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Greening agricultural payments in the EU's Common Agricultural Policy

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Abstract: Environmental objectives have been increasingly integrated into the EU's Common Agricultural Policy (CAP) since the mid-1980s. Integration has been pursued through the attachment of environmental conditions to the receipt of direct payments in Pillar 1 (cross compliance) and the use of voluntary agri-environment measures in Pillar 2. In formulating its proposals for the revision of the CAP post-2013, the Commission opted to pursue further integration largely through Pillar 1 through the introduction of a 'green' payment for farmers following a specified set of mandatory farm practices. The legislative process was not concluded in April 2013, but the initial positions of the Council and the European Parliament indicate that the level of greening ambition in this CAP reform will be very limited. Some explanations for the apparent failure to significantly reshape the CAP to tackle the problems faced by the natural environment are proposed. It is suggested that, far from being complementary, cross compliance and voluntary agri-environment measures are competing approaches to further greening of the CAP. Advocates of a greater focus on environmental objectives need to choose between these approaches.

Keywords: CAP post-2013, greening, cross compliance, Pillar 1

JEL codes: Q01, Q18, Q24

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1. Introduction

Sustainable management of natural resources and climate action is one of the three objectives of the CAP post-2013 (CEC 2010). This objective is addressed in the Commission's proposals for revised CAP regulations for the period 2014-2020 through a mandatory 'green' component of direct payments supporting environmental measures applicable across the whole of the EU territory; through changes in cross compliance; and through more strategic targeting in Pillar 2, with the environment and climate change as guiding considerations (CEC 2011a). The Commission proposed to allocate 30 % of each country's national ceiling for direct payments as a green payment to farmers who would be required to follow a number of 'agricultural practices beneficial for the climate and the environment'. The requirements include ecological focus areas (EFAs), crop diversification and the maintenance of existing areas of permanent grassland at farm level. An important consideration was that greening should not threaten the viability of the farming sector nor unduly complicate the management of the policy (CEC 2011b, Annex 2, p. 6). The Commission's stated goal was to improve the balance between different policy objectives through more targeted measures which would imply greater spending efficiency and greater focus on the EU value added (CEC 2010). Both the Council (Council of the European Union 2011) and the European Parliament (European Parliament 2011) initially supported the further greening of the CAP towards 2020.

There had appeared to be a logic in the CAP reform process whereby resources would be gradually transferred from direct payments in Pillar 1 to more targeted measures in Pillar 2. However, this was not the approach taken by the Commission in its proposals for further greening of the CAP post-2013. Instead, the proposals envisage adding further conditions to the receipt of direct payments in Pillar 1. The Commission argued that greening Pillar 1 payments was the more appropriate choice because the voluntary approach using agri-environment measures (AEMs) in Pillar 2 was unlikely to cover a significant part of the Community land area where the environmental pressures due to agriculture were greatest. There was also increasing resistance to a further transfer of funds to Pillar 2 both from farm organisations (representing the main beneficiaries of Pillar 1 payments) and Member States (which are required to finance the non-co-financed share of Pillar 2 payments).

In April 2013, the Commission's proposals are still in the legislative process and the ultimate outcome is not known. However, the reaction to the proposals in the Agricultural Council, in the European Parliament's Agriculture Committee (COMAGRI) and among Member States and interest groups was generally critical. Environmental groups criticised them for not being ambitious enough. Farmers' groups criticised them for imposing higher costs and taking land out of production when the global need is to produce more food. National administrations were unhappy because of the greater complexity they added in the administration of direct payments. It looks like greening will survive as a concept, but with very limited impact and limited environmental significance – an outcome described by environmental groups as 'green-washing' (Birdlife and others 2011).

This paper explores the Commission's rationale for greening Pillar 1 payments, the implications of this approach and the political reactions in the light of previous efforts to green the CAP. Section 2 describes the Commission's recent proposals for the green payment in Pillar 1 and the reactions to this. We conclude that the additional environmental benefits as a result of adopting the new regulations for the CAP post-2013 will be very minimal. Section 3 discusses the reasons why the

Commission project to green Pillar 1 is likely to yield such a disappointing outcome from the perspective of those seeking greater integration of environmental objectives into the CAP. Section 4 concludes with some reflections on the implications for those seeking to further green the CAP to better meet the major environmental challenges facing agriculture in the coming decade.

2. Commission's post-2013 greening proposals

The Commission began its reflections of the CAP post-2013 in its November 2010 Communication which outlined three potential directions for the CAP which it called the adjustment, integration and refocus scenarios, respectively (CEC 2010). This Communication contained for the first time the proposal to introduce a top-up payment in Pillar 1 as part of a greening strategy. Specifically, the Communication proposed:

‘Enhancement of environmental performance of the CAP through a *mandatory ‘greening’ component of direct payments* by supporting environmental measures applicable across the whole of the EU territory. Priority should be given to actions addressing both climate and environment policy goals. These could take the form of simple, generalised, non-contractual and annual environmental actions that go beyond cross compliance and are linked to agriculture (e.g. permanent pasture, green cover, crop rotation and ecological set aside). In addition, the possibility of including the requirements of current NATURA 2000 areas and enhancing certain elements of GAEC standards should be analysed.’ (italics added)

The Communication attributed the idea of restructuring Pillar 1 payments to the European Parliament. However, the Parliament's resolution in July 2010 (based on the Lyon report) called for the vast bulk of agricultural land to be covered by agri-environment measures and for additional incentives for improved environmental management to be delivered through an enlarged Pillar 2 budget (European Parliament 2010). It mentions the idea of a top-up payment in Pillar 1 but in the context of multi-annual contracts linked to carbon reduction/sequestration and biomass products.¹ In its resolution responding to the Communication (based on the Dess report), the Parliament accepted that ‘natural resource protection should be more closely linked to the granting of direct payments and calls, therefore, for the introduction, through a greening component, of an EU-wide incentivisation scheme with the objective of ensuring farm sustainability and long-term food security through effective management of scarce resources (water, energy, soil) while reducing production costs in the long term by reducing input use’ (European Parliament 2011).

It specified that ‘further greening should be pursued across Member States by means of a priority catalogue of area-based and/or farm-level measures that are 100% EU-financed; considers that any recipient of these particular payments must implement a certain number of greening measures, which should build on existing structures, chosen from a national or a regional list established by the Member State on the basis of a broader EU list, which is applicable to all types of farming; considers

¹ The resolution reads (paragraph 71): ‘Believes that an EU-funded top-up payment should be made available to farmers through simple multiannual contracts rewarding them for reducing their carbon emissions per unit of production and/or increasing their sequestration of carbon in the soil through sustainable production methods and through the production of biomass that can be used in the production of long-lasting agro-materials;’ (European Parliament 2010).

that examples of such measures could include: support for low carbon emissions and measures to limit or capture GHG emissions; support for low energy consumption and energy efficiency; buffer strips, field margins, presence of hedges, etc.; permanent pastures; precision farming techniques; crop rotation and crop diversity; feed efficiency plans'. These ideas prefigure the flexibility options put forward in the debate on the Commission's legislative proposals following their publication.

The Commission's intentions were elaborated in its proposal for the next Multi-annual Financial Framework in July 2011 which called for 30 % of direct support to be made conditional on 'greening' to ensure that the CAP helps the EU to deliver on its environmental and climate action objectives, beyond the cross compliance requirements of current legislation (CEC 2011c). In its legal proposals presented to the European Council and the European Parliament setting out proposed changes to the Common Agricultural Policy (CAP) for the post-2013 period on 12 October 2011, the greening requirements were specified to include ecological focus areas (EFAs), crop diversification and the maintenance of existing areas of permanent pasture at farm level. Participants in the proposed small farmers' scheme are exempt and organic farmers would automatically receive the greening payment (CEC 2011b).

Other greening elements included in the draft regulations include changes to GAEC standards, a revamping of Pillar 2 AEMs and a more important role for the Farm Advisory Service in facilitating innovations to deliver climate change and environmental objectives. The changes to the GAEC standards were driven in part by a simplification agenda and results in a new framework arranged into four thematic areas and nine issues (CEC 2011d, Annex II). Certain articles from the Birds and Habitats Directives were removed from the SMR requirements. Member States are required to develop new GAEC standards for maintaining soil organic matter and protecting wetland and carbon rich soils. The compulsory GAEC on *'avoiding the encroachment of unwanted vegetation on agricultural land'* has been removed. Although this was seen as a way of avoiding the abandonment of agricultural land, it was also criticised as driving the removal of habitat in several Member States. The optional GAEC standards for *'appropriate machinery use to maintain soil structure'*, minimum livestock stocking rates and/or appropriate regimes and *'establishment and/or retention of habitats'* have also been removed. Requirements related to the Water Framework Directive and Sustainable Use of Pesticides Directive would become part of cross compliance once implemented by all Member States. Participants in the small farmer scheme would be exempted from cross compliance requirements. The restriction that Member States shall not define minimum standards which are not established in the relevant Annex is continued. Despite the potential significance of some of these changes for environmental management, the real novelty of the Commission's proposals was its attempt to define and fund mandatory green standards applicable across the EU which could be administered as a Pillar 1 direct payment.

In its impact assessment of the proposals in the 2010 Communication, the Commission asked the question whether it would not be simpler to use part of Pillar I funding for complying with environmental measures within rural development policy instead? *'Seen from the perspective of providing choice for the farmers, it would seem preferable to envisage measures with payment levels differentiated by measures according to cost incurred and income forgone, as well as to give more discretion to Member States for their design so as to tailor them as much as possible to specific situations'* (CEC 2011b, Annex 2, p. 14).

Its objection to this approach was that it would give too much discretion to Member States and farmers. Even in a best case scenario, it would not link the greening requirements to Pillar I payments and it would not cover the entire EU territory. This would be partly because of insufficient budget resources (comparing existing premia in AEMs with the future payment levels for the greening component) as well as the varied uptake of agri-environment across Member States. The Commission saw particular problems for climate change objectives as it would leave open the possibility for only a part of the farm to adopt climate friendly practices while the rest of the farm continues to be operated with potentially detrimental methods undermining the global result.

The Commission also considered and rejected the option to include the greening requirements as part of GAEC standards. *'To make the greening effective, the measures in the greening component should be compulsory for the farmer, the discretion left to the Member State limited, and sanctions effective. If greening is effectively a requirement in the direct payments system, then wouldn't it be simpler to work instead on enhancing cross compliance?'* (CEC 2011b, Annex 2, p. 13).

It responded to this question as follows: *'Although this line of reasoning is put forth arguably on simplification grounds, it hides the complexities inherent in Member States defining and administering GAEC tailored to regional specificities. As the experience with the optional GAEC on crop rotation has shown, this approach would not necessarily ensure that the entire EU territory is effectively greened. At the same time, it would meet with considerable resistance from farmers as it would be framed as a requirement rather than an incentive, and arguably do away with the political visibility of greening direct payments that is one of the main drivers of this reform'* (CEC 2011b, Annex 2, p. 13).

These passages point to the concerns the Commission had when formulating its greening proposal. It wanted a universal set of measures which would apply to all farms, it wanted to avoid giving Member States discretion, it wanted farmers to see this as an incentive rather than an imposition, but most particularly, it wanted greening to be associated with Pillar 1 payments in order to promote their legitimacy and to provide an additional justification for maintaining the Pillar 1 budget of the CAP.

The Commission's proposals gave rise to a lively and mostly critical debate (Hart and Little 2012; House of Commons 2012; Matthews 2012a; 2012b). By April 2013, the legislative process has not yet been concluded. But enough is known of the positions of the main players to suggest that the outcome will be much less ambitious than what the Commission proposed, which itself was strongly criticised by environmental NGOs as an inadequate response to the stressed state of Europe's natural environment (Birdlife and others 2011). The following resumé of the state of play is based on the European Council conclusions on the next MFF at its February 2013 meeting (European Council 2013);, the negotiating mandate given to COMAGRI by the European Parliament in March 2013 (European Parliament 2013) and the general approach agreed by the Council of Agricultural Ministers also in March 2013 (Council of the European Union, 2013). Virtually all the amendments to the legislative drafts indicate a considerable weakening of the Commission's proposals.

1. The conditions attached to the three greening measures proposed by the Commission (crop diversification, ecological focus areas, maintaining permanent pasture) will be relaxed or eliminated, for example, by raising the minimum farm size threshold where the measures apply or extending the types of land uses that count towards EFAs. For example, the European Council particularly specified that “The requirement to have an ecological focus area (EFA) on each agricultural holding will be implemented in ways that do not require the land in question to be taken out of production and that avoids unjustified losses in the income of farmers” (European Council 2013, p. 27).
2. Greening will effectively be made voluntary by limiting the penalty for non-compliance to the loss of the green payment excluding the possibility of also reducing the basic payment as proposed by the Commission (even if the Council position is that some of the basic payment could be forfeited if the greening practices are not followed). This is despite the Commission’s insistence that mandatory participation in the green payment is essential if the measures are to be effective.
3. Additional ‘equivalent’ greening measures will be introduced in the name of flexibility. Although flexibility in the implementation of environmental measures is often positive, it leaves open the possibility that the equivalent measures selected may have even less impact on the environment than what was proposed by the Commission.
4. Farmers will be permitted to qualify for the green payment in Pillar 1 provided they show they are already managing land in an environmentally-responsible way (‘green by definition’), for example, through enrolment in a Pillar 2 AEM or in an environmental certification scheme. The problem with these exceptions is that there is clearly no environmental additionality. There is also the risk that farmers might be paid twice (‘double funding’) for the same practices both in Pillar 1 and Pillar 2.
5. It seems probable that the Commission’s proposals on GAEC standards will be weakened. The elimination of the inclusion of the Water Framework Directive and the Sustainable Use of Pesticide Directive as part of cross compliance once the obligations relevant to farmers have been identified has been recommended by COMAGRI and has been supported in Council.
6. There will be less money for AEMs in the rural development pillar. Not only has the funding for the Pillar 2 budget been reduced in the European Council’s conclusions on the next MFF, but flexibility will be given to Member States to shift a proportion of their Pillar 2 budgets to Pillar 1 which could further reduce the funds available for rural development. Rural development programmes are given new tasks, notably income stabilisation and risk management, which could potentially crowd out spending on AEMs. The Commission had proposed that Member States should maintain a minimum spend (25 %) of their Pillar 2 budgets on agri-environment and climate measures but only in the preamble to the draft rural development regulation and not in the regulation itself. The European Parliament has proposed to make this a mandatory requirement in the regulation although the Council favours the Commission’s position.

It must be stressed that these predictions are based on the negotiations in progress in the two legislative bodies and that the final outcome could be different. However, the Commission’s proposals look likely to be seriously emasculated when they eventually emerge from the legislative process. Certainly, neither of the two institutions is pushing for a more ambitious greening agenda.

We conclude that the additional environmental benefits likely to materialise as a result of adopting the new regulations for the CAP post-2013 will be very minimal, certainly in the context of the budget resources justified by this objective.

3. The political economy of greening the CAP through Pillar 1

The integration of environmental objectives into the CAP has until now progressed along two tracks: attaching environmental conditions to Pillar 1 payments and supporting voluntary agri-environment measures in Pillar 2. However, the relative funding levels for these two approaches is very different and, despite a widespread perception, there has been no shift to a greater emphasis on AEMs within Pillar 2 over time (**Table1**).

Table 1. Relative importance of expenditure on direct payments in Pillar 1 and environmental payments in Pillar 2, € million and per cent

Chapter	2000-06 average	2007	2008	2009	2010	2011	2007-11 average
	€ million						
Direct aids	29,861.3	37,045.8	37,568.6	39,113.9	39,675.7	40,178.0	38,716.4
Total Pillar 2	4,705.6	2,517.4	6,064.5	8,204.3	10,677.0	12,175.0	7,927.6
Axis 2 measures	3,456.3	2,054.3	4,546.5	4,740.7	5,437.2	5,834.5	4,522.6
AEMs in Axis 2	2,053.9	1,204.0	2,312.0	2,547.5	2,897.4	3,077.0	2,407.6
Share Pillar 2 (1)	13.6%	6.4%	13.9%	17.3%	21.2%	23.3%	17.0%
Share Axis 2 (1)	10.4%	5.3%	10.8%	10.8%	12.1%	12.7%	10.5%
Share AEMs (1)	6.4%	3.1%	5.8%	6.1%	6.8%	7.1%	5.9%
Share Axis 2 (2)	73.5%	81.6%	75.0%	57.8%	50.9%	47.9%	57.0%
Share AEMs (2)	43.6%	47.8%	38.1%	31.1%	27.1%	25.3%	30.4%

Notes: Two measures of agri-environment expenditure are shown in this table. AEM expenditure refers only to expenditure on agri-environment measures, while all Axis 2 measures include natural handicap payments to farmers in disadvantaged areas, Natura 2000 payments, and afforestation payments as well as AEM payments. Annual expenditure is from Q4 of the previous year to Q3 of the year shown. It represents payment claims declared by Member States. The 2000-2006 figures may not be fully comparable due to methodological differences between the two programming periods. Shares labelled (1) are the ratio of the chapter heading to the sum of direct payments and the chapter heading. Shares labelled (2) are the ratio of the chapter heading to total Pillar 2 expenditure. Sources: 2000-2006 figures DG Agriculture *Rural Development in the European Union 2007*; 2007-2011 figures are from DG Agriculture Financial Reports for the EAGF and the EAFRD for the respective years.

Comparisons are made difficult because direct payments are annual payments where changes from year to year reflect policy decisions, mainly the decision to phase in direct payments to the new Member States after their accession in 2004 and 2007 respectively. Pillar 2 payments show a different rhythm as they are linked to programming periods and payments reflect issues to do with policy implementation as much as policy change. Payments made fell in 2007, the first year of the new programming period, because of the time taken for approval of new programmes and to enter

into contracts with farmers and others to spend the money. Within Pillar 2, AEMs are less affected by this disruption because payments continue to be made to farmers who enrolled in AEMs in the previous period and because AEMs are among the first RDP measures that are implemented at the beginning of a programming period. Thus, we observe the relative importance of Pillar 2 expenditure increasing over time, but within Pillar 2 the relative importance of AEM expenditure is decreasing year on year in the current programming period. With two years to go, the 2007-11 annual averages may provide a reasonable guide to the final outcome.

Within the rural development budget, there is a strong environmental focus. According to the RDPs submitted by Member States, 45 % of the EAFRD funding for the 2007-2013 period (some €43 billion) has been allocated to Axis 2 measures ('improving the environment and the countryside'). Around half of this funding, €22 billion, will be spent on agri-environment measures; €472 million will be spent on Natura 2000 measures on farm land; and €111 million on Natura 2000 measures on forestry land (CEC 2011b, Annex 2). Actual expenditure figures show that, if anything, Axis 2 measures have been even more important to date and that AEM expenditure has maintained its projected share of around 50 % (Table 1). However, the relative importance of Pillar 1 and Axis 2 payments has not changed in the current programming period. Indeed, based on expenditure figures to date, the share of AEM expenditures has declined compared to the previous programming period both with respect to Pillar 1 and Pillar 2 payments, even if the absolute amounts, in nominal terms, show an increase.

The continued importance of Pillar 1 payments in delivering environmental benefits shows how entrenched is the support for these payments – this was evident in the watering-down of the Commission's modulation proposals in the 2008 Health Check (IEEP 2008b). Looking at the history of CAP reform, the Commission might have proposed a redistribution of CAP resources in favour of Pillar 2 and voluntary AEMs. The Commission's proposals for the CAP post-2013 instead proposed to designate 30 % of each country's direct payments national ceiling as a 'green' payment conditional on following a set of practices beneficial for climate and the environment. However, we concluded that the eventual legislative outcome is unlikely to lead to major environmental improvements. In this section, we reflect on this apparent failure of the Commission's greening strategy and the reasons for it. A mixture of strategic, technical and political economy factors appear to have played a role.

First, farm organisations, as the main beneficiaries of direct payments under Pillar 1, are naturally its strongest defenders. Direct payments represented on average 29 % of agricultural income in the EU in the period 2007-2009 (with total subsidies coming close to 40 % of agricultural income) (DG AGRI 2012). Greening would add to the costs of production although the Commission's calculations suggested that the overall impact would be slight (CEC 2011b, Annex 2D). It projected an average decrease in overall farm income per worker of between 1.4 % and 3.2 %. Livestock farms would be more adversely affected because of higher feed costs, while arable farms might even expect to gain because the higher market margin (due the higher market prices caused by the slight reduction in supply) would be sufficient to outweigh the costs of greening. This calculation assumes that farmers would continue to receive the same level of direct payments even in the absence of greening. If greening were the *quid pro quo* for preventing a cut in the direct payments envelope by anything

more than 1-3 % income reduction calculated above as the cost of greening, then arguably farmers are better off under the Commission's proposals.

Second, the Commission's attempt to establish this *quid pro quo* and to link greening to the size of the CAP budget was never credible. It put forward the green payment in Pillar 1 as a way to enhance the legitimacy of direct payments and to defend its proposal to maintain a constant CAP budget in nominal terms in the next MFF. The promise to green the CAP may have been necessary to gain the support of the College of Commissioners to propose the continuation of CAP funding in the Commission's MFF proposal. The difficulty was that, once the proposal was made, there was no credible threat to reduce direct payments if ambitious greening measures were not adopted. The two legislative bodies worked on the assumption that the budget allocation was exogenous (not necessarily given but not something which would be influenced up or down by decisions taken on greening). There was thus no counterweight to the incentives for agricultural ministers to minimise the additional 'burdens' that greening imposes on farmers. While the European Council conclusions on the next MFF endorsed the Commission's proposal to use 30 % of direct payment ceilings for the green payment, this was not linked to any specific level of greening ambition; indeed, the European Council called for 'a clearly defined flexibility for the Member States relating to the choice of equivalent greening measures'. By proposing greening as a way of legitimising the existing flow of untargeted Pillar 1 payments to farmers, the Commission framed the issue in a way that it was bound to lose.

Third, the farm organisations had a new card which they played to maximum advantage, namely, food security. During the 'reform period' 1992 to 2008, agricultural policy reform and the integration of environmental objectives into agricultural policy were mutually supportive. Decoupling discouraged the use of off-farm inputs, while encouraging more extensive agricultural production helped to limit the budgetary cost of over-production during this period when EU market prices were still above world market levels. But since the 2007-08 price spike and the growing realisation of the fragility of global food supplies, more emphasis is now put on the necessity for Europe to contribute to increased food production in the name of 'food security'. This argument is used particularly against the proposal to designate 7% of arable land as EFAs (which, given the existence of trees, hedgerows, field margins and awkward corners on many farms which count towards EFAs implies leaving around 3-4 % of cultivated land fallow). It explains the European Council's decision that EFAs should be implemented in ways that do not require land to be taken out of production. Yet only a few years ago larger arable farmers had to set aside up to 10-15 % of their arable land in order to be eligible for direct payments. The change in the market environment explains the different perceptions of the burden of fallowing land in the two situations.

Fourth, Member State governments were unenthusiastic about the Commission's proposal. They have no appetite to pursue further greening through Pillar 2 because of the requirement to co-finance this expenditure. But they are concerned about greening in Pillar 1 because of the additional administrative complexity it implies, which flies in the face of the continuing demand from Member States for simplification. Member States have therefore pushed hard for flexibility and the recognition of alternative practices as being equivalent to the Commission's greening proposals. They have also supported extending automatic eligibility for the green payment ('green by definition') to other groups of farmers, e.g. those enrolled in AEMs, for the same reason. In this way,

Member State interests have also contributed to the hollowing-out of the Commission's greening proposal.

Fifth, although the European Parliament was broadly in favour of some further greening of the CAP, its preferred approach was to advocate further reliance on voluntary AEMs in Pillar 2. It never embraced the Commission's idea of a mandatory green payment in Pillar 1 in return for higher environmental standards (a form of super cross compliance). Instead, it has sought to effectively connect Pillar 2-type AEM measures to the Commission's Pillar 1 green payment through offering a wider 'menu' approach to the practices which would determine eligibility for the payment. While many of these individual measures are worthy and desirable, it is hard to see how they belong to the broad-brush payments in Pillar 1. By pursuing this approach instead of a more principled position of transferring funds to Pillar 2, the Parliament has also helped to undermine the Commission's proposal.

Sixth, a lack of confidence in the environmental effectiveness of the measures proposed made them difficult to defend. Requiring every farmer throughout the EU to follow exactly the same management prescriptions, regardless of the ecological context, environmental pressures, or opportunity costs, is a highly inefficient policy approach. Environmental NGOs pointed out that requiring individual farms to maintain existing levels of permanent pasture would not necessarily help to protect species-rich semi-extensive grasslands and grasslands of high nature value. Crop diversification was seen as a second-best alternative to crop rotation. While the environmental potential of ecological focus areas was more widely recognised, particularly for biodiversity, questions were raised as to whether science supports setting aside individual parts of every farm regardless of its conservation value, or whether a more targeted approach might not be more effective (Godfray 2012). The absence of management prescriptions also reduces their likely environmental value. As the European Court of Auditors pointed out: '*.. the regulation does not specify the concrete objectives, which should be achieved by the farming community in that domain, nor does it explain the impact which is expected from implementing such measures. The absence of such justification raises the questions as to the claimed aim that the policy is results oriented*' (ECA 2012, 40).

4. Implications for integrating environmental objectives into the CAP

The apparent failure of the Commission's greening strategy points to a more fundamental dilemma for those seeking to orient the CAP more towards environmental objectives. During past reforms of the CAP, greening Pillar 1 payments through cross compliance and promoting voluntary AEMs in Pillar 2 were seen as complementary strategies to green the CAP. In fact, it appears they are increasingly competitive, at least as long as Pillar 1 payments are primarily intended as income support. Increasing the budget for voluntary AEMs in Pillar 2 can only occur by transferring resources from Pillar 1. But the effectiveness of cross compliance in Pillar 1 depends on the level of direct payments. Strengthening voluntary AEMs in Pillar 2 therefore means weakening the sanctions for cross compliance in Pillar 1, and vice versa. In future, those seeking to orient the CAP more towards environmental objectives may need to choose between one approach or the other. In the longer-run, whether responsibility for environmental expenditure in agriculture should be transferred to DG Environment should be seriously considered.

Targeted agri-environment payments linked to the provision of identifiable and specified environmental public goods are a cost-effective way to achieve environmental benefits. However, if further greening of the CAP were pursued through targeted AEMs in Pillar 2, there is a risk that the environmental benefits achieved through cross compliance could be lost. These are mainly the GAEC standards which go beyond the environmental baseline set by legislation and incorporated in Statutory Management Requirements. Currently, GAEC standards do not apply to farmers who opt out of or otherwise do not receive direct payments. It seems necessary that, to be effective, legal force should be given to these codes of good farming practice.

This suggests a need to revisit where European society wants to draw the 'environmental baseline' or reference level which distinguishes between those obligations which farmers are expected to carry as part of the normal practice of farming ('polluter pays principle') and those obligations which society accepts go beyond normal good farming practice and where farmers should be remunerated for the additional costs and income foregone in achieving them ('provider gets principle'). It is often assumed that this is currently given by cross compliance (both statutory management requirements and GAEC standards). However, the strong political support for the view that direct payments are, in part, a recognition of the costs that society asks farmers to bear through cross compliance implicitly undermines the 'polluter pays principle'. If farmers who do not receive direct payments are not expected to observe the cross compliance standards, then these do not form the environmental baseline. Whether or not this should be the case deserves wider discussion, taking into account both the impacts on environmental outcomes and the competitive position of farming.

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