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Locating the CAP in an escalating green agenda

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Abstract. Since the advent of decoupling, the process of adapting the Common Agricultural Policy (CAP) to a rising set of environmental priorities has involved various approaches and technical adjustments, with most Member States inclined to move more slowly than the European Commission. The debate on the post 2020 incarnation of the CAP has revealed a continued preference for gradual adaptation which stands in contrast to the escalation of environmental ambition set out in the Commission's recent initiatives stemming from the Green Deal, including the Farm To Fork Strategy. Different ways of resolving this tension are discussed and some of the implications for the CAP and the related question of the distribution of EU funds to the Member States considered.

Keywords: agricultural policy, agriculture and environment, European Green Deal, Farm to Fork Strategy, climate policy, environmental public goods, CAP reform, EU budget.

JEL codes: Q150, Q180, Q58.

1. INTRODUCTION: THE GRADUAL ASCENT OF ENVIRONMENT AS A CAP PRIORITY

The drivers of strategic development in the CAP have been various. Over the decades they have included the pursuit of improved farm incomes, the containment of EU expenditure, the curbing of surpluses and adjustment to EU enlargement. Externally, there have been pressures from trade partners and WTO disciplines.

The need to address environmental priorities and respond to environmental demands initially appeared as a peripheral concern in the 1980s. At a certain point, however it became a more strategic force. Arguably this was at the time of the «Mid-term Review» of the CAP in 2003, with the advent of mandatory cross-compliance and decoupling, clearly a significant step towards support for land management rather than production.

In the years that have followed, a pattern of incremental change has been negotiated, with the European Commission tending to promote rather larger environmental steps than the Member States or the European Parliament¹.

¹ This has not always been the case. For example, in the mid 1980s the European Commission initially was sceptical about permitting Member States to provide payments to farmers in «Environmentally Sensitive Areas» and for a time resisted allowing such schemes to qualify for part funding from the CAP.

Many of the adjustments that have been made have been concentrated in the second Pillar of the CAP, such as expanding or ear-marking budgets for environmentally focused measures. Under this approach expenditure under environmental headings increased substantially while the Member States retained a great deal of discretion in how far they gave priority to the environment in both the design and delivery of the measures they choose to implement.

The limitations of this model were apparent in the run up to the 2013 reform when the Commission surprised many observers by switching tack and proposing to introduce more substantive environmental obligations in Pillar 1 direct payments in a new system that would apply to all Member States and aim to cover most farmland. However, much of the environmental ambition of this configuration was drained out of the proposals by the time they were agreed by the co-legislators and a compromised system of «Greening» introduced. While the failings of this approach are sometimes exaggerated there is no question that it offered much less than originally intended and Member States took advantage of the scope available for applying environmentally undemanding measures (Hart *et al.*, 2017; European Court of Auditors 2017).

For the post 2020 CAP the Commission set out on a different course in the proposed regulations of June 2018. These combined some incremental advances in certain policy instruments, particularly the proposal for eco-schemes to supplant an element of direct payments in Pillar I, with a more radical departure from the past in the form of the new delivery model and associated governance system. This model transfers considerable further discretion and responsibilities to Member States and seeks to shift the emphasis of CAP interventions towards recorded «performance» and, ultimately, to results measured on the ground. A key aim was to tie the Member States into delivering against EU as well as their own priorities through the process of drawing up and approving CAP Strategic Plans. The environment and climate in particular were one of three, rather broadly framed, EU objectives to be addressed through national plans.

This new delivery model was received without enthusiasm by most Member States but has survived through the subsequent years of negotiation. The modest proposals to raise environmental ambition have fared less well.

2. THE GREEN DEAL: THE SHOCK OF THE NEW

Late in 2019, well before the CAP proposals could be agreed, there was a decisive change in the EU's objec-

tives, both to 2030 and beyond, as the Green Deal was adopted. This envisaged a low carbon, environmentally more sustainable and healthier Europe, building economic recovery and increased employment on a new footing. A firm quantitative target to achieve net zero carbon emissions by 2050 was put in place, requiring structural changes in Europe. Agriculture, food, biodiversity and changes to land management figured prominently in the elaboration of the Deal. A new direction of travel for the whole agri-food sector was proposed, including a strong emphasis on health and diet. While many of the details of how the vision is to be achieved are lacking, several quantified targets were set for 2030, including for reductions in the use of inputs and substantially expanded areas for biodiversity.

The Green Deal, the associated Farm to Fork Strategy, Biodiversity Strategy (European Commission 2020a and 2020b) and others still in the pipeline, accompanied by a developing series of climate policy advances, such as the 2030 Climate Target Plan, certainly shifts the level of environmental ambition upwards. As further elements are put in place, the level of performance that will be required of the sector is likely to become considerably higher. This is not only because of the reductions in inputs proposed, the expansion of areas for biodiversity and increase in the area of organically farmed land from around 8% of the total now to 25 % by 2030.

Additionally, on the climate mitigation side, an EU target of a 55% net reduction in GHG emissions by 2030, measured from a 1990 base (but including carbon sinks, mainly in forestry and agricultural land) was adopted by EU heads of state in December 2020. This will have consequences for policies impacting on agriculture and land use, such as the Effort Sharing and LULUCF² regulations. Greater reductions in emissions from agriculture and potentially much increased CO₂ with drawls on farmland, woodland and more natural areas will be required than those observed in recent years. This points to the need for a more integrated approach to steering rural land use and management, bringing together agriculture, woodland in various forms and restored habitats such as re-wetted peatland. Given the complex interactions between climate and land management policies, the Commission is considering the logical step of introducing a single Agriculture, Forestry and Land Use (AFOLU) sector which would have an integrated policy framework, including targets expected to apply at the national level (European Commission 2020c). If adopted, national reduction targets for the sector could be demanding in some Member States.

² Land Use, Land Use Change and Forestry.

In the light of this far reaching alteration in EU objectives, the 2018 CAP proposals look rather detached from the much larger and more joined up new framework being constructed around them, too close to the status quo and clearly pitched too low in environmental terms. They also seem precariously reliant on the willingness of national authorities to grasp the implications of the Green Deal and start to align the policies they will need to put forward in their CAP Strategic Plans in 2021/2022 to the new objectives that have overtaken those of the 2018 CAP. It is unclear how far the Green Deal strategies will have been elaborated into more concrete policies by then but at present the general approach is much more voluntary rather than binding on Member States so they may not feel direct pressure to reconsider their proposals from that direction.

The compatibility of the 2018 proposals with the Green Deal framework which now surmounts them has become a source of contention, not very surprisingly. A group of environmental NGOs mounted a legal challenge to the legitimacy of the proposals, arguing that they should be withdrawn and replaced with a new set aligning with the Green Deal. The Commission, by contrast, has argued that the new delivery model in particular allows Member States to adopt the necessary environmental measures if they wish to and aspects of the «green architecture» in the proposals, including tighter eligibility conditions and the new eco-scheme, can deliver substantial benefits.

However, this argument rested partly on the integrity of the 2018 proposals being maintained through the negotiations and to the point of adoption. This did not occur, since both the Council and the Member States pursued extensive modifications, many of them weakening the environmental provisions, including for the eco-scheme (IEEP 2020). By November this had become a source of considerable tension between the Commission and the co-legislators. Early in the trilogue process the Commission published a «Factsheet» stating that “the new CAP proposal is up to the task of delivering the Green Deal objectives in relation to agriculture, provided the European Parliament and the Council maintain the ambition and strengthen certain key elements of the proposals in order to align them with the Farm to Fork and Biodiversity Strategies”. The need to «achieve a minimum level of expenditure on eco-schemes» was stressed (European Commission 2020d).

An independent review undertaken for the European Parliament by authors from INRAE and AgroParisTech concluded that the June 2018 proposals required «major changes» to be compatible with the Green Deal objectives and underlined the dangers of pursuing a sta-

tus quo approach to the legitimacy of the CAP itself as well as to the environment (Guyomard, Bureau *et al.*, 2020).

3. THE GAP IN ENVIRONMENTAL AMBITION

Whilst there are significant differences between the positions of individual Member States, there is a large distance between the preferences of the established agricultural policy community, as represented in the Council and the AGRI Committee in the European Parliament on the one side, and the scale of measures likely to be necessary to deliver on the ambitions of the Green Deal on the other. This community appears unmoved by the Commission’s narrative that supporting the environmental transition must become more central to the CAP. Nor is there much appetite either to extend the CAP to embrace a more integrated land use dimension or to create closer linkages to food policy; presumably the more interwoven policy frame outlined in the Green Deal is to be achieved by other means. The negotiations were not concluded at the time of writing but it looked unlikely that either the Council or the Parliament would alter their positions greatly.

Some of the gap might be bridged as the Member States draw up their CAP Strategic Plans (CSPs), setting out the policy instruments they want to use and the distribution of funding between them. The policy goals of the Green Deal could be conveyed in a narrative that is more persuasive to actors in the Member States who will be designing national and regional policies. The Commission can apply pressure during the process of scrutiny and approval but it is not in a position to impose its preferences or to insist on particular targets. The negotiations will test both the new framework and the status of the Green Deal in agricultural ministries. It is quite possible that there will be significant differences in the level of alignment with the Green Deal between Member States and the coherence of the CAP as a means of pursuing Europe wide objectives will diminish, weakening the case for devoting a large share of the EU budget to the policy post 2027.

A number of other factors may influence the scale and shape of the gap in the next period, leading up to the proposals for the post 2027 CAP. The active participation of land managers is required to achieve the transition outlined in the Green Deal and the clarity of signals that society is determined to move in this direction and that coherent pathways are available will have an important part to play. Both the dialogue and the policy process will be advanced by the publication of more con-

crete proposals from the Commission and their accompanying impact assessments. Around 37 potential measures can be found in the Farm To Fork strategy alone. More concrete proposals accompanied by additional technical information and associated debates should reveal more clearly some of the adjustments that need to be made, the costs and benefits to be expected and the winners and losers in economic as well as social and environmental terms. This may sharpen the focus on the role of incentives to drive change and the potential need to aid those for whom adjustment is difficult or not possible under a «just transition» approach.

The case for substantive action in agriculture will be scrutinised in the Member States alongside other contributions such as the generally supportive INRAE/AgroParisTech analysis and the more critical report on the Farm To Fork and Biodiversity strategies from the Economic Research Service of the USDA, (Beckman *et al.*, 2020). This has suggested that the proposed reductions in inputs of land, fertiliser, pesticides and antimicrobials in the EU could result in a fall in output of between 7 and 12%, reduced trade and an increase in food prices. Further meta-analyses of impacts is likely to follow and, given the many interactive variables in play, a range of rather diverse conclusions would not be surprising. Assumptions about the availability and uptake of technologies to improve the environmental and economic performance of agriculture can have a significant influence on such estimates and knowledge is growing rapidly in this area, not least because of EU funding and initiatives such as the agricultural European Innovation Partnership (EIP-AGRI).

There will also be more opportunity to consider the implications of dietary change for the agriculture sector; in some areas this is moving quite rapidly prior to any interventions under the Green Deal umbrella. Pressures from the market could grow rapidly, not only because of changes in consumer tastes but also because of commitments increasingly being made by food processors and retailers. For example, Carrefour, one of the largest food retailers in Europe, recently announced that it wants to reduce the carbon emissions of the goods and services it buys by 30% by 2030, signalling an intention to put pressure on its 100 largest suppliers to make quantified reductions in their GHG emissions³. Meat consumption will continue to be in the spotlight with increased public attention on climate change and livestock farmers in particular are exposed to significant changes to their market in the coming decade. The extent to which beef and sheep producers contribute to the supply of environ-

mental public goods, one of the prime reasons for support for the sector, will be under increasing scrutiny and the scale of meat production considered sustainable in Europe may diminish (Buckwell *et al.*, 2019).

On the environmental side the case for a proactive public goods driven strategy remains strong and continued pressure can be expected. If Member States stick broadly to the status quo there is little chance of the key Green Deal targets being met without major drivers outside the CAP. For example, there is a proposed target of reducing nutrient losses, Nitrogen and Phosphorus, by at least 50% by 2030, with no reduction in soil fertility, potentially amounting to a 20% reduction in fertiliser use (European Commission 2020c). Meeting it should contribute to cleaner water, reduced pressure on biodiversity and some reduction in GHG emissions. Unlike some, this particular target falls within the ambit of the CAP, since it requires changing agricultural management and there has been a considerable history of policies seeking to incentivise this. However, while the trend has been to reduce phosphorous use, the overall nitrogen balance in the EU actually grew between 2009 and 2015 from 7.4 to 8.2 million tonnes (Eurostat data quoted in Guyomard, Bureau, 2020). Decisive and rather rapid measures are needed to meet this target and if these are not to take the form of CAP incentives on a considerable scale, then alternatives will be sought, including regulatory levers and alternative sources of funding.

In short, a combination of regulatory and other policy developments, pressure from the Commission, technical advances and changes in the supply chain and consumer choice may lead to more alignment of CAP measures with the Green Deal towards 2027 than during the negotiations on the post 2020 CAP. However, this is far from certain and if it does not occur, the case for constructing alternative approaches to meeting core EU goals for the rural environment will be strengthened. The rationale for a CAP that divides up a significant share of the EU budget according to increasingly historic factors, with diminishing value added beyond a general contribution to farm incomes, will be weakened greatly.

4. THE CAP IS NOT THE ONLY ALTERNATIVE

Apart from the present CAP several alternative sources of funding for land management, agriculture and the transition to a more sustainable agro-food system can be imagined. One option would be to accelerate the movement towards subsidiarity in the sector and shift most responsibilities for funding to the Member States, accepting the diminution of the level playing field

³ Further information available on the Carrefour website.

and the need for alternative means of distributing the EU budget in a politically acceptable way. The argument that collective EU goals for agriculture are fading away has been given impetus by the 2020 reform debate. Ironically, perhaps the Green Deal with its plans for a joined-up approach on a European level is the main counterweight to this narrative. It provides a set of common European objectives and case for sharing the responsibilities and costs, whilst adding a sense of urgency lacking from the CAP in recent years. New EU funding instruments more attuned to the Green Deal look more credible as a result.

One such approach would be to build up a substantive transition fund aimed at the whole agri-food sector to assist change over a decade or more whilst limiting expectations of the CAP. The creation of a new time limited fund of Euro 750 billion in the form of the Next Generation EU (NGEU) as a recovery strategy already shows new possibilities in this direction.

An initiative of this kind could be linked to another concept that is being advocated as an alternative to part of the CAP at least. The Green Deal has reinforced the arguments for a more expansive common food policy which could take a larger role in the supply chain as well as focussing on the established issues such as food safety, nutrition, labelling and public procurement. There is a clear need to address the consumption side of the Green Deal agenda but this has impacts on the supply side, farm incomes, technological choices, trade policy and other considerations. Amongst these considerations is the future trajectory for livestock production in Europe, where dietary, environmental and economic goals often are in conflict and animal welfare issues are due to be reviewed and standards probably strengthened. If the CAP remains too narrowly focused to grasp the full spectrum of these issues the linkages will need to be developed more actively in an alternative policy framework.

On the environmental flank, the Green Deal has set goals requiring large scale changes in agricultural management, in the direction of lower input use, greater biodiversity, fewer GHG emissions and increased efficiency. More farmland will be needed for ecosystem restoration and for carbon sequestration, reversing the current trend of decline in the EU's carbon sink, which may become a net source of emissions beyond 2030 without further action⁴.

This will require the deployment of incentives for land managers on a considerable scale and with greater weighting accorded to longer term changes in management and land use than to shorter term aspects of the

annual cropping cycle. It also points to the need for integrated approaches that address agriculture, various forms of woodland, degraded and restored peatland and other more natural ecosystems in a coherent fabric of policies stretching wider than the current CAP. A greater commitment to EU funding would allow the goals of the Biodiversity Strategy to be realised more rapidly, especially if it could be focused on the areas of greatest need. This could be achieved by a new dedicated EU nature fund or taken further and extended to become a Common Ecosystem Policy in the words of the German Advisory Council on Global Change (WGBU 2020), absorbing many of the functions of the CAP, but with a much firmer focus on the delivery of environmental public goods.

5. IN CONCLUSION

The EU's ambitions for the rural environment and a more sustainable food system have escalated at a time when the incremental approach to making such adaptations to the CAP has lost momentum. This puts the spotlight on alternative ways of pursuing the goals of the Green Deal, with new funding instruments being one of the options. These might maintain the flow of funds into rural areas but would involve a different distribution between recipients and between Member States, always a painful prospect given the role of the CAP in the allocation of the EU budget. To meet the goals of the Green Deal and the historic commitment to net zero emissions by 2050 will require more policy innovation than has yet emerged and at present this seems more likely to flourish outside than within the established CAP.

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