

SUSTAINABLE EUROPE

Greening the CAP, and pruning it too



It will soon be crunch-time for Europe's controversially expensive CAP. **Valentin Zahrnt** puts forward ideas for slimming the EU's €50bn a year farm budget while making it environmentally attractive

Among the diet challenges facing the EU is its re-think and renegotiation of its €120bn budget, more than 40% of which still goes to the Common Agricultural Policy (CAP).

When the present seven-year budget framework was agreed in 2005, the European Commission was asked to review the EU's archaic finances and report its recommendations by 2008-09. Public consultations revealed overwhelming dissatisfaction with the present arrangements, and Commission President José Manuel Barroso and his officials have had no choice but to take a keen interest in this process. But when a hard-hitting draft document was leaked in October of last year it was immediately repudiated by the outgoing Commissioner for Agriculture, and the exercise postponed to 2010.

Although the competition between agriculture and other policy areas will dominate the budget debate, the right approach should begin with the CAP's objectives and ensure that the objectives determine how much is spent on agriculture. A group of European agricultural economists has agreed on a Declaration on the future CAP, proposing a shift in CAP objectives. It argued that the current key aims – enhancing the efficiency of agriculture, changing incomes distribution in the EU, and encouraging rural development – should no longer play a prominent role. It instead urged that the CAP should give farmers appropriate incentives to deliver what European society demands, particularly in the environmental realm. This includes contributions to the fight against climate change, the protection of biodiversity, and water management that tackles pollution, water scarcity and flooding.

The economists concluded that the future CAP should differ fundamentally from the current one. Interventions in agricultural markets – for instance through export subsidies – and the Single Farm Payment that gives farm income support without asking for production in return, should be progressively abolished. These subsidies between them make up 80% of CAP payments. The rural development policies that account for the remaining 20% of CAP funds should, they said, be thoroughly re-assessed. Only policies that promote the European public good, avoid excessive payments and are efficiently targeted should be retained.

The agricultural economists' declaration didn't spell out future financing needs, but a brief glance at the figures shows there is the potential to devise a CAP that achieves more in areas like the environment and animal welfare at lower costs. But what exactly does the CAP deliver for the environment?

Payments currently made under the CAP's non-environmental programmes have some positive ecological effects. The Single Farm Payment is subject to cross-compliance and farmers need to adhere to statutory management requirements by maintaining their land in good agricultural and environmental condition. But the current targets for cross compliance-conditions are still fairly low, and the implementation record is poor. Since compliance with the Single Farm Payment's conditions is largely compulsory by law, comparatively few additional environmental benefits can be expected.

Many of the present agricultural subsidies are instead damaging the environment. The environmental consequences of

these subsidies have not been thoroughly assessed, and what evidence there is has not been stringently applied to ensure that EU-funded programmes do as little environmental damage as possible. The EU still pays for the building of greenhouses that impinge upon wildlife sanctuaries and for the drainage of wetlands.

Furthermore, it is often ignored that farming also has negative side-effects for society: water is abstracted from rivers and polluted with fertilisers and pesticides, the climate is affected by emissions of carbon dioxide, nitrous oxides and methane, and the capacity of the land to absorb carbon is diminished. Reductions in farm output and the abandonment of agricultural land thus have advantages and disadvantages. Taking all these factors into account, one can roughly estimate that if only those payments efficiently targeted at environmental services are maintained then 10% of the current CAP – €5bn a year – would be enough to uphold the current benefits. With an extra €10-20bn for sustainable land use, plus increased funds for R&D on sustainable farming and forestry management in the research budget, the environmental gains would be substantial.

The future financing needs of the CAP will also reflect burden-sharing between member states and the EU. Traditionally, the EU has taken on the entire cost of market interventions and farm income support, whereas member states contribute between 10% and 50% of the cost of rural development programmes. In future, it would be highly advantageous if member states' co-financing shares were increased. That would create an incentive for member states

to use EU funds more responsibly, while they can also be expected to administer these funds more efficiently, if they are paying part of the costs. Co-financing of this sort provides the EU with higher leverage for its limited funds, so that it can better shape policies in line with its European agenda.

As EU member states pay between 10% and 50% of the costs of policies that together constitute only 20% of the CAP budget, the importance of changing the co-financing rules is very clear. If the CAP were to dedicate €20bn to environmentally friendly actions, which member states would have to match, the resulting €40bn would dwarf the amounts presently allocated to this end.

Critics might charge that this ignores such other CAP objectives as supporting farm incomes, stabilising agricultural markets, ensuring food security and promoting rural development. These are objectives that have long been dear to defenders of the old-style CAP but do not stand up well to scrutiny.

The need to raise farm incomes is a good example. Social policies should minimise poverty without discrimination of any sort. So they should be directly linked to incomes and wealth. Widening them to include other criteria like agricultural employment or land ownership as an entitlement for support will necessarily come at the cost of the poor as a whole.

Singling out farmers for preferential income support is particularly ineffective for reducing poverty in general. In some EU countries farmers have above-average incomes, while most average incomes have in

recent years been increasing. This trend seems set to continue as output prices are forecast upward and labour is leaving agriculture and so raising the earnings of those who remain. Also, many farmers are asset-rich as they own machinery, farm buildings and above all land. It's increasingly difficult to justify why people who own a lot should have privileged access to public money.

The poorest farm households benefit little from the EU's main income support instrument, the Single Farm Payment. Just one-fifth of CAP beneficiaries reap roughly 80% of the money, with more than a quarter of the payments going to farmers with at least €50,000 in Single Farm Payment receipts. In the Czech Republic, the average beneficiary receives almost €50,000. Much of the Single Farm Payment in any case ends up with landowners rather than those who actually farm the land, and the poorest in the agricultural sector – tenant farmers and contracted farm labour – receive the smallest share.

But for all that, transitional income support will probably be deemed desirable by many policymakers for social and political reasons. The funds needed for this will depend on the design of the new CAP. One approach would be to apply a linear reduction to current direct payments, but it would be much more effective in social policy terms, and so less expensive, to go for targeted transition payments. These could be based on Single Farm Payment entitlements (with a strongly degressive formula, paying less for every additional hectare), household income and assets levels (paying less to relatively well-off households) and household dependence on farming (paying less to households with significant non-farm income).

Other CAP goals that could compete politically with environmental targets include food security. When food prices surged in 2007/08, food security hit the headlines and global governance machinery such as the G8, the World Bank and the FAO quickly swamped us all with summits and declarations. Concerns over low farm incomes, the decline of rural communities and the landscaping benefits of farming all looked like dispensable luxuries when compared to this potential threat to our survival. So food security became maybe the most pervasive and powerful argument of those who call for the protection of European agriculture.

For more than five decades, though, European countries have together in every single year produced more than enough food to nourish Europe's citizens. European food production potential is likely to grow further thanks to technological progress and improved farming methods, while EU population growth will be negligible. The buffer between supply and the necessary food intake of the EU population is therefore expanding. It is possible that climate change may make food production less stable – but the level of supply is so high that a famine in the EU is a most unlikely scenario.

If the need were to arise, farmers could easily expand cultivated areas, use more intensive farming methods and shift production patterns to increase yields. Curbing meat, milk, and biofuels production could free up capacity for growing basic grain crops. About 50m hectares are at present used as pastures and permanent meadows, compared to about 100m hectares of arable land. And much arable land serves for animal

feedstuff production. In other words, the European production potential that could easily be unlocked is reassuring. And although this would not always be desirable from an environmental perspective, it would certainly be tolerable under catastrophic conditions.

Throwing away less food is also a guaranteed way of having more on our plates, should food ever become scarce. In the EU, about a third of the food production is lost after the harvest, so making food processing, transportation and retailing more efficient would greatly increase the food available for consumption.

That said, the probability of food shortages in the EU is minimal. And if we want to take precautionary measures, the smart way would be to invest in improving biodiversity, water and soil resources, maintaining the genetic variety of plants and animals used in agriculture and enhancing the greenhouse balance of agriculture.

The case for a rigorous greening of the CAP is strong. More money will be needed to preserve biodiversity, improve water quality and availability, and respond to other challenges of climate change. This does not mean additional funds for the CAP as the current level of wastage offers genuine opportunities to boost the CAP's environmental performance while significantly cutting its budget. □

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