

A sustainable agricultural policy for Europe

Position paper on CAP review and reform

April 2002

1. EXECUTIVE SUMMARY

The EU Common Agricultural Policy is a powerful political instrument. It should be used to promote sustainable agriculture on a broad scale. The mid-term review is an opportunity to begin a process of change leading to comprehensive reform by 2007.

- ▶ *New objectives.* CAP objectives in Article 33 of the Treaty should be brought up for renegotiation at the 2004 government conference.
 - Sustainability should become the new primary objective of the CAP. Other quality objectives should also be explicitly recognised.
 - Productivity increase should no longer be an objective of the CAP.
- ▶ *Sustainable agricultural trade.* Trade concerns increasingly define the space for agricultural policy. Current WTO agreements are not supportive of sustainability or food security.
 - Renegotiate trade rules to allow priority for sustainable local food production
 - Renegotiate trade rules to ban all food exports at prices below production cost.
 - Unilaterally phase out export refunds as soon as possible.
- ▶ *Conditions on all support.* All CAP regimes should be clearly linked to the new set of sustainability and quality objectives.
 - A set of minimum conditions applicable to all direct payments should be developed, including conditions related to environment, animal welfare, cultural landscape and more. The level of this 'CAP standard' should be well above minimum legal requirements, with periodic revisions to raise the threshold.
- ▶ *No budget cuts.* New and more ambitious objectives are not possible to realise with a decreasing budget, unless prices are increased instead.
 - Our proposals presuppose a constant CAP budget for the EU-15, with proportional increase as new members enter.
 - In the long term, prices need to be increased to a level reflecting the cost of sustainable production within the EU, not an artificial world market price.
- ▶ *Flat-rate crop support.*
 - Crop-specific payments should gradually be replaced by a flat-rate payment to all cropland farmed according to the 'CAP standard'. This basic payment should not be seen as a compensation for historic price cuts, but as a remuneration for the non-commodity services and qualities provided by agriculture.
 - The flat-rate payment should also be introduced for crops currently supported by other means, and for currently unsupported crops such as leys.
 - New member states should be allowed to immediately adopt flat-rate.

► *Land-linked animal support.*

- A basic area payment should be introduced for all permanent pasture, similar to the basic payment for cropland. There should be both a minimum grazing requirement and a maximum stocking limit. The payment rate should be differentiated according to regional conditions.
- Headage payments should be reduced and strictly reserved for animals in low density holdings and with outdoor access. They should be greatly simplified and paid on a flat-rate basis per LU in a common system for beef and sheep.
- Pigs and poultry in free-range, outdoor systems should also be made eligible for LU payments.

► *Better targeted supply management.*

- Mandatory set-aside should only be calculated as a proportion of annual crops, not on permanent crops or perennial leys, when these become eligible for direct payments.
- The present derogation for organic producers to grow forage legumes on set-aside should be extended to all farmers.
- Organic producers should be exempt altogether from mandatory set-aside.
- Producers with low stocking rates should have priority in the redistribution of beef/sheep premium rights and milk quota.

► *Strengthened rural development and agri-environment measures.*

- As a transitional measure for the period 2004-2006, obligatory modulation should be introduced to solve the immediate need for increased funding to rural development and agri-environment programmes.
- From 2007 on, sufficient means should be allocated in the budget on a regular basis. The proportion of CAP funding used for targeted payments should reach at least 20-30 percent of total budget.
- The EU co-financing rate in agri-environment programmes should increase from present 50 / 75 percent to 70 / 90 percent.
- Member states should be required to offer agri-environment programmes for stewardship schemes targeting input-intensive farms, for organic production (including post-conversion support), and for especially valuable or management-intensive semi-natural habitats.

► *An EU action plan for organic farming.*

- An EU-wide action plan for organic farming should be developed in parallel with the CAP mid-term review and adopted by the end of 2003. It should include concrete, measurable targets for the expansion of organic farming.

► *Green taxes and other new policy measures.*

- Introduce harmonised EU taxation of external plant nutrient inputs and chemical pesticides in agriculture, and end all tax subsidies to fossil fuel in agriculture.
- Develop an EU-wide strategy to phase out all industrial, indoor animal production, starting with battery hens.
- Extend labelling and traceability requirements to all foods on the EU market, domestic as well as imported.
- Ban all genetically modified crops in Europe until genetic contamination issues have been completely resolved.

2. INTRODUCTION

This paper presents common views and proposals of the European organic farming community about the future of the EU Common Agricultural Policy. It has been developed within the IFOAM EU Regional Group, a body composed of directly elected representatives of the 280 IFOAM member organisations in the EU-15, and of regular observers from several European countries outside the EU, including applicant countries.¹

A fundamental reform of the CAP is long overdue. The policy was originally set up to achieve food self-sufficiency in post-war Europe. This objective was successfully reached by promoting industrial inputs and production systems. For the last 25 years, EU agriculture has been characterised instead by the surplus production, environmental pollution and unsustainable resource use which result from those industrial systems.

The BSE crisis and other recent scandals in food and farming have highlighted that current food production patterns threaten not only the environment but also public health. This has led to a serious crisis of confidence. Simultaneously, there is well-founded criticism of the EU role in global agricultural trade, in particular of the practice of dumping surplus production on developing country markets.

A mid-term review of the key CAP regimes is due to start this year. It provides an excellent opportunity to begin an overall reconsideration of the CAP. Some urgent adjustments need to be decided and implemented as soon as possible. But reflection should also be broadened and deepened to include all CAP regimes. In order for a comprehensive and coherent reform package to be ready for implementation from 2007, a timeplan for its development needs to be agreed and set in motion now. This is especially important in view of the coming enlargement of the Union. New member states should not be forced to implement obsolete policies.

3. MAINSTREAMING SUSTAINABILITY

The central concern of the organic farming movement is to achieve ecologically sustainable agricultural production systems everywhere, capable of providing everyone in the world with a secure and equitable supply of good and healthy food and clean water.

Key characteristics of such systems are that they

- rely primarily on local, renewable resources
- efficiently use the potential of biological processes to capture the energy of the sun
- maintain the fertility and biological activity of the soil
- maximise recirculation of plant nutrients and organic matter, including waste resulting from food consumption
- do not use substances or processes foreign to nature
- maintain a high level of biological diversity in the production system as well as in the agricultural landscape
- provide farm animals with diets and living conditions which reflect their ecological role and allow them to express their natural behaviour.

These criteria can and should be met in different ways under different circumstances. But they can only be met when the principles of ecological sustainability are allowed to influence all

¹ IFOAM, the International Federation of Organic Agriculture Movements, is a global federation with over 700 member organisations in 96 countries.

relevant social, economic and political factors in the production system. In our experience, this requires that

- farmers have full access to the necessary means of production, such as land, water and genetic resources
- economic conditions allow an adequate income from farming
- local and regional production is given priority in agricultural policies
- traditional farming systems are protected and recognised as an important source of knowledge
- food is not treated exclusively as a commodity.

Sustainability, in other words, is not a technical issue limited to agronomic practices in the field. It frequently will require fundamental structural and socioeconomic changes as well. In particular, it will require a reconsideration of many of the industrial products, methods and forms of organisation introduced in food and farming over the last few decades.

The organic farming movement does in no way claim exclusive ownership to these basic principles of sustainability. On the contrary, we believe that they need to be adopted and applied by all agriculture. No farming system can afford to disregard them in the long run, as already evident from the major ecological and health disturbances caused by European agriculture.

However, organic farming is the most advanced and best developed approach to sustainable agriculture. A certified organic sector has been established as a model system with high sustainability requirements, thanks to consistent support from a growing number of consumers. Organic agriculture has become a strong provider of innovations and examples of sustainable practices to the whole agricultural sector.

But this sector-based approach is not enough. There is an urgent need to simultaneously start mainstreaming sustainability on a much broader scale, to reach the large majority of farmers. The obvious way to do this in the EU is through the general policies and support systems of the Common Agricultural Policy.

This is what the present paper will mainly address. While we will occasionally touch on issues of specific concern to the organic sector, the overall focus will be on how to involve all EU farmers in a process of change by way of the powerful agricultural policies and incentives of the CAP. Properly redesigned, we believe CAP policies have immense potential to encourage the broad majority of farms to take their first steps in a more sustainable direction.

4. CAP OBJECTIVES

What should be the main long-term objectives of the CAP? At present, there is increasing ambiguity. On the one hand, the old objectives remain unchanged since the formation of the CAP. On the other hand, additional and partly conflicting objectives concerning for example environment, rural development and food safety have been introduced in certain CAP regimes.

OLD OBJECTIVES

When the CAP was first launched, its primary objective was purely quantitative. It was, in the words of the 1957 Treaty of Rome, to

increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour.

This was an understandable priority at the time. The major agricultural challenge for the member states was to achieve food self-sufficiency. In an era of unquestioning technological optimism it was inevitable that the means would be sought in mechanisation, chemical inputs and other industrial approaches.

Over 40 years later, the situation of EU agriculture is fundamentally different. Containing surplus production is now the first priority, together with counteracting the negative consequences of the inappropriate application of technical progress, such as rural depopulation, environmental degradation and unsafe food.

Yet the agricultural objectives of the Treaty have never been revised. The productivity objective, in exactly the same wording, still guides the bulk of CAP policies and spending. New objectives have been added, in particular with the introduction of new programmes for agri-environment and rural development. But they only apply to those limited special programmes.

There is no valid argument for keeping quantitative growth as the primary objective of the CAP. More than sufficient quantities of food are produced in the EU, and market mechanisms alone give more than sufficient incentives to increase productivity. Most recent adjustments of the CAP have in fact aimed to reduce rather than strengthen the incentives to increase productivity, highlighting the mismatch between objectives and reality.

NEW OBJECTIVES

CAP objectives should focus instead on the *qualities* which EU citizens should be able to expect from agriculture, and in particular on those qualities which we cannot expect market forces to deliver by themselves.

- *Ecological sustainability* is the most fundamental of these qualities. It belongs in a category of its own, because it is essentially non-negotiable. What is or is not ecologically sustainable may be difficult to identify, but there are absolute ecological limits to how agriculture can be pursued, and we do not have any long-term alternative to respecting those limits. In addition, ecological sustainability is probably the quality which is least likely to be provided by the market alone.
- *Economic and social sustainability* is equally necessary, but of a different character, which is important to distinguish. Social and economic factors, in contrast to ecological

limits, can be controlled and changed by human decisions. We can and must create the necessary economic and social conditions to facilitate ecologically sustainable agriculture. But there is no way we can move ecological limits to fit economic or social preferences.

Sustainable development is already recognised in the Amsterdam Treaty as an overall objective of the EU. More specifically, the Gothenburg council conclusions from June 2001 directly point out that the future development of the CAP should have among its objectives to contribute to sustainable development. We would go a little further still, and propose that sustainability should in fact be the new *primary* objective of the CAP, replacing productivity.

In addition to sustainability, several other qualities need to be explicitly recognised as new objectives of the CAP, reflecting the multifunctionality of agriculture. We do not pretend to present a definitive list or wording, but at least the following new categories of objectives should be included.

- *Food security.* The CAP should actively support the food security not only of EU citizens, but of the world, and in particular of developing countries.
- *Product quality.* The multiple aspects of product quality should be actively promoted, with special emphasis on the close link between food and health. Food safety is not a sufficient objective. Food should positively contribute to health.
- *Transparency.* Consumers have a right to full information about both content and origin of foods. More direct relations with producers should be facilitated.
- *Biodiversity.* Agriculture has traditionally been a creator and steward of natural diversity. This tradition should be safeguarded and redeveloped.
- *Ethical quality.* All aspects of production, including for example treatment of animals and social conditions of employment, should be ethically sound.
- *Rural development.* The CAP should ensure the economic viability in all parts of the EU territory of a continued diversity in terms of farm sizes, types of production, cultural traditions, etc.
- *Precaution.* Technological change should be guided by the precautionary principle.

In addition, three of the old CAP objectives should remain in force.

- *Farm income.* A fair standard of living for the agricultural community.
- *Food prices.* A reasonable cost to consumers / taxpayers.
- *Stable markets.* Counteract fluctuations and provide a stable price floor.

RENEGOTIATE AT 2004 CONFERENCE

In 2004 there will be a government conference to renegotiate the Treaty in preparation for enlargement. It offers an excellent opportunity to also renegotiate the agricultural objectives in Article 33. The timing is perfect both in relation to enlargement and to the new CAP budget starting in 2007, and also in relation to any new agreements which may result from the WTO negotiation scheduled to be finalised by 2005.

We propose

- CAP objectives in Article 33 of the Treaty should be brought up for renegotiation at the 2004 government conference.
- Sustainability should become the new primary objective of the CAP.
- Productivity increase should no longer be an objective of the CAP.

- Other quality objectives should also be explicitly recognised, including food security, product quality, transparency, biodiversity, ethical quality, rural development and precaution.
- Income, price and market stabilisation objectives should remain.

5. TRADE RELATIONS

It is impossible to discuss the specifics of the CAP without first looking at the agricultural trade relations of the European Union. Increasingly, trade concerns have come to define and delimit the space for agricultural policy, especially since the negotiation of the WTO Agreement on Agriculture, which triggered the major CAP reform in 1992.

From a sustainability perspective, there are compelling reasons to organise basic food production in short, local or regional circuits, minimising the use of external inputs. In terms of non-renewable resource use and environmental impact, long-distance exchange of agricultural products is a luxury which must be used with restraint. Especially in developing countries, there is also a strong food security argument for giving preference to local production. For the rural poor in developing countries, who are the majority of the food insecure, only production systems independent of unreliable transports and costly inputs can ensure a continuous and affordable food supply.

This implies limits to agricultural trade. Trade is a necessity in some cases, in particular to handle temporary or structural food shortages. It is a reasonable luxury in many other cases, providing for better nutrition and a wider selection of foods. But increasingly, agricultural trade is driven by very narrow economic considerations, aiming to reorganise world food production on a highly questionable industrial model, entirely disregarding resource efficiency.

Much of the current agricultural trade relations of the EU can be questioned on this basis. In addition, the practice of selling EU products on international markets at far below cost of production can be questioned even on purely economic grounds.

EU AGRICULTURAL TRADE

Historically, the EU has been a large importer of both food and feed, and remains the world's largest importer in many agricultural products. With the establishment of the CAP in 1962, a high level of border protection was introduced to stimulate domestic production. It limits imports of virtually all crops and animal products produced within the EU. The important exception is protein feedstuffs, where the EU went in the opposite direction and allowed entirely duty-free imports.

From the 1970s onwards, the success of the CAP in promoting quantitative growth resulted in increasing surpluses. Consequently, the EU also became an important exporter in many products, especially cereals, meat and dairy. But because of relatively high production costs, these exports are completely dependent on supplementary payments from the EU budget. Originally there was full compensation to the exporter in the form of export refunds matching the difference between EU and world market prices. Since the introduction of direct payments to most sectors of production in 1992, these compensate most of the difference, and the role of refunds has decreased. Nevertheless, more CAP money is still spent on export refunds than on the entire rural development and agri-environment budgets, and the refund system has not been discontinued in any of the CAP regimes.

The lower price level created by these two export subsidy systems allow EU products to enter many markets worldwide. Especially in developing countries, low-price EU competition displaces local products and interferes with domestic agricultural development. Developing countries do not have the funds to support their own farmers in a comparable way. And even if they had, they would not be allowed to under WTO rules, because only the EU and some other developed countries have derogations for these types of support. Neither can developing countries block EU exports from entering their territory, because the EU formally complies with WTO rules.

This system not only jeopardises the food security of developing countries, it also undermines their overall economic development. Agriculture is often the most important sector of their economies and the main occupation of the population. When unable to create revenue from agriculture, there is also nothing to invest in other industries.

Those who directly benefit from export subsidies are of course export producers and traders in the EU. But indirectly, all EU farmers benefit from the price stabilising effect of being able to export surpluses. There is also a benefit, at least in the short term, to city populations in many developing countries, who can enjoy lower food prices.

The ones who pay the price, in addition to developing country farmers, are EU citizens/consumers. In fact they pay twice. First the cost of incentives to increase productivity. Then, when production grows beyond domestic needs, the cost of exporting this surplus at a loss.

From a resource economics perspective, much of the exported surplus is in fact the result of large volumes of feedstuff imports, mainly from North and South America, which support clusters of industrial animal production concentrated along the European coastline. Meanwhile, part of the domestic feedstuff production potential goes unutilised, contributing to the cereal surplus, which likewise is exported at a loss. Another part of the cereal surplus results from excessive levels of non-renewable input use, which simultaneously depletes finite resources and contributes to environmental pollution.

None of this is sustainable either in economic, social or ecological terms. A sustainable solution would be to reduce animal production in the EU to fit domestic demand, and to base it on domestic feedstuff production. It would then be possible to reduce chemical input use and livestock density in intensive farming areas, and still supply domestic needs. There would be cost and energy savings. Interference with foreign markets would cease, and environmental pollution would decrease.

This is however not possible under present WTO rules. The EU would for example not be allowed to limit imports of protein feeds, because of the commitments made already in 1962 to allow duty-free imports. Nor could protein feed production from oilseeds be increased, because of the limits imposed by the Agriculture Agreement.

In contrast, there are no WTO limitations on the sale of surpluses on global markets at below production cost. In fact, the choice to opt for developing artificial "competitiveness" by general direct payments was more or less dictated by the outcome of the Uruguay Round negotiation. The present trend in WTO agriculture negotiations is toward a continuation of these policies. This would probably further limit the possibilities to resolve the situation.

NEGOTIATE SUSTAINABLE TRADE RULES

A long-term solution must therefore involve a revision of the basic principles for global agricultural trade. Present WTO agreements must be changed to allow countries to give priority to local food production for local needs, based on locally available resources. As illustrated by the present dilemma of the EU, current trade rules are premised on the opposite principle: equal treatment of agricultural products regardless of origin or production methods. The EU should take an initiative to open up this discussion within the WTO.

There must also be a ban on all food exports at prices below production cost, and more flexibility for importing countries to block food imports which disrupt domestic production, or which were produced with methods illegal in the importing country. The EU in fact has a common interest with the great majority of developing countries in finding such a solution, and should seek a consensus with them rather than continue to defend the indefensible right to subsidise exports.

In the short term, the EU should unilaterally phase out the export refund system, which is no longer used by any other countries. This would create considerable goodwill among developing country trading partners. It would also liberate some 5 billion euros for better uses within the CAP budget.

A start should be made already in the context of the mid-term review by immediately eliminating export refunds on live animal exports.

We propose

- Renegotiate trade rules to allow priority for sustainable local food production
- Renegotiate trade rules to ban all food exports at prices below production cost, and to give countries flexibility to block food imports which disrupt domestic production.
- Unilaterally phase out export refunds as soon as possible.
- Immediately eliminate export refunds on live animals.

6. HOW TO REDESIGN THE CAP

The great advantage of going back to the Treaty to revise the CAP objectives is that it will create a common, coherent basis for all policies. It will remove the current ambiguity where the emerging new quality objectives are only valid for the environment and rural development programmes of the "second pillar". In fact, the need for a strict conceptual division between two "pillars" will disappear, as all objectives will be equally valid for all policy measures.

In this section we give a broad overview of how we envisage the redesign of the CAP. In following sections, we offer specific proposals for the various regimes and sectors.

PRINCIPLES

Following from the fundamental, long-term objectives to be formulated in the Treaty, a set of strategic principles should be identified to guide the reform of individual CAP regimes. It is essential that farmers get a clear message about the direction of change already from the beginning of the process. Individual measures may be adjusted or supplemented over time, but the principles should not.

We suggest at least the following principles:

- *Support only for contribution to objectives.* Public funds will only go to farms which deliver public goods. No support will remain directly connected to production volumes. Farms which contribute more to CAP objectives will receive more support.
- *Support only to land-based production.* Under sustainability and quality objectives, there is no reason for the EU to support production with little or no relation to agricultural land. Animal production will qualify for support to the extent that it is connected to feed production.
- *Counterbalance.* CAP measures will be designed to counterbalance disadvantages caused by climate, location, size, infrastructure and other economically relevant factors between regions and individual farms, to ensure that sustainable farming is viable everywhere.
- *Non-interference with foreign markets.* Support measures for EU farmers will be designed so that they do not interfere with foreign agricultural markets, particularly not with developing country markets.
- *Polluter Pays Principle (PPP).* In controlling negative environmental effects, PPP-compliant measures will be used to the extent possible, as required by the Amsterdam Treaty, and following normal practice in environmental policy.
- *Coherence between measures.* All objectives are relevant for all regimes. Care must be taken to avoid conflicting messages.
- *Solution multipliers preferred.* It follows from the coherence principle that measures which are solution multipliers, i.e. address several objectives, will be preferred.
- *Simplification.* Simple, general measures will be preferred, to give more room for market mechanisms and more flexibility for farmers.
- *Generous transition.* Any policy changes will be implemented with generous transition measures to minimise economic and social disruption.

CONDITIONS FOR SUPPORT

If all support is to be directly connected to CAP objectives, it means there must be specific conditions attached to all support systems. How would this work?

Already under the present CAP, conditionality has been introduced in several ways. Most clearly of course in the rural development regulation, which operates with highly specific support schemes for well defined services or commitments.

But also in the general direct payment system an embryo of conditionality was brought in by Agenda 2000. Member states are now required to undertake and enforce appropriate environmental measures in respect of supported agricultural activities, and one of the ways they may do this is through specific environmental conditions (sometimes referred to as "cross-compliance").

Finally, for the agri-environment measures there was introduced the concept of a "reference level", meaning the level of basic environmental compliance required of a farmer as a condition for even applying for agri-environmental support. This level is indicated as "the usual good farming practice" in the area. At least this standard has to be reached by the whole farm in order to qualify for agri-environmental support on any part of the farm, and only commitments above the reference level are eligible for such support.

So far, the definition of reference level and environmental conditions has been left entirely to member states. In practice, there are no further requirements than to comply with relevant national legislation. Nevertheless, this has been a useful beginning which can be further developed.

A 'CAP STANDARD'

In a reformed CAP the new sustainability and quality objectives should be translated into a new and much more ambitious set of minimum conditions for general direct payments, a 'CAP standard'. Unless the complete set of conditions is fulfilled, a farm would not be eligible for any direct payments. The level of the CAP standard should be well above existing legal requirements. There should be a clear difference between what is legally permitted and what is required to qualify for direct financial support through the CAP.

A common framework definition of the standard will have to be agreed on EU level to ensure equivalent treatment of farmers in all member states. Detailed criteria must however be adapted to national and regional conditions. They should therefore be worked out by member states, subject to approval by the Commission

The CAP standard should be conceived as a dynamic instrument and be used to stimulate continuous improvement in relation to objectives. This means it must be periodically revised to increase the threshold of access to direct payments, in much the same way as organic certification standards are strengthened over time. The CAP standard will simultaneously be the reference level for agri-environment measures and other targeted payments.

The content of the CAP standard should not be limited to environmental requirements in a narrow sense. Various parts of the new CAP objectives should be reflected. Some suggestions:

- *Crop rotation.* A minimum of diversity in cropping patterns.
- *Livestock density.* Farms with extremely high stocking densities should not qualify.
- *Non-cropped elements.* A small percentage of the holding should remain non-cropped to provide for flora, fauna and cultural preservation (hedgerows, watercourses, etc).
- *Environmental audit.* Performance of an audit including a nutrient balance calculation.
- *Animal welfare.* Extreme practices such as battery hens, fixing of sows or production of calves with iron deficiency should not be allowed.
- *No use of genetically modified crops.*
- *No ploughing of previously unploughed semi-natural grasslands.*

With the CAP standard as a basis, we can envisage a three-level scenario, where farmers will be free to choose their own level of commitment and receive a corresponding level of support.

On the *minimum level*, only national legal requirements will apply. This level will only allow the farmer to benefit from the safety net components of the CAP, i.e. the market and price stabilisation systems (border control, intervention, storage) which automatically cover all EU farmers. No direct payments of any kind will be available on this level.

On the *standard level*, which the great majority of farmers could be expected to opt for, there will additionally be a requirement to comply with the CAP standard. This will give access to general direct payments.

On an *advanced level* farmers will be able to voluntarily enter into a range of more specific sustainability or quality commitments, including agreements for provision of specific services. Following the successful model of the agri-environment schemes, these should continue to be mainly regionally defined and administered, and remunerated by specific targeted direct payments. In line with the already established principle, targeted payments should only be available for commitments which go beyond the CAP standard. This implies that each upward adjustment of the standard will also automatically raise the floor of these programmes.

<i>Level</i>	<i>Requirements</i>	<i>Type of support</i>
Minimum	National legislation	Safety net only (border protection, market stabilisation)
Standard	CAP standard	General direct payments
Advanced	Specific per programme	Targeted payments for commitments/services

We propose

- On the basis of the new sustainability and quality objectives, a set of minimum conditions for direct payments should be developed. This 'CAP standard' should include conditions related to environment, animal welfare, cultural landscape and more.
- The level of the standard should initially be well above the minimum legal requirements, with periodic revisions to raise the threshold.
- The standard will also be the reference level for agri-environment and other targeted payments.
- A framework CAP standard should be developed on EU level. Detailed criteria should be worked out nationally or regionally in accordance with climatic and other conditions, subject to approval by the Commission.

BUDGET

The proposals which follow presuppose a constant CAP budget for the EU-15, and a proportional budget increase as new members enter. In our assessment, it will not be possible to realise the new, more ambitious objectives with a decreasing budget (unless prices can be increased to compensate; see below). And we regard it as self-evident that equal treatment must be the basis for integration of new member states.

There are factors which will bring considerable savings, for example the elimination of export refunds. But there are also considerable costs involved for farmers in converting to a more sustainable production, as well documented from the organic sector. Farm income needs to increase rather than decrease on those farms which undertake more ambitious commitments, and most of this increase will have to come from the CAP budget. While this effect will be offset by decreasing support to farms choosing not to undertake such commitments, it is unrealistic to assume that there would be space for substantial net budget reduction in the process.

An additional cost savings which will undoubtedly take place with improvements in ecological sustainability is the reduction of negative external effects such as water pollution and biodiversity loss. Measures to mitigate such effects are currently paid for by national governments. This is in fact a form of indirect national support to agriculture. It may well prove cost efficient to maintain a CAP budget of roughly present size in return for a reduction of these costs.

Within the budget, however, we foresee considerable redistribution. There is an immediate need to increase the budget for agri-environment and other targeted measures ("second pillar"). In the short term, this can be achieved by a corresponding reduction of the general payments and the elimination of export refunds.

PRICES

Present farmgate price levels have been reduced well below actual cost of production in an effort to reach artificial "competitiveness" on world markets. CAP support is a necessary income complement for virtually all EU farmers.

This price policy is not sustainable in the long term. Price levels should not be further reduced. Instead the EU should begin seeking ways to return to more realistic pricing. The internal market will remain distorted as long as consumers do not receive correct information about production cost via prices. The long term goal should be a price policy reflecting the cost of sustainable production within the EU, not an artificial world market price. This is also the only available option to reduce the CAP budget without sacrificing some of the CAP objectives.

Currently however, the space for increasing price levels on the EU market is severely restricted by WTO commitments under the Agreement on Agriculture. In principle, world market prices are supposed to become the universal norm for all regional markets, and any exemptions are regarded as temporary derogations. This means that the process toward more realistic prices can only begin on a very limited scale before WTO commitments are renegotiated.

One possible way to begin is by internalising some external costs in accordance with the Polluter Pays Principle (PPP). For example, by a stricter implementation of the nitrate directive, prices for meat from large-scale confinement operations would tend to increase, in turn making it easier for higher quality production to compete and expand.

Another option is to actively stimulate various forms of price differentiation (quality, local/regional, organic, etc). Differentiation means that producers can recuperate some of the added cost of a sustainable quality production on the market, reducing the need for CAP support.

Present border protection levels need to be retained in order not to further increase the need for direct payments. Intervention and storage systems need to continue in order to equalise production fluctuations between years and regions, but should be reformed not to allow accumulating surpluses.

7. REFORM PROPOSALS CROP PRODUCTION

DIRECT PAYMENTS

The present system of direct payments per hectare was established to compensate the arable crop sector for the price cuts of the 1992 CAP reform. It is the largest single programme in the CAP budget, contributing 15 billion euros to the farm economy.

There is no doubt that financial support to crop production is still needed. Price levels remain well below cost of production. Elimination of crop payments would cause a major economic crisis in European agriculture. This would not contribute to creating a more sustainable production. Economic pressure has been a major factor in creating unsustainable practices. Unless farmers are offered sustainable economic and social conditions, a shift to more ecologically sustainable production will not be possible.

However, there is no longer any valid argument for differentiating the payments according to crops or yield levels. This was reasonable as a transitional measure after the 1992 reform, but now only conserves obsolete production patterns associated with the old productivity objectives.

The differentiation between crops heavily influences farmers' planting decisions, often in an unsustainable direction. An obvious example is how area payments reward the replacement of grass silage by maize silage. The higher payments for certain management practices such as irrigation have even more perverse effects.

The differentiation according to yield levels rewards those with the best and already most profitable land. This may have served a purpose in relation to quantitative objectives, but it is counterproductive in relation to quality objectives.

In the few crops where direct price-support systems remain (e.g. sugar, tobacco, olive), the rewards for unsustainable, input-intensive practices are even more direct.

Our conclusion is that crop-specific systems should be eliminated and replaced by a single, flat-rate per hectare payment for all utilised cropland, including presently unsupported crops.

We propose

- Crop-specific payments should be replaced by a flat-rate payment to all cropland farmed according to the conditions of the CAP standard. There should be no differentiation either on a crop or on a regional yield basis. The payment would also apply to set-aside.
- This basic payment should not be seen as a compensation for historic price cuts, but as a remuneration for the various non-commodity services and qualities provided by agriculture to society as a whole.
- For crops presently in the general direct payment system, differentiation should gradually be reduced to reach flat-rate by the end of next budget period.
- The additional premium for irrigation should be eliminated immediately.

- Crops currently supported by other means than direct payments, including permanent crops, should also be shifted into the flat-rate payment with transition periods as needed.
- The flat-rate payment should also be gradually introduced for currently unsupported crops (mainly leys and other fodder crops, but also field vegetables and other minor crops). Funds should be redistributed in part from presently supported crops, in part from animal direct payments, and in part from discontinued budget lines such as export refunds.
- The basic payment should be limited to land which is already regularly cultivated. There should not be an incentive to bring permanent pastures under the plough. (For permanent pasture, we propose a similar but separate payment below.)
- New member states should be given the option to adopt flat-rate as soon as they enter the CAP.

SUPPLY MANAGEMENT

As export refunds are eliminated, exporting surpluses will become more difficult. This creates a need for alternative measures to handle or preferably avoid those surpluses.

Present grain surpluses result mainly from overuse of chemical inputs and from inability to compete with duty-free protein feed imports. The long-term solution is less input-intensive practices combined with policies that reward the use of domestic feedstuffs in animal production, and in particular integration of crop and animal production on the farm. This is the win-win alternative, simultaneously eliminating the surplus problem and reducing environmental damage. The redesign of direct payments will in itself tend to reward reduced production levels. However, it may well be that the initial reaction of some farmers will be to try and compensate for loss of support by increasing production.

In the short and medium term therefore, there will be a continued need for set-aside and perhaps additional forms of production-limiting measures in annual crops. Set-aside should however be better targeted to the specialised arable farms where surpluses originate. Various exemptions should be introduced to create incentives for on-farm integration and good crop rotations.

We propose

- Set-aside will continue with percentages adjusted as needed to avoid accumulating surpluses.
- Mandatory set-aside should only be calculated as a proportion of annual crops, not on permanent crops or perennial leys, when these become eligible for direct payments.
- Management rules for set-aside land need to be reviewed and strengthened (cover crop, herbicide use, etc).
- The present derogation for organic producers to grow forage legumes on set-aside should be extended to all farmers.
- Organic producers should be exempt altogether from mandatory set-aside.

8. REFORM PROPOSALS ANIMAL PRODUCTION

DIRECT PAYMENTS

Like in the crop sector, direct payments per head of beef cattle were introduced to compensate for the price cuts of the 1992 CAP reform. Unlike in the crop sector, there was never any differentiation either by region or by breed. Also unlike in the crop sector, a direct incentive to extensification was created in the form of a higher payment at lower stocking rates. The extensification incentive was further strengthened in Agenda 2000. These measures have no doubt improved the economic situation of more extensive production.

However, the system does not contain any direct disincentive to very high stocking rates. No support is paid for the animals falling above a certain stocking rate (1,9 LU/ha in 2002), but there is nothing to stop a producer from having a much higher stocking rate and still collect the full payment for all the animals up to the limit. This means that a very substantial proportion of the total payments nevertheless goes to in very intensive operations, and help them continue to be profitable.

We can see no rationale for the EU to support animal production with stocking rates much above what can be supported by on-farm crop production. Ecological sustainability, biodiversity, animal welfare and rural development objectives all clearly point to mixed farms with a high level of feed self-sufficiency as the ideal to be promoted. Extreme regional concentration of animal production with little connection to feed crop cultivation should be actively discouraged by the CAP.

A reformed animal support system should promote reduced animal densities in balance with the carrying capacity of the farm's own land. It should reward outdoor systems and in particular sustainable utilisation of permanent pastures. For a combination of animal welfare and ecological sustainability reasons, it should also favour systems keeping ruminants on a mainly grass-based diet.

We believe that this is best achieved by shifting most of the animal support into area payments to fodder-producing areas, both on cropland and permanent pasture. The remaining headage payments should be reserved strictly for the lowest density producers with outdoor systems, and be converted to a simplified, single system with a fixed rate per livestock unit (LU) rather than various rates according to species, age and gender. As in the crop sector, there is no valid reason for the division into several different support systems. In addition, pigs and poultry in outdoor systems should also be eligible to the extent they fulfil the general criteria for support.

This means that the strict division between forage area and arable crops would disappear. All cropped land regardless of crop would be eligible for area payments, whether or not it was also used for the calculation of LU payments. The LU payments would in effect become a supplement to the area payments, recognising the value of integrating animals in a common production system with fodder crops.

We propose

- A basic area payment should be introduced for all permanent pasture on similar conditions as the basic payment for cropland (the CAP standard). Additionally, there should be both a minimum grazing requirement and a maximum stocking limit related to the carrying capacity of the land. The payment should be financed in full

from the EU budget. Because of the great diversity of pastures within the EU, the payment rate should however be differentiated according to regional conditions.

- Current animal headage payments (beef and sheep) should be reduced by at least half their present budget. The liberated funds should be used in the financing of basic area payments to fodder crops on arable land and to permanent pasture.
- The remaining headage payments should be strictly reserved for animals in low density holdings and with outdoor access.
- The beef and sheep headage payments should be merged into a common system.
- Pigs and poultry in free-range, outdoor systems should also be eligible.
- The headage payments should be greatly simplified and paid on a flat-rate basis per LU regardless of species, gender and age.

SUPPLY MANAGEMENT

As in the crop sector, present surpluses in animal products result mainly from very input-intensive systems. Imported protein feeds play a key role in driving up production. The long-term solution is again to better match production to domestic demand, and in addition to reduce imports and rely mainly on local or at least domestic feed.

In the short and medium term there is continued need for production-limiting measures. These should be reviewed and adjusted to more clearly target input-intensive production.

We propose

- The system of premium rights in the beef and sheep sectors needs to remain.
- The milk quota system needs to remain. Some form of incentive for reducing stocking rates in dairy production should be developed.
- In both systems, producers with low stocking rates should have priority in the redistribution of premium rights / quota.

9. MODULATION

The present modulation options in the CAP direct payment regimes serve a dual purpose. One is to allow member states to increase the budget of "second pillar" targeted payments by redistribution of funds from "first pillar" general payments. The other is to optionally achieve a socioeconomic effect by differentiating the redistribution according to farm size or farm employment.

Modulation in its present form should be regarded as a transitional measure. In the budget for 2007 and onwards, sufficient funding should be allocated to targeted payments on a regular basis, making modulation unnecessary as a financing measure.

As a financing measure, the main weakness of the present modulation option is that there is no provision for redistribution between member states. The effect is that the funding imbalances created by the direct payment systems remain. Those member states which have benefited from general crop or headage payments now also benefit from modulation, as they have sizeable funds to redistribute. Some mechanism for addressing this should be sought already for the remaining years of the present budget period.

The second purpose of modulation, to redistribute funds from larger to smaller or from highly mechanised to more labour intensive, remains valid even if the funding issue is resolved. It will be indirectly addressed by the conversion to flat-rate area payments, which implies a considerable redistribution to less affluent farming areas. This will indirectly affect distribution between farm sizes and types, because large and highly mechanised farms are mainly located in the affluent areas which today receive the bulk of the hectare payments. But there may still be reason to additionally consider a separate modulation mechanism, in particular to favour labour-intensive production.

We propose

- As a transitional measure for the period 2004-2006, obligatory modulation should be introduced on EU level to solve the immediate need for increased funding to rural development and agri-environment programmes. Member states should be required to reduce their spending on crop and headage payments with a gradually increasing percentage each year. How to make the reduction (differentiated or not) should continue to be a member state decision, but funds should be redistributed by the Commission according to agreed principles reflecting both total agricultural area and the number of farms in member states.
- From 2007 on, modulation should no longer be needed as a financing measure, as sufficient means for targeted payments should be allocated in the budget on a regular basis. The redistribution objective will partly be achieved by the transition to flat-rate payments. But there may still be reason to consider a separate modulation mechanism in favour of labour-intensive production.

10. RURAL DEVELOPMENT / AGRI-ENVIRONMENT

The various measures in the Rural Development Regulation are the ones least in need of reform. In the main, they are already designed to implement sustainability and/or quality objectives. There may be a case for further integrating the various measures. To some extent, they still reflect their origins in separate regulations with different backgrounds. Generally speaking, we think that the RDR should continue to focus on agriculture, addressing other rural development issues only in that context.

BUDGET

The urgent issue regarding the RDR is the need for increased funding. Many member states lack the necessary means to continue or expand existing programmes, much less introduce new ones. As noted above, this should be immediately addressed by introducing obligatory modulation as a transitional measure during 2004-2006. After that, the budget for the new period should allocate sufficient funding on a regular basis. Judging from the experience in the three most recent member states (Austria, Finland and Sweden), a proportion of 20-30 % of the total CAP budget could probably be well utilised in RDR programmes.

It is important to retain national flexibility in programme design, and national "ownership" through part-financing. However, when substantial funds are transferred from 100 percent financed general payments, the EU co-financing rate of agri-environment programmes should be increased, in order to ensure utilisation also in less affluent member states.

Some of the incoming new member states will face a special problem, as they presently have relatively large agri-environment programmes which may exceed the average available EU

budget during the phase-in period. In these cases, there must be flexibility so that no new members are forced to reduce ongoing programmes when they enter the EU.

We propose

- During the new budget period, the proportion of CAP funding used for RDR-type targeted payments should reach at least 20-30 percent of total budget.
- The EU co-financing rate in agri-environment programmes should increase from present 50 / 75 percent to 70 / 90 percent.
- New member states should under no circumstances be forced to reduce the size of ongoing RDR-type programmes.

LESS FAVOURED AREAS

In the Agenda 2000, the LFA payment scheme was given supplementary environmental objectives in addition to its main focus, to compensate for naturally adverse conditions. It could now be considered whether LFA payments should be merged entirely with the agri-environment programmes, to create a stronger basis for relatively broad-based programmes.

When the basic area payment is extended to presently unsupported fodder crops, and a general payment is introduced for permanent pasture, these may fill much of the role of the LFA payments, bringing the continued need for a separate system into question.

AGRI-ENVIRONMENT

A substantial portion of the new funding to the Rural Development Regulation should be earmarked for agri-environment measures. In particular, it is important to create economic space for more broad-based stewardship schemes targeting the more input-intensive farms, and for continued support to the expansion of organic farming. As a complement to the basic payment for permanent pasture, there is also a need to offer additional support to higher nature value pastures and higher quality management.

In all three cases, there should be a requirement for member states to offer support programmes. In the case of organic farming, it is especially important to ensure that payments are also available in all member states for the post-conversion period.

We propose

- Member states should be required to offer agri-environment programmes for stewardship schemes targeting input-intensive farms, in particular to create incentives for a gradual shift toward more sustainable practices.
- Member states should be required to offer agri-environment programmes supporting organic production, including post-conversion support. There should be some common framework specifying minimum and maximum support levels, in order to avoid market distortions from very unequal support between member states.
- Member states should be required to offer agri-environment programmes for the management of high nature value pasture, in order to provide additional incentives for the continued use of especially valuable or management-intensive semi-natural habitats.

11. ACTION PLAN FOR ORGANIC PRODUCTION

In the long term, we believe that the policy environment for agriculture can be changed thoroughly enough to permit organic farming to be competitive without any specific incentives. If sustainability and quality are systematically rewarded, organic farming should thrive without a need for targeted support programmes.

Even in the best of cases however, we do foresee a long transition period, during which there will be a continued need for specific incentives. It is also important for the whole of farming to ensure that organic production can continue to fill its pioneering function in the development of sustainable agriculture.

At the initiative of a number of member states, the EU Commission has started looking into the possibility of establishing an EU-wide action plan for organic farming. We strongly support this initiative, which should be given high priority. The action plan should be drafted in parallel with the Agenda 2000 mid-term review in order to enable its adoption by the end of 2003.

The plan should include a broad analysis of bottlenecks for the further development and expansion of organic farming, recognising in particular its role as model and forerunner in the overall process toward more sustainable agriculture. Concrete, measurable targets should be set, and national responsibilities identified in key areas such as tax incentives, government procurement and public information.

We propose

- An EU-wide action plan for organic farming should be developed in parallel with the CAP mid-term review and adopted by the end of 2003.
- The action plan should analyse bottlenecks and include concrete, measurable targets for the expansion of organic farming.

12. NEW POLICY MEASURES

GREEN TAXES

In agriculture like in many other industries, the unequal tax burden between labour and industrial inputs has contributed to unsustainable development. A green tax reform which would remove some of the tax burden on labour, while increasing it on for example transportation, would be very helpful to a sustainable development in agriculture. Overall, better integration of agriculture with general environmental policies should be promoted.

But there are also obvious targets for green taxes specific to agriculture. One is external plant nutrient inputs in the form of artificial fertiliser or industrial feedstuffs. Another is chemical pesticides. A few member states already do tax these inputs, and some are considering to. However, given that agricultural markets are highly integrated across borders, any measures taken in individual member states will tend to disadvantage national production in competition with that of fellow EU members. This is a strong argument for EU level coordination. Input taxes on EU level could also provide a source of own financing for the CAP, if proceeds were channeled into the EU budget rather than to national governments.

A similar issue which has so far not been resolved is the tax subsidies for fossil fuels in agriculture. Although these should in principle be phased out under the mineral oil directive, many derogations remain.

We propose

- Introduce harmonised EU taxation of external plant nutrient inputs and chemical pesticides in agriculture.
- Consider using the proceeds in the CAP budget.
- End all tax subsidies to fossil fuel in agriculture.

ANIMAL HEALTH AND WELFARE

Most of the recent food safety crises in the EU have been directly related to animal health and welfare. Recent developments in agriculture are in fact facilitating the spread of disease, including high stocking densities, large livestock units, long and repeated transports, mixing of animals from different origins, low genetic diversity and excessive hygiene measures which compromise the development of animals' natural immunity. Current policies concentrate on controlling and treating animal diseases, rather than try to minimise the potential for problems by ensuring that animals are in good health to begin with.

There is an urgent need to better address a number of obvious deficiencies in animal health and welfare, for example regarding transportation, unnatural diets, use of veterinary medicines and housing practices including light exposure. In particular, it is important to better coordinate regulatory measures with CAP incentives, so that there is no support for unacceptable practices.

For the longer term, an EU-wide strategy should be developed to completely phase out all industrial, indoor animal production systems, starting with battery hens.

We propose

- Urgently address obvious deficiencies in animal health and welfare standards, including maximum journey times, housing practices and unnatural diets.
- Ensure coherence between regulatory measures and CAP incentives.
- Develop an EU-wide strategy to phase out all industrial, indoor animal production, starting with battery hens.

TRANSPARENT CONSUMER RELATIONS

Consumer demand is a powerful force for change in agriculture, as can be seen from the rapid establishment of the organic sector. An absolute prerequisite is however that consumers know enough about different products to make informed choices. Apart from organic products, few food items come with sufficient information.

In particular, the consumer needs information about the origin of the food and the production methods used. For a few categories of foods, labelling and traceability requirements are beginning to be introduced by EU directives, notably for GMO products. This type of requirements need to be made universal to enable consumers to choose on the basis of transport distance, use of pesticides, animal housing standards, access to grazing, etc.

Following the example of the proposed GMO system, it is important that the labelling requirements are mandatory, so that also producers who might otherwise prefer not to clearly account for their production methods (e.g. battery eggs) will have to do so. It is also necessary that labelling and traceability requirements apply equally to domestic and imported products.

We propose

- Extend labelling and traceability requirements to all foods on the EU market, domestic as well as imported.
- Require clear information about both origin and production methods used, for example pesticide use and animal housing systems.

GENETICALLY MODIFIED CROPS

It is clear from the experience in North America that general introduction of genetically modified crops in Europe would cause uncontrollable levels of genetic contamination of the whole agricultural system, including non-GM farms and those financially dependent on dedicated GM free markets such as organic farmers. In effect, unregulated introduction of GM crops would make continued production of non-GM foods impossible, effectively blocking normal market mechanisms.

Even though an overwhelming majority of consumers in Europe prefer non-GM foods, and a corresponding majority of farmers are willing to supply those, they would be unable to do so because of contamination.

While it may be technically possible to isolate GM production to special zones to avoid contamination, it would no doubt be complicated and expensive. We believe that the most practical option at present is not to allow any GM crops at all in Europe unless and until the issues of contamination have been completely resolved. This would have to involve not only a credible and enforceable regulation of where and under what circumstances such crops could be grown, but also a strict liability regime ensuring that any costs to third parties of unwanted genetic contamination fall on the biotechnology companies marketing the modified crops.

We propose

- Ban all genetically modified crops in Europe until genetic contamination issues have been completely resolved, including enforceable regulation of physical isolation and a strict liability regime for any costs to third parties.