

Public Consultation on the CAP Health Check

Submission by WWF Baltic Ecoregion Action Programme

1. Introduction

WWF welcomes the public consultation on the CAP 'Health Check' and hopes that the following comments will contribute to the European Commission's deliberations on the future of the CAP.

The CAP has undergone numerous, substantive reforms throughout its history and experienced some major shifts in policy direction. What began as a protectionist policy heavily focused on increasing production within the EU and protecting European farmers from external competition is now increasingly trying to promote a more market orientated and sustainable agriculture, recognising the concerns of European citizens. WWF welcomes this shift in policy but considers that on-going reform is necessary to further shift the CAP towards a more environmentally focused and sustainable policy. In the long term, WWF believes that taxpayers' money should only be used to support the provision of public goods e.g. the maintenance of habitats, landscapes and cultural heritage, for which there is market failure and not the production of goods such as meat, milk and grain which have a market value. Any support given to the agriculture sector must, at the very least, not harm the environment and must not distort trade i.e. it must be Green Box compatible.

The CAP Health Check is the next opportunity to make progress towards a more sustainable agriculture policy. WWF considers that more fundamental and longer term questions about the future of the CAP, such as the role of Pillar I versus Pillar II payments and the overall level of funding, should be addressed by the forthcoming EU Budget Review.

2. Implementation and Simplifying Single Payment Scheme

2.1 Simplifying the Single Payment Scheme

WWF would prefer to see a system whereby all SPS payments are made as flat-rate payments at national or regional level. This would be a much simpler and more equitable and transparent system. Member States should carry out Regulatory Impact Assessments of the shift to flat rate payments and introduce appropriate flanking measures to combat any

negative environmental effects. Member States should be allowed to phase in flat rate payments to give farmers time to adjust.

WWF supports payments to farmers for the provision of environmental goods and services and to help facilitate sustainable rural development. Our longer term vision is for a significantly reformed CAP with a much greater proportion of the budget allocated to environmental and rural development measures under Pillar II of the CAP. Funding for rural development would be increased at the expense of Pillar I and the SPS via mechanisms such as modulation (see comments on Strengthening Rural Development).

The 2003 CAP reform gave Member States various options for making decoupled payments to farmers under the SPS. This has resulted in 21 different models applied throughout the EU and great complexity. Allowing Member States to make payments to farmers on the basis of 'historic' entitlements – which is what the majority of the EU 15 Member States opted to do – essentially continues a pattern of CAP payment distribution based on past production levels rather than any new rationale for payments. This means that larger, more commercial farm holdings continue to receive the lion's share of the CAP budget. WWF believes the current situation is untenable in the longer term. Farmers across the EU receive highly variable levels of support through the SPS with farmers who are least dependent on such support receiving some of the largest amounts. For example, many arable farmers whose incomes have received a significant boost in the past year due to high market prices for grains and cereals are receiving large levels of unnecessary 'income support' from the taxpayer. The use of public funds in this way is likely to be increasingly difficult to justify in the longer term. WWF believes that the longer term future of the CAP and of Pillar I payments in particular should be examined by the forthcoming EU Budget Review. In the short term, the Health Check should introduce a much simpler, more equitable and transparent system and require Member States to make all SPS payments as flat-rate payments at national or regional level.

One of the main impacts of moving to a flat-rate payment would be a redistribution of income among farmers in different sectors and in different areas, with a significant number of 'winners' and 'losers'. In general terms, income is likely to shift from more intensively managed farms to more extensively managed farms and from arable to grassland areas. Such redistribution of income is likely to have various environmental impacts as farmers adjust their businesses accordingly. We believe many of these impacts are likely to be positive but would wish to see Member States undertaking Regulatory Impact Assessments of a move to flat-rate payments in order to understand the likely economic, social and environmental impacts. This would allow Member States to consider possible flanking measures in order to address any negative outcomes. Possible flanking measures could include the use of Article 69 payments or agri-environment schemes. There would also be benefit in phasing in flat-rate payments over a number of years in order to give farmers time to adjust to changes in income levels.

2.2 Cross Compliance

Cross compliance is an important policy tool in helping to achieve sustainable agriculture and should continue. Some Member States could

improve existing cross compliance implementation. The issue of 'better water management' should be added to GAEC and relevant standards, such as buffer strips, defined.

WWF supports the use of cross compliance in principle and welcomed the establishment of a link between CAP payments and the respect of existing legislation related to the environment, public, animal and plant health and animal welfare.

Cross compliance was introduced in 2005 and has only been fully operational i.e. with all 19 Statutory Management Requirements (SMRs) applying, since 2007. Evidence regarding the effectiveness and efficiency of cross compliance is therefore relatively limited at this stage. However, early results from an independent evaluation of cross compliance¹ suggest that it has introduced more systematic controls in relation to legislation, raised farmers' awareness of their obligations and is expected to result in improved compliance with standards. These findings appear to support the continuation of the cross compliance policy.

WWF can see no evidence of the need to remove certain legal requirements or GAEC standards from cross compliance. Rather, there is evidence from the evaluation that in many Member States the cross compliance system needs to be improved. In some cases, requirements and standards need to be better specified, information to farmers needs to be improved and better control and enforcement systems need to be established. WWF considers there is a particular need to improve GAEC standards and add some new standards to Annex IV. The evaluation of cross compliance notes that *'some Member States have made particular effort to design and target obligations to achieve real environmental benefit. However, in other cases, some obligations are considered to be so general that they are unlikely to achieve any real benefit'*. In such latter cases, the Commission should encourage Member States to improve GAEC standards. The current scope of GAEC seems unnecessarily limited with a strong emphasis on soils. Adding the issue of 'better water management' to GAEC would be beneficial. Specific standards in relation to this issue could include requirements for buffer strips alongside watercourses to help reduce nutrient run-off and combat problems such as eutrophication. Irrigation and over-abstraction of water could also be issues addressed through cross compliance.

2.3 Partially coupled support

WWF supports moving to fully decoupled support but advocates the use of flanking measures, such as a revised Article 69 measure, to mitigate any negative environmental impacts.

In principle, WWF supports the full decoupling of payments from production as part of the move towards a more transparent system of payments. However, we recognise that partially coupled support may be helping to support certain kinds of environmentally important farming systems that might not survive in a fully decoupled scenario e.g. extensive beef production. The loss of such farming systems

¹ Alliance Environnement (2007) Evaluation of the Application of Cross Compliance as foreseen under Regulation 1782/2003. Part 1: Descriptive Report and Part 2: Replies to Evaluation Questions. Reports for DG Agriculture

would have negative consequences for biodiversity and landscapes in some parts of Europe. Rather than retain partially coupled payments, WWF supports the use of flanking measures to help maintain environmentally important farming systems. Options include using a revised Article 69 measure to support specific types of production or farming systems and developing appropriate agri-environment schemes. The use of Article 69 may be preferable since this would result in a redistribution of Pillar I funding towards achieving environmental goals rather than placing additional burdens on, in many cases, already over-stretched agri-environment budgets. Payments should be made per hectare and be targeted at farms and areas of greatest environmental value.

2.4 Upper and lower limits in support levels

WWF supports the introduction of an upper limit on support as proposed by the Commission and the use of money saved for a revised Article 69 measure. Any lower limit should not disadvantage any environmentally important small farm holdings.

The current distribution of SPS payments reflects, to a large extent, historic production levels. WWF supports the redistribution of CAP support so that a much greater proportion of the budget is targeted towards achieving environmental goals. To this end, WWF supports the introduction of an upper limit on support levels as proposed in the Commission's Communication (COM (2007) 722). The money saved should be used to support environmentally important farm types or systems under a revised Article 69. The environmental impacts of applying a lower limit to support are difficult to judge without further analysis. WWF's main concern would be that any lower limit should not exclude small, semi-subsistence farmers or part-time farmers from payments where these are important in managing environmentally sensitive land.

3. New opportunities and improving market orientation

3.1 Cereals set-aside

WWF supports the abolition of set-aside as a supply control measure and the use of cross compliance, agri-environment measures and/or revised Article 69 measures to capture the environmental benefits of set-aside.

Although introduced as a supply control measure, set-aside has provided a range of environmental benefits e.g. providing a food source for birds in winter and helping to reduce diffuse water pollution. The move to a more market orientated CAP with decoupled payments means that there is no longer a case to maintain set-aside for supply control reasons. There is however a need to capture the environmental benefits of set-aside and ensure they continue to be provided in future through alternative measures.

WWF considers there are various options when it comes to capturing the benefits of set-aside, as follows:

1. revise GAEC to include compulsory standards such as restrictions on cutting dates for fallow land or ensuring there are field margins of a specified width
2. ensure that agri-environment schemes are revised to include management options for fallowed land
3. use a revised Article 69 to pay for 'environmental set-aside'

These measures could essentially be operated as a package. Cross compliance would provide the compulsory elements designed to prevent environmental damage. Agri-environment schemes and/or Article 69 measures would provide additional voluntary options designed to encourage and support more demanding land management. WWF believes strongly that cross compliance should be the foundation stone on which other actions are built. Farmers receive substantive levels of support through the SPS and should not be able to farm in ways that are likely to damage the environment. For example, the removal of set-aside may exacerbate problems such as diffuse pollution in some areas by allowing increased production. Requirements for compulsory buffer strips or field margins alongside watercourses would be one way to prevent this. Only once the regulatory approach has been strengthened should consideration be given to using voluntary approaches. Regarding such voluntary approaches, one of the benefits of using Article 69 measures rather than agri-environment measures would be that environmental benefits continue to be 'purchased' by the Pillar I budget rather than requiring them to be purchased by often already over-stretched agri-environment scheme budgets. A decision to rely on agri-environment schemes to capture the environmental benefits of set-aside would lend support to arguments for substantially increased Pillar II budgets achieved through higher rates of modulation (see Section 4.2), in order to fund this.

3.2 Dairy quota

WWF supports a gradual phasing out of milk quota but not before a full assessment of the likely environmental impacts have been undertaken for each Member State. Flanking measures to support environmentally important dairy farming systems should be funded from the Pillar I budget through the use of a revised Article 69.

Like set-aside, dairy quota was introduced as a supply control measure. The trend for strong internal and external demand and high prices for dairy products suggest that dairy quota has outlived its purpose. While WWF can see the logic of the Commission's proposal for a gradual increase in quota up to its expiry in 2015, we are concerned about environmental impacts that may occur as a result of restructuring in the dairy sector. The trend within the dairy sector is already one of fewer, larger farms with larger herd sizes. Small to medium sized dairy farms are under pressure and restructuring can lead to landscape and environmental change. Dairy quota has, effectively, applied a brake to restructuring in the sector and helped support the continuation of milk production in more marginal farming areas. As highlighted in the Commission's Communication, certain regions are likely to face difficulties in maintaining a minimum level of production. Where dairy farming in such regions is linked to the maintenance of biodiversity and landscape value, the loss of such farming systems could have negative consequences for the environment. WWF considers that changes to the dairy quota regime should not be undertaken

until a full environmental impact assessment for each Member State has been undertaken and the environmental effects of increasing quota levels is understood.

Accepting that dairy quota cannot continue in the long term, WWF supports the use of flanking measures to mitigate any negative environmental effects rising from the removal of dairy quota. WWF believes there is a strong case for making use of a revised Article 69 to provide support for small-scale dairy farming in regions where it is environmentally important. In other words, support should be provided from the Pillar I budget. Agri-environment schemes under Pillar II are also an option, but as expressed earlier, we are concerned that too many demands are being placed on such schemes in the absence of sufficient funding. Only with substantially increased funding via modulation should additional demands be made of Pillar II.

4. Responding to new challenges

4.1 Climate change, bio-energy, water management and biodiversity

WWF agrees that climate change, water management and biodiversity are key challenges for the future and demand action. WWF considers that Pillar II is already capable of addressing these challenges if they are given sufficient priority within rural development programmes and funding for Pillar II is increased substantially.

WWF welcomes the recognition in the Commission Communication of the key environmental issues which require concerted action in the coming years. Climate change, water management and biodiversity were the three issues identified by WWF, LUPG and SNM² as priorities for action during the 2007-2013 rural development programming period. The current European Agricultural Fund for Rural Development (EAFRD) already contains a wealth of measures which, if applied in the right way and adequately funded, can make a real contribution to addressing the above mentioned environmental challenges. Axis 2 is particularly important in relation to environmental measures but all four Axes have a role to play in delivering environmental outcomes.

The key issues to be considered in relation to EAFRD are: 1) the balance between Axes and measures and the way in which Member States use the available measures and 2) the overall level of funding for EAFRD. Our initial assessment of approved 2007-2013 rural development programmes suggest that Member States give very different levels of priority to issues such as biodiversity, climate change and water management reflected both in the balance between Axes and measures and the funding allocated to them. In many of the new Member States, such as Poland and Lithuania, greater emphasis is given to funding Axis 1 measures such as farm modernisation than Axis 2 measures such as agri-environment schemes and Natura 2000 payments. This in itself might not be problematic if such Axis 1 payments were targeted at, for example, improving energy efficiency on farms or improving water conservation but past experiences suggest this is often not the case. Even within Member States that allocate a high share of funding to Axis 2, the measures funded are not always those most likely to address key environmental issues. Finland, for example, allocates 81% of its rural development funding to Axis 2 but of this, 55% is

² WWF, LUPG and SNM (2005) Rural Development Environmental Programming Guidelines: A Manual based on the findings of the Europe's Living Countryside project

allocated to the Less Favoured Area measure which has a socio-economic rather than environmental focus. EAFRD already has considerable potential to address the key environmental challenges identified by the Commission but only if Member States make them a sufficiently high priority in their RDPs and design measures accordingly. This requires political will on the part of the Member States and greater scrutiny by the Commission of RDPs during their approval and implementation.

Overall funding for EAFRD is also a critical factor determining how effectively it can help to address key environmental challenges. WWF believes that EAFRD funding needs to increase substantially both to address the challenges identified by the Commission and, as highlighted in this submission, to fund appropriate flanking measures e.g. agri-environment schemes, needed to mitigate the impacts of reforms in Pillar I of the CAP e.g. abolition of set-aside and milk quota. It is clear that while the demands made of Pillar II and EAFRD are increasing all the time, the funding levels are not keeping pace. If the Commission and the Member States are serious about addressing environmental challenges such as climate change and better water management, the overall balance of funding within the CAP needs to change substantially in favour of Pillar II (see Section 4.2).

Finally, WWF considers that, as long as the SPS and cross compliance are in place, Member States should be required to make a public statement regarding the contribution of Pillar I measures to meeting these environmental challenges. In particular, they should be required to demonstrate how cross compliance, and especially GAEC, have been designed to address them.

4.2 Strengthening rural development

WWF supports a higher rate of modulation than that proposed by the Commission of 4% annually from 2010-2013 in order to address rural development and environmental challenges. A proportion of the money raised should be ring-fenced specifically for measures and schemes designed to address environmental challenges. In the long term, WWF wishes to see a fundamental reform of the CAP with payments for public goods only.

WWF supports increasing funding for Pillar II via modulation. The rates proposed by the Commission lack ambition and will still only result in a 13% transfer of funding from Pillar I to Pillar II of the CAP by 2013. We believe this is insufficient to address the environmental challenges identified by the Commission itself and to fund flanking measures necessary to address the impacts of other Pillar I reforms. WWF wishes the Commission and the Member States to move farther and faster in relation to modulation than is currently being proposed. Recognising the impacts on farm incomes and the need to build administrative capacity in many countries to deliver an expanded Pillar II, we propose an increase in modulation of at least 4% annually from 2010 -2013 resulting in a modulation rate of 21% by 2013. A 4% increase is likely to result in an extra €1-1.2 billion per annum for EAFRD. Modulation rates could arguably, go higher. Commissioner Fischer Boel herself has highlighted in numerous speeches during 2007 that funding for rural development for the period 2007-2013 is €20 billion below that recommended by the Commission following the agreement by Heads of State on the Financial Perspective. Beyond increasing

modulation in the current programming period, WWF advocates a much more fundamental reform of the CAP with a substantially greater shift in funding from Pillar I to Pillar II type support. In the long term, WWF believes payments should only be given for the provision of public goods; Pillar I should be phased out and a new 'Common Rural and Environmental Policy' should be established.

If the Commission and the Member States are serious about addressing the environmental challenges identified above, WWF advocates at least a proportion of the funds raised via higher modulation to be ring-fenced for measures or schemes designed to address these challenges. Member States would be required in their national rural development strategies and RDPs to show how these challenges were being addressed, identifying appropriate measures, funding and targets. The Commission could also consider increasing the minimum percentage of EAFRD funds to be spent on Axis 2 – the main environmental Axis – to 40% from the current level of 25% to ensure greater priority is given to the environment.