

The Final solutions for Common Agricultural Policy in years 2014-2020 – step towards environmental sustainability or business as usual?

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Abstract: The Paper's goal is to assess the most important changes in the European Union's Common Agricultural Policy (CAP) for years 2014-2020 in the context of its potential influence on environmental pressure of agriculture. The final solutions of that policy reform were discussed in relation to main groups of instruments: these supporting farmers' incomes and rural development measures. They were analysed in the context of chances and threats for environmental sustainability. The general conclusion is the reform results are far from the initial European Commission's plans as well as far from proposals presented by the NGO's connected with environment protection and organic farming. The CAP financial instruments were not sufficiently directed to the support for sustainable agriculture development.

Keywords: sustainable agriculture and rural development, Sustainable Agriculture, rural development, Common Agricultural Policy, rural development measures

JEL codes: O130, Q1, Q15, Q180, Q5, Q560, Q570

1. Introduction

In December 2013 the governments of the EU member states, European Parliament and European Commission finally agreed the reform of the Common Agricultural Policy (CAP) for years 2014-2020. In 2010 D. Ciolos, the European Commissioner for Agriculture projected the new CAP supporting public goods delivery in better way than before (European Commission,

2010). The Commissioner went on making an assumption, that it was necessary to make the direct payments system more comprehensible for tax payers across the entire EU. Therefore, he expressed the motto of the reform - public money for public goods – which means that farmers receiving the CAP subsidies have to contribute to delivery of cultural, social and – the most of all – environmental services of agriculture. It is connected with the conservation of nature and landscape in countryside as well as with measures aimed at direct or indirect protection of water, soil and climate (mentioned below). In that context, it is worth to investigate, if the final results of the reform met the original proposals (and in what extent). The Paper's goal is to assess the most important changes in the CAP for years 2014-2020 in the context of its potential influence on environmental pressure of agriculture. The final solutions of CAP reform were discussed in relation to main groups of instruments: I pillar (direct payments) and II pillar (rural development measures). The Author used descriptive and comparative analysis to check out, if institutional and financial solutions implemented as a result of the reform are eligible to primary plans and proposals related to chances and threats for environmental sustainability.

2. The comparison of environmental aspects in original plans and in final results of CAP reform for years 2014-2020

The negotiations on the CAP reform referred both to financial and institutional aspects (they were interrelated). Consequently, they referred to the shape of CAP and to the budget of the European Union (EU). During that process the original ambitious (in environmental dimension) D. Ciolos's plan of the reform was diametrically changed as the result of negotiations involving European Parliament (EP), European Commission (EC) and the representatives of the EU member states¹.

2.1. Financial aspects

As a result of the agreement on the EU budget for years 2014-2020 (European Commission, 2011) the nominal CAP expenditures will amount 408 euro billion in the whole period, but their

¹ The process of negotiations, including the stakeholder analysis is described in another paper (Kociszewski, 2012). The bargaining power of those states with a relatively large share of agriculture in their economies and the influence of the food processing industry lobby occurred to be bigger than the power of ecological organizations and the power of the EU member states tending to ecologisation of the CAP.

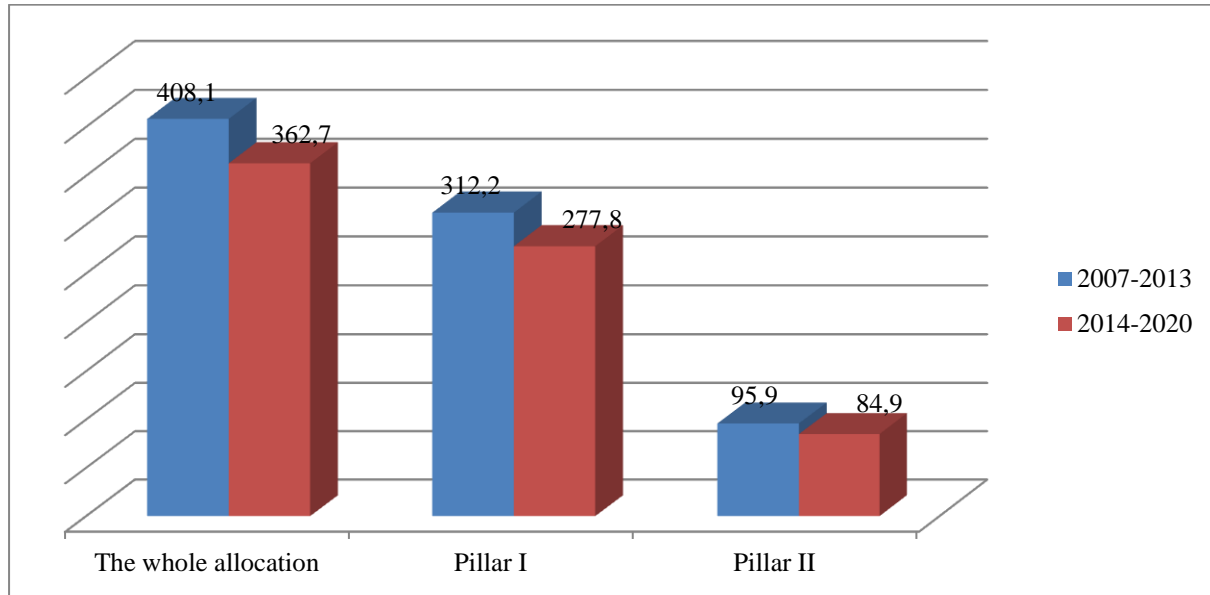
real value (362,7 euro billion in constant prices from 2011 r.²) was decreased by 11% in terms of annual average in comparison to the allocation from the previous period (fig. 1). Formally, the structure of the expenditures was not changed. The allocation for rural development measures (II pillar) is 84,9 euro billion (23,4% of the CAP expenditures) and for I pillar it is 277,8 euro billion (76,6%) in the whole financial perspective 2014-2020. However, in practice, the value of the II pillar will be strongly reduced, because - according to the final agreement - all member states can reallocate 15% of its value for direct payments (Regulation No 1307/2013: 16). Moreover, the countries, where the payment per hectare is less than 90% of the average in the entire EU, can reallocate additional 10% of the II pillar. It means, that the expenditures on rural development measures connected with environment protection are much smaller than in the previous period³. It could diminish the environmental benefits coming from the UE membership for these countries (including Poland⁴).

² To calculate the real value of the CAP expenditures (in 2011 prices), the EC applies deflator 1.125 (European Commission, 2013: 1-10).

³ The environmental measures within the II pillar consist of agri-environmental programmes, the support for organic farming, the support for less favourite areas (LFA) and forestation programmes.

⁴ In Poland the sum of the CAP support (28.5 billion euro at 2011 constant prices) will not be less than in years 2007-2014 (MRiRW, 2013), however, the value of rural development support is reduced by 5,76 euro billion (MRiRW, 2014) compared to the previous period (by 43%). It amounts 8,6 billion euro nominally (7.64 in real terms), or 26,8% of the sum of the total CAP allocation for Poland (Kociszewski, 2014: 124-157.). A nominal value of the environmental measures (mentioned above) is 2,77 billion euro. In real terms it is 2.46 billion (a decrease by 42,2%).

Figure 1. The changes of the CAP expenditures in financial perspectives 2007-2013 and 2014-2020 (euro billion, constant prices 2011)



Source: Author's own elaboration based on data from the EC and the Council of European Union (Council Regulation No 1311/2013; European Union, 2012; European Commission, 2011: 5)

On the other hand, it is worth to take into account, that 20% of the entire EU budget has to be spent on purposes connected with climate change (Council Regulation No 1311/2013). It is one of the reasons why, from 2015 30% of direct payments (so called national envelopes) are destined for so called “greening” (for three environmental measures which are mentioned below). Formally – as it was planned in the original proposal of the reform - the most significant changes were introduced in the first pillar. Thanks to that, direct payments consist of two components:

1. A flat rate payment per hectare - 70% of I pillar subsidies.
2. An environmental bonus (called “greening”) - 30% of I pillar subsidies.

The flat rate payment per hectare is available only for active farmers, which supply public goods. It was planned to be achieved inter alia through the tightening of GAEC (Good Agricultural and Environmental Conditions) – the set of standards, which involve environmental regulations – for example outlined in the Water Framework Directive - the Directive 2000/60/CE (O. J. EC L, 327 of 22.12.2000). As it is described below the tightening of GAEC did not occur in the final version of CAP 2014-2020.

The environmental bonus is paid for compulsory environmentally-friendly measures, which are additional to cross-compliance standards⁵. They are divided into three groups:

- (A) crop diversification - in order to improve or conserve the quality of soil and ecosystems. Each type of crop has to cover at least 5% and not more than 75% of utilized agricultural areas (UAA).
- (B) maintenance of permanent pastures, which is connected with obligatory share of grasslands in farm territory. It is aimed at conservation of natural areas which are environmentally vulnerable but are located outside Natura 2000 sites (especially in the context of biodiversity). So far, the EU member states were (and still are) obliged to establish such territories only within Natura 2000 sites (it was not obligatory outside these areas), so that requirement is additional to nature conservation measures functioning until the reform.
- (C) ecological focus areas (EFAs). Requirements connected with that measure are aimed at water protection (nitrogen-fixing crops) and at nature conservation in the areas other than permanent grassland and permanent crops. Biodiversity is to be protected thanks to the maintenance of edges of fields, hedges, trees, fallow land, landscape features, biotopes, buffer strips, afforested areas, woods, terraces. These elements of rural areas are important for fauna and flora.

The member states can continue to use Single Area Payments Scheme (SAPS) in the I pillar. It can be assessed as moderately favorable solution for sustainable agriculture development because farmers in particular country/region receive the same rate of payment per hectare. Payments do not directly depend on the quantity of production, so they do not enforce incentives to increase its volume through intensification. In addition, farmers can apply for subsidies for agricultural areas, which are not used for plant cultivation. Consequently, permanent pastures and other valuable elements of nature are involved as a part of the area covered by direct payments. It contributes to conservation of these territories and is suitable for extensive farms as well as favorable for environment. Without these subsidies (and thus without the requirements of cross-compliance), rural areas (especially extensive grazing systems and the semi-natural pastures) could be

⁵ Cross-compliance standards are set in two groups: GAEC (mentioned above) and SMR (Statutory Management Requirements). They are obligatory for farmers receiving direct payments. These standards consist - among the others - of basic requirements aimed at soil and water protection. Some of them are also favorable for nature conservation.

neglected and consequently degraded. It would be detrimental to the conservation of biodiversity and to a rural landscape.

As a result of the reform – formally - the CAP expenditures for environment protection has been increased. According to the Author’s calculations based on presented data, their value is increased by 83,3 billion euro in the I pillar and decreased by 12,3 billion euro in the II pillar at the same time. It seems, that it is favourable for sustainable development - but only on the surface. That is the result of agreed final shape of environmental requirements for farmers receiving subsidies.

2.2. Institutional aspects.

In final version of the CAP for years 2014-2020 the requirements connected with environment protection were strongly simplified in comparison to the initial version of the reform. It refers to both described components of direct payments. In relation to the flat rate payment per hectare it relates to the standards of GAEC. They - for example - do not consist of standards important for climate change mitigation (connected to soil conservation in boggy territories and in areas reach in organic matter). The incentives for public goods delivery are also reduced in the context of definition of active farmer. It refers to the introduction of the definition of active farmers. Only they can apply for direct payments and for some II pillar measures (including support for organic farming and the LFA payments). On one hand the Member States are required to create a new negative list of business activities in respect of which direct payments may not be given. It is aimed at reducing fraud in applying for subsidies. On the other hand, requirements for deciding if land can receive CAP payments are disadvantageous for extensive livestock farming and semi-natural pastures. Because of objections under World Trade Organisation (WTO) rules the EC resigned from minimum livestock density as a condition for CAP support. Instead, national authorities are to require mechanical cutting of pastures, which is much less favorable for biodiversity than grazing. Discussed change removes the incentive to keep livestock, and could lead to the disappearance of extensive High Nature Value (HNV) farming⁶, especially in mountain areas.

⁶ The term High Nature Value (HNV) farming is used to describe broad types of farming that, because of their characteristics, are inherently high in biodiversity. Typically, these are low-intensity farming systems (Beaufoy, Marsden, 2010: 5). *HNV* areas are defined as such, in which agriculture is the main way of land utilisation and - at the same time - three basic features should be met in three types of classified HNV areas: areas with specific rural

Environmental requirements were also weakened in the second component of direct payments – the obligatory measures of “greening” finally occurred to be much less restricting than it was planned (table 1).

Table 1. The comparison of environmental aspects in original plans and in final results of the CAP reform for years 2014-2020 – I pillar (direct payments).

Origin plan	Final results
1. A flat rate payment per hectare only for active farmers who:	
-supply public goods, what should be achieved through the tightening of GAEC.	-receive income from agricultural production with simplified, less restrict environmental GAEC requirements than it was in years 2007-2013.
2. Environmental bonus paid to farmers who apply compulsory environmentally-friendly measures	
A. Crop diversification	
-obligatory for farms over 3 hectares UAA, -at least 3 crops.	-obligatory for farms over 10 hectares UAA, -at least 2 crops (3 crops in farms over 30 hectares UAA).
B. Maintenance of permanent pastures	
-obligatory for the whole area of permanent pastures existing in 2014, -controlled in every single farm.	-obligatory only in Nature 2000 sites, -controlled at national level.
C. Ecological focus areas (EFAs)	
-in 7% UAA in each farm, -additional to existing areas, -obligatory for farms over 3 hectares UAA.	-in 5% UAA in each farm, -including existed areas, -obligatory for farms over 15 hectares UAA.

Source: Author’s own elaboration based on data from EC (Regulation No 1307/2013).

- A. Crop diversification is obligatory only in farms bigger than 10 hectares of UAA, so it covers much less number of farms than it was planned⁷. Furthermore, they have to cultivate at least two but not three species at the same time (currently, this requirement applies only to farms bigger than 30 UAA) (table 1).

landscape and with high proportion of semi-natural vegetation (meadows, pastures, woodlands, bushes, marginal farmlands, water bodies, hedges), areas with many farms conducting extensive agricultural production (including breeding), agricultural areas favourable for diversity of animal and plant habitats (Kociszewski 2013: 74).

⁷ For example in Poland crop diversification requirements are obligatory only in 15.4% the total number of farms – Author’s own calculations based on the data from Rural Areas in Poland - National Agricultural Census 2010 (Central Statistical Office of Poland, 2011). As a point of reference Author adopted the number of all Polish farms - 2.277 million.

- B. Maintenance of permanent pastures is being controlled in farm territory only in situation in which, in particular country or region the share of these territories in UAA would be reduced at least by 5%. In initial version of the reform it had to be controlled in every farm applying for direct payments. Consequently, the regulation will be less effective. It will be restricting only in Natura 2000 sites.
- C. Only farms over 15 hectares are obliged to establish EFAs⁸. Initially, it was obligatory for farms with territory bigger than 3 ha. Furthermore, it was supposed that EFAs had to be conserved in additional territories in relation to areas existing in farms in 2014. Finally, existing areas can be classified as EFAs, so farmers will not be obliged to conserve more elements than before. Besides member states have a certain freedom of selection of criteria for these areas. Consequently, in some countries these criteria could be less restrict than in the other ones.

Described measures of “greening” are obligatory only in farms bigger than 10 or 15 hectares of UAA (adequately to particular requirements). For other (small) farms direct payments will not create additional incentives for the provision of environmental services. They are rather the social support conserving the fragmented structure of agriculture. To simplify the direct payments for small farmers the UE implemented special scheme with an annual subsidy up to EUR 1250 from I pillar (up to 10% of the value of direct payments for each member state). Beneficiaries of these programs do not need to meet the minimum environmental standards (cross-compliance) or the requirements of greening. It means, that these small farms do not have to deliver services connected with maintenance of rural landscape or with other environmental benefits. Furthermore, they will be free to reduce landscape features such as hedges, dry-stone walls and terraces. It could be serious problem in countries with many extensive small farms, for example in Poland where - according to some estimates (Wieliczko 2012:169-178) - their number is 500 thousand.

According to original plans, the support for the biggest farms had to be limited thanks to introduction of maximum ceiling of payment (300 thousand euro yearly per farm). It had to be obligatory but it is voluntary for member states. They only have to reduce the value of payment by 5% in farms which receive more than 150 thousand euro (Regulation 1306/2013).

⁸ It means that the requirements for the designation of EFAs covers only 8.6% of the total number of Polish farms.

Among the changes contained in the final version of the reform there are some, which have not been weakened. Furthermore, member states have the possibility to destine up to 5% of direct payments for farmers in *Areas Facing Specific Natural Constraints* (AFSNC). It is an instrument which is complementary to the LFA payments and which additionally supports HNV farming. The EU resigned from implementation of specialized support for HNV, because the methodology of this type of agriculture was not uniformed yet and there are no objective criteria on the basis of which, it would be possible to calculate and pay subsidies. It is considered, that it is better to support the HNV under other (described) instruments in the I pillar and II pillar. A lack of specialised measures providing incentives for (HNV) farming was criticized by well known non-governmental organization connected with nature conservation in rural areas - European Forum on Nature Conservation and Pastoralism (European Forum on Nature Conservation and Pastoralism 2016). According to it, the new greening measures bring nothing positive for HNV farming. They continue to receive much less income support than intensive farms, which are in much better economic situation and do not deliver environmental services.

The reform did not include important changes in environmental measures within the II pillar. The name of agri-environmental programmes was changed into agri-environment-climate measures (AEEM). Inclusion of these measures in rural development programmes remains compulsory in every member state. Support for organic farming was extracted from AEEM and functions as separate measure now. The rules for the implementation and the rates of subsidies under both instruments are similar to the previous versions. Another result of the reform is introduction of nine bio-physical criteria for the classification of LFA. They are associated with the actual environmental handicaps (e.g. climate-related or connected with quality of soil and with topography). It should facilitate the provision of environmental benefits by agriculture, however that change is postponed. Member states have to apply the new criteria until 2018. It is the another solution which weakens the results of the reform.

3. Conclusions

The origin plan of the CAP reform involved many important pro-ecological changes. It was eligible to the principle of integration of the EU environmental policy with sectoral policies. The

final results of the CAP reform are far from the initial European Commission's plans as well as far from proposals presented by the NGO's connected with environment protection and organic farming. The new environmental requirements connected with direct payments have proven to be much less restricting than it was planned. In practice, they will cover only larger farms and it is favourable for nature conservation in countries with relatively more industrialised agriculture. It is meaningful in the aspect of differences between rural areas in member states. The incentives for environment protection are weakened in those which have a lot of small HNV farms. It can contribute to enforced environmental pressure in Poland where specificity or rural areas is featured by valuable biodiversity. At the same time the second pillar expenditures have been reduced in comparison to the previous period. Formally, the overall CAP expenditures for environment protection has been increased by 70 billion euro (increased by 83,3 billion euro in the I pillar and decreased by 12,3 billion euro in the II pillar). The greening of the CAP had to be the step towards environmental sustainability and had to compensate the reduction of the II pillar. Taking into account the results of presented study on environmental requirements within the system of direct payments it could be considered, that it does not seem to be effective enough in stimulating delivery of environmental services. The incentives for increasing the efficiency of agricultural production and for its intensification are still more important than environmental measures. It is visible that, the bargaining power of agricultural producers lobby and the bargaining power of governments of the EU member states where agriculture is important sector of economy occurred to be more important than the influence of ecological NGOs⁹ and more important than the will of European society. The CAP financial instruments were not sufficiently directed to the support for sustainable agriculture development. In practice, it means that the EU institutions party resigned from the conditioning of CAP support by provision of public goods. They resigned from the motto of the reform - *public money for public goods*. It could be concluded that the real motto is – business as usual.

Literature

⁹ Ecological NGOs (Birdlife International et al., 2012) proposed common proposal for new CAP for years 2014-2020 which should: substantially increase funding for Rural Development Policy; substantially increase, and ring-fence, funding for targeted and well implemented environmental schemes; ensure payments across both Pillars reflect the 'public money for public goods' principle and raise the environmental baseline.

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– STEP TOWARDS ENVIRONMENTAL SUSTAINABILITY OR BUSINESS AS USUAL?

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***Ostateczne rozwiązania w ramach Wspólnej Polityki Rolnej w latach 2014-2020
– krok w kierunku zrównoważonego rozwoju czy biznes jak zazwyczaj?***

Streszczenie

Celem artykułu jest ocena najważniejszych zmian Wspólnej Polityki Rolnej (WPR) Unii Europejskiej na lata 2014-2020 w kontekście jej wpływu na środowiskową presję rolnictwa. Ostateczne rozwiązania reformy tej polityki zostały omówione w stosunku do głównych grup instrumentów: wspierania dochodów rolników i działań rozwoju obszarów wiejskich. Były one analizowane w kontekście szans i zagrożeń dla zrównoważonego rozwoju w perspektywie średnio- i długoterminowej. Ogólny wniosek jest taki, że wyniki reformy są dalekie od początkowych planów Komisji Europejskiej i projektów przedstawionych przez NGO związanych z ochroną środowiska i rolnictwem ekologicznym. Instrumenty finansowe WPR nie były wystarczająco ukierunkowane na wsparcie zrównoważonego rozwoju rolnictwa.

Słowa kluczowe: zrównoważony rozwój rolnictwa i obszarów wiejskich, rolnictwo zrównoważone, Wspólna Polityk Rolna, instrumenty rozwoju obszarów wiejskich.