



EU: CAP and Enlargement – An Opportunity for Nature and Environment?

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Conference Summary

on behalf of the German Federal Agency for Nature Conservation

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1. Background and Aim of the Conference

The enlargement of the European Union poses a major political, economic and ecological challenge for the European Union as a whole as well as for the old and new Member States¹. One of the last and most difficult chapters discussed during the negotiation process was the agricultural chapter of the “Acquis Communautaire”. The final decisions on agriculture were agreed upon at the Copenhagen Summit in December 2002. While the negotiations on EU-Enlargement and Agriculture took place, the Mid-Term Review proposals of the Agenda 2000 reform of the Common Agricultural Policy (CAP) were presented by the European Commission in July 2002 and January 2003.²

The EU-Enlargement process as well as the ongoing reform process of the CAP will lead to political changes in both the old Member States and the new Member States, and influence the conditions under which certain instruments of the CAP, such as the agri-environment programmes, can be applied. It is of particular importance, how the CAP reform and the EU-Enlargement will impact the nature and environment of the Member States, the Candidate Countries and the enlarged EU with 25 Member States.

Against this background and in order to assess these impacts, Ecologic has carried out a research project and organised an international conference entitled “EU: CAP and Enlargement – An Opportunity for Nature and Environment?” which was held in February 19-21, 2003 in Potsdam, Germany.

The research project was based upon the findings of a preparatory workshop entitled “EU-Enlargement: Impact of the CAP on Environment and Nature”, which took place in September 2001, in Bonn, Germany.³

As part of the preparations for the conference, a background paper was developed with the objective of presenting various scenarios outlining the interactions between different aspects of CAP funding mechanism, transition processes, land use changes and environmental effects. Selected instruments of the CAP, such as direct payments, modulation, cross-compliance and agri-environmental programmes, as well as their related impacts on environment and nature were analysed.

Additionally, a survey⁴ was conducted with the primary goal of identifying the specific situation in the Candidate Countries as well as the positions of these countries concerning the EU-Enlargement, the CAP reform and their impacts on environment and nature.

¹ According to the agreement at the Copenhagen Summit, the new Member States in 2004 will be: Cyprus, Czech Republic, Estonia, Lithuania, Latvia, Malta, Poland, Hungary, Slovenia and Slovak Republic. For Romania and Bulgaria the accession is foreseen for 2007. Negotiation regarding the accession status of Turkey is going on. In this summary, the term “Candidate Countries” will be used for all the countries mentioned above.

² Commission of the European Communities 2002: Mid-term Review of the Common Agricultural Policy. Communication from the Commission to the Council and the European Parliament. COM (2002) 394

Commission of the European Communities 2003:

Proposal for a Council Regulation establishing common rules for direct support schemes under the Common Agricultural Policy and support schemes for producers of certain crops.

Proposal for a Council Regulation amending Regulation (EC) No 1257/1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF) and repealing Regulation (EC) No 2826/2000. COM (2003) 23 final. Brussels, 21.1.2003

³ Choudhury, Keya, R. Andreas Kraemer and Tanja Dräger 2001: „EU-Enlargement: Impact of the Common Agricultural Policy (CAP) on Environment and Nature”. Workshop Proceedings. BfN Skripten 57.

The aim of the conference was to analyse and to discuss the previously mentioned interactions within the scenarios presented in the background paper. The conference brought together an interdisciplinary selection of around 80 experts including representatives of the Member States and the Candidate Countries from political and administrative bodies, research institutes and NGOs, as well as representatives of the European Commission and the European Environmental Agency.

2. Discussions and Results of the Conference

2.1. First Session: CAP Reform and EU-Enlargement – An Opportunity for Nature and Environment?

In their opening speeches **Dr. Kilian Delbrück (Federal Ministry for the Environment, Nature Conservation and Nuclear Safety, Germany)** and **Mr Uwe Brendle (Federal Agency for Nature Conservation, Germany)** emphasised that a better knowledge of the effects and complex interactions of the CAP instruments on nature and environment is necessary and is a precondition for developing a more sustainable Common Agricultural Policy as it is required in the Treaty of Amsterdam. Therefore, the conference should serve as a platform for exchanging the experiences gained on these topics in order to clarify the different as well as common positions of the different countries as well as the actors invited to participate at this event. The importance of raising awareness of the impacts on nature and environment, especially for the Candidate Countries, and suggestions on how to better integrate environmental concerns into the CAP were also highlighted. The results of the conference should help to strengthen the argumentation and support decision makers at the appropriate level (European, national, regional and/or local) to enhance a more sustainable agricultural policy.

After the opening speech, an overview of the current reform process of the CAP, specifically the Mid-Term Review proposals of the European Commission (issued in July 2002 and January 2003) and the proposals and negotiations dealing with the CAP and Enlargement (January 2002 and December 2002) were provided by **Mr Martin Scheele (European Commission, DG Agriculture)**.

In addition, the environmental dimension of the CAP was highlighted from the perspective of the Member States by **Mr Pavlos D. Pezaros (Ministry of Agriculture, Greece)** and from the perspective of the Candidate Countries by **Mr Jaroslav Prazan (Research Institute of Agricultural Economics, Czech Republic)**.

Mr Pavlos D. Pezaros (Ministry of Agriculture, Greece) gave an overview on the environmental dimension of the CAP. Mr Pezaros firstly emphasised the legal basis for linking sustainability, agriculture and environment by pointing out the commitments of the Community regarding sustainability, laid down in the Treaty of Amsterdam, e.g. Article 6 TEC: “Environmental protection requirements must be integrated into the definition and the implementation of (all) the Community policies and activities ... in particular with a view to promoting sustainable development”. Against this background, the main steps of the 1992 and the 2000 reforms of the CAP has to be considered. Although the 1992 reform can be regarded as the turning point to bring the CAP closer to environmental considerations, some environmental concerns were already integrated in the CAP before 1992, due to, e.g. the Nitrate Directive (91/676), the Directive dealing with Pesticide Residues (91/414, et al), the

⁴ Where to find the analysis and results...

Directive on farming in mountainous and certain less-favoured areas (75/268 - Article 3(5)), the introduction of set-aside, extensification and investment aids for the protection of the environment (Regulation 2328/91) and the introduction of Organic Farming (Regulation 2092/91). Regarding environmental impacts of the 1992 CAP reform, it was stated that the reform of the market measures was a first but insufficient step to reduce the tendency of intensification. In addition, it was stressed that the agri-environmental programmes (Regulation 2078/92) had brought overall positive results (e.g. a substantial reduction of nitrates, the improved preservation of landscape and nature, etc.). However, its experimental nature, the long delays in implementation as well as the financial (co-financing) and managerial (design, control, monitoring, evaluation) constraints of the national administrations were also highlighted. Concerning the Agenda 2000 reform, it was pointed out that the sustainability of the sector was enforced, but the innovations of cross-compliance and modulation (Regulation 1259/99), if optional, have only a very limited chance of being implemented on the national level. As a final point, it was stated that the Mid-Term Review proposals further enforce sustainable farming, e.g. provide a better balance of support and strengthen rural development.

In his presentation, **Mr Jaroslav Prazan (Research Institute of Agricultural Economics, Czech Republic)** provided an overview of the influences and changes in the agricultural sector in the Candidate Countries before and during the transition period, that have resulted in large changes in farming patterns. Due to the low public/state support for agriculture and the collapse of markets after 1989, the intensity and output of agricultural commodities as well as the level of livestock declined significantly leading to large extensively used agricultural areas in the Candidate Countries. Although extensification on both arable land and grassland has had positive impacts on environment and nature, such as an increase of biodiversity and water quality, negative trends have also appeared. The difficult economic situation for the farmers has not only led to extensification but also to the problem of land abandonment with negative social and environmental impacts. Against this background, the potential influence of the CAP on nature and environment were outlined. The intensification of output on arable land as well as an increase of livestock production could be expected. However, it was pointed out, that the expected increase of livestock numbers would not compensate the threat of abandonment. Less favoured areas (LFA) support was mentioned as an additional instrument to avoid land abandonment. However, it was stressed that these schemes are only targeted for farmers and could therefore not resolve the problem of abandoned areas where no farmers are left. Regarding the rural development programmes, it was emphasised that the impact on the environment and nature would depend on the priorities given by the national governments for the particular measures within the RDP and the capacity to implement e.g. AEP. In conclusion, it was stressed that a simple transposition of EU legislation might be not enough to take into account the specific situation in the Candidate Countries and to prevent the degradation of environment and loss of nature in these countries.

2.2. Second Session: Methods, Policy Instruments and Questionnaire

In his presentation, **Mr R. Andreas Kraemer (Ecologic, Germany)** outlined the methods and constraints applied for the development of the scenarios in the background paper. It was emphasised that the interactions and impacts of the particular agri-environment instruments on nature and environment described in the background paper are based on literature analysis and has to be regarded as indicative, qualitative and hypothetical. The focus of the scenarios was set on the funding mechanisms of the CAP (i.e. direct payments, cross-compliance, modulation and certain instruments of the rural development programmes). Other framework conditions, e.g. changes within the world market or technological changes, were not taken into consideration. To assess the impacts within the Candidate Countries several specific

characteristics of these countries were considered, such as the huge problem of undergrassing and abandonment of valuable grasslands, the strong polarisation between large and small farms (dual structure) or the high number of subsistence and semi-subsistence farms in some Candidate Countries.

Ms Keya Choudhury (Expert on Environmental Policy, Germany) gave an overview of the findings of the preparatory workshop “EU-Enlargement: Impacts of the CAP on Environment and Nature”, which took place in September 2001, in Bonn, Germany. One of the outcomes of this workshop was a flowchart, which outlines the current situation of the interactions among certain instruments of the CAP and nature and environment within the Member States. As an overarching sequence of the flowchart it has been identified, that CAP funding mechanisms cause certain land use changes which in turn induce positive or negative effects on environment and nature. Furthermore country or region specific elements such as property rights or national support schemes were taken into account. The CAP funding mechanisms being presented include those which were brought forward by the Agenda 2000, namely direct payments, cross-compliance, modulation, agri-environmental programmes and LFA payments. Regarding direct payments, a strong influence on the intensification of agriculture has to be stressed. The support of high yield regions might result in marginalisation or abandonment of less favoured areas and has a poor viability for extensive farming. The system of direct payments varies concerning target and rating. Therefore subsidies for livestock, crops and set-aside areas were regarded separately in the further course of the presentation. Advantages for environment and nature can be achieved by the implementation of cross-compliance, modulation, agri-environmental programmes or the adoption of support for less-favoured areas. However, negative impacts of the implementation of these instruments, such as the reliance of cross-compliance on the existence of direct payments have to be considered. Nevertheless, it could be proved that – in many cases - the positive results of the implementation of these instruments outweigh the negative effects.

In the next presentation, the results of the survey conducted by Ecologic were presented by **Ms Ruta Landgrebe (Ecologic, Germany)**. As part of the preparations to the conference, the questionnaire was sent to all participants of the conference in order to gather information about the specific situation in the Candidate Countries on potential implementation of selected agri-environmental instruments of the CAP including the instruments proposed by the European Commission in January 2002⁵ and July 2002⁶. Each of these instruments was analysed separately aiming to find out the positions regarding the introduction of these instruments and the opinion on the possible impacts on environment and nature. The main focus of the survey was a qualitative assessment of impacts of the CAP instruments on environment and nature. Although initial conditions in the Candidate Countries differ and influence the positions, general trends can be defined. As regards direct payments, the representatives from the Candidate Countries prefer Simplified Direct Payment System and Single De-coupled Farm Income Payment. Cross-compliance was indicated as a necessary condition almost for all types of payments, which is seen as the best chance to integrate environment concerns into the CAP. Concerning a special measure for semi-subsistence farms, some Candidate Countries with a high number of farmers eligible for the scheme predict relatively small number of farmers to apply for this special measure. As a reason - high requirements for the development of business plans as a precondition for receiving funds

⁵ Commission of the European Communities 2002: *Enlargement and Agriculture: successfully Integrating the New Member States into the CAP*. Issue Paper. SEC (2002) 95 Final. 30 January 2002.

⁶ Commission of the European Communities 2002: *Mid-Term Review of the Common Agricultural Policy*. Communication from the Commission to the Council and the European Parliament. COM (2002) 394. July 2002.

- was indicated. The lack of environmental conditionality in this scheme was very often indicated as negative factor concerning environment and nature. Taking into consideration that subsistence and semi-subsistence farms are characteristic in the majority of the Candidate Countries, this special measure should be revised. Concerning the introduction of the "strengthened cross-compliance system" and "compulsory dynamic modulation" the majority of respondents from the Candidate Countries expressed a positive position and indicated these instruments as important linking of environmental requirements to the agricultural policy. The majority of respondents agreed that the relative role of the second pillar should be strengthened significantly. However, as regards modulation, a big part of respondents indicated a lack of awareness on this instrument. Agri-environmental programmes and less-favoured areas were also regarded as important instruments for environment and nature. However, as regards agri-environmental programmes, low knowledge and acceptance by farmers was indicated as most important constraint implementing these programmes in the Candidate Countries. The lack of awareness on different instruments and the complexity of the administrative system were quite often indicated, thus a continuous support in capacity building in the Candidate Countries is necessary.

2.3. Third Session: Policy Instruments

Ms Vicky Swales (Institute for European Environmental Policy, United Kingdom) outlined in her presentation the functions of the most important direct payments schemes currently discussed with regard to the Mid-Term Review and EU-Enlargement. The focus was set on the phasing-in of direct payments as agreed in the Copenhagen Summit in December 2002 and the possibility to top-up these payments by transferring funds from the rural development programmes to the first pillar and by using national funds. Furthermore, the simplified approach of the direct payment scheme was highlighted. Within the conclusions it was stressed that the Candidate Countries are likely to adopt the simplified scheme and that many countries will not be able to afford the national top-ups of direct payments. Although the introduction of direct payments will have a positive impact on farm incomes, substantive land use changes are likely to be expected with negative consequences for soil, air, water, biodiversity and landscape.

Mr Laimonas Ciakas (Agri-Food Euro-Integration Department, Ministry of Agriculture, Lithuania) highlighted the situation in Lithuania regarding the direct payment scheme. First, it was stressed that for all Candidate Countries the funds available for direct payments will be less compared to the funds available for the rural development programmes (RDP) during the period 2004-2006, e.g. Lithuania 35% compared to 65% respectively. Top-ups of direct payments were considered as positive, in Lithuania they will be applied for the suckler cow premium and flax. However, negative impacts were also mentioned, such as financial constraints for some Candidate Countries to provide top-ups from the national budget which could create different levels of top-ups within the region leading to market distortions and probably unfair competitiveness for the farmers.

Dr. Jan-Erik Petersen (European Environmental Agency, Denmark) provided an overview on agri-environmental programmes (AEP) in the Candidate Countries. It was stressed that AEP is an instrument of central importance to integrate environmental and sustainable development objectives into the CAP and that it has a high potential to address many environmental issues identified in the Candidate Countries, such as the maintenance of valuable grassland habitats. In 2002, three Candidate Countries (i.e. Estonia, Hungary and Slovenia) started to implement AEP financed from national funds and it can be expected that until 2004 six or seven Candidate Countries will run agri-environmental schemes under SAPARD. It was underlined that AEP have to be adapted according to the distinctive conditions in the Candidate Countries, such as the issue of abandonment and under-grazing.

In such a case, emphasis should be placed upon re-introduction of livestock instead of reducing the number of livestock like in the Member States. Furthermore, the need for substantial institutional and capacity building as well as training for farmers was emphasised.

In a short comment **Ms Dorota Metera (IUCN Office for Central Europe, Poland)** highlighted that RDP, especially AEP, could play a crucial role in Poland given the natural conditions (e.g. large areas of high natural value, huge share of traditional farming systems etc.). However, implementation of AEP in Poland was not regarded as a priority at the national level and the programmes were even scrapped of the SAPARD Programme in June 2002. Only because of the efforts made by some NGOs and the European Commission AEP were reintroduced into SAPARD in December 2002. The need to start pilot programmes on a small scale in selected regions was stressed due to the strong implementation difficulties of agri-environmental schemes both at the administrative and the farm level. It was also emphasised that a broad educational scheme and training activity is necessary in order to increase the knowledge of local advisors and farmers.

Ms Harriet Bennett (Institute for European Environmental Policy, United Kingdom) provided an overview on the history and aims of the support for less favoured areas (LFAs) and the different features of implementation of this scheme among the Member States (designation of the LFAs, conditions for eligibility). Since 1999, farmers have had to comply with the requirements of Good Farming Practices (GFP) in order to receive LFA support. Although the link between the support and GFP were regarded as positive for the environment and nature, it was stressed, that the compliance with GFP is difficult to verify and that the requirements for GFP vary significantly between the Member States and regions. For example, the problem of setting appropriate minimum and maximum stocking densities was mentioned. In addition, the unequal use of LFA support within the Member States was highlighted. Although some countries are characterised by a large share of LFAs, only a minor budget is determined for LFA support whereas other measures of the rural development programmes were given a much higher priority. Other countries have proposed large areas as Natura 2000 sites situated in LFAs, but up to now only Austria provides support for areas with environmental restrictions (Regulation 1257, Article 16). Concerning the potential of the LFA scheme for the Candidate Countries, it was emphasised that the scheme could be easily applied compared e.g. to AEP (no tailored management plans or individual calculations are needed); it could be provided to many farms and contribute to the management of Natura 2000 sites. In conclusion, it was stressed that the LFA scheme should be integrated and complimentary to other rural development measures and complimentary to AEP and direct payments.

Prof. Ana Barbic (Biotechnical Faculty, University of Ljubljana, Slovenia) outlined the situation of less favoured areas in Slovenia. Since 1975, national mechanisms exist to support LFAs which now account for 84,3% of Slovenia's area. During the EU accession process relevant national legislation and support measures have been adopted to a great extent. Given that the previous economic criteria (i.e. poor economic performance and negative development trends of the area) for Slovenia is no longer a criteria at European level, certain areas which were previously integrated in the national LFA scheme lost the LFA status. In order to remain entitled, some of these areas have been designated as protected areas, since they meet the Habitat directive requirements.

2.4. Fourth Session: Phasing-in of Direct Payments

During this session the first scenario “Phasing-in of Direct Payments” based upon the proposals of the European Commission regarding CAP and Enlargement⁷ was presented by **Ms Ruta Landgrebe (Ecologic, Germany)**. The focus was on the following instruments: introduction of direct payments in the Candidate Countries, simplified direct payment scheme and, the special support for semi-subsistence farms. Related to these instruments, selected impacts on environment and nature were highlighted with an emphasis on the situation in the Candidate Countries. Regarding the phasing-in of direct payments, the regular support could make farmers more creditworthy which could also benefit the environment given investments in new technologies. However, it can be expected that direct payments accelerate the process of adjustment towards fewer but larger farms with its negative impacts on environment and nature. It was stressed, that RDP, especially AEP, can be regarded as an important instrument for integrating environmental concerns into agriculture. Therefore, the possibility of increasing the amount of direct payments (top-ups) in the Candidate Countries by transferring funds from the RDP in 2004-2006 could weaken the opportunities of the RDP. Regarding the simplified direct payment scheme, it was emphasised as positive that the area has to be maintained in an environmentally friendly way and that extensive, small and semi-subsistence farms would be more supported. However, the limited application period of 5 years might reduce the incentive for the Candidate Countries to take up this scheme. As regards the special support for semi-subsistence farms, it was highlighted that this scheme could contribute to the maintenance of more traditional, extensive farming systems and therefore preserve the cultural heritage with its environmental important landscape features. However, the scheme might also have negative impacts on the environment and nature due to the absence of environmental and nature conservation requirements and the development of commercial farms in sensitive areas.

The following discussions were introduced by short comments on the presented agri-environmental instruments.

2.4.1. Simplified Direct Payment Scheme

Mr Abraham Hofhanzl (Ministry of Environment, Countryside Ecology Department, Czech Republic) compared the impacts on environment and nature by applying either the standard system or the simplified system in the Czech Republic. In contrast to the standard system, the simplified system is not related to production and selected commodities giving therefore less incentive for intensification and specialisation, and arable land is not preferred to grassland. Calculated with data for 2004/2005, support for arable land would amount to 78.5 EURO/ha in the Czech Republic and indirect support for permanent grassland would be 13.5 EURO/ha (payment for herbivore animals). By applying the simplified system, the support for all agricultural area would amount to 47.5 EURO/ha. It was stressed that the simplified system is a much friendlier tool for preserving agriculture and employment in rural areas. Its general principle is to support extensive farming in large areas whereas the standard system prefers intensive agriculture on smaller areas at the costs of increasing inputs and growing share of neglected areas.

Main results of the discussions on the simplified direct payment scheme:

During the discussions, general arguments regarding agricultural policy were stressed. Although agricultural policy cannot and should not attempt to counteract the general trends of

⁷ Commission of the European Communities 2002: Enlargement and Agriculture: successfully Integrating the New Member States into the CAP. Issue Paper. SEC (2002) 95 Final, 30 January 2002

economic development, it could slow down land use changes. Each instrument should have clear objectives, minimise the potential negative environmental consequences, maximise the positive effects and minimise the administrative costs. However, it was stressed, that while discussing the potential impacts of CAP instruments on nature and environment, it should be kept in mind that there are many other framework conditions shaping the farming structure, such as market prices, technological changes or off-farm opportunities.

The simplified scheme was mostly regarded as being more positive for environment and nature than the current scheme. Arguments such as the cut of the link between subsidies and products, the maintenance of a higher crop diversity in the Candidate Countries and less land abandonment were mentioned. The scheme could also help small farmers be more creditworthy and support the economic viability of their farms what could also bring benefits but also negative impacts for the environment depending on the initial situation and the kind of development on the farm level. The transitionality of the scheme and therefore the lack of planning security for administration and farmers has led to a disinterest in the scheme and therefore to only limited discussions in the Candidate Countries. Furthermore, the problem of disintegration of co-operative farms was discussed. The example of East Germany was outlined showing that direct payments do not always lead to disintegration of large co-operative farms. Although the simplified scheme was regarded as more positive for nature and environment than the current scheme, it was argued that all additional funds lead to intensification and may speed up the shift from small to large farms unless some environmental conditions are linked to the scheme. However, the future implementation of this scheme depends of the ongoing reform process of the CAP and the future direct payment system applied in the whole EU.

At last, the application of the mixed direct payment scheme was discussed. It was stated that the preferable sequence of application would be simplified scheme, mixed scheme and standard scheme (IACS). More information regarding the implementation and application of the mixed system, allowing the differentiation between grasslands, crops and special cultures, is needed. Regarding the distribution of the payments, the disbursement of funds at a regional or local level was discussed as a future opportunity.

2.4.2. Special Support for Semi-Subsistence Farms

In his short comment, **Mr Zbigniew M. Karaczun (Warsaw Agricultural University, Poland)**, outlined the opportunities and impacts of the special support of semi-subsistence farms in Poland. The support could be an important instrument in Poland keeping in mind the large share of small semi-subsistence and subsistence farming systems in this country. Various opportunities of this support were mentioned such as the strengthening of the structural changes of the farms, the alleviation of economic effects during the integration process, the possibility to lease or to buy additional arable land, the implementation of new agricultural activities and support for production, enhancement of non-agricultural activities such as agro-tourism, ecological education and support for local traditions. Given the variety of possible activities initiated and supported by this scheme, the impacts on environment and nature could be positive as well as negative.

Mr Aleksi Aleksiev (Agricultural University Pliodiv, Bulgaria) provided an overview on semi-subsistence farms and potential impacts of this special support for Bulgaria. Around 94% of the farms in Bulgaria can be defined as subsistence or semi-subsistence farms, which cover approximately 85% of utilised agricultural land and are on average 4.25 ha in size. The large number of these farms is related to economic and social factors, the restitution model of the agrarian reform and also cultural traditions. Small and large semi-subsistence farms should be considered separately. Small subsistence farms are mainly owned by people in

pension age (due to the restitution model) producing primarily for self consumption. The medium sized semi-subsistence farms are producing for both self consumption and the market. Considering the impact of the special support on environment and nature, significant changes are not expected for the small farms but will improve mainly the social status. For the larger semi-subsistence farms, the support can be regarded as an incentive for specialisation and commercialisation leading to an intensification of production. This could have positive (e.g. by improving the negative balance of nutritious balances in the soil or better storage conditions) or negative (e.g. increased use of pesticides or disruption of traditional crop rotation) impacts on environment and nature. **Main results of the discussions on the special support for semi-subsistence farms:**

The following points shaped the discussion on the special support for semi-subsistence farms: objectives of this scheme, level of the support and lack of environmental requirements.

There was a highly controversial discussion on the objectives of the scheme. On one hand, the scheme was considered mainly as a social and economic support. Due to the small amount of support (1000, EURO per farm and year) it was stated that environmental requirements should not be added in order to avoid additional burden to small farmers. However, the support was considered to be far too low to keep farmers in business and to avoid land abandonment. On the other hand, it was argued that environmental requirements should not be neglected and that the farmers should provide some services in order to get public support. In relation to the objectives, the business plan, required by the scheme, was strongly discussed. By developing a business plan, farmers have to prove the economic viability of the enterprise, however, environmental concerns would not be considered. Because there is no clear and detailed description at EU level what the business plan should look like, it is hardly possible to anticipate how many farmers will be able to carry out these plans. In order to implement and administrate this scheme, high administration costs are expected which could be probably higher than the benefits, depending on the initial situation in the country (e.g. Poland or Bulgaria with a high number of small farms). Furthermore, the relation between the level of support and the costs to develop a business plan for the farmer was discussed. The question was raised if there will be additional CAP funding schemes supporting the implementation and administration of this instrument and an additional support to provide education and training for farmers. Until now, there is no criteria concerning the evaluation of the business plans at EU level; this initiated discussions at which level (e.g. European, national, regional) such evaluation criteria should be set.

Regarding the positive and negative impacts, it was stated as positive that the scheme could contribute to maintain small and semi-subsistence farming systems often situated in high nature value landscapes. However, the additional support could provide an incentive for intensification, commercialisation, specialisation and enlargement of farm units, bringing about both negative and positive impacts on environment and nature.

Several recommendations were given: to simplify the scheme, to link the scheme to good farming practices, to transfer funds only to farmers with existing business plans or to link the scheme with an incentive for organic production. Furthermore, suggestions were made regarding the level and distribution of payments. It was proposed to differentiate the payment level having one low level of payments linked only with minimum environmental conditions (social objective) and one higher level of payments linked with a business plan and higher environmental requirements. Another proposal was to add environmental objectives to the scheme after a couple of years keeping the social and economic objectives in the first years. Regarding the distribution of the funds, it was proposed to disburse funds according to business plans at area or even at local community level. In this context the support of organisations of common actions and a stronger involvement of farmers at the local level was stressed.

The coherence of this scheme with other CAP funding schemes was also discussed. It was suggested to integrate the scheme in the LFA payments leaving the question open how to deal with farms situated out of the LFA areas. Discussing the opportunity to use the scheme as a precondition and complementary for AEP, the question was raised if other EU payments can be added to the scheme (double funding).

2.5. Fifth Session: Mid-Term Review Proposals

During this session the second scenario “Mid-Term Review Proposals” based upon the proposals of the European Commission⁸ was presented by **Ms Tanja Dräger (Ecologic, Germany)**. The focus was set on the following instruments: Decoupled Payments, Cross-Compliance and Modulation. Related to these instruments, selected impacts on environment and nature were outlined with an emphasis on the situation in the Candidate Countries. Regarding decoupled farm income payments, the abolition of the link between subsidies and products was highlighted. For the first time, forage areas will be included in the payment entitlement reducing the disadvantages for forage areas still being an important feature in the Candidate Countries. However, due to the historical entitlements, the unequal distribution of the payments will remain providing greater incentives for intensive farming systems at the expense of small, traditional or extensive farms. Regarding modulation, the function and effects of voluntary modulation and degression (including obligatory modulation) were outlined. The redistribution of funds, generated by modulation, between the Member States provide the possibility to transfer funds from intensive to extensive regions which could have a positive impact on nature and environment, especially for the southern Member States or the Candidate Countries. The maintenance of the additionality condition was highlighted as one of the main constraints concerning the implementation of the voluntary modulation scheme. Regarding cross-compliance, it was stressed that the whole farm approach enhances the integration of environmental concerns into agriculture activities, although, it was criticised that farmers only have to comply with legal standards. Moreover, the interaction between cross-compliance and direct payments based on historical entitlements was stressed.

The following discussions were introduced by short comments on the presented agri-environmental instruments.

2.5.1. Decoupled Farm Income Payments

Mr Peter Sabo (The Living Planet Civic Association, Slovak Republic) provided a short comment on the negative and positive impacts of the decoupled payment scheme for the Slovak Republic. Potential environmental benefits were mentioned: the reinforcement of the environmental functions of agriculture, a better support for extensified agriculture and an enhanced promotion of the stewardship role of the farmers towards landscape. However, it was stressed that the historical entitlements could contribute to a further marginalisation and abandonment of extensive mountain areas in the Slovak Republic leading to a loss of high nature value mountain biodiversity. The importance of an integral approach for decoupled payments and cross-compliance in order to enhance the protection of the countryside and to avoid a further distortion/detachment of the bondage of farmers to their land was emphasised.

Main results of the discussions on the decoupled farm income payment:

The focus of the discussion was set on the historical entitlements for decoupled payments and their impacts on farming structures and production patterns in the Candidate Countries. It was emphasised that the incentive for intensification, specialisation and concentration will be

⁸ see footnote 2

reduced by implementing this scheme and that the disadvantage for forage areas will be minimised.

Farmers will produce more market-oriented and not support-oriented. However, as market mechanisms do not enhance the integration of environmental concerns into agriculture, environmental requirements should be linked to decoupled payments. It was stated that the environmental impacts of decoupled payments depend very much on how the scheme will be implemented. The historical entitlements were regarded as a problem, especially for the Candidate Countries. Because of the unequal distribution, land abandonment could be a consequence in the region. Due to the lack of historical references in the Candidate Countries, the question how to calculate the entitlements for the Candidate Countries was discussed. Currently, in some countries (e.g. Estonia and Poland) a large share of the agricultural land is not eligible for this payment scheme what could lead to the loss of economic viability of these farms. In this context, it was suggested to calculate decoupled payments on a regional reference instead of historical references and to further simplify the scheme.

2.5.2. Cross-Compliance

Mr Pavlos Pezaros (Ministry of Agriculture, Greece) pointed out some critical issues concerning the implementation of the cross-compliance scheme while stressing that the scheme can be regarded as one of the most promising instruments in integrating environmental concerns into agricultural policy. As one constraint for the implementation, the huge number of legal requirements for which compliance is required, was mentioned. All together, 38 directives are listed in annex 3 of the mid-term review proposal of the European Commission (January 2003)⁹ related to environment, animal welfare and health as well as food quality. On the one hand, this could lead to huge administrative and financial costs for the national administrations to administer and to control the compliance with all listed legal requirements. On the other hand, co-ordination problems were mentioned as different administrations will be tackled due to the different requirements. In this context, it was stated that the negotiations on this scheme could collapse because of the practical problems rather than of political problems since the principle of the scheme is widely recognised.

A second comment on cross-compliance was given by **Dr. Kilian Delbrück (Federal Ministry for the Environment, Nature Conservation and Nuclear Safety, Germany)**. It was pointed out that cross-compliance could be considered as a cornerstone of CAP reform by aiming directly at the integration of environmental concerns into the CAP, making the direct payments acceptable for the green box of the WTO and providing a justification for continuous support to farmers. As one negative impact, the probably high costs for farmers and administration were mentioned. Furthermore, questions were raised regarding the level and the number of cross-compliance requirements, the control and the penalties in case of non compliance.

Main results of the discussions on the cross-compliance scheme:

Although cross-compliance was recognised as an important step and pragmatic approach to integrate environmental concerns into the CAP as well as to enforce the implementation of current EU legislation related to nature and environment, animal health and welfare as well as food quality, there was a highly controversial discussion regarding the link between cross-compliance and direct payments, required standards, administration, control and determination of the penalties in case of non-compliance.

⁹ see footnote 2

The ambitious number and the different scope of the legal requirements in annex 3¹⁰ were discussed. It was stated that these requirements are far too complicated to administer and to control for both the Member States and the Candidate Countries. In Annex 4¹¹, it is laid down that the Member States have to define and establish Codes of Good Agricultural Practice. While defining and establishing national standards, the balance between sufficient harmonisation, in order to avoid unfair market distortion, and sufficient differentiation, in order to meet regional needs, has to be taken into account. In this case the threat of monoculture for good environmental conditions was mentioned. Although the high number of legal requirements was criticised as impracticable, the approach to require compliance only with legal standards was considered as insufficient. It was suggested to include more ambitious standards going beyond EU legislation while reducing the number of directives listed in Annex 3 in order to simplify the cross-compliance scheme. However, concerning the discussed burden for administration, it has to be taken into account, that the legal standards listed in Annex 3 should be implemented and controlled anyway by the Member States. Related to the standards, questions about the practicability of the controls and the penalties were raised. Because of the different legal requirements listed in Annex 3, farms have to be controlled probably several times a year. Some requirements can be controlled by the IACS system, other control has to be carried out on the farm.

Not all requirements are directly connected to farmers but instead to suppliers or industry. Nevertheless, in case of non-compliance, e.g. by using fertiliser containing forbidden ingredients or animal transport, the farmer will be punished. Although it was stated as positive that cross-compliance is a whole farm approach implying in case of non-compliance that direct payments of the entire farm will be concerned, it was questioned how to calculate the penalties for mixed farms (i.e. in case of a mixture of compliance and non-compliance). In this context, the problem of diffuse pollution was also discussed.

Another highly controversial discussion point was the link between cross-compliance and direct payments. On the one hand it was stated that due to the link to direct payments the majority of the farmers have to comply with environmental standards what will also raise awareness on this issue among the farmers. On the other hand it was criticised that the link to direct payments could justify the maintenance of the payments in a long term to the society and the WTO (i.e. from blue to green box). Additionally, due to the link, non-Common Market Organisation and semi-subsistence as well as extensive farming systems are hardly or not at all targeted. These farms will hardly be able to fulfil the cross-compliance requirements. Therefore, it was suggested to link cross-compliance to a certain income level.

The coherence of the cross-compliance scheme with other CAP instruments was also discussed, especially the competition between cross-compliance and agri-environmental programmes (AEP). By integrating AEP requirements into cross-compliance, the baseline of AEP could free up funds for more ambitious AEP measures.

2.5.3. Modulation

The implementation of modulation and its impacts on environment and nature from the point of view of the Czech Republic were outlined by **Mr Jaroslav Prazan (Research Institute of Agricultural Economics, Czech Republic)**. According to the proposals of the European Commission, large farms will be more targeted while small farms are excluded from the scheme. It was stressed, that the farm structure is highly distinctive in the Candidate

¹⁰ see footnote 2

¹¹ see footnote 2

Countries, other countries with predominant small farms (e.g. Poland or Slovenia) and other countries with predominant large farms (e.g. Czech Republic or Slovak Republic). Therefore, the impact of modulation will vary significantly. A great part of the farms in the Czech Republic will be targeted by modulation. If the generated funds will be transferred to other countries, the farmers in the Czech Republic will lose funds. However, the impact of modulation on environment and nature in the Czech Republic was regarded as minor as the economic viability of the farms concerned by modulation will not be threatened in most of the cases. Therefore, land abandonment because of modulation is not to be expected.

The focus of the presentation by **Ms Annett Zellei (University of Newcastle upon Tyne, United Kingdom)** was the necessity of strengthening the Rural Development Programmes (RDP), especially with regard to the Candidate Countries, because of the specific situation as well as the economic, social and ecological characteristics in this region.

It was stressed that the vast areas of semi-natural habitats and high landscape and biodiversity value farming systems, usually associated with less intensive forms of production, as well as the threat of further depopulation and land abandonment in marginal areas would not be tackled in a sufficient way by the first pillar. Therefore, modulation was regarded as one important instrument to transfer funds from the first to the second pillar. The rural development programmes were regarded as a key instrument for the future of the rural areas in the Candidate Countries.

Main results of the discussions on modulation:

It was stated that modulation, by achieving a better balance between the first and the second pillar, is an important instrument to enforce the rural development policy, especially needed in the Candidate Countries, and to enhance agri-environmental instruments within the RDP. Furthermore, the discussion was focussed on the redistribution criteria for the funds generated by modulation and the impacts of modulation on farm structures. Regarding the redistribution criteria for the funds, as proposed by the European Commission (i.e. agricultural area, employment and GDP per capita in purchasing power), it was suggested that it include environmental requirements. The impact of modulation on farming structures was controversially discussed. On the one hand, the discrimination of large farms and therefore of countries with a high share of intensive large farming systems was mentioned being thus the main contributors to the generated funds. On the other hand, the necessity of redistribution of the funds was stressed pointing out the current unequal distribution of funds among the differently sized farming systems. In this context, it was discussed to better transfer the modulated funds from intensive to extensive regions or to let the funds flow back to the farmers through the RDP. Having in mind the huge share of small and semi-subsistence farms in some Candidate Countries, the proposed scheme was regarded as better suitable to these countries. Another point of discussion was the capacity of the Member States and the Candidate Countries to use the additional funds. Due to the implementation framework for RDP (i.e. co-financing, additionality condition), administrative and financial constraints especially in the Candidate Countries were highlighted. In order to support the implementation and administration of the RDP measures, institutional building, training and exchange of information between the Member States and the Candidate Countries as well as the training of the farmers were regarded as very important.

2.6. Sixth Session: Flat Rate Area Payments

In the last scenario session, the scenario “Flat Rate Area Payments” based upon the proposals of the European Commission as well as proposals made by research institutes and NGOs was presented by **Ms Tanja Dräger (Ecologic, Germany)**. The scenario highlights the most environment and nature friendly options of the agri-environmental instruments presented in

the previous scenarios. The focus of the presentation was set on flat rate area payments and agri-environmental programmes. Related to these instruments, selected impacts on environment and nature were outlined with an emphasis on the situation in the Candidate Countries. Regarding the flat rate area payments, it was stressed that the unequal distribution of funds as well as the link between subsidies and products would be abolished for all agricultural commodities. Therefore, current disadvantages will be reduced significantly for, e.g. extensive or semi-subsistence farms, non Common Market Organisations, pastures, grassland and fodder crops. However, payments should be differentiated either at the European level by the Member States or at the national level by the regions in order to take into account different production conditions. Regarding the rural development programmes, a significant increase in the RDP budget of around 30-40% and an increase of the co-financing rate was proposed. Furthermore, it was suggested to set at the European level environmental and nature conservation priorities within the RDP in order to ensure that agri-environmental programmes and LFA measures receive an appropriate amount of funds.

The following discussions were introduced by short comments on the presented agri-environmental instruments.

2.6.1. Flat Rate Area Payments

In his comment, **Mr Bernhard Osterburg (Federal Agricultural Research Centre, Germany)** discussed the justification of all kind of direct payments (social, economic and ecological objectives) and the opportunities and possible impacts phasing out this scheme. Regarding the flat rate area payments, it was stated as positive that more funds for marginal and extensive areas would be available compared to the historic, production-oriented, approach of distribution and the major simplification of administration was highlighted as a benefit of the scheme. However, the lack of a clear target of the flat rate area payments was criticised. The impact on land markets due to highly transparent direct support for agricultural land was outlined by means of economic models showing that the flat rate area payments is broad and simple but a poorly targeted support instrument.

Mr Zoltán Waliczky (Royal Society for the Protection of Birds, United Kingdom) presented in his short comment the proposal from BirdLife International regarding the flat rate area payments. According to this proposal, all CAP support should be fully de-coupled from production and replaced within a transitional period of time by a series of non-commodity-specific area payments, agri-environmental and rural development schemes. The benefits of the flat rate area payments were stressed: the reduced incentive for over-intensification, over-production and the reduced incentive to have high levels of livestock. Low-input, environmentally-friendly production methods and sensitive, less productive areas could become more competitive. Furthermore, due to the lower rate of payments, the competitiveness between the flat rate area payments and agri-environmental schemes would be less what could lead to a higher uptake of AEP.

Main results of the discussions on the flat rate area payment scheme:

Although the scheme was regarded to be the most environment and nature friendly option, there were discussions and questions raised concerning the calculation of the flat rate area payments as well as the distribution and differentiation of the funds between the Member States or the regions. It was stated that the redistributive effects would be significant at the national, regional, local and farm level. One of the main tasks would be to define a baseline for the flat rate area payments with the possibility for the Member States to provide top-ups within a transitional period in order to avoid severe redistribution effects (e.g. between regions, farmers and producers or landowners). It was suggested to calculate the payments on a regional basis in order to take into account different production conditions. A further

discussion was related to the scope of the scheme. If the scheme should be focused on agricultural land or rural areas, agricultural commodities or public goods was also debated. Due to the unclear target, the coherence of the flat rate area payment scheme and other CAP instruments were discussed, especially the interaction between this payment scheme and agri-environmental programmes as well as LFAs. The distinction between these schemes would become more difficult and the competition stronger. Flat rate area payments could be regarded as a baseline, whereas AEP and LFA are necessary to meet further objectives. However, it was pointed out, that it would become more difficult to attach cross-compliance requirements to the flat rate area payment scheme due to the smaller amount of funds. As an alternative the single farm bond scheme was discussed.

2.6.2. Agri-environmental Programmes

Ms Alda Nikodemusa (Baltic Environmental Forum, Latvia) provided an overview on the current nature and agricultural situation in Latvia characterised by large areas of high biological diversity and diversity of farming systems but also by a significant trend of land abandonment and development of homogenic areas. Besides a little support from SAPARD, there is no instrument applied for management of valuable nature areas in Latvia, mainly because of the lack of funding. Against this background, the importance of a sound design and implementation of agri-environmental programmes was stressed with the challenge to improve the balance between the maintenance of the mosaic of landscape and richness of biodiversity as well as to improve the competitiveness of farmers while avoiding negative impacts on environment and nature.

Ms Miroslava Cierna (Daphne – Institute of Applied Ecology, Slovak Republic) outlined in her presentation the benefits and constraints of AEP for the Candidate Countries. In the Slovak Republic, AEP are designed under the SAPARD Programme differentiated into basic schemes (without compensation payments) and general, specific and complementary schemes (with compensation) in order to meet specific environmental needs. RDP and especially AEP were regarded as a key instruments to maintain the natural and cultural heritage as well as the social cohesion in Slovakia. For the first time such kind of programme was prepared in co-operation with independent experts and environmental NGOs. While emphasising the importance of RDP and AEP, constraints such as complicated administrative procedures combined with a low awareness and knowledge about the programmes were mentioned. Recommendations such as the adaptation of RDP according to the needs of the Candidate Countries, to increase the national and European budget for AEP and to harmonise the implementation and monitoring of AEP with Natura 2000 requirements were given.

In the last comment, **Ms Viara Stefanova (Ministry of Agriculture and Forestry, Bulgaria)**, gave a short overview on AEP in Bulgaria. Draft proposals of the national agri-environmental programmes have been developed in Bulgaria. As constraints for the successful implementation of the programmes several social and economic factors were stressed such as the problem of depopulation of rural and marginal areas, huge infrastructural problems, lack of knowledge and training opportunities as well as the lack of funds. Highlighting the problem of depopulation, it was suggested to open AEP measures for additional actors such as land owners or NGOs rather than only to farmers. In case of Bulgaria, e.g. one region of high nature value land was proposed by an NGO to be covered by agri-environmental measures but there were hardly farmers left who could have taken up such measures.

Main results of the discussions on agri-environmental programmes:

Although rural development programmes and especially agri-environmental programmes were regarded as an important instrument in favour of environment and nature, several

constraints and questions were raised concerning the implementation, scope and design of the programmes. Regarding the design and scope of AEP, it was stated that AEP were developed and improved for the specific needs of the Member States which are, in some cases, quite different compared to the needs of the Candidate Countries. Agri-environmental programmes for the Candidate Countries should be more targeted to the problems of land abandonment or under-grazing. It was recommended to implement both broad and narrow as well as deep and shallow agri-environmental measures and to define priorities on a regional level. Support for organic farming should be higher and more comprehensive taking into account processing and marketing structures.

The co-financing problem of RDP and the competitiveness within the particular rural development measures were regarded as a constraint for the successful implementation of AEP in the Candidate Countries. Although there is a threat that only a small amount of funds will be spend for AEP in the first period of RDP in the Candidate Countries, the suggestion of setting environmental priorities on EU level for the development of RDP was controversially discussed. The strong need for investments in the farming structure in the Candidate Countries should be recognised.

Another discussion point was set on the demanding administrative procedures not only regarding the design and development of RDP and AEP, but also regarding evaluation and monitoring. In this context, the lack of reliable statistical data was stressed. Besides the lack of data, the low level of education and knowledge on AEP within the farmers community was emphasised. It was claimed that more support should be given for advisory services for farmers at regional and local level and both to administrations and NGOs. The co-operation and exchange of information between the Member States and the Candidate Countries should be strengthened. Furthermore, the development of a best practice manual for AEP was suggested.

3. Conclusions and Outlook

In his conclusions, **Mr R. Andreas Kraemer (Ecologic, Germany)** stressed that the qualitative approach of the scenarios proved to be an useful instrument helping to clarify the various cause-effect relations of the presented instruments of the CAP on nature and environment as well as to clarify the interactions and coherence between these instruments. The discussions produced useful ideas, options, recommendation as well as important new questions regarding the implementation and the impacts which have to be solved in the future. As the focus of the conference and the research project was set on the impact on nature and environment, it was regarded as important to deepen future research projects and conferences with economic and social aspects in order to meet the three criteria of sustainability. Furthermore, it is necessary to carry out more detailed studies regarding the impacts encompassing quantitative approaches as well as economic calculations and models. A need for more exchange of information was stated including conferences and workshops but also on the basis of twinning projects with a focus on capacity building at different levels.

The final conclusions were provided by **Dr. Kilian Delbrück (Federal Ministry for Environment, Nature Conservation and Nuclear Safety, Germany)**. As a preliminary remark the very distinctive conditions in the Candidate Countries were emphasised implying that the following conclusions may not be applicable to all Candidate Countries. However, it was stated that each CAP scheme should minimise the potential negative environmental consequences, maximise positive effects and minimise administrative costs. In order to facilitate a successful implementation and to raise the awareness and acceptance within the administration and the farmers community, the continuous support in capacity building was

stressed. Regarding the particular instruments, it was concluded that from an environmental perspective decoupled payments are preferable in comparison with the current system of direct payments. However, the flat rate area payments would deliver the most environmental benefits, but a long phasing-in-period would be necessary. Having in mind the current proposals of the European Commission, the Candidate Countries should opt for the simplified system rather than for the mixed system. It was stressed that the introduction of the current system of coupled payments would be a dead end particularly when CAP reform leads to a decoupled system for the whole EU. The cross-compliance scheme was regarded as a cornerstone to integrate environmental concerns into CAP, but the required standards should go beyond current EU legal level while the practicability of controls should be guaranteed. Furthermore, it was suggested to consider a phasing-in of the cross-compliance scheme for the Candidate Countries. Modulation was indicated as an essential instrument to transfer funds from the first to the second pillar but the proposed rate by the European Commission of max 6% was considered as too low. The role and the funds of the rural development programmes should be strengthened significantly. Regarding the agri-environmental programmes, it was emphasised that the procedures should be simplified and the extension of this scheme to non-farmers should be explored. The proposed special support for semi-subsistence farms was regarded as malconceived and should be improved taking into account environmental effects whereas the less favoured area scheme should play a more prominent role in agri-environmental policy. It was highlighted that a well designed and well implemented CAP on the national level will deliver environmental benefits in the Candidate Countries although further development and reform of the CAP is necessary. However, for making agriculture more sustainable it is crucial to raise awareness on the effects of agriculture on environment and nature on national, regional and local level regarding administration and farmers community. In this context, an ongoing dialogue within and between all EU Member States and the Candidate Countries was regarded as essential.