Agri-Environmental Policy in the EU: What is the Relevance of Cap Reform

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Slide 2

Outline

- **The relevance of the issue**
  - the uneasy relationship of farming and the environment

- **What is the direction of CAP reform?**
  - principles and instruments of the new CAP

- **What impact from CAP reform?**
  - on the environment
  - on agri-environmental measures

- **What lies ahead?**
  - future challenges and risks
The uneasy link: farming and environment

- **Positive externalities of agriculture...**
  - ...are more visible on the environmental landscape...
  - ...play a major role in European approach to agriculture...
  - ...strengthen image of farming as something beyond just food production

- **Negative environmental externalities of agriculture...**
  - ...generate questions about their linkage to agricultural policy...
  - ...often put the whole notion of farm policy into question...
  - ...but also hide a complex causality relationship

- **Agriculture among first sectors to face policy pressures**
  - ...leading to need for farm policy consistency with environmental goals...
  - ...but also raising questions about the instruments used to achieve them
What drives the CAP debate?

- **Most drivers of recent CAP debate non-environmental...**
  - BSE, FMD, (even GMO): mainly around food safety/quality concerns
  - budgetary pressures: always present, although often out of context
  - WTO issues: but CAP reform changed role of EU
  - CAP impact: focus on LDCs, even though EU is increasingly a price-taker

- **...yet most measures relevant to environment...**
  - in cross-compliance, most measures linked to environmental obligations
  - most direct impact from decoupling expected on agri-environment
  - all farmers affected by agri-environmental standards
  - most RD priorities are agri-environmental

- **...reflecting deeper linkage of policy to agri-environment**

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What drives CAP reform?

- **CAP policy dilemma (as defined by CAP objectives)**
  - be competitive in world markets
  - meet the highest environmental/food quality/animal welfare standards

- **CAP reform orientation aims at meeting both objectives**
  - in a manner that meets citizen, taxpayer and consumer priorities
  - in the less-trade distorting manner

- **As coverage of CAP reform gradually expands...**
  - arable crops, beef, dairy, olive oil, tobacco, cotton reformed
  - sugar proposal to follow soon

- ...**CAP becomes more demand-driven**
  - its policy instruments move in similar direction

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The path of CAP expenditure

Million €

EU-10 EU-12 EU-15

Export subsidies Market support Direct aids Rural development

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**EU price support reductions**

Cumulative % reduction in price support

- Soft wheat
- Durum wheat
- Beef
- Rice
- Butter
- SM Powder

-75 %
-60 %
-45 %
-30 %
-15 %
0 %

Completed reform
Reform in process

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CAP reform path at a glance

- From product price to direct producer support...
  - gradual reduction of support prices into safety-nets
  - partial compensation of product support drop by shift to producer support

- ...to decoupling of direct aids...
  - single farm payment based on historical references...
  - ...requiring compliance with set of existing statutory standards

- ...and to a better balance of support
  - enhancement of RD policy instruments to meet new standards
  - shift of funds from market support to rural development
  - financing new market reforms with redistribution of direct aids
CAP budget cost trend

- Market measures
- Area/animal payments
- Single Farm Payment (minimum from 2003/2004 reforms)

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Opportunities from CAP reform

- **From market reform...**
  - supply (price) incentive for overproduction and intensity largely gone
  - expectation for more demand-driven pressures leads to market response

- **...to producer direct support...**
  - allows farmers to respond better to markets-driven signals
  - …thanks to the presence of a rather stable income component

- **...to rural development measures...**
  - it is not so much the additional funds (always constrained) that matter
  - …but also the additional policy instruments that become available

- **...the potential for a consistent approach exists!**

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Market reform: impact on environment

- **Arable crops reforms**
  - price support reductions diminish or remove incentive to overproduce...
  - ...lead to visible results on input use already from the 1992 reform...
  - ...and a similar impact is expected in newly reformed sectors

- **Beef sector reforms**
  - mixed results of 1992 reform...
  - ...but post-BSE adjustments have helped...
  - ...so has the abolition of intervention

- **Dairy sector**
  - expected acceleration of restructuring will increase efficiency...
  - ...but quota system does not allow full benefits to materialise...
  - ...while impact of dairy herd on beef production remains significant

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Decoupling: impact on environment

- **Single Farm Payment (decoupled support)**
  - facilitates restructuring with lower income pressure
  - is mainly neutral on land values, thus allowing land use adjustments

- **Coupled support**
  - level much lower than in recent past (11%-14%)
  - generally limited to sectors or regions that face abandonment risk...
  - often coupled with quality incentives

- **Cross-compliance**
  - respecting good farming practice is a requirement for support
  - non-respect now "bites" the individual farmer
  - implicitly creates new incentives for improvement in farming

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Rural development: impact on environment

- **More funds from markets to RD**
  - clearly below initial objective
  - still set precedent for future direction

- **New instruments for RD**
  - complement direction of other pillars of CAP reform
  - expand environmental provisions (Natura 2000, increase co-financing)
  - proposals under discussion impose minimum 25 % for agri-environment

- **Member-state role essential**
  - agri-environmental challenges are more localised than other standards
  - capacity building essential
  - how (and how soon) will the advisory systems be implemented?
Conclusions and challenges

- CAP reform provides opportunities for agri-environment
  - direction of reform in three pillars moving in same direction
  - multiplier effect possible if implementation focuses on coherence
  - continuing demand-driven pressures enhance this direction

- Impact depends on several factors
  - budgetary pressures create again risks (especially for RD)
  - significant burden of implementation by member-states

- Is there an alternative?
  - is there a policy dilemma between competitiveness and standards?
  - is the overall policy direction meeting agri-environmental concerns?
  - is the mix of policy instruments appropriate?