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Swedish Society for Nature Conservation

Five steps to a greener and simpler CAP

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The Common Agricultural Policy is failing to deliver its expected results. This is especially obvious regarding ecological sustainability. Even in high priority areas such as climate impact and biodiversity, the attempted "greening" of the last reform has amounted to very little.

But performance is poor also in terms of other key objectives, such as safeguarding adequate farm incomes or strengthening rural economies. And despite repeated demands for simplification, the current CAP support system is the most complex ever.

We believe there is ample space to improve the effectiveness of the CAP, while at the same time reducing complexity. What is needed is mainly a much better targeting of spending to agreed objectives.

Currently, most of the CAP budget is spent on direct payments with few specific requirements beyond compliance with applicable laws. In addition, the distribution of funds is skewed both between and within member states, generally in favour of the richest farming regions. For the individual farmer, the amount of EU support is mainly decided by the geographical location of the farm and by historical "entitlements". It is only marginally influenced by the farm's contribution to EU policy objectives.

This situation needs to be completely reversed in the next reform of the CAP. In order for the policy to effectively deliver on its objectives, farmers must be provided with clear incentives. A greater contribution to EU objectives should be proportionally rewarded, and if there is no contribution, there should be no support. Remaining historically motivated differences in payment levels should be phased out.

It is especially urgent to give European farmers much stronger incentives to improve the sustainability of their production systems. The EU has made far-reaching commitments to agricultural sustainability, for example under the UN Sustainable Development Goals and the Paris Agreement, as well as in its own Biodiversity Strategy. But on the ground, not much has been achieved. A 2015 mid-term review saw "no significant progress" toward the agricultural biodiversity goals. The situation is similar regarding the climate impact of European farming and the "resilient agricultural practices" demanded by the SDG.

In order to meet its commitments, the EU now must make ecological sustainability a central component of the CAP, with specific targets and mandatory requirements both on member states and on individual farmers to show substantial progress.

The decision in the last reform to earmark a sizeable part of the CAP budget for mainstreaming sustainability was a good first step in this direction. But the attempt to achieve a greener CAP by creating a separate system of "greening" payments in Pillar 1 was ill-conceived. It has done little to advance sustainability while greatly increasing complexity both for farmers and member states.

In our view, real progress toward sustainability can be achieved in a simpler and more effective way with pre-existing policy tools. In particular, much better use can be made of the well-established contractual model used in Pillar 2 for support to agrienvironment- climate and other similar measures. It provides for national flexibility by leaving programme design to member states, and it uses transparent criteria for calculating payment levels, making it much more cost effective than the greening payments.

But several factors have so far limited the impact of Pillar 2 sustainability measures.

- *Their voluntary nature.* Member states have not been required to offer support schemes on a sufficient scale, and farmers have not been required to participate.

- *Limited budgets.* Total funding to Pillar 2 has been less than a quarter of the CAP budget, and funding for sustainability measures only a fraction of that.

- *Insufficient risk premia.* Especially in more ambitious sustainability measures, there are considerable transaction costs for farmers, and the risk premia to offset those have often been insufficient.

- *Uneven distribution*. The amount of Pillar 2 funding has been very inconsistent between member states.

- *Co-financing rules*. Pillar 2 funds have required co-financing from member states, whereas Pillar 1 support has not. This has led a number of member states to minimize their Pillar 2 programmes.

These limitations can however be eliminated by only a handful of changes to the CAP structure, which do not involve adding new policy tools or otherwise increasing complexity. On the contrary, they result in a considerable simplification. The following are five key steps we regard as necessary to get the CAP started on its way toward sustainability in 2021.

No greening payments

Greening payments are immediately discontinued. The corresponding budget is added to the Pillar 2 budget to create a new, much larger "green pillar".

The greening payment and the agri-environment-climate payments in Pillar 2 pay farmers for similar measures, but in different ways. In the greening payment, there is no direct link between what the farmer commits to do and the remuneration received. Greening payment levels follow basic area payment levels. This means that they vary considerably both between and within member states, and tend to be higher in richer farming regions. Overall, this leads to payments far above the actual cost to the farmer of the required measures.

Sustainability objectives are better served by transferring relevant measures from the greening obligations to an expanded Pillar 2. Because the contractual support model is more cost-effective, more can be achieved with the same budget. It will be possible to increase both the range of measures and the number of participating farms, and to make a fresh start with more ambitious measures where the greening payments are most obviously failing, for example in the biodiversity component (EFA).

Mandatory sustainability measures

All member states are required to offer farmers "green pillar" support for several types of sustainability measures, each with a specified minimum spending threshold.

The obligation to offer sustainability support should reflect the commitments made by the EU in at least three main categories: protection of biodiversity and ecosystem services, reduction of climate impact, and resource efficiency, for example the substitution of chemical inputs by nutrient recirculation and non-chemical plant protection methods. It should also be mandatory to offer support for organic agriculture, which is a whole-farm approach incorporating all three categories.

Funding for these measures will be allocated to member states with the condition that any unused funds will periodically revert to the EU budget for reallocation to member states which have successfully spent their initial allocation.

Expanded co-financing

The national co-financing requirement is expanded to all forms of CAP support, with a common standard co-financing rate.

The gap between high national co-financing for Pillar 2 measures and none at all for Pillar 1 support has been an impediment to the expansion of Pillar 2. There is no sound rationale for keeping this discriminatory structure. If anything, it would make sense to require *less* national co-financing for Pillar 2 measures, which generally require farmers to make a substantial contribution to common EU objectives.

We propose that a standard co-financing rate is fixed at a level which preserves or slightly increases the sum total of member state co-financing contributions. This would be a much lower percentage than the present standard rate in Pillar 2, but yet high enough to create a sense of national ownership and responsibility also for Pillar 1 spending.

A lower rate, even zero, could be envisaged for support measures with a high contribution to EU objectives, such as very demanding sustainability measures. A higher rate could be considered for measures with little or no relation to common objectives.

With this structure, the two pillars are no longer distinct, and could be collapsed into a one-pillar model with one common funding source. While not a necessary step, this would further simplify the CAP.

Conditions on income support

To qualify for any form of income support a farm must participate in at least a basic set of "green pillar" sustainability measures.

More than half of CAP spending consists of income support in the form of area payments, natural constraint payments and coupled payments to specific sectors. These are currently paid without any conditions beyond compliance with applicable legislation (cross-compliance).

In view of the major changes necessary to achieve sustainable agricultural production systems in the EU, sustainability incentives need to be introduced into the income support schemes as well. In order to qualify for continued income support, all farms should be required to make at least a basic contribution to the sustainability objectives, over and above the legislated requirements.

We propose that this is done by requiring participation in a set of basic sustainability measures from the "green pillar", comprising elements from all three main sustainability categories: biodiversity, climate and resource efficiency. A farm which does not fulfil this requirement will not be eligible for area payments or any other form of income support from the CAP.

With this solution, there is no longer any need for the cross-compliance framework, which can be abolished, again simplifying the CAP structure. If some elements of present cross-compliance rules need to be retained, they can be included in the criteria for the mandatory sustainability measures.

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Phase-out of non-targeted income support

In the longer term, non-targeted income support such as area payments should be phased out altogether. This process should be given time, but start immediately.

The CAP should be based on targeted payments for specific objectives, not on blanket support with unclear rationale. Current non-targeted area payments are not even an effective means to their stated goal, income support. They disproportionately favour highly mechanised farms with large surface area, primarily cereal producers without animals, and the great majority of payments go to farms with over median income.

Nevertheless, the phase-out of non-targeted income support needs to be approached with great care in order not to force large numbers of farmers out of business. Direct payments on average constitute nearly half of farm net income, in some sectors all of net income. Income support in different forms have been a part of the CAP since its inception, and markets have adapted to a situation where part of the food bill is paid by taxes. To return to a market situation where the full cost of food production is covered by food prices will require political support, including a reconsideration of food trade policy.

The phase-out should primarily take place by gradually converting non-targeted support, such as the general area payments, to targeted forms distributed according to objective criteria, along similar lines as the natural constraints payments. This will reduce spending in regions and sectors where the farm economy is strong of its own accord, while possibly even increasing support in areas where farming is economically depressed. But overall, this process should result in savings which can be redirected to for example further strengthening sustainability incentives.

An optional simplification which could be explored is to merge basic area payments with natural constraint payments and coupled support in a unified structure with common eligibility criteria.