



**Friends of  
the Earth  
Europe**

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# Background Briefing

October 2011  
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## **PUBLIC MONEY FOR PUBLIC GOODS? Common Agricultural Policy 2014-2020**

### *More environmental protection and better for farmers?*

#### **The proposals**

On the 12<sup>th</sup> of October 2011, the European Commission launched the draft legal proposals for the Common Agricultural Policy (CAP) that will be applied across the 27 EU member states post 2013.

The CAP spends more than 50 billion Euros of taxpayers' money a year, and its subsidies and regulations steer the direction of EU food, farming and biodiversity protection.

How the CAP is reformed will have a major impact on how the farming sector will face the formidable challenges of climate change and biodiversity collapse, whilst at the same time creating a vibrant and fair rural economy, stable food prices and ensuring that a growing global population can be fed.

Last year the Commission set three main challenges to be addressed through CAP reform – viable food production (including limiting farm income variability), resource protection and maintaining diverse agriculture throughout Europe.

The legislative proposals tabled by the Commission show a continued bias towards intensive agriculture and supporting the export market for subsidised European food at the cost of the environment and stable food prices. Export subsidies will continue enabling Europe to dump food on developing country markets at very low prices.

Despite the Lisbon treaty setting a clear target for stabilising agricultural markets through CAP measures, the proposals don't offer any mechanisms to achieve this.

The lack of a coherent vision for the future of European food and farming means the tools offered in the proposals speak very different languages. Friends of the Earth Europe (FoEE) welcomes steps to improve the environmental performance of the sector, the help to preserve small farmers and, at last, a limit to payments to large farms. However FoEE believes the new CAP fails to address structural problems with farming and unless the proposals are strengthened significantly by the Parliament or by Member States the loss of farmers, low farm incomes, rising climate emissions, pollution, loss of biodiversity and volatile food prices will continue.

#### **Background**

Fifty years of the Common Agricultural Policy have dictated what kind of food is produced and consumed in Europe. As one of the first common policies it helped the EU to ensure food for its citizens in the post war years. However in the 21<sup>st</sup> century Europe has changed dramatically and major new problems exist, some even threatening life on Earth itself.

From the damage caused to the environment – climate change, biodiversity, soil erosion, water pollution – to the loss of farmers and workers in rural areas, to the massive environmental and social

impacts in the south caused by exporting below world market prices or the import of cheap raw materials produced in an environmentally and socially unacceptable way, the CAP has its many dark sides.

A particular problem for Europe is its factory farming of livestock. This system is responsible for 85% of total greenhouse gas (GHG) emissions from the agricultural sector, or 12.8% of total GHG emissions if land use and land use change emissions are included<sup>1</sup>. As high production cows require special fodder, its farming is a driver for grassland intensification and biodiversity decline. In addition it leads to millions of hectares of land grabs in South America and is a major consumer of global cereal stocks. European factory farming sucks up about two thirds of European cereal production, as well as millions of tonnes of cereals from abroad. This has major knock on impacts on global supplies of food.

### Analysis of CAP proposals – Environment and climate change

<p>In the legislative drafts the <b>Commission proposes linking 30% of CAP direct payments to 'greening measures'</b>. Farmers will receive these payments for undertaking a package of measures listed in the legislation. <b>Farms registered as organic will automatically receive this payment without having to meet the greening requirements.</b></p>	<p>Although this is a step in the right direction to ensure better protection of natural resources, only linking <b>100%</b> of direct payments to environmental conditions will ensure effective <b>protection of natural resources</b>. Whereas a penalty scheme for non-compliance is envisaged, it is unclear how this would work and what payments would be discounted if the farmer does not comply with the measures. The fact that these details will be sorted out in further negotiations and separate documents, the so called 'delegated acts', makes the outcome unclear.</p>
<p><b>Measures required:</b></p>	<p>The proposed "greening" measures are so weak they risk making the greening meaningless. This means that once again taxpayers' money will likely be handed out to polluting or environmentally-unfriendly farms across the EU.</p>
<p><b>Crop diversification on farms</b></p>	<p>The measures:</p> <p><b>Crop diversification measures are too weak</b> to prevent farmers from continuing with planting monocultures on their farms. To protect soils and biodiversity, <b>crop rotation should be mandatory</b> for arable farmers, including a <b>leguminous crop</b> in the cycle. This would not only improve soil quality and help tackle climate change, but would reduce the use of fertilisers, reduce risks for Europe's livestock farmers from increases in feed prices, and reduce our contribution to high rates of deforestation in South American rainforests due to our imports of soy animal feed.</p>
<p><b>Maintaining permanent grassland on farms as of 2014</b></p>	<p>Setting the timeframe for protecting grasslands in the future will incentivise farmers to plough up grasslands before that date. Maintaining high nature value grasslands is vital to protecting biodiversity and the carbon storage potential of EU farming. Grasslands should not only be maintained as such, but should also</p>

<sup>1</sup> [http://ec.europa.eu/agriculture/analysis/external/livestock-gas/full\\_text\\_en.pdf](http://ec.europa.eu/agriculture/analysis/external/livestock-gas/full_text_en.pdf)

<p><i>Devoting at least 7 % of their eligible hectares, excluding areas under permanent grassland, to ecological focus areas</i></p> <p><b>Climate change measures</b></p>	<p>be kept in a good ecological quality.</p> <p>Although this is welcome, studies show that a <b>minimum 10%</b> of the farm area needs to be managed as ecological focus area to have environmental benefits. A lot depends on the definition of these ecological focus areas.</p> <p>There is a <b>complete lack of measures</b> to deal with climate emissions or nitrogen pollution. In April, the European Nitrogen Assessment estimated the costs of excess nitrogen from agriculture to be up to 150 billion Euros a year. Setting requirements for achieving nitrogen balance on farms is essential e.g. set minimum requirements for livestock farmers to produce their own protein feed.</p>
<p><b>Basic payment scheme</b> replaces the single payment scheme (SPS) - Moving to a uniform payment across all regions in a member state – progressively ending the link to historical payments in all Member States</p>	<p>This change will partly address the issue of some very intensive arable farms receiving higher payments than more extensively used areas e.g. grasslands, which could have environmental, health and social benefits. However basic payments calculated according to economic and agronomic criteria could reverse this positive impact.</p>
<p><b>Voluntary coupled support for protein payments</b></p>	<p>This measure could play a big role in reducing EU impacts on deforestation, land grabbing and on local communities in South America. In order to deliver, this measure <b>would need to be strengthened</b> by implementing a targeted support for grain and fodder legumes at amounts that would be sufficient to incentivise their production, supported by adequate research and development so that farmers can be encouraged to start growing protein crops.</p>

### Incentives for Biodiversity

<p><b>Earmarking of 25% of regional funding for Climate change and biodiversity</b></p>	<p>While this is generally very welcome, this is currently only in the preamble – it needs to be reflected in the operative part as well. Also, the <b>range</b> of actions and funding tools is very broad, encompassing both climate change and land management by agri-environment-climate, organic farming and payments to areas facing natural or other specific constraints measures. Not all of this will necessarily support biodiversity. As the three axes of the previous regulation have been abandoned, a clear assignment for agri-environmental measures is needed.</p>
<p><b>Introduction of payments for organic farming</b></p> <p>Agri-environment-climate measures are compulsory for member states</p>	<p>Both measures can contribute considerably to biodiversity so it is important to implement them at member state level. However, money for organic farming should not be deducted from money for other environmental measures.</p>
<p>Payments are now not only possible for implementing the <b>Nature Directives</b> ("Birds Directive" and the "Habitats Directive"), but</p>	<p>While the widening of the scope for payment for Natura 2000 is justified, sufficient funding must be ensured.</p>

<p>also the Water framework directive and ecological corridors connecting Natura 2000 areas</p>	
<p><b>Reverse modulation:</b> transfer of up to 5% from pillar 2 to pillar 1 is possible for those Member States where the level of direct payments remains below 90% of the EU average.</p>	<p>The suggested flexibility mechanism between pillars is another door opener for shifting money towards untargeted measures. Even if this was already put on the table in the Multiannual Financial Framework in June 2011, the CAP proposals doesn't make it clear where this money would go to, allowing shifting money to untargeted payments instead to environmental protection.</p> <p>As the mentioned Member States are relatively rich in biodiversity, the consequence is that there will be less funding for biodiversity-related measures in states which have the most biodiversity.</p>
<p>Payments are only possible for ecosystems <b>dependent</b> on agriculture and forestry</p>	<p>This means measures for important climate-relevant <u>natural</u> ecosystems, such as peatlands, wetlands and wilderness areas cannot be funded through the CAP.</p> <p>Funding has to be extended to these important habitats so they can be managed and restored – which is necessary to meet the EU Biodiversity Strategy target 2 on restoration and the CBD strategic plan's target 15 to “restore at least 15 per cent of degraded ecosystems, thereby contributing to climate change mitigation and adaptation and to combating desertification.”</p>
<p>Measures which could currently be funded for Natura 2000 are now <b>restricted</b> to management plans</p>	<p>Up to now, measures for awareness raising and investments associated with maintenance, restoration and upgrading of the natural heritage were also eligible for funding.</p>
<p>Forestry measures still include <b>afforestation measures</b></p>	<p>Afforestation is often done in places such as fallow land which is important for biodiversity, and mono-culture afforestations can be very poor in biodiversity. The Commission must make good use of its power to develop minimum ecological quality standards.</p>
<p><b>Pillar 2 funding</b> is generally at the same level as it was</p>	<p>In the past, specific funding levels per area/measure were often not attractive for farmers to be used, so an increase is needed in several cases. Funding levels need to be high enough to allow for specific, work-intensive biodiversity measures (such as for the maintenance of hamsters) to be attractive and in all cases to be an economically feasible choice.</p>
<p><b>Level of EU Co-financing</b></p>	<p>In the last period, pillar 2 opportunities have not been used completely as the member states did not put the necessary co-financing on the table. <b>The funding percentage of the EU for these measures should therefore be raised</b> to make full use of available funds. Instead, it has even been reduced – from 55% to 50%.</p>
<p><b>Contribution to the EU Biodiversity Strategy</b></p> <p>Extent of change proposals</p>	<p>The CAP is the main instrument to achieve the <b>EU Biodiversity strategy</b> (COM(2011)244 final). Yet there has been no cross-examination that the current proposal is actually able to do this.</p> <p>Overall, despite previous changes the CAP has not</p>

<p>Forest management that is in line with sustainable forest management as defined by Forest Europe in 1993 is a <b>prerequisite</b> for CAP funding for forestry measures</p>	<p>been able to halt the loss of biodiversity – on the contrary. Given the fact, that the main improvement of the draft is the support of 7% ecological focus areas and there are only minor improvements in pillar 2 of the CAP, it is highly unlikely that the conservation status of habitats and species will improve measurably by 2020. Only some species depending on connectivity may profit from the 7% ecological focus areas. It is unlikely that these are enough to restore 15% of degraded ecosystems, as agreed in target 2 of the EU Biodiversity strategy.</p> <p>The need to have a <b>forest management plan</b> is welcome. However, the relevant definition of <b>sustainable forest management</b> (Forest Europe 1993) speaks only of <b>maintaining</b> biodiversity, while the EU Biodiversity strategy clearly asks for a <b>considerable improvement</b> compared to the current status quo (only 17% of habitats and species are in a favourable conservation status) – so the CAP proposals does not come up to the demands of the EU Biodiversity strategy.</p>
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**Fair distribution of payments between recipients and support for small farmers**

<p>The Commission proposes a lump-sum payment for <b>small farmers</b> replacing all other applicable direct payments (e.g. greening payment, basic support payment etc.) Small farmers would not have to comply with greening requirements for receiving direct payments</p>	<p>This measure is welcome, recognising the importance of small farmers for rural communities and diverse food production in Europe. However this minimum payment will not be sufficient to prevent small farmers from intensifying their production due to the particular economic difficulties they face. In addition many small farmers operate in areas with natural constraints but provide beneficial social and environmental outcomes such as landscapes, carbon storage from grazing livestock or maintaining rare breeds. Therefore small farmers should be provided with additional incentives for keeping methods of production beneficial for the environment. This must be supplemented with extension services for small farmers in Pillar 2.</p> <p>In addition the current methods for calculating the lump payment may mean small farmers receive a very small payment which will not be enough to enable them to survive.</p>
<p>Capping payments to large farms – farms receiving more than 300,000 by 100%, 250 – 300,000 by 70%, 200 – 250,000 by 40% and 150 – 200,00 by 20%. Employment on farms will be taken into account, reducing the cap if employment is high. Greening element of the payments will be exempt from capping. Money gained from capping will be put into Pillar 2</p>	<p>Currently, many very large farms and landowners receive huge CAP payments without the need to demonstrate any social and environmental public benefits. This measure is therefore welcome. However if the greening part of direct payments remains weak, a large part of the direct payments (70%) will continue to be untargeted. Money gained from capping must go towards environmental measures in Pillar 2 and more support for small farmers.</p>

**Price volatility, market regulation and export refunds**

<p>To deal with price volatility the Commission proposed an <b>emergency reserve</b> to react to crisis situations and the extension of the scope of the European Globalization Fund</p>	<p>The crisis reserve is a tool <b>ill-equipped</b> to deal with price volatility in the global market. Farmers' incomes are low due to a number of reasons, including retail concentration and the lack of mechanisms to ensure minimum prices are paid to farmers to cover costs of production. Decoupled payments mean currently farmers who are reaping the benefits of high prices still receive public funding e.g. cereal farmers, while farmers suffering from high input prices and low incomes do not receive any payments. Effective market regulation mechanisms combined with targeted direct payments can be a much more cost effective way to prevent too low or too high prices.</p> <p>The Globalisation fund seems to be in place to help European farmers deal with the impact of free trade agreements that would allow low priced imports of mainly meat products into Europe effectively heightening the crisis in the sector. Yet, opening up the agricultural sector to more liberalised trade means Europe will undermine the ability of developing countries to feed themselves, while undercutting the ability of European farmers to survive.</p>
<p>Another tool to deal with price volatility is a <b>risk management tool</b> that would be funded from Pillar 2 to fund insurance schemes for farmers</p>	<p>Funding insurance for farmers would only benefit the few farmers who can afford insurances for their production, which in most cases would be the bigger farms and other beneficiaries. This would also encourage enterprises to sell their production on the stock market and encourage food speculation. Risk must be addressed through diversification strategies, such as addressing the imbalance in Europe's feed self-sufficiency and effective market regulation measures. For example, food reserves have been identified as an effective way to ensure food security as well as mitigate the impacts of price volatility in the medium term.</p> <p>Instead of using 2<sup>nd</sup> pillar money to cover risks which should be tackled by market measures or income support, at least 50% of the 2<sup>nd</sup> pillar payments should be used for environmental and climate measures. The Commission suggest 25%, which is a status quo. For these measures clear reference to ecological delivery is needed so that, for example, big factory farms are not allowed to use CAP funding for their construction, which has been the case in the past.</p>
<p>The regulation on common market organisations still suggests notable amounts of funds being used as export refunds, including for pig and poultry meat, eggs and milk and to reflect differences in feed costs between EU and world market</p>	<p>As long as there are export subsidies in place there will be very little incentive for large exporting livestock units to deal with their rising feed costs by changing to different types of feed from soy through, for example, home grown proteins. On the other side, dumping of subsidised exports of EU meat and dairy products in developing countries has extremely negative impacts on their food and agriculture. The CAP must phase out</p>

	export subsidies and indirect forms of export support by 2014.
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### What next?

This reform is different than the previous ones regarding the process as, for the first time, the decision is made jointly between the European Parliament and the Member States (co-decision). The Parliament in its opinion earlier this year has already signalled that on some issues, such as capping payments to big enterprises, support for more extensive ways of livestock production, it has a different opinion than the Council.

The Council discussions were no less controversial, with the interests of 27 Member States now to be taken into account.

These positions will be the starting point for the upcoming negotiations on the legislative texts. Giving the fact that the Commission offers a new structure, albeit with very weak tools behind it, there will be a lot of work and effort needed by the Parliament and Council to improve the legislation and introduce a meaningful, truly green and fair, food and farming policy for the EU.