

The Environmental Dimension of the Common Agricultural Policy – An Overview

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1. Introduction

Since the Amsterdam Treaty (1997), the achievement of “balanced and sustainable development” has been mentioned, together with the promotion of economic and social progress and a high level of employment, as the first overall objective of the Union (Article 2 of the TEU), theoretically embracing, therefore, all its three pillars.

The promotion, however, of “a harmonious, balanced and sustainable development of *economic activities*” is the principal task of the first pillar (that is, of the EC) that should be achieved by (among other things) “implementing common policies or activities” (Article 2 of the TEC).

The term “sustainability”² entails by itself preservation of certain values related, in particular, with natural resources in a way that their exploitation to cover needs of the present does not limit or destroy the abilities to cover similar needs in the future³.

In this sense, the spheres of environment and agriculture, dealing both with the available geo-physical resources (land and water uses, in particular), evidently rely on their long-term “sustainability”. Any policies, therefore, to be applied in these spheres under the umbrella of “sustainability”, can not be understood without a strong interdependence between them.

Concerning agriculture, it is widely known that the inclusion of agricultural products into the rules of the Common Market, which gave birth to the CAP, was a decisive factor as such, for the establishment and the formation of EEC in 1957. The CAP was not only among the first policy areas to be established in the framework of the EEC, but it also became the most comprehensive and the most important common policy ever developed by the EU, in terms of integrity and budget at least. In addition, due to the almost

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² To the European understanding, sustainability covers not only the environmental dimension but also the economic viability and social aspects of a sector.

³ See, “5th Environmental Action Programme (EAP)” of the European Commission, *Towards Sustainability: a European Community Programme of Policy and Action in Relation to the Environment and Sustainable Development*, (EJ No C 138/1993, p. 1).

exclusive competence of EU in deciding the rules and mechanisms to be applied in agricultural economy, CAP has become a cornerstone in the integration process itself.⁴

Concerning environment in total, the most important regulatory activities of EU took place in the period between 1980 and 1993. From the point of view of competence, the intervention of the EU in environment, as retained in Articles 174-176 of the TEC, is based on the subsidiarity principle. The EU initiatives in this area aim only to “contribute” to the pursuit of certain general objectives, practically becoming a supplement to the relevant national policies applied by the Member States. From another point of view, however, the EU involvement in integrating environmental issues into other policy areas took effect in the Single European Act in 1987 but began to take a more concrete shape only after Maastricht Treaty (1992). In this sense, although environment cannot be considered strictly as an area of economic activity, the regulative formulation of the environmental integration into the other policy areas emerged largely as a result of the completion of the Single Market. It was induced by the increasing awareness of the civil society on the impact of the economic developments on the global environment.

In any case, the link between the two policies, one of the oldest and one of the newest ones at European level, has become legally bound since Article 6 of TEC explicitly states that

“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”

Due to the environmental significance of agriculture, the CAP was obviously one of the first sectoral policies to be broadened by this perspective⁵.

Indeed, it is generally accepted that, from 1992 onwards, the first five traditional and well-known objectives of CAP, included in Article 33, have been *legally* enriched by three “horizontal” ones. The CAP has also to serve the environmental protection (Article 6), the human health protection (Article 152), and the strengthening of the economic and social cohesion (Article 159)⁶.

Since then, environmental protection has become an unavoidable parameter in scheduling the future of CAP. After all, in the course of the political process that started after the Cardiff Summit in June 1998, the EU Council of Ministers for agriculture formulated its own strategy towards integration of environment into agriculture in Helsinki (November 1999)⁷.

⁴ For an outline of the origins and the basic principles of CAP, see Pezaros (2000b), second section.

⁵ Within the 5th EAP, Agriculture has been selected as one of the five target sectors for environmental integration. For more information, see references, Unfried (2000).

⁶ See, Pezaros (2000b), p. 55-56.

⁷ See Unfried M. (2000) and Buguña Hoffmann L. (Ed) (2000).

The present paper aims to give a comprehensive overview of the environmental dimension of CAP, as it has developed during its operation for almost half century. For this purpose, it is divided into five sections. The second section highlights the most important legislative environmental measures taken by the (then) EEC, which are directly or exclusively related to agriculture and agricultural activity. The third section is focused on the environmental elements of the 1992 reform of CAP, which practically constituted a turning point in relation to bringing CAP closer to environmental concerns. The fourth section is dedicated to the latest developments of the Agenda 2000 CAP reforms, as regards, in particular, the links between the rural development policy and the agri-environmental targets as well as the steps towards integrating further and more rapidly the environmental protection requirements into the CAP. Finally, the paper summarises some hypotheses concerning the future prospects of fully integrating environmental concerns into the CAP and effectively promoting a sustainable development for European agriculture.

2. Environmental challenges and actions of the (then) EEC in the field of Agriculture

There is no doubt that agricultural activity has developed over centuries a symbiotic relationship with the Continent's flora and fauna. In connection with the specific geology and climate in Europe, it has given a unique shape in its landscape and its bio-diversity, characteristics that constitute an inseparable part of the total European natural and cultural heritage. In the second half of the last century, however, due to technological progress and the progressive commercialisation of the sector, traditional practices were gradually abandoned. The intensive exploitation of natural resources and the specialisation of holdings in both the livestock and arable sectors have given ground to practices that can have widely harmful effects to the environment. The trend towards such intensive practices is the result of productivity-centred farming. The comparative profitability of farming, through maximising productivity and efficiency and minimising production costs, has led farmers to often prefer financial considerations to sustainability of the agricultural productive activity. Major threats to the environment coming out of these practices are considered to be:

- The expansion of irrigation methods and the excessive use of water resources exceeding the rate of replenishment, which have serious repercussions for the ecosystems and the water quality;
- The over-use of chemical fertilisers (nitrates, phosphates, potassium-based), which impoverishes the soil, contaminating also water resources and highly contributing to eutrophication of marine and coastal areas;
- The use of excessive pesticides and herbicides, which allows residues to enter into soil and water;
- The intensive animal farming, which creates (locally) huge waste and is the major source for ammoniac emissions, leading to soil and water acidification and contributing to damage to forests (through acidity in rainfall);

- The soil erosion due to improper practices without protective anti-erosion measures (cultivation on sloping lands, monocultures, desertification, water-logging, salinisation, contamination by pesticides and heavy metals, etc)
- Forest fires, particularly in connection with the gradual abandonment of land;
- Marginalisation of land due to rural depopulation, leading to severe damage of the shaped bio-diversity;
- The degradation of biodiversity due to draining, contraction, destruction of wetlands or other human interventions, for which agriculture is largely responsible.

In this respect, environmental damage became gradually one of the biggest stains in the reputation of the European farming. To deal with the most acute of the above problems that became visible in 1980's and early 90's, the EU took certain initiatives in the framework of its general environmental policy, *outside* the area of CAP. Despite the fact that these policy measures are dealing with the environment in general, rather than with specific agri-environmental measures, it is evident that they are of major significance for agriculture as they are directly or exclusively related with the agricultural activity. Despite, most of them formed the basis for the so-called "good agricultural practices" to be applied by farmers. The most important measures are dealing with:

- Water protection
- Nitrates
- Pesticides
- Habitats and Wild Birds (Natura 2000 network)

Taking the form of Directives rather than Regulations, the implementation of these measures heavily depends on the national administrations, which are obliged to build in the required capacities for compliance with and enforcement of the EU legislation.

Protection of water resources

The impact of agricultural activity on water resources is obviously of a critical importance for the whole environment but their relationship is considered to be an extremely difficult issue to be dealt with⁸.

Generally, this relationship is characterised by two main aspects: A quantitative aspect connected with the problem of water scarcity, and a qualitative one connected with the water pollution caused by several agricultural practices, some of which have been mentioned above.

Concerning the quantitative aspect, the water management exercised for agricultural purposes, which is the oldest and most traditional practice in farming, has reached a critical point, due to the vast expansion of irrigation and/or the excessive drainage of wetlands. Both practices have severe repercussions for wildlife and ecosystems. In

⁸ See, P.Strosser, M.Pau Vall and E.Plötcher: "Water and agriculture: contribution to an analysis of a critical but difficult relationship", in European Commission (July 1999).

addition, intrusion of seawater into fresh water zones in coastal areas leads to salinisation, largely due to over-pumping for irrigation purposes.

Several actions and measures that have been introduced and implemented within the CAP (e.g. set-aside, agri-environmental schemes, organic farming, etc) are considered to contribute to a reduction of the impact of agricultural activity on the availability of water resources. An institutional framework, however, for a sound water resource management for agricultural purposes is still lacking at European level.

Concerning the qualitative aspect, important European initiatives had been promoted early. Following the first Action Programmes of 1973 and 1977 on the Environment, the EEC introduced a series of Directives⁹ with the aim to protect the sources of water and/or safeguard its quality. The Directives do not make any direct reference to agricultural practices. However, they fixed the norms necessary for assuring the protection of human health from various toxic and other dangerous substances. Among other things, the above mentioned Directives lay down the undesirable substances entering into the water from various sources and sets EU standards to safeguard drinking water supplies, surface and ground waters. These substances, for which maximum limits into the water are specified, include nitrates, phosphates, pesticides, azote, etc, the major source of which is the commonly used agricultural practices.

In this respect, the EU water legislation formed the legal basis for taking specific actions to remedy the problems associated with agricultural activity. The most important steps were the legislative measures concerning the nitrates associated with the excessive use of fertilisers, the pesticides residues and the livestock effluents.

Nitrates (Directive 91/676/EEC)

The Nitrates Directive¹⁰ emerged after noticing by EU scientific bodies that the nitrate content of the water in certain regions exceeded the levels set by the drinking water Directives, as above. It aimed, therefore, to improve the quality and protect the aquatic environment from pollution caused by nitrates, which are released through chemical fertilisers, animal manure and natural deposition from crops and livestock production. Among other things, it lays out standards for the use of nitrogen in farming and, as a result, has clear implications for the agricultural sector and the rural communities.

⁹ Council Directive of 75/440/EEC of 16.6.1975 concerning the quality required of surface water intended for the abstraction of drinking water in the Member States, (OJ No L 194, 25.7.1975, p. 26), as amended by Directive 79/869/EEC (OJ No L 271, 29.10.1979, p. 44). Council Decision 77/795/EEC of 12.12.1979 establishing a common procedure for the exchange of information on the quality of surface fresh water in the Community. Council Directive 80/68/EEC of 17.12.1979 on the protection of groundwater against pollution caused by certain dangerous substances, (OJ No L 020, 26.1.1980, p. 43). Council Directive 80/778/EEC of 15.7.1980 relating to the quality of water intended for human consumption (OJ No L 229, 30.8.80, p. 11).

¹⁰ Council Directive of 12.12.1991 “concerning the protection of waters against pollution caused by nitrates from agricultural sources” (91/676/EEC). [EJ No L 375, 31.12.1991, p. 1]

The Directive sets certain criteria for identifying waters affected by nitrate pollution and calls the Member States to establish action programmes in respect of vulnerable zones. In particular, the Member States are obliged to take all the measures (adopting laws, regulations, and administrative provisions) necessary to comply with the obligations laid down in the Directive. Much therefore is relied on the Member States' willingness and ability to establish and promote a code of "good agricultural practice" to be implemented by farmers on an obligatory basis.

Implementation of the Directive assumes significant changes in agricultural practices. The imposition of application standards, in particular for nitrogen from livestock waste disposals, induces to better nitrogen management. It can be considered, therefore, as a policy measure contributing to less intensive methods of production. In addition, several efforts have been made to enforce the Directive with the "prevention at source" and the "polluter pays" principles, requiring that minimum environmental standards be respected by the farmers without receiving compensation.

However, although adopted in 1991, the Directive is only recently being implemented by most Member States. The national administrations were often accused by the Commission for the non-transposition of the Directive into the national policy and/or for their incorrect application¹¹. This deficiency of compliance could be partly attributed to the lack, in so far, of clear codes of "good agricultural practice" either at Community or at national level. To a certain extent, however, this illustrates the difficulties faced by the national administrations to impose, without adequate incentives, standards which imply a much higher cost for the intensive production units, but also the long delays often involved in the implementation of similar technical issues, for purely administrative reasons.

As a result, and despite the efforts to enforce the Directive, pollution from fertilisers continues to be a problem. Agriculture still accounts for the major share of the nitrate and phosphorous pollution of water in most Member States, and this appears to be higher than in other OECD countries (Canada, Australia, NZ)¹².

Pesticide residues

Chemical pesticides, one of the most important inputs in modern production, are used by the farmers for the protection of plants, plant products and livestock feed from harmful organisms and weeds, with the aim to increase yields and productivity. However, as they are generally toxic (carcinogenic) substances, their untested, unauthorized and/or improper use involve high risks and hazards, since their residues in foodstuffs are obviously extremely dangerous to human and animal health. Beyond a certain level, the

¹¹ A recent example illustrates the insistence of the Commission to take legal actions against the Member States when they failed to comply with the obligations derived from the said Directive. UK was recently condemned by the European Court of Justice to pay the costs for pollution of waters in its territory caused by nitrates from agricultural sources. See, Case C-69/99 and the final judgement of the Court of 7.12.2000 on it (OJ No C 118, 21.4.2001, p.2). See also references, European Commission (Jan. 1999), p. 11.

¹² See references, OECD (2000).

residues affect also directly the environment and biodiversity, by polluting all the natural resources, water, soil, and air.

With the aim to reduce the risks from the use of plant protection products to public health and the environment, a series of Directives have been adopted, establishing and regulating the EU Maximum Residues Limits (MRLs) of pesticides in various products, in particular:

- Fruits & Vegetables¹³;
- Cereals¹⁴;
- Products of animal origin¹⁵.

Another series of Directives deal with the harmonization of the various national rules, in the framework of the operation of the Single Market, determining the uniform principles, conditions, arrangements and procedures related to the classification, packaging and labeling of dangerous preparations (pesticides)¹⁶ and active substances¹⁷. Registration and control of sales, as well as of the use of pesticides before they are placed on the market have also been addressed by another highly technical Directive¹⁸.

Generally, the rules are following the principles of “good plant protection practice” and “integrated controls”, while the specific technical issues are often under “regular” amendments, following, each time, new scientific and technical knowledge coming out of laboratory research and/or various direct surveys to farmers on use of pesticides.

As a result of all the above actions, the use of pesticides in the EU has fallen by 24% between 1985 and 1997 according to OECD estimates¹⁹, but this success should not be interpreted as having solved all the problems related with the whole issue.

The Habitats and the Wild Birds Directives²⁰

With the aim to protect and promote bio-diversity, part of which consist of especially valuable habitats, both Directives touch various policy areas, requiring Member States to take necessary measures for their conservation in, at least, certain protected sites, which have to be notified to the Commission²¹. Under these Directives, the species under threat

¹³ Council Directive 76/895/EEC of 23.11.1976 (OJ No L 340, 9.12.1976, p. 179) and Council Directive 90/642/EEC (OJ No L 350/71, 14.12.1990, p. 71)

¹⁴ Council Directive 86/362/EEC (OJ No L 221, 7.8.1986, p. 37) as last amended by Directive 94/29/EC (OJ No L.189, 23.7.1994, p. 67)

¹⁵ Council Directive 86/363/EEC (OJ No L 221, 7.8.86, p. 43)

¹⁶ Council Directive 78/631/EEC of 26.6.1978 (OJ No L 206, 29.7.1978, p. 13), and its amendments.

¹⁷ Council Directive 67/548/EEC of 27.6.1967 (OJ No 196, 16.8.1967, p. 1).

¹⁸ Council Directive 91/414/EEC of 15.7.1991 “concerning the placing of plant protection product on the market” (OJ No L 230, 19.8.1991, p. 1).

¹⁹ See OECD (2000).

²⁰ Council Directive 92/43/EEC of 21 May 1992, “on the conservation of natural habitats and of wild fauna and flora” (OJ No L 206, 22.7.92, p. 7) and Council Directive 79/409/EEC of 2.4.1979 “on the protection of wild birds and their habitats” (OJ No L 103, 2.5.1979, p. 1)

²¹ The implementation of the Habitats Directive requires that Member States should have to notify the Commission their protected sites till 10.6.1998. However, several Member States (D, F, IRL, NL, P) have

are identified and designated. In this framework, a number of important sites in each Member State are identified on the basis of certain common criteria and included in the well-known *Natura 2000* network to be supported by EC financing²².

These regions certainly include agricultural zones. Most of the natural habitats covered by *Natura 2000* are in agricultural or wooded areas created and maintained by farming or generally human activity. However, the *Natura 2000* network does not confine the habitats that depend on the continuation of traditional farming practices. Both, intensification of farming and/or abandonment of agricultural land in marginal areas are the main reasons for the discontinuation of such practices, and this leads to decline and loss of the farm-dependent bio-diversity. In this respect, incentives provided for the maintenance of traditional farming through various agri-environmental programmes serve also the integration of bio-diversity concerns into agriculture.

There is, therefore, a close interaction of the sites included in the Habitats Directive with the agri-environmental measures, such as reducing or ceasing the use of fertilizers and pesticides, maintaining rotational practices, the Less Favoured Areas (LFA) compensatory schemes, organic farming, etc, most of which are already part of the rural development policy (see next sections). In this respect, it should be mentioned that, since the responsibility for strengthening rural development measures lies in the hands of the Member States, this interaction implies a planned reorientation of the relation (or conflict) between Agriculture and Nature Protection adapted at local conditions. The implementation, in particular, of Habitats Directive heavily depends on the acceptance of balance and the degree of co-ordination established among various social actors with potential competing interests (farmers, environmentalists, officials in “opposing” Ministries, tourism agents, and other groups, which are directly involved in this)²³.

In general, it could be argued that protecting wildlife, as well as controlling nitrates, still have not been enforced properly by Member States, while the Commission’s powers in taking legal actions and using court cases as tools of enforcement have proven rather toothless.

Environmental elements of CAP before 1992

From the very beginning, the CAP has been established principally as a market policy. The objectives of the CAP did not include but only a vague reference on the structural dimension of agricultural activity. In particular, the second paragraph of Article 33 included that

failed to draw up the lists of their protected sites within this deadline. The Commission has also begun separate legal proceedings against ES and S for their inadequate implementation of the Directive.

²² Under the new EU budget programme, compliance with the Habitats Directive is a precondition for structural assistance. Failing, therefore, to implement this Directive may lead the Commission to withhold payments from Structural Funds.

²³ See L. Louloudis & N. Beopoulos, “Broadening the traditional sectoral perspective on agricultural policy in Greece”, included in F. Brouwer & J.v.d. Straaten (Eds), (in references).

“In working out the common agricultural policy and the special methods for its application, account shall be taken of (a) the particular nature of agricultural activity, which results from the social structure of agriculture and from structural and natural disparities between the various agricultural regions”.

Within this legal framework, the first structural operations adopted to support the improvement of agricultural structures²⁴ could be considered as having a positive impact to the environment too, although this was not their principal target. In this respect, some further steps of particular importance, gradually introduced into the CAP and directly related with certain environmental aspects, should be mentioned in brief:

- **Directive 75/268/EEC**²⁵ introduced a particular scheme of aids applied to farmers, who were active in mountainous and less-favoured areas (LFA). By recognising the particularly unfavourable conditions of farming in certain zones, the LFA scheme aimed principally to supplement agricultural incomes as a means of fighting against the agricultural and rural exodus, most responsible for the abandonment of land. The Directive explicitly stated that farmers had a fundamental role to play in preserving the natural environment of these areas and emphasised the need to support the continuation of farming in these zones. The Member States were responsible to identify the zones eligible for the scheme, in accordance to certain criteria set in Article 3 of the Directive. Furthermore, regions that might not meet with the general criteria (e.g. coastal or tourist areas) but they still have had weak farmlands affected by specific disadvantages, and in which the continuation of farming was considered important for the preservation of the whole natural environment, could be included in the same scheme.
- **Regulation 797/85**²⁶ introduced a scheme of measures co-financed by the Guidance Section of EAGGF, within the spirit of the first structural Directives of 1972 mentioned above, aiming at improving the efficiency and the development of agricultural structures. The principal objective of the scheme was to contribute to the overall economic and social development of the regions, on the basis of Community concepts and criteria, by encouraging actions that would improve the income and the living conditions of the farmers. Among other things, the scheme encouraged the creation of agricultural associations and the formation of groups of farmers for a more rational common use of equipment in farming operations. It focused, however, on providing aids for investments and other measures to assist towards the structural adaptation and the rationalisation of the holdings, in particular of the LFA regions. Despite, the scheme included, at the same time, certain provisions aiming at “ensuring the permanent conservation of the natural resources of agriculture” (Article 1). In this respect, aids were granted for joint investment schemes for land

²⁴ Directives of 17.4.1972, No 159/72/EEC concerning the modernisation of agricultural holdings, No 160/72/EEC concerning the encouragement to cease agricultural activity and No 161/72/EEC concerning qualifications for people working in agriculture (OJ No L 96, 23.4.1972)

²⁵ Council Directive 75/268/EEC of 28.4.1975 on mountain and hill-farming and farming in certain less-favoured areas (OJ No L 128, 19.5.1975, p. 1).

²⁶ Council Regulation (EEC) No 797/85 of 12.3.1985 on improving the efficiency of agricultural structures (OJ No L 93, 30.3.1985, p. 1).

improvement and conservation of the countryside and the environment. A more direct reference to environmental considerations was made in *Article 19*, according to which the Member States were allowed to introduce nationally budgeted schemes in environmentally sensitive areas (subject to approval procedures of the Commission) and subsidise the maintenance or adoption of farming practices friendly to environment. By excluding these optional actions from co-financing, however, this provision failed to raise the interest of most Member States in taking advantage of this provision. It had a rather marginal impact on the environmental dimension of the European agriculture in total, since only four of the most financially and administratively advanced Member States (D, NL, DK, and UK) actually implemented this provision. Article 20 also introduced some forestry measures, authorising the M-S to grant aid as an incentive for the afforestation of agricultural land. The inherent objective, however, of the latter was to control surpluses, rather than to protect the environment.

- ***Regulation 2328/91***²⁷ aimed at speeding up the adjustment of agricultural structures with a view to the next 1992 reform of CAP, as dictated by the diversification of the Community regional areas in accordance to the well-known five priority Objectives introduced under the Delor's package (1988)²⁸. Practically, the new Act replaced Regulation 797/95 and its numerous amendments, by consolidating most of the previous relevant provisions dispersed in the *acquis*, as regards the improvement of the efficiency of agricultural structures. Although the primary target of most provisions remained to "help restore the balance between production and market capacity", the new scheme went one step forward. It included into its objectives "the safeguarding of the environment and the preservation of the countryside, including the long-term conservation of natural farming resources" (Article 1.1.iv). In this respect, the environmental dimension of measures encouraging set-aside of arable land, conversion and extensification of production, aids for investments, LFA scheme, afforestation, etc, was considerably strengthened. Young farmers (under 40 years of age), in particular, were further encouraged to undertake plans and granted higher amounts of aid for investments for the purposes of environmental protection and improvement (Article 12).

- ***Organic Farming***

Organic farming, initially introduced by *Regulation 2092/91*²⁹, is a type of production that involves less intensive use of land by applying cultivation practices, which exclude or significantly restrict the use of synthetic chemicals. It is considered, therefore, that it contributes significantly towards the protection of the

²⁷ Council Regulation (EEC) No 2328/91 of 15.7.1991 on improving the efficiency of agricultural structures (OJ No L 218, 6.8.1991, p. 1).

²⁸ For an outline of the Delor's package, see references, Bollen (1999) and Pezaros (2000b).

²⁹ Council Regulation (EEC) No 2092/91 of 24.6.1991, on organic production of agricultural products and indications referring thereto on agricultural products and foodstuffs (OJ No L 198, 22.7.91, p. 1), as last amended by R. (EC) No 1935/95 of 22.6.1995 (OJ No L 186, 5.8.95, p. 1).

environment and the conservation of the countryside³⁰. The EC initiative was a response, just before the CAP reform of 1992, to an increasing trend of consumers' demand for organically produced crop products and foodstuffs. The above Regulation was supplemented much later by extending equivalent provisions to cover livestock products³¹.

The relevant legislation lays down principles and detailed rules to be followed on production, processing, labeling and imports of organically produced products, while it requires strict inspections and controls in all these stages, which would ensure the credibility of such products in the eyes of consumers. As the Commission puts it, "maximum reliance is placed on self-regulating agro-systems, locally or farm-derived renewable resources and the management of ecological and biological processes and interactions. Dependence on external inputs, whether chemical or organic, is reduced as far as possible"³².

The use of organic farming methods can have beneficial environmental, social and economic effects, covering, therefore, all the three dimensions of sustainability in agriculture. Concerning the environment, the benefits are resulted through two ways:

- Substantial reduction of agricultural pollution caused by the use of chemical fertilizers and pesticides;
- Encouragement of extensification.

Organic farming had a remarkable expansion in a rather short period, covering farmland from 0.7 million ha in 1993 to 2.7 million ha in 1998, even if, in relative terms, it is still very small, taking up a little more than 2% of all EU land devoted to agricultural production.

The shift of emphasis towards organic farming became even clearer recently, after the re-appearance of the BSE crisis, the dioxin contamination, the Foot and Mouth Disease (FMD). These developments have led a considerable part of the public to consider conventional agricultural production systems as directly related to the environmental and food safety problems caused by the intensification of production. Organic farming is seen to have won the trust and confidence of the consumers. It is expected that it will play a decisive role in improving food quality in the future, in particular because the notion of quality has gone beyond specific products and become a social requirement. It can therefore serve as a "role model" for the rest of the farming in the EU.

As a result, policy makers have also shown a strong tendency to consider organic production as a potential alternative to conventional systems. Many EU farmers also

³⁰ In fact, R. 2092/91 was a preamble of the agro-environmental package introduced under R. 2078/92 as an accompanying measure of the 1992 reform.

³¹ Council Regulation (EC) No 1804/99 of 19.7.1999, supplementing R. (EEC) No 2092/91 on organic production of agricultural products and foodstuffs to include livestock production (OJ No L 222, 24.8.99, p. 1)

³² See Section on "Organic Farming", by P. Hau and A. Joaris of Eurostat, in European Commission (July 1999).

have responded to this tendency, showing even greater willingness to convert their production into organic, as long as they have adequate incentives to do so and they can enjoy higher market prices for organic products.

In this respect, strengthening the new role of organic farming means that much work has to be done in the regulatory area. Revising the annexes of relevant Regulations and establishing harmonised standards for EU trade with third countries, has become a priority at EU level³³.

There is yet limited scientific support, however, on whether organic farming has no actually any harmful effect to the environment. It has been argued³⁴, for instance, that the recycling of organic matter could increase heavy metal concentration in the soil. The ploughing-in of legumes to provide nitrogen may increase in the leaching of nitrates into groundwater, etc. On the other hand, it is also argued that large-scale farms and conventional agriculture are not always harmful if run in accordance with good agricultural practice. It is the intensity of farms not the scale, which leads to overproduction in unhealthy circumstances and environmentally damaging practices. Therefore, organic farming would not necessarily make any significant contribution towards consumers' safety and the overall protection of the environment, while the unilateral promotion of organic production may jeopardise the competitiveness of EU agriculture and leave it permanently dependent on subsidies. In this sense, there is still a long way to go before any definite conclusions are extracted, concerning the positive impact of organic farming on environment.

As it has been shown above, it could be argued that, in general, the selective environmental elements, which had been incorporated into the CAP before 1992, were rather limited, inadequate, dispersed, and could not be considered as serving targeted environmental values as such. They were part of structural operations in agriculture, the main objective of which was to curb surpluses of production and/or adapt the agricultural holdings faced with difficulties to secure a fair agricultural income. They were, therefore, a kind of "side-effect" of other objectives at that time.

However, these elements formed the basis for developing further the environmental dimension of CAP later, in a more comprehensive way, within the framework of a sustainable rural development strategy.

3. The 1992 CAP Reform: A turning point

³³ The importance of enforcing the organic livestock rules, for example, is illustrated in the following case. According to R. 1804/99, conventionally bred animals can be brought on to an organic farm (up to 10% of the total herd) to bolster stocks, but it should be secured that these animals are from BSE-free herds. However, in March 2001, a first case of BSE was reported on an organic farm of a French region. The infected animal had been fed MBM (meat and bone meal) since its birth in 1993 until 1996 when the farm converted to organic production (See *Agra Europe*, No 1945, 30.3.2001).

³⁴ Uppsala Conference on "Food Chain 2001", 8.4.2001

To serve its initial objectives, the CAP was scheduled on the basis of a price support mechanism. At the time of its inception, the dominated view expressed by all the founders of EEC and, in particular, by the two major players, France and Germany, was that this mechanism was the most appropriate means of attaining a rapid growth of productivity in the sector to ensure the required availability of agricultural supplies, effectively securing, at the same time, the agricultural incomes. It was expected that this automatically would also serve the non-production functions of agriculture, like the conservation of the countryside and the maintenance of the rural communities.

Undoubtedly, the application of the price support mechanism, being directly linked to the volume of production and trade, proved to be the most adequate incentive, which easily allowed the EC to reach from an absolute deficit to a considerable surplus of production of the main products. It succeeded, therefore, in attaining most of the principal objectives of CAP rather quickly. It is highly questionable, however, whether the “non-production functions” mentioned above had been met through the high guaranteed prices of the system, which encouraged large-scale intensive farming, rather than any kind of conservation.

In this respect, the 1992 reform represented a first radical step of a long process towards changing the basic production pattern of CAP, from a price support system towards a direct income support. Its principal aims were to reduce market surpluses, to make agricultural products more competitive in the world markets, to secure more effectively the agricultural incomes and to put the support and protection mechanisms under the rules and disciplines of the WTO trade system³⁵.

The key issues of the 1992 reform were a gradual reduction (for the first time in the history of CAP) of the intervention prices in basic products and the introduction of *direct payments* (DPs) to compensate farmers for their loss of income. This changeover of the system resulted in making the DPs the most important measure of support, in particular for cereals, increasing gradually their share in the Agricultural Budget.

It should be noted that, the adoption and the implementation of the reform coincided with the full operation of the Single Market and the ratification of the Maastricht Treaty. It was not accidental, therefore, that the reform included also some clear environmental targets, with the purpose to alleviate some of the pressure imposed by the increasing trend towards intensification.

There was, therefore, a two-fold approach towards the direction of making the CAP more environmentally friendly. Some indirect environmental benefits derived from the shift of policy as such, and a few environmental elements were introduced into the common market regimes (COAMs), while specific agro-environmental measures were developed

³⁵ For a brief description of the Uruguay Round Agreement for Agriculture (URAA) under GATT/WTO, see references in Pezaros (1999).

to *accompany* the market measures of the reform, under the form of integrated structural operations in the agricultural sector³⁶.

The objectives of the *market policy measures* were to reverse the most harmful effects of the high price support levels and/or to discourage intensive and polluting practices applied in agriculture. The most important effects, most of them indirect rather than direct, could be summarised as follows:

- As long as the reduction of prices became a disincentive for intensifying production further, it could be argued that, indirectly, it had a positive impact to the environment. This impact, however, could not be considered as high as it could be, due to fact that the intended reduction of prices was rather diminished by various factors and reasons³⁷.
- The size of DPs was not based on price and/or volume of output. They were fixed on the basis of historical regional yields and allocated on the basis of limiting-production programmes (for large producers). To a certain extent, they could also be considered as a disincentive to intensification.
- The set-aside scheme became compulsory for the large farmers, as a means of limiting the massive surpluses of crops, in particular of cereals³⁸. This implied the rotational release and recovery of arable land.
- Bovine livestock premiums were granted up to a certain number of animals per holding (90 Livestock Units) and up to a certain stocking density (2 LU per hectare of fodder surface), therefore, conditional (though optionally) to environmental requirements.
- Extensification premiums, introduced by Regulation 2328/91, were applied on the top of the normal livestock premiums and served as an additional incentive towards making market measures more compatible to the environment. They were granted on the condition that the stocking density of animals did not exceed 1.4 LU/ha.
- The fruit and vegetable regime, reformed under the same spirit in 1995, introduced aids to producer organisations (PO), obliged to ensure the adoption of environmentally sound production techniques.

The *agri-environmental measures*, on the other hand, were included in the well known three “*accompanying measures*” and took the form of aid schemes to the farmers. They became an indispensable part of the reform package and their aim was to promote:

³⁶ It is obvious that both approaches affected rural development patterns. Examples can be driven from the implementation of the LEADER programmes promoted by the Commission.

³⁷ The European Court of Auditors has identified three main reasons for this: the introduction of DPs, the devaluation of some national currencies against the ECU and the high world prices during the period of the reform. See references, ECA (Nov. 2000).

³⁸ Set aside implies that a certain proportion of arable land remains out of production each year. In so far, three deferent forms of set-aside could be identified: The *compulsory* set-aside was (and still is) an eligibility criterion for the large farmers (those producing more than 92 tonnes of cereals per year) to be compensated by DPs. The *voluntary* set-aside, as included in R. 2328/91, acted as an additional incentive to compensate farmers who wish to let a part of their arable land idle for a certain period. The *permanent* set-aside, originally introduced by R. 797/85, compensating farmers who undertake the obligation to keep their farmland out of production, for at least 20 years, for environmental purposes or for afforestation, became one of the three accompanying measures (see below).

- “Agricultural production methods compatible with the requirements of the protection of the environment and the maintenance of the countryside”³⁹;
- Early Retirement from farming⁴⁰;
- Afforestation of agricultural land⁴¹.

Clear agri-environmental targets, however, were the subjects of the first of the above schemes. Regulation 2078/92 became, therefore, the core EU legislation providing for a relatively comprehensive package of specific agri-environmental measures, the most important of which were the following:

- Reduction of the use of fertilizers and pharmaceutical inputs;
- Introduction or continuation with organic farming methods;
- Change of production methods towards or maintenance of extensification, and, generally, introduction of farming practices compatible with the environmental requirements;
- Reduction of number of animals per forage area;
- Maintenance of the countryside and the landscape, and generally of the bio-diversity;
- Encouragement to upkeep the abandoned farmland or woodlands;
- Set aside of farmland for at least 20 years for reservation, natural parks, etc;
- Management of land for leisure activities;
- Improvement of training of the farmers concerning the use of practices compatible with the environment.

Two main characteristics, however, of the whole scheme highly affected and proved to be of crucial importance for its overall effective implementation.

First, the whole scheme is a structural operation in its nature (since, in practice, it encourages the adaptation and the improvement of agricultural structures and the conditions of farming), and one would expect to be financed by the Guidance Section of Agricultural Fund. However, been considered as accompanying the market changes of the reform and contributing to the protection of farmers’ income, it was integrated into the Guarantee Section but still *co-financed* according to the Guidance Section rules (Articles 1 and 8 of R. 2078/92).

³⁹ Council Regulation (EEC) No 2078/92 of 30.6.1992 (OJ L 215, 30.7.92, p. 85), as amended by Commission Regulation (EC) No 2772/95 (OJ L 288, 1.12.1995, p. 35)

⁴⁰ Council Regulation (EEC) No 2079/92 of 30.6.1992 “instituting a Community aid scheme for early retirement from farming” (OJ L 215, 30.7.92, p. 91). The principal objective of the scheme is to encourage either the replacement of elderly farmers by younger ones able to improve the viability of the holding or the reassignment of land to non-agricultural uses. In both cases, the implementation of the scheme is subject to the condition that the released land is “in harmony with the requirements of environmental protection” or “is used in a manner compatible with protection or improvement of the quality of the environment and of the countryside” (Article 6).

⁴¹ Council Regulation (EEC) No 2080/92 of 30.6.1992 “instituting a Community aid scheme for forestry measures in agriculture” (OJ L 215, 30.7.92, p. 96). The scheme principally aims at encouraging farmers to withdraw their land from production for up to 20 years (permanent set aside) and dedicate it for afforestation. The implementation of the scheme is supposed to contribute “towards forms of countryside management more compatible with environmental balance” and “combat the greenhouse effect and absorb carbon dioxide” through an eventual improvement in forest resources (Article 1).

The co-finance principle brought about certain financial constraints to national administrations, in particular of the cohesion countries, as they had now to make available a portion of scarce national funds, if they wished to implement the scheme(s) fully. Co-financing, therefore, evidently limited the potential extension of the scheme(s) and the environmental benefits thereof.

In fact, for the first time of the operation of the CAP, the Guarantee Section was called to finance measures like the above scheme(s) following a Guidance approach. In principle, this “manipulation” brought about a qualitative change in the perception of the CAP, for the following reasons:

- The Guarantee Section should not be considered anymore that its role is limited in financing *exclusively* the market measures of CAP;
- The financial solidarity principle, which was the driving force of making the CAP a really common policy by using the Guarantee Section as the flagship of financing jointly the operation of the agricultural markets, is undermined through the inclusion of measures financed partly and not fully as before.
- The inclusion of the co-financed measures into the Guarantee Section dictated the preamble of integrating practically all the rural development measures into the Agricultural budget later, after the adoption of the Agenda 2000 reform (see below), paving, therefore, the way for a potential gradual replacement of market measures by structural schemes.

Second, all the aids provided for the promotion of the agri-environmental measures should be included in multi-annual zonal programmes, drawn up by the national administrations for a minimum of five years. Each zonal programme should cover a specific area in each Member State, indicating the objectives of the scheme that the programme seeks to fulfill (Article 3 of R. 2078/92). This implied that the national administrations should be fully responsible for the management of the programmes, of which, an important consequence was the need to adapt or enforce and up-grade the existing administrative capacity of the Member States at a sufficient level for the correct implementation of the scheme.

A brief assessment of the environmental impact of the reform

The incorporation of some environmental aspects into the market policy measures was certainly a first but quite insufficient step towards making CAP more compatible to the environmental protection. As it has been mentioned above, the shift of the policy towards more market orientation did not have as much positive impact to the environment as it was expected. This was also the evaluation of the Court of Auditors in its recent report⁴², when it concluded that, for certain reasons, the 1992 reform has increased the environmental pressure from some sectors of European agriculture.

The DPs, being fixed on the basis of regional and not EU average yields, resulted in stimulating rather than discouraging the intensification of production in most productive areas, while they certainly contributed in making farm income disparities throughout the

⁴² See references, ECA (Nov. 2000)

Community more acute. Mixed farming practices were reduced, traditional rotations were lost, farm units were enlarged giving ground to greater specialisation, pig farms were developed near certain grain producing areas, etc.

In the case of cereals in particular, the fixed DPs, applied fully to farmers irrespectively of the size of their farms, led to over-compensation of producers, as they received full compensation for price cuts that had not been reflected in the market during the implementation of the reform. As a result, a sharp increase in arable land had been noticed, with a negative impact in bio-diversity, soil erosion, and all the relevant trends in agricultural activity damaging the environment.

Concerning the agro-environmental measures, due to the enormous difficulties of the national administrations in implementing the scheme, the programmes remained experimental in their nature, limited only in selected measures and applied in certain areas, rather than in the whole territory of each country. Some Member States, in particular the most weak, were found, to a larger or lesser extent, unprepared to design and manage the programmes⁴³. They missed the appropriate legal instruments to safeguard at least an equal treatment of the actors involved inside or between the Member States. They did not have clear orientations concerning the needed administrative changes, while they missed mechanisms in approaching and persuading the farmers to participate. Identification of the appropriate pattern of designing the programmes, monitoring, making controls without appropriate codes of good practice, in evaluating and determining the environmental impact of the programmes without appropriate indicators, etc, were some of the problems that the national administration faced with. As a result, frequent amendments of the initial plans were necessary for the continuation of the programmes, which added even heavier administrative headaches, while various delays had been recorded from both, the Commission and the Member States, as it took more than four years to put the programmes into practice.

Despite these and other constraints, however, the overall result of the implementation of the scheme cannot be undervalued. It was a decisive step towards integrating gradually the environmental requirements in agriculture. The national administrations gained a lot of experience out of this innovative exercise. The important contribution of the scheme was that, for some member countries with no tradition of environmental policy or with weak administrative patterns, the adoption of the R. 2078/92 proved to be practically the first step towards establishing and implementing some (though limited) agro-environmental measures⁴⁴.

4. The Agenda 2000 CAP Reform Agreement and its environmental aspects

⁴³ Dr. Christoph Demmke (see references) was kind to point me out the interesting remark that, for some reason, Regulation 2078/92 has practically not been applied in The Netherlands.

⁴⁴ See article by L. Louloudis and N. Beopoulos, "Broadening the traditionally sectoral perspective on agricultural policy in Greece", included in Brouwer F. and J.v.d.Straaten (Eds), in references.

Responding to the request of the Madrid European Council (December 1995) to embark on the preparations for enlargement, the Commission presented its Agenda 2000 proposals in July 1997. The principal target was to prepare the ground for a smooth and feasible accommodation of the new comers *within the budgetary and other limits*. This factor, but also in combination with the new WTO trade negotiations for agriculture and other important internal challenges⁴⁵, advocated towards serious changes concerning the CAP in particular. Indeed, in the aftermath of the ratification of Amsterdam Treaty, the Commission elaborated specific regulatory proposals (August 1998) for a further reform of CAP that would allow the EU to reach the initial targets set.

As a general approach, the Commission proposed certain adjustments in principal Common Organisations of Agricultural Markets (COAMs), necessary to achieve market balances under the new developments at European and world levels. By proposing to deepen and extend the reform of 1992, the adjustments implied to continue the shift from the price support system to direct payments (DPs). Prices for key products should be reduced further, sufficiently enough to eliminate or minimise the gap between internal and world levels, while adequate increases of direct payments should compensate farmers for their income loss.⁴⁶ The qualitative difference of these proposals in relation to the previous 1992 reform was that DPs should be re-designed to benefit the environment, food safety and quality, as well as animal welfare. In addition, apart of the market measures, an important element of the package was the strengthening of a rural development policy to be integrated and become a “second pillar” of CAP.⁴⁷

Hence, the proposed CAP reform became a major policy issue in itself within the framework of the whole Agenda 2000. Although environmental or similar other considerations were not its principal target, it is true that, by elaborating its proposals, the Commission made a reliable effort to hit “many birds in one shot”. After all, a short time before, the Cardiff European Council (June 1998) endorsed the principle that major policy proposals should be accompanied by an appraisal of their environmental impact. In this respect, the CAP reform proposals paved the way for strengthening the integration of environment in agriculture.

The general orientation for safeguarding the environment and protecting the countryside was that farmers should be eligible to the general market support measures on the assumption that they would observe a minimum level of environmental practice. In addition, beyond this basic “good agricultural practice”, enforced agro-environmental programmes were incorporated into the rural development schemes to provide for further aids to farmers offering additional environmental services to society.

⁴⁵ See, Agricultural Strategy Paper COM (95) 607, presented by the Commission to the European Council, Madrid, December 1995.

⁴⁶ For a more detailed analysis on this issue, see Pezaros (2000a) and (2000b).

⁴⁷ The achievement of a sustainable and coherent rural development policy was the focus of an important Conference organised after an initiative of the Commission in 1996. See, “European Conference on Rural Development: Rural Europe – Future Perspectives”, Cork, Ireland, 7-9/11/1996

The Berlin Summit, however, that was called to reach a final deal on the reform (March 1999) was dominated by narrow national interests of the Member States, rather than reaching the principal targets of the reform. By focusing on the issue of the so-called “budgetary imbalances”, the principal aim of the Summit turned to limiting EU expenditure as a means of reducing the burden to the net contributors. The final agreement, therefore, watered down those elements of the reform, which could imply a higher cost for the EU budget, and, in doing so, the Member States were obliged to postpone several aspects of the proposed reforms. In this respect, the environmental dimension of the reform became also less ambitious than originally proposed.

Broadly speaking, the environmental elements included into the package followed the previous two-fold approach. Agro-environmental criteria were enforced into the existing market regimes (COAMs), while the previous specific agro-environmental measures became part of a more comprehensive rural development policy, within the meaning of agricultural sustainability. The qualitative difference of the latter was that the agro-environmental measures should be used not as a secondary and marginal instrument as before but to accompany and supplement the elements and instruments of the CAP markets.

Market Measures

Concerning the COAMs, the environmental elements introduced under the 1992 reform were stimulated to become more effective. In general, some important additional elements that were included into this last reform could be summarised in the following:

- In arable sector, the set-aside regime became subject to stricter environmental criteria. Member States were obliged to apply appropriate environmental measures to correspond to the specific situation of land. In addition, voluntary set-aside (in excess of the compulsory one) can be established for up to at least 10% of the base area and for a period up to 5 years, also subject to environmental conditions⁴⁸.
- In the beef sector, the special premiums became subject to *stricter* stocking density thresholds⁴⁹;
- The additional extensification premium, which was granted for a livestock density up to 1,4 LU per hectare⁵⁰, should be granted on the assumption that all grazing animals kept on a farm (bovine animals, sheep and goats) are included into the calculation of the livestock density⁵¹. In this respect, and similar to the provisions of the then R. 2078/92, all agro-environmental undertakings to extensify livestock farming or otherwise to manage livestock farming must comply with certain conditions. For instance,

⁴⁸ Article 6(2) of Council Regulation (EC) No 1251/1999 of 17.5.99 establishing a support system for producers of certain arable crops (OJ No L 160/26.6.99, p. 1).

⁴⁹ Article 12 of Council Regulation (EC) No 1254/1999 of 17.5.99 on the common organisation of the market in beef and veal (OJ No L 160/26.6.99, p. 21).

⁵⁰ Member States have the discretion to diversify, if they wish so, the amount of the extensification premium (EUR 100) within certain limits, in accordance to whether the stocking density is between 1.4 – 1.8 LU and/or less than 1.4 LU

⁵¹ Article 13(3)a of the above Regulation No 1254/1999

farmers who do not comply with the obligation to extensify cattle farming are faced with financial penalties⁵².

- The so-called “national envelopes” were introduced, according to which part of the overall funding provided for DPs is placed at the disposal of each Member State to support the beef and dairy sectors, in relation to their national criteria. The Member States are entitled to grant this funding in the form of headage payments and/or area payments, subject to specific stocking density requirements. The latter should be established by taking into account, in particular, the environmental impact of the type of production and the sensitivity of land⁵³.
- In the wine sector, producer organisations (PO) might be involved in the implementation of the regime. They are granted, however, recognition by the Member States on the condition that they design measures to promote, among other things, the use of environmentally friendly practices (sound cultivation, production techniques, waste-management). Although no provision has been made for Community financing recognition is granted on the assumption that the PO effectively enable their members to obtain technical assistance in using environmentally friendly practices and they are in a position to impose appropriate penalties in cases of infringements⁵⁴.

Beyond the above and some other market measures, however, it should be stressed that the shift from price support mechanism to direct income support has resulted in changing also the importance of the applied market measures in budgetary terms. After the completion of the 1992 reform, the measure of DPs (as an instrument for compensating farmers’ incomes for the price cuts) already absorbed more than half of the total agricultural budget. In this respect, the most innovative step of the Agenda 2000 reform towards linking more effectively the environmental concerns with the support measures was the introduction of the so-called “horizontal regulation”⁵⁵. The latter introduced two important elements as common rules to be established for *all* direct support schemes⁵⁶ (not only the compensatory payments of the 1992 reform but all payments granted directly to farmers):

- Environmental protection requirements (“cross-compliance”);
- Modulation.

⁵² Article 12 of the Commission Regulation (EC) No 1750/1999 of 23.7.1999 laying down detailed rules for the application of Council Regulation (EC) 1254/1999 (OJ No L 214, 13.8.99, p. 31).

⁵³ Article 15(3) of Council Regulation (EC) 1254/1999, as above. The introduction of “National Envelopes” was one of the innovations of the Agenda, aiming at giving “more flexibility” to the Member States to chose how to allocate DPs to help specific groups of farmers in their territory. The environmental impact, however, of their application should not be considered always positive but rather contradictory, since the Member States are allowed to favour either extensive grass-fed herds or large-scale *intensively-fed* herds!

⁵⁴ Articles 39 and 40 of Council Regulation (EC) No 1493/1999 of 17.5.99 on the common organisation of the market in wine (OJ No L 179/14.7.99, p. 1)

⁵⁵ Council Regulation (EC) No 1259/1999 of 17.5.1999 “establishing common rules for direct support schemes under the CAP” (OJ L 160, 26.6.1999, p. 113)

⁵⁶ This implied that, apart of the compensatory payments introduced after the 1992 reform, other measures like production aids (granted to olive oil, tobacco, seeds, bananas), or several other aid payments (granted farmers of rice, potato starch, silkworms, dried grapes, hops), or premia granted to ewes and she-goats, or even aids of specific programmes (Poseidom, Poseima, Poseican, Aegean Islands), were all included in the Regulation.

Cross-Compliance

Article 2 of the Horizontal Regulation verifies that all forms of DPs are made in full to the farmers, subject to certain environmental protection requirements. These requirements, however, are not defined on a Community-wide basis but in accordance to criteria set by the Member States on a national basis. In particular, the Member States *are obliged* to define and take the necessary measures they consider most appropriate to be implemented by the farmers for the protection of the environment of their territory. They are offered three options:

- to grant national support to the farmers in return for certain agri-environmental commitments;
- to define (on their own) general mandatory environmental requirements that should be respected by the farmers;
- to introduce the “cross-compliance” principle.

Cross-compliance dictates that farmers would be eligible to Community-financed DPs in full on the condition that they respect the set of the specific environmental requirements. In other words, Member States are *allowed* (but not *obliged*) to cut aid payments to farmers who infringe criteria relating to environment (fertilizers, manure use, etc). And still, the extent of the scheme has to be proportional to the condition of the environment, and must avoid discriminating against sectors or farmers.

It should be mentioned that, when introduced, the cross-compliance principle was originally conceived by the Commission as a central element of the Agenda 2000 proposals. During the internal negotiations, however, the majority of the Member States did not accept the obligatory element of the scheme. Criticism was concentrated mainly to the considerable additional administrative cost that the management of the scheme would require. In the final agreement, therefore, the system became optional, with the Member States choosing whether or not to apply it⁵⁷.

In this respect, it is true that the EU failed to make aid payments conditional upon the respect of certain environmental standards. In addition, even if the scheme is actually introduced by a certain Member State, there is no any specific mechanism to guarantee that the payments will effectively be withdrawn from farmers in cases where there are real infringements of existing environmental legislation.

In so long, the experience has shown that, with the absence of EU-wide rules on making DPs conditional to environmental protection, Member States are much more vulnerable to pressures from interested groups and, as a result, they have the tendency to set

⁵⁷The idea of making cross-compliance mandatory EU-wide should be attributed to DK in particular, who pushed it as early as in the 1997 price package. During the Agenda 2000 negotiations, DK fought hard to retain cross-compliance in the agreement, though on an optional basis. It was not a surprise, therefore, that DK was the first Member State to approve the implementation of the scheme in its territory. The plan would penalise farmers for cultivating land within two meters of streams or rivers, for infringing rules on fertilisers and manure use, and for failing to compile reports on the use of fertilisers.

minimum environmental standards too low. Cross-compliance, therefore, has fallen short of the original expectations to effectively “greening” the CAP.

On the other hand, it could be argued that the introduction of the principle into the CAP market measures, though on an optional basis at this stage, constitutes a firm legal framework and puts a mechanism in place that could allow a full linking of DPs to environmental objectives in the future. The on-going WTO negotiations for agriculture, for instance, might prove to become a “catalyst” for the uniform and mandatory application of the scheme in the future, if the international pressure towards dismantling the so-called “blue box” measures becomes unavoidable⁵⁸.

Modulation

Similar to cross-compliance, modulation constitutes one more innovation to be applied also on a voluntary basis. The scheme allows Member States to decide if they so wish to make DPs subject to nationally defined labour or prosperity criteria. In other words, Member States may either cut DPs when employment in a farm falls below a national average level or reduce them by up to 20% above a certain nationally defined threshold. Therefore, it is not implemented EU-wide. It is optional at national level. Savings would be redirected into domestic rural contracts and be used for extra environmental or other regional development measures encouraging less intensive farming.

In fact, the above option of modulation was a product of compromise among the Member States and the Commission, which replaced two other radical proposals that were discussed persistently at the final stage of negotiations concerning the financial burden of DPs. First, in its original proposal of “horizontal measures” the Commission had also included the option of placing ceilings on payments (“capping”) on the total amount of DPs payable per farm. This option was finally abandoned, due to the strong resistance of the Member States with a relatively large number of big farms, in particular, the UK. Second, in an effort to scale down the level of unnecessary payments to large and efficient farmers, the option of “Digressivity” appeared (by France). It dictated that DPs allocated to large farmers should be reduced gradually by a certain percentage per year, while a part of the savings should be re-directed into environmental activities. This option was also denied during the final negotiations.

In any case, it is true that the optional character of modulation made also this innovative scheme less ambitious than originally thought, as its use by the Member States is still very limited⁵⁹. However, the potential of making it compulsory in the near future should be

⁵⁸ For a more analytical review of the “blue box” issue, see references, P. Pezaros (1999).

⁵⁹ For the time being, only France and UK have made use of modulation, while Germany is also thinking recently to introduce the scheme. In France, the plan introduced a threshold (farmers receiving about EUR 38,000 annually in DPs) below which no reduction is applied. This implies that arable farms of up to 100 hectares are not to be affected. With the aim, however, to shift the French agriculture towards a greater share of aid between farmers and a more balanced remuneration of their role in society, a certain reduction in the total amount is applied above this threshold, on a progressive scale (from 5% of the total amount to a maximum of 20%). The calculated reduction is then adjusted according to the employment situation of each holding. For example, the reduction is accordingly reduced for each family member working with the

considered as quite possible. Various other reasons advocate that the compulsory application of the scheme could give solutions to problems related to the enlargement process and the final EU stance in WTO negotiations. In addition, this potential is still an attractive approach, due to its social (“redistributive”) character and its environmental dimension, but also in terms of making further savings in future EU budget.

Rural Development and Environment

The full incorporation of all the Rural Development (from now on, RD) schemes into the CAP targets, means and mechanisms has been seen as one of the most important elements of the recent 2000 reform. Although the RD policy neither consists of an independent policy nor brings into the game any really new measure, its role has been emphasised as a “second pillar” of CAP. The main aim of it would be to “complement” the reforms progressively introduced into the agricultural markets. To a certain extent, however, this approach constituted a clear indication that the EU is already oriented towards switching gradually the policy measures away from the traditionally practiced market and production support of agriculture to the restructuring of the rural areas and rural employment. By formulating, in particular, a coherent approach among the various economic, social and environmental elements of development, the recent reform should be considered as a serious effort to link sustainability with rural development.

Indeed, the strategy focused on widening the possibilities to improve the options of supplementary income outside agriculture as a means to overcome the impact of the liberalisation process on total agricultural income. In this context, all the previous and some new structural measures, including also the agri-environmental and afforestation programmes, were integrated, broadened and boosted within a single legal framework⁶⁰.

It should be understood, however that RD policy, though integrated into the CAP, follows the subsidiarity principle, in the sense, that Community measures are intended to supplement and not replace the national measures. This implies that the measures previously co-financed by the Guidance Section of the Agricultural Budget (EAGGF) will continue to be co-financed but integrated into the Guarantee Section. The Guidance Section is left to finance only a limited number of schemes (measures of ex-Objective 5a and 5b-type) when applied exclusively in Objective 1 regions (Article 35 of the said Regulation 1257/99). As it has been mentioned before (section 3), this approach continued the practice that was originally introduced by Regulation 2078/92 under the previous reform.

Within this framework, it should be stressed that the operation of the new rural development schemes sets tighter conditions of environmental protection requirements than the ones under various schemes, which operated prior to 2000-06. While more

farm and for each full time employee of the holding. In this way, about 5% of the total French farms are affected by modulation. The savings are redirected into local rural contracts.

⁶⁰ Council Regulation (EC) No 1257/1999 of 17.5.1999 on support for rural development from the EAGGF and amending and repealing certain Regulations (OJ L 160, 26.6.1999, p. 80).

discretion is left to Member States in applying the schemes, new projects would appear to have to conform to more exact specifications.

In this context, all the purely structural measures that were included into the RD package should be eligible for support on the condition that certain environmental requirements are respected. In particular:

- Investments in agricultural holdings are supported on the condition that they promote or comply with minimum environmental standards (Article 5);
- Aids to young farmers are granted on the condition that their newly established holdings comply with environmental standards (Article 8);
- Vocational training is supported if it goes beyond the normal agricultural and forestry education, that is, if it is linked to the promotion of quality and to environmentally beneficial production. It should be designed to prepare farmers for applying practices compatible with the maintenance and enhancement of the landscape and the protection of the environment, or the improvement of ecological function of forests (Article 9);
- The early retirement scheme, aiming to improve the viability of holdings, includes the possibility of transferring the released farm for non-agricultural purposes, on the assumption that they are aiming to protect or improve the quality of the environment of the countryside (Article 11.4);
- The Less-Favoured-Area scheme (supporting farmers who work under natural handicaps, to compensate them for costs incurred and income forgone) is provided on an area basis than on a headage basis. It also applies to areas with environmental restrictions (Articles 13-21);
- Improvements in processing and marketing of agricultural products are supported if they contribute to the better use or elimination of by-products or waste and/or the protection of the environment (Article 25).

The core, however, of the agri-environmental support that has been enhanced into the Regulation, is the application of the targeted agri-environmental (Articles 22-24) and afforestation measures (Article 30-32), as they were quoted from the previous Regulations 2078/92 and 2080/92. In addition, support is also granted for more general measures promoting the adaptation and development of rural areas, directly related to protection of the environment in connection with agriculture, forestry and landscape conservation (Article 33).

In general, the agri-environmental measures are the only compulsory element of the RD programmes. They provide for additional support to farmers, when they are committed, for at least five (till ten) years period, to use methods of production *beyond* the so-called “good practice”, to promote, e.g.:

- Use of land compatible with the environmental protection requirements;
- Maintenance of countryside;
- Extensification and management of low-intensity pasture systems;
- Conservation of farmed environment of natural value;
- Upkeep of the landscape and historical features on agricultural land;
- Use of environmental planning in farming practice.

Following the principle of subsidiarity but also the experience gained from the previous implementation of Regulation 2078/92, Member States continue to be responsible for planning the programmes on a fully decentralised (regional) basis, ensuring, at the same time, effective monitoring of the implementation of the programmes, subject to the detailed rules that have been laid down by the Commission⁶¹. The rules are designed to ensure that each measure is implemented so as to fulfil the overall objectives of RD policy, for instance:

- To ensure that agricultural production becomes more environmentally friendly, farmers have to adhere to good farming practice on the whole of their farm, assuring, in this way, that their commitments drive to a full environmental benefit.
- Agricultural production is encouraged as long as there is a market for the commodities produced while production of those which are clearly in surplus is discouraged.
- To encourage the better use of by-products or waste, the development of bio-fuels is encouraged simultaneously in the energy and agricultural context. In this respect, a proposal is in progress foreseeing the possibility of the exemption of bio-fuels from taxation of energy products.
- For afforestation with fast growing species in short-term rotations, three types of aid are foreseen: planting costs, annual premium to cover maintenance cost up to 5 years, annual premium to cover income loss up to 20 years.

According to the previous experience, however, effective implementation of the present agri-environmental programmes necessitates, first, a common definition of what is meant by “good farming practice” (in a way that agri-environmental commitments beyond this usual practice could be effectively determined) and, second, measurement of the environmental benefits. The latter points out the importance of refining further the agri-environmental indicators.

In any case, Member States are obliged to submit yearly reports on progress of rural development programmes in total, based on a multi-sectoral approach. On the basis of those national reports, the Commission is obliged to submit summary reports every two years to the Council and the other European Bodies for consideration.

The concept of “Multifunctionality” and the WTO agricultural trade negotiations

To this end, it should be stressed that the whole RD policy is closely linked to the concept of “*multifunctionality*”, the controversial term that was raised in the context of the new WTO agricultural negotiations in particular. The term has been repeatedly used by the Commission the last five years, to convey that, in principle, agriculture is more than just an industry. It provides a variety of non-food outputs and services of public good character, which are not marketable but are equally valuable for the well being of the

⁶¹ Commission Regulation (EC) No 1750/1999 of 23.7.99 laying down detailed rules for the application of Council Regulation (EC) No 1257/99 on support for rural development from the EAGGF (OJ No L 214/13.8.99, p. 31), as last amended by Commission Regulation (EC) No 2075/2000 of 29.9.2000 (OJ No L 246/30.9.2000, p. 46).

society. In European terms, the concept embraces all the issues falling within environmental protection, food safety (in particular, at the reappearance of BSE and the spread of FMD crises), consumers' concerns about quality standards, animal welfare. It has therefore to be treated accordingly in the WTO.

By encompassing, therefore, environmental and social concerns, the concept implies that, if those concerns have to be met, the cost of agricultural production automatically would be raised, putting European farmers at a disadvantage relative to farmers in other countries. It might, therefore, change the competitive position of farmers in international trade.

Despite the fact that “multifunctionality” is often confused with “sustainability”, it is clear that the former term is used to justify that public money to support the sector is necessary in order to preserve socio-economic and environmental benefits. The EU strongly argues that this kind of funding does not have any impact on output and trade decisions, and therefore, should be excluded from any kind of reduction commitments at WTO level.

In this respect, with its “comprehensive negotiating proposals” presented at WTO in 14.12.2000, the Commission is looking for ways to ensure that green box criteria cover also measures “which meet societal goals” such as the protection of the environment and all the other items included into the concept of multifunctionality. In addition, the same concept may also be used for the conversion of “blue box” measures into “green box”. That is to say, if the negotiations on “blue box” issue turn to be against the EU intentions, the only appropriate way to keep DPs should be to modify them into production-neutral environmental compensations and include them into the “multifunctionality” concept. This, however, would need more time than is likely to be available within the time frame of the present negotiations. This is the reason why EU puts heavy emphasis to Peace Clause of Article 13 of URAA.

For all the above reasons, multifunctionality has been met with suspicion and strong reservations from many other trade partners at WTO. The CAIRNS group and the USA in particular, continue to claim that environmental considerations (as well as animal welfare) fall outside the remit of WTO negotiations. It is sure, therefore, that, although the EU has raised the issue on the ground of Article 20 of the URAA⁶², the whole matter will be scrutinised by the other contracting parties at the final stage of WTO negotiations. Indeed, if multifunctionality were to be used as to defend the continuation of traditional support mechanisms unchanged, the aim of keeping RD support out of any decreasing commitment would be rather untenable.

In short, emerging conflicts concerning the dual goal of trade liberalisation and environmental management has been already raised and the possible solutions have not appeared in so far. The adoption and imposition of high standards through the agro-

⁶² Article 20 of the Uruguay Round Agreement for Agriculture, concluded in 1993, specifies that among the elements that should be taken into account in the next WTO agricultural negotiations would be the “non-trade concerns”. For more details, see references, P. Pezaros (1999).

environmental indicators might be a way for EU to differentiate the domestic market from imports of products indirectly subsidised by applying low standards of production.

5. Concluding Remarks

Since its establishment, the whole concept of CAP and the way it works have greatly changed through successive reforms. Till the late 80's, the CAP was oriented towards maximising productivity and efficiency, rather than taking seriously into account the links between agricultural activity and environment.

The reforms decided on in 1992 and 1999 have brought some progress towards integrating environmental concerns into CAP but both did not go as far as really "greening" the CAP. However, even less ambitious than originally proposed, the last reform has definitely paved the way towards the full integration of environmental concerns into the CAP. After all, the continuing shift from price support to other forms of protecting agricultural income would be normally expected to lead to:

- The eventual elimination of the remaining gap between EU prices and world level;
- More rational distribution of resources, away from market mechanisms, that may enforce more effectively the sustainability of the sector.

The reality is that the EU needs always time to achieve radical changes. In this context, there is still much room for a more radical change from the current (still production-oriented) policy to one based and focused more on supporting effectively the environmental protection and the rural communities. It has become clear that a policy that encourages unsold surpluses at considerable cost is no longer accepted either by the policy makers or by the public. Furthermore, the enlargement process has already put additional pressure towards continuing the reform of CAP in a way that it would serve also the restructuring needs of the newcomers in relation to their rural development and environmental concerns. Whether the mid-term reviews of Agenda 2000 CAP reform agreement or even the completion of the WTO trade negotiations will pave the way towards making CAP more "green" is still to be seen.

Apart of all the internal and external pressures that are putting CAP under another critical stage recently, the disasters that appeared in the late 90's (like classical swine fever, dioxin contaminated animal feed, BSE, and FMD) are combined to trigger another serious political debate. It is generally believed that the intensification of the food supply chain over the past 20 years, aiming to promote a low-cost production, has created the conditions under which such disasters appeared. The role, therefore, of industrialised farming methods applied in most Member States, which were designed to ensure food security following the end of World War Two, has been put under serious question.

The Commission is determined to push for a change of production methods to become environmentally sound, meet animal welfare concerns and supply the safe and quality products demanded by the consumers, whose attention is focused on the above crises.

Speaking at the International Green Week (Grüne Woche) in Berlin, the Commissioner for Agriculture, Franz Fischler, announced new studies into “greener” farming methods, to be published at the end of 2001. The BSE and the FMD have both driven the Commission to plans of encouraging the introduction of less intensive production methods and generally promoting an environmentally friendly agriculture, which will also respect animal welfare.

Meanwhile, during its Presidency, Sweden has also pushed for a green approach to CAP reform, wishing to take advantage of the forthcoming mini-reforms (mid-term reviews) to introduce far stronger environmental considerations. An assessment of environmental strategy in connection with other reviews of CAP issues (agricultural budget, cereals, oilseeds, beef, dairy, sugar, oil olive – the latter are added to build a package which can allow trade-offs and make agreement easier) seems to be underway. Indeed, the Agricultural Council of April 2001 agreed to work “green” issues into the mid-term reviews. The target should be to find the means of minimising the negative environmental effects of agricultural activities. When changing agricultural policy in the near future, the EU seeks to have a considerably firmer basis for decisions. It is therefore expected that the Commission will spell out the environmental consequences of future proposals.

Sustainability embraces not only agriculture but also rural areas. In fact, rural development policy would be the key to ensuring that sustainable EU agriculture flourishes. A framework is needed that would allow spending of more than the current 10% of the CAP total finance to provide support for the living population. This could make rural areas attractive and environmentally sound, given that, at the end of the day, it will be the farmers themselves and the processing industries, which could bring about a radical change of customs and traditions. The Agriculture Commissioner has also signed this proportion as a budgetary bias that has to be changed. The structures to get there have been put in place.

Capabilities for beginning the process of change exist in the Agenda 2000, but so far have not been exploited to any significant extent by the Member States, with whom the initiative rests. The attitudes in Germany and France, as the major players on the direction of CAP, might hold a key position at the time when the decisions come to be made on mid-term reviews. In this respect, the latest change in German agricultural administration might indicate a major shift in Germany’s agricultural objectives, at least. Under the new administration, the aim is to restructure agricultural production by emphasizing ecologically sound production systems. The intention is to clamp down on “industrial” farming and promote alternative systems such as organic production. This would be understood by a reallocation of various aids towards eco-farming and away from potentially harmful techniques, by giving a social and ecological dimension from an industrial to a knowledge-based economy. Given that, up to now, Germany has long been a major force (together with France) pressing for the preservation of the traditional output-based CAP, the recent changes might have implications for the future development of CAP too, assuming that EU will continue to give a political priority to the agro-environmental policy.

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Abbreviations

BSE	Bovine Spongiform Encephalopathy
CAP	Common Agricultural Policy
COAMs	Common Organisations of Agricultural Markets
DPs	Direct Payments
EAGGF	European Agricultural Guarantee & Guidance Fund
EAP	Environmental Action Programme
EC	European Community
EEC	European Economic Community
EU	European Union
FMD	Foot and Mouth Disease
Ha	Hectare
LFA	Less-Favoured Areas
LU	Livestock Units
MBM	Meat and Bone Meal
MRLs	Maximum Residues Limits
PO	Producer Organisations
RD	Rural Development
TEC	Treaty of the European Community
TEU	Treaty of the European Union
URAA	Uruguay Round Agreement for Agriculture
WTO	World Trade Organisation