultural practices is as much a threat to biodiversity as is intensification⁵⁶. Most traditional high nature value farming is not economically viable on its own, but its viability can be improved through targeted rural development aid and agri-environment support.

⁵³ www.farmsubsidy.org.

⁵⁴ OECD (2003) Farm household incomes: issues and policy responses.

⁵⁵ McCullough, "Identifying species richness "hotspots" for farmland birds in Europe: what makes a hotspot a hotspot?"; Centre for Ecology, Law and Policy, Environment Department, University of York, UK.

⁵⁶ DLG- Government Service for Land and Water Management "Land abandonment, biodiversity and the CAP. Outcome of an international seminar in Sigulda, Latvia, 7-8 October, 2004". 2005.



Land use policy, and principally agri-environment, is the best tool available to address this market failure and reverse the decline in biodiversity both at the macro, landscape scale, and at the more specialised species and habitats scale, including the Natura 2000 protected area network. Agri-environment schemes pay farmers to adopt or maintain specific farming practices based on an income foregone formula and have been shown to be able to deliver for the needs of specific species⁵⁷, and are expected to be able to deliver higher environmental standards throughout the countryside⁵⁸.

Climate change places a further importance on improving the sustainability of agriculture and its value to wildlife. The quality of agricultural habitats will determine the ability of many species to move effectively between protected areas in order to follow their shifting "climate envelopes", i.e. the areas with the climatic conditions appropriate for the species in question. At the same time, in times of climate change, only healthy and robust ecosystems will be able to deliver the services and products our society needs.

The way forward: BirdLife's vision⁵⁹

How Europe's land is managed affects us all. Society requires land management to yield private goods, such as food, fibre and fuel, as well as public goods, which are goods that we all benefit from, such as clean water, healthy ecosystems, wildlife, thriving rural communities and beautiful landscapes. Yet, as essential as these benefits are, they are undervalued by the market, and, as a result, they are delivered at below optimum levels.

The role of public intervention in land management must therefore be about securing these public benefits. We believe that there is a need for an EU wide policy targeting sustainable land management and that such a policy should evolve out of today's CAP second pillar. We suggest the following elements as foundations for this new policy.

- **Establish a common sustainable land management and rural development policy.** Establish a sustainable land management and rural development policy for the whole of the EU, building on the current Rural Development Regulation but targeted at environmental sustainability. Our vision is for Pillar 1 of the CAP to be phased out, with funds transferred to a sustainable rural development fund based on the current Rural Development Regulation, which is at present separated into three 'axes': competitiveness, sustainable land management, and improving the quality of life in rural areas. The central element of this system should be supporting sustainable land management through regulation, agri-environment and Natura 2000 payments, as shown in the figure.

⁵⁷ Leitao et al. "Bustard conservation in Europe in the last 15 years: trends, best practice and future priorities". 2006 Vickery et al. "The role of agri-environment schemes and farm management practices in reversing the decline of farmland birds in England". *Biol. Conserv.* (2004) 119, 19-39.

⁵⁸ DONALD and EVANS, "Habitat connectivity and matrix restoration". *Journal of Applied Ecology*, (2006) 43, 209-218.

⁵⁹ BirdLife's manifesto for the future of the CAP «New Challenges, New CAP» is available at <http://www.birdlife.org/eu/pdfs/CAP%20Brochure.pdf>.

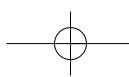
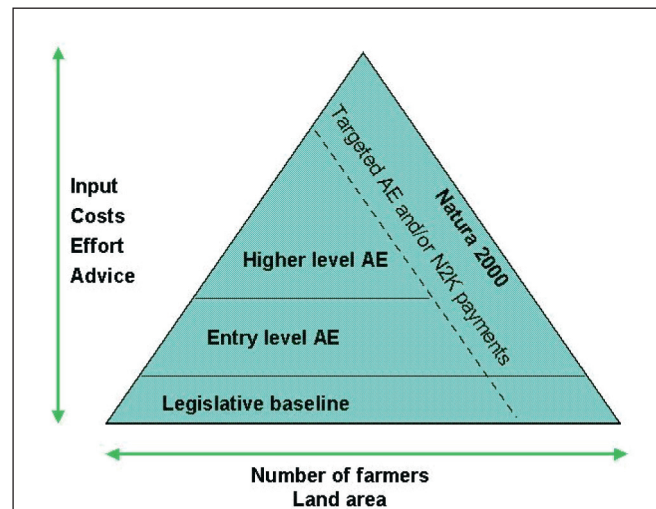
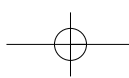


Figure 2. Birdlife AE Pyramid

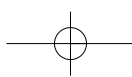


- The pyramid model consists of a minimum legislative baseline for all farmers that is based on the principle of 'do no harm', which would ensure, for example, the protection of landscape features and valuable habitats. This baseline is currently set by cross-compliance, which should continue for as long as direct payments are available, but in the longer term should become a legislative requirement. Basic agri-environment schemes that are open to all farmers should be made available in all parts of the EU. They should include straightforward, practical measures designed to enhance the farmed environment and encourage more sustainable farming practices, such as creating flower-rich areas for invertebrates and birds, adopting water-saving practices, establishing buffer strips to reduce water pollution and erosion, and creating basic habitats within and around fields. Advanced agri-environment schemes should also be used by all Member State and regional governments to address specific areas and environmental issues, such as the conservation of key species and habitats, especially where these are not afforded the protection and funding they need through other mechanisms, including Natura 2000 designation. These schemes require more demanding management and, consequently, the payments and level of advice required by farmers would also be higher. This system of support is based on the principle of giving all farmers the opportunity to receive support to adopt more sustainable practices and look after wildlife. It is also able to deliver good quality habitats across the farmed landscape, whilst allowing the targeting specific species and habitats for more intensive conservation efforts. In practice, a comprehensive agri-environment framework would create a sort of "public goods market" where farmers are paid, from the public purse, to produce environmental public goods that are not paid for by consumers. Alongside support for sustainable land management, the use of other measures to tackle the social and economic challenges faced in the more marginal rural areas of the EU should address these challenges whilst ensuring that they respect and add value to environmental sustainability.



- **Deliver good management of Europe's protected areas** The Natura 2000 network of protected areas is designed to protect and restore Europe's species and their habitats, and is the EU's most far-reaching effort to halt biodiversity decline. The future CAP should play a key role in delivering good management on Natura 2000 sites through targeted agri-environment schemes and Natura 2000 payments. If properly supported, it has the potential to save habitats and species from imminent extinction, create jobs in rural areas, for example through eco-tourism and provide a means of adding value to food and support for sustainable farming. The conservation objectives of many sites require the maintenance of traditional land management practices, such as extensive grazing and mowing for hay production. Natura 2000 cannot achieve its aims without a robust and dedicated system of funding for continuing these sympathetic management practices, which are often uncompetitive in today's market conditions. Sustainable management of Natura 2000 sites could be achieved through a combination of measures, including Natura 2000 payments, which compensate farmers for undertaking the necessary management for the conservation of designated areas, and targeted agri-environment schemes. The European Commission has estimated that it will cost at least €6.1 billion per year to properly finance the Natura 2000 network⁶⁰. Agricultural and forest habitats represent 60% of Natura sites; bringing these habitats into good condition and maintaining this will depend on sufficient funds being ring-fenced for supporting sustainable land management on these sites..
- **Funding for high natural value farming** Land abandonment is a major biodiversity concern in many parts of Europe, particularly now that payments have been decoupled without being accompanied by sufficient agri-environment to fund agriculture that is delivering for the environment. Marginal High Nature Value agriculture needs public intervention to maintain its economic viability. Agri-environment can help but is not able to stop the decline in marginal farming by itself as payments are based on an income foregone formula that is redundant when there is very little income in the first place. Instead, social and economic investment will be required in these areas with the aim of maintaining the rural population in marginal HNV areas and ensuring the environmentally beneficial farming continues. BirdLife advocates for a specific Less Favoured Areas scheme that would geographically target support payments to high natural value farming, as defined by the European Environment Agency. Such payments must be conditional on basic management requirements that ensure beneficial farming practices continue. This should be combined with the targeting of other Rural Development measures to these areas to improve the rural economy in a sustainable way, through, for example, building local food chains and helping farmers tap

⁶⁰ Commission communication - COM(2004)0431 Financing Natura 2000.



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into the opportunities offered by tourism and recreation activities. The level of support should be sufficient to make marginal HNV farming economically viable, and the system will need to be as “un-bureaucratic” as possible in order to reach those disadvantaged groups that find it very hard to enrol in agri-environment schemes.

A question of quality, not just quantity

The EU budget review offers an unprecedented opportunity to have a fresh look at the CAP and bring a badly needed overhaul of this policy, to bring it in line with society's needs and expectations. For too long the CAP has been tinkered with, through endless limited adjustments, forever dodging the key questions: what is the policy for and what are the most rational tools for pursuing its objectives. It is also clear that no credible modernisation of the EU budget is possible without a thorough reform of the CAP. There is a risk however that the debate will be reduced to a purely quantitative one, about how much money should be spent on the CAP. Given the immense challenges facing Europe's land in the coming decades, this would be a major mistake. Time for a qualitative debate on what are we spending on, and how to make good use of the money.

