

Background

The 1992 reform of the common agricultural policy (Council Regulation (EEC) No 1765/92 - the Mac Sharry reform) introducing a support system for producers of cereals, oilseeds and protein plants completely overturned the aid arrangements in the arable sector. The reform was based on the introduction of three important measures: the lowering of intervention prices by around a third, compensation for this reduction through the award of area aid according to crop type and the management of supply through the introduction of compulsory set-aside of land.

Applied across the Community for the first time, compulsory set-aside was introduced for growers who were subject to the general arrangements,¹ and who had an area representing on average 72% of the area of the Community under arable crops. The measure required them to take part of the area under arable crops out of production, at a rate set each year by the Council for the Community as a whole. Although not stated expressly in the instrument introducing the reform, the aim of the measure was to curb production of cereals that were in surplus and lower the level of public stocks, this having become a sensitive issue at the beginning of the 1990s.

Throughout the period when the set-aside arrangements examined here applied (from 1993 to 2000), changes to the rules were made on many occasions, the main ones being adjustments to the rate of compulsory set-aside, the introduction of voluntary set-aside against payment, the raising of that payment and the introduction of the possibility of fixed as opposed to rotational set-aside, which was the only form available at the outset.

The method of evaluation and its application

Studies examining the effectiveness and efficiency of the measure were undertaken for all the member countries (12 and later 15 over the period), mainly on the basis of data compiled and assembled by Eurostat and declarations by the Member States collected by the Commission. On the matter of the regional, agronomic and environmental impact and the effect of implementation, 19 studies were made of regional cases² and seven of national cases. Care was taken when selecting regions to cover the whole range of

¹ Growers receiving compensating payments and producing over 92 t of cereals. Those coming under the simplified scheme (producing less than 92 t of cereals) were not subject to compulsory set aside.

² Aquitaine, Aragon, Bavaria, Brandenburg, Castile-La Mancha, Castille-León, Centre, Denmark (whole country), Eastern England, Extremadura, Lorraine, Midi - Pyrénées, Netherlands (whole country), Lower Saxony, Nord-Pas-de-Calais, Poitou-Charentes, Schleswig-Holstein, Suomi - Finland region B, Thuringia,

cereals, oilseeds and protein plant crops and a large proportion of the main growing regions. The countries selected included Denmark, Finland, France, Germany, the Netherlands, Spain and the United Kingdom. For each study, a sample of 30 growers was examined, i.e. a total of 570, and meetings were arranged with the main parties involved in the sector.

No logical framework was established for the 1992 CAP reform, and hence for set-aside. The goals of set-aside, which were implied rather than expressed, therefore had to be re-created by the assessors using legislative instruments and Commission working papers. The logical framework for the set-aside measure, arrived at in this way, assigned to it four specific aims:

- Contributing to market balance by reducing surplus production
- Developing non-food crops
- Maintaining a quality environment
- Helping to maintain small farmers.

As no quantified targets, in terms of areas to be taken out of production or of reductions in volumes of production or public stocks had been set on the launch of the measure in official legislative instruments or other working papers to which those responsible for the assessment had access, it was not possible to make a straightforward comparison of results with targets. That being so, assumptions had to be made by the assessors, in particular to evaluate the measure's effectiveness and efficiency.

Answers to the assessment questions

Effectiveness of compulsory set-aside

Overall, across the period examined, set-aside contributed to the lowering of intervention stocks of products in surplus and to a lesser degree of final stocks (intervention + private stocks). In 2000 intervention stocks of wheat and barley stood at 23% of the 1992 level, while the figure for final stocks was 69%. For rye, on the other hand, there was no drop over the same period.

The decline in stocks was triggered mainly by a combination of two effects: the drop in production caused by set-aside and a rise in consumption. The larger share of the drop in production in volume terms was accounted for by cereals (down on average 6%) with barley taking first place (down 13%). The drop for edible oilseeds was 15%, a major adjustment arising chiefly from the distinction drawn between food and non-food crops from 1993 onwards. Stocks of protein plants showed a slight rise (up 2%). Between 1993 and 1999, the area sown to oilseeds and protein plants contracted and that given over to cereals rose.

Set-aside had its main impact on lowering stocks during the first three years when high rates of set-aside were combined with relatively low average yields. By contrast, lower rates of compulsory set-aside, an expansion of the areas (cultivated + set-aside) with access to aids and a recovery in yields sharply limited the

visibility of the impact of the measure in subsequent years. The visibility of its effectiveness depended therefore on the rate of compulsory set-aside: during the period considered. Its effectiveness was visible only where the set-aside rate was at least 10%. Nearly all the subsequent changes to the rules (lowering of the rate of set-aside, introducing fixed set-aside at the same rate as rotational, providing for voluntary set-aside, etc.) lessened the effect of set-aside.

Voluntary set-aside

In the European Union as a whole, voluntary set-aside was applied on 3.8% of the area sown to cereals, oilseeds and protein plants. If the measure had not been introduced, it seems that 1.12% of the area would still have been taken out of production because of the precautionary set-aside adopted by large numbers of farmers. The net effect of the measure therefore was that not more than 2.7% of the total area was subject to voluntary set-aside. In some circumstances payments for voluntary set-aside were more profitable to farmers than growing crops on certain land, particularly in Spain on account of low yields and in eastern Germany because of the restructuring of holdings. It was also used as a tool for managing holdings at certain critical stages in their development. We consider it probable, therefore, given the practice of precautionary set-aside and in view of these effects which would have arisen even if the measure had not been introduced, that between one third and a half of the land under voluntary set-aside would not have been farmed in any case.

Efficiency of set-aside

A comparison of the direct costs of overproduction³ with those of non-production illustrates the significant economic advantage of set-aside at the start of the period (1993), a trend that was later reversed, in 1995 or 1996. This development arose from two main factors: a lowering of the costs of overproduction (by some 25%) and a rise in those of non-production, attributable mainly to the increase in payments for set-aside (up 26% from 1993 to 1995) and a reduction in the visibility of the impact of set-aside. The assumptions made here to arrive at an estimate of the size of the reduction in production have an effect on these results but their impact is offset to some extent by the fact that the cereals which had high overproduction costs (barley and rye) were the same as those that had high non-production costs. Across the whole of the period under consideration, it is probable that the costs of non-production were comparable to those of overproduction. In addition, it should be noted that the costs of overproduction would not have been lowered to the same extent without a significant reduction in stocks, to which set-aside contributed, and a drop in the costs of disposing of the products through exports, itself the result of a cut in producer prices.

Non-food products

Non-food crops have been developed mainly in countries having the industrial capability to process them and where taxation arrangements favourable to these products have been introduced. Almost all of these crops are used to produce biofuel. Where the circumstances are right, the introduction of set-aside has been crucial in the development of these crops. Particular note should be taken of the correlation between areas used to cultivate non-food crops and the rate of compulsory set-aside. The limited economic returns on these products and the administrative complications involved in managing them have probably hampered their development however.

Conduct of farmers and management of holdings (based on studies of specific cases)

Among large-scale growers, the choice of crops is basically determined by their profitability and by the growing and rotation customs of farmers. A direct effect of set-aside and the payments associated with it on products has been the development of non-food crops. The breakdown of set-aside in Europe is thought to be approximately 48% rotational and 52% fixed, with sharp national and regional variations. Farmers in regions covered by this survey have concentrated their fixed set-aside on the parts of their holdings that are least productive (poor soil, washlands, tidelands, edges, etc.) or most difficult to cultivate (remote, small parcels, not irrigated, etc.). In regions with high rates of rotational set-aside, the situation is comparable with that before the reform of 1992. Production overall in the Community did not intensify on land not included in the set-aside scheme when it was introduced, even though cultivation on the best areas of holdings meant that average yields expanded. It seems however that a certain amount of intensification took place from 1995/96, as shown by the not inconsiderable rise in yields and borne out by the upward trend in the use of fertilisers and pesticides. Its relationship with set-aside is very difficult to establish however. According to around half the farmers surveyed, a market in land qualifying for compensating premiums developed after the 1992 reform. A larger number than previously of holdings, principally large ones, increased their surface area following the reform of the CAP. A switch to crops other than cereals, oilseeds and protein plants was very widespread. Diversification outside agriculture did not take place to any great extent but is becoming a sensitive issue. The payments associated with set-aside are regarded by most as income support for growers, but the contribution towards upkeep costs is mentioned very often by farmers.

Set-aside and the environment

³ Storage costs for a year together with the costs of disposal and compensating aid for those products collected by farmers over the year.

We replied to the questions on the topic of the environment by examining in turn the published material, regional surveys and national rules. A study of the printed material shows that much of it dates back to before 1995 with the large majority being very general, constituting ecological courses or analyses of fallowing rather than genuine studies giving an accurate assessment of the situation. Despite some very high-quality work, much has still to be done if we are to be adequately informed about the impact of set-aside on the environment. Soil protection has been effectively incorporated in set-aside under the national laws of the countries surveyed, which require cover to be provided in order to control erosion (except in Spain) and leaching, and limit or ban the use of pesticides and fertilisers. The effect of plant cover in limiting erosion and leaching is critical as it cuts nitrate concentrations in soil in some cases to a tenth or a twentieth of what they were. If land is set-aside along rivers and streams, in some circumstances the leaching into rivers of nitrates and a substantial number of treatment products can be considerably reduced. The sowing of certain plants can considerably enrich the soil with organic material. It has been shown, lastly, that crop yields are generally higher following set-aside than after another crop. The impact of set-aside on the landscape has been neutral on the whole. National laws take little or no account of the landscape (apart from the upkeep of parcels). In the Netherlands and the United Kingdom, where the laws recommend it, the sowing of flowers on certain set-aside parcels has increased in scale. Set-aside, above all on a fixed or long-term basis, is very beneficial for protecting biodiversity of both plants and animals. Rotational set-aside is, however, mentioned as important for maintaining certain bird populations. National laws are occasionally mindful of biodiversity but in too many cases this has been the result of chance rather than part of a genuine strategy. In particular, the links between the CAP and the measures to protect biodiversity have yet to be worked out. The most widespread form of upkeep on set-aside land is the crushing of plant material and it is this which is causing most harm to the animal populations which reproduce on fallow land.

The other effects of set-aside

"Small" farmers, especially those on the borderline as far as compulsory set-aside is concerned (with 20 ha to 40 ha under cereals, oilseeds or protein plants), have greater difficulty in adjusting to set-aside than large ones (difficulties in paying off equipment, lack of funds to expand, etc.). The organic growers we met said that applying compulsory set-aside on their holdings would be pointless since their products were not in surplus and their farming practices were very environment friendly. The impact of the reform upstream and downstream of holdings was mentioned by many of the bodies we talked to, in particular cooperatives and traders selling to and buying from farmers. For many of them the introduction of the reform in 1992 presented a shock in the form of a 15% drop in sales of inputs (seed, fertilisers and treatment products particularly) and a very significant decline in turnover on trade in cereals, oilseeds and protein plants.

Building on established developments and looking to the future

The changes in the behaviour of farmers encouraged, or at least sustained, by the set-aside measure under the 1992 reform call for analysis of the implementation of the measure.

It has been found, for instance, that set-aside represented a not inconsiderable incentive for the development of non-food crops in areas of large-scale production with favourable taxation arrangements and established infrastructure. The review of Community policy in support of those products now under way, mainly for the production of biofuel, could provide an opportunity for the further expansion of those crops on set-aside land. In economic terms, this represents a major challenge for rural development and, of course, for renewable sources of energy.

Set-aside opens up many opportunities for safeguarding the environment, a resource that is currently underused. Significant progress could be achieved and many farmers said that they were aware of this during our investigation. These objectives dovetail with the policy of protecting the environment which the Commission supports. Their guiding principles could include protecting the soil, water, biodiversity, the landscape, etc.

The investigation has shown that compulsory set-aside continues to be misunderstood by a section of the farming community. Compulsory set-aside was unavoidable when the reform was first introduced but may no longer be as necessary now as it was then. A more voluntary form of set-aside, setting clear collective goals which are remunerated accordingly is a prospect that strikes us as interesting.

Opening up new opportunities for managing the countryside, supporting the development of new outlets for agricultural products and offering farmers a management instrument combined with environmental protection were not really central to the aims of set-aside. The implementation of the scheme has nevertheless demonstrated the capacity for contributing to these new approaches. We take the view that farmers' acceptance of the measure and their ability to include it in their strategies confirm that set-aside can be used for aims other than that of simply lowering production volumes.

Recommendations

Guiding set-aside

Set-aside has proved to be an effective instrument for controlling production but the problems encountered in recreating its impact during this assessment show the extent to which a small number of quantified goals and monitoring indicators would have been useful. The Commission's guidance of set-aside, in the way it has been conducted over the period assessed, has not allowed its effects, for example, on controlling production

volumes and stock levels, to be assessed sufficiently accurately. In order to better regulate stock levels, that have been subject to sharp fluctuations, and also to check the effects of set-aside on holdings and the environment, an instrument for guiding set-aside needs to be put in place.

Quantified objectives will have to be defined, therefore, for public stocks before production targets are devised, along with targets for non-food products, environmental priorities, etc. Once that has been done, a monitoring mechanism will be essential to guide the measure, in line with the objectives set for it.

Encouraging the cultivation of non-food crops on set-aside land

Our studies in this area show that, in some regions, non-food crops accounted for a significant proportion of set-aside, providing a lead in terms of crop rotation, a way of preventing weed invasion of land and in some cases an income. In addition, the European Commission's current proposals on renewable sources of energy tend to favour the development of biofuels. But the framework in which non-food crops are being produced on set-aside land is extremely demotivating for farmers because of the intricacy of the administrative arrangements and the prices offered. All of these issues should have been resolved by providing for more environment-friendly technical routes for these crops.

Making set-aside more compatible with environmental protection

The first finding made during this assessment has been the lack of scientific data providing a true picture of the environmental effects and potential of set-aside across Europe. Action will have to be taken leading to practical and operational measures for making better use of the capabilities of set-aside in this area. The agri-environmental and set-aside mechanisms are not entirely synchronised at present. Where this may be involved (protecting water against agricultural pollution, protecting soil against erosion, developing biodiversity, etc.), the inclusion of set-aside land within mechanisms of this type should be encouraged. Even if many measures are now a matter for the Member States (type of upkeep, cover, etc.), it would be preferable if Community rules gave Member States greater discretion in relation to the other practical arrangements for applying set-aside (duration, width and size of parcels, etc.) since specific regional and national characteristics are not easy to cover in a single document. This does not, of course, rule out a proactive European policy on this matter where considerable potential is currently underexploited.

Improving the application of set-aside

It would be desirable for greater flexibility to be introduced into the legislation and its interpretation (but not in the regulatory framework of checks on areas qualifying for support). Substantial slackness as regards these areas has taken place since the reform was introduced and has seriously thwarted the effect of set-aside.

Changes to the rules, whether affecting farmers or the sectors upstream or downstream, need to be announced as quickly as possible. This is especially true since the periods when land is prepared for cultivation in Europe differ very considerably from north to south.

Permitting organic farmers not to be subject to compulsory set-aside and at the same time giving them the opportunity to apply set-aside voluntarily would seem to us a step in the right direction.

Lastly, while we have not been able to consider the matter in detail as our investigation did not extend to farmers who are not covered by set-aside, it appears that the smallest growers surveyed (those with under 40 ha sown to cereals, oilseeds and protein plants) have occasionally encountered very considerable difficulties on account of set-aside. This has included primarily a drop in incomes, difficulties in paying off equipment and the virtual impossibility of expanding since the largest operators exercise a monopoly over the land market. Although this comment goes far beyond set-aside in the strict sense, it is our view that it is deserving of serious consideration.

Opening up possibilities

Past experience of set-aside over a period of nearly a decade has played a part, along with the whole array of measures available under the 1992 reform, in fostering the emergence of a circle of farmers who have now taken on board the need to monitor production and have made adjustments to the management of their holdings. In addition, farmers are increasingly having to face the pressure of public opinion reminding them of their duty to ensure quality production and safeguard the natural environment.

Of the many measures relating to cereals, oilseeds and protein plants, set-aside can encourage some farmers to fit in with these aims. From being a measure endured, set-aside could gradually become one of choice for farmers whose aim is not to grow products that are in surplus but who have other collective goals that coincide with the priorities of the Community's agricultural and environment policy.

Voluntary set-aside as practised from 1995 to 2001, backed by compulsory set-aside and with no specific goal has not proved to be very effective. By adapting the conditions for its application to make it more attractive to farmers and by attributing to it goals that would be very beneficial to the community, it could become something entirely different. This would require guiding it in such a way that clear directions would be given and changes made to the rules so that farmers would be motivated to follow those directions. We believe that even if this approach retains some element of compulsion, it is worth exploring through pilot schemes at least, as it could reconcile the interests of both farmers and the community.