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Book Part

How could the CAP pillars be balanced for the promotion of a multifunctional European model?

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How could the CAP pillars be balanced for the promotion of a multifunctional European model?³

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1 Introduction

At the root of strategy in the agricultural sector lies a concern for the maintenance and promotion of the European model of agriculture: as a sector of the economy, European agriculture must be competitive, able to adapt and cover the entire territory of Europe, including regions with special problems. It must contribute to the maintenance and creation of employment, the preservation of the countryside and the protection of nature, injecting greater vitality into the rural world. It must meet the concerns and requirements of consumers in terms of the quality and safety of food products, protection of the environment and defence of animal welfare. It is to this set of objectives that the concept of “multifunctionality” relates.

In order to ensure that these different functions of agriculture are given their full worth, Europe has equipped itself with legislative and financial instruments. The Berlin reform lays down environmental objectives and defines measures to attain them.

The second pillar of the Common Agricultural Policy, “rural development”, has thus been created, the first pillar being market support.

This second pillar is based around three new instruments:

- The rural development regulation, a set of 22 measures available for use for rural development, and which are co-funded by Europe;
- Eco-conditionality, which allows agricultural aid to be made conditional upon meeting environmental requirements;
- Differentiation of aid payments, this being a measure that it is possible to implement in Member States to redirect agricultural aid away from the first pillar

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and toward rural development, while limiting the total amount of direct aid paid to farmers.

As an example of this, France, in harmony with the Community system as a whole, has passed a statute, the agricultural reform law, promulgated on 9 July 1999, which acknowledges the multifunctional dimension of agriculture in its first article.

The promotion of this dimension must therefore shape all public agricultural policies. A special tool has also been created in order to redirect agriculture towards a greater multifunctionality. This is the Land Use Contract (*Contrat territorial d'exploitation* - CTE) which provides for adequate remuneration of the various functions society at large expects from agriculture.

To achieve this objective, the CTE encourages farmers to develop holistic operating projects combining socio-economic, environmental and regional goals. The project takes the form of a five-year contract signed by the farmer and the State: the farmer undertakes to abide by a certain number of commitments relating to the expectations of society and to his overall operating project, with the State undertaking in exchange to remunerate him for the programmes he puts in place. Some of these commitments are mandatory for all contracts since they correspond to essential regional goals or issues. For example, it may involve commitments relating to official quality emblems enabling greater value to be added to local products, or farming practices directed at the prevention of erosion if the local region is subject to a high risk of erosion. An agricultural policy board at the level of the territorial département (La Commission Départementale d'Orientation Agricole, CDOA) defines the major goals for the local region, in conjunction with all the representatives of civil society, professional workers and government agencies.

These contracts are co-funded by the European Union and combine for this purpose a number of measures for which the rural development regulations provide.

2 The levels at which the environment is integrated into agriculture

Three theoretical levels can be distinguished at Community level where the integration of the environment into agricultural activity is concerned.

- A level that can be described as “minimal”, which corresponds to obedience to environmental regulations. Below this level, farming activity is harmful to the environment and is open to sanction (the so-called “negative” incentive).
- A level equivalent to “good agricultural practice”, which corresponds to the practices of reasonable farmers in the region concerned.

Farmers must abide by the minimum general requirements in the field of environmental protection without receiving any specific remuneration for doing so. Farmers are obviously obliged to obey restrictive legislative provisions on the use of fertilisers, pesticides, water and, where relevant, the national and regional policy directions relating to good agricultural practice.

- The “amenity” level: when society at large asks farmers to attain objectives of environmental character which go beyond the basic level of good agricultural practice and where, because of this, they must bear a higher level of expenditure or a loss of revenue, society should then provide remuneration for what is a service rendered to the community as a whole.

3 Ways of integrating the environment into agriculture

The “new CAP” has tools that allow these various theoretical levels to be attained.

The role of the CAP in the management of the environment obviously cannot replace environmental regulations. On the other hand, such regulations must be seen to be enforceable and verifiable if they are to play a full role in guiding agricultural activity.

The CAP’s allotted role is not to replace environmental regulations but to supplement them usefully in three ways:

- through its methods for managing aid payments, which contributes to the geographical distribution of farming and therefore the amenities associated with production, doing so in a balanced fashion over the whole of the national territory, adding value to marginal zones;
- through the provision of financial compensation for positive amenities, enabling the generation of production of services for society, which certainly cannot be imposed by regulation;
- through the implementation of a form of eco-conditionality, which may play a leverage role to ensure obedience to the regulations in force, and which will encourage lagging farmers to catch up with the main body.

The implementation of Article 3 of the horizontal regulations may lead in theory to several types of scheme, according to the objectives defined and the options selected, notably:

- definition of a system of requirements and sanctions related to direct aid intended to transfer part of Communal Market Organisations (CMO) funds to rural development measures;
- incentives for obedience to *regulatory* environmental requirements through conditions or sanctions related to direct aid payments (“regulatory eco-conditionality”),
- incentives for obedience to *non-regulatory* environmental measures on the basis of conditions or sanctions related to aid.

The principle of eco-conditionality as applied to aid can thus be seen to be a powerful horizontal tool insofar as it enables regulations, environmental requirements and CAP aid to be coordinated.

In this way, it confers greater legitimacy upon aid under the first pillar and may assist it to survive over time.

4 Prospective scenario for the articulation of the two pillars

The promotion of the European model of agriculture based on multifunctionality in international negotiations and with respect to society at large, can be seen to require in the long run a more structured and balanced approach to the two pillars of the CAP.

4.1 The articulation of the two pillars would benefit from clarification

At the present time, where agri-environmental issues are concerned, aid payments are calculated on the basis of surface area and according to loss of revenue, additional costs and the financial incentive necessary to encourage farmers to enter into the relevant commitments.

Those commitments relate in theory to services rendered by the farmer to society. In practical terms, they may allow pre-existing practices to continue on the holding or lead to changes in the management of the farm through the adoption of new practices.

As for first pillar aid, its original basis was the provision of support for the income generated by certain types of production. Payment is however increasingly subject to obedience to the conditions governing the granting of such aid, and this makes it possible to influence modes of production, as well as the localisation of agricultural activity.

In connection with the changing nature of the CAP under the pressure generated by a range of constraints to which it is subject – society's demands in the areas of the environment, food safety, international negotiations, especially in the WTO, the widening of the European Union to include the CEECs, and so on – the need to promote a “multifunctional” agriculture is increasingly pressing.

This promotion must be supported by genuine changes in the agricultural world, which must take more account of the environment and social criteria in the management of holdings.

In order to assist the continuation of this movement with greater transparency and effectiveness, the objectives of the two pillars of the CAP would benefit from clarification.

The first pillar, with its philosophy of support for farming income, could have as its assigned task the adding of value to existing schemes by granting favourable market conditions (through aid payments partly linked to production factors) to types of production which meet a minimum standard in terms of “sustainability”. Sustainability could be assessed on the basis of verification of compliance with environmental requirements (which might equally be territorial or social) which would determine whether aid was paid or not for each COM. As a tool, eco-conditionality (possibly extended to social and territorial criteria) would, in this arrangement, be a guarantee that the aid paid under the first pillar was in fact going to farming that met a minimum standard.

The issue where the legitimacy of aid payments is concerned is therefore the positioning of the standard at a level of stringency that is credible: are requirements of regulatory character or do they relate to “good practice” defined at the national, or even regional, level?

The difficulty that arises for this preoccupation with credibility (and therefore the effectiveness of policy in terms of its impact on the environment) is the attainability of the standard for producers.

As a consequence, this arrangement, if it were to be developed, would probably be upgradeable: it would be attainable initially by a substantial fringe group of producers and would then progress in terms of its requirements.

Eventually, we might imagine a framework in which the payment of direct aid under the CAP would be governed by the formal qualification of holdings on the basis of a set of specifications founded on general management requirements taking account of environmental performance.

It is also worth noting that in the theoretical framework for the levels of integration of environmental concerns in agricultural practice, the “minimum”, regulatory level is assumed to be economically neutral. This in turn assumes that holdings not able to meet such requirements are condemned to closure. Given this, we need to look at the fact that

the most “fragile” agricultural holdings are frequently the most “multifunctional”: small holdings, those located in marginal areas, for example. The income support allowed by first pillar aid then takes on its full importance in the context of reinforcement of environmental regulations.

The function of the second pillar would be clearly directed at the following:

- support for systems meeting essential regional requirements, especially in terms of achieving a good fit between the region and its production, notably in areas of exceptional ecological interest;
- support for holdings producing social amenities: over and above the requirements laid down for the payment of direct aid (standard), it must be possible to grant special support for the production of amenities as part of a holistic, sustainable management project for the holding. It must be possible to assess the level of “sustainability” on the basis of indicators or quality intrinsic to the holding: for example, diversified holdings, organic holdings, extensive farming, or farms that are of particular interest due to the employment they generate (as in the case of small holdings).

The issue of the way in which aid may be granted could be reviewed: calculations based on the number of hectares tend to benefit larger holdings and may be a driving force for enlargement.

The rules for the implementation of such aid must in any event be reviewed if the budget for the second pillar is increased, in order to ensure that deployment is made easier (through simplification and, probably, greater regionalisation).

4.2 A rebalancing of budget allocations between the two pillars

The rebalancing of the pillars has been made possible by the transfer of budget allocations from the first to the second pillar due to the implementation of horizontal instruments: differentiated aid payments and eco-conditionality. This transfer is now possible only up to a limit of 10% of the budget for the first pillar.

While, in theory, differentiation and eco-conditionality may make it possible to transfer funds from the first to the second pillar, it is necessary to establish a distinction here between these two instruments. This is because eco-conditionality has as its goal the protection of the environment (and not the transfer of budget allocations). If this reasoning is pushed to its extreme, the more the eco-conditionality tool is effective in terms of driving the farming community toward environmentally friendly practices, the less numerous would be the penalties and the smaller the transfer of funds from one pillar to the other.

While the design of an aid differentiation scheme may be based on a budget objective of rebalancing the CAP’s pillars, eco-conditionality has as its prime objective the integration of the environment into agriculture and it is difficult to see how it could be compatible with the objective of transferring budget funds between the pillars.

In the eventuality that this possibility of rebalancing the two pillars should gain ground, and if the relative size of the second pillar were to increase, it would nevertheless be prejudicial to reduce the volume of the first pillar sharply in favour of an overdeveloped second pillar.

Aid under the first pillar is totally (guaranteed price levels) or partly (direct aid) coupled to the factors of production. It is frequently said that the high level of price support can lead to excesses. But the productive function itself may also lead to a

number of environmental advantages (countryside, biodiversity, etc.), these are the spin-offs of production.

The reduction, or the elimination of the first pillar in favour of the totally uncoupled aid payments of the second pillar is in this way dangerous and would undoubtedly lead to distortion where the environmental objective is concerned.

This is because with the disappearance of the productive function which could be the result, the supply of such production spin-offs would stop.

However, the dual nature of agricultural production allows economies of scale: the farmer supplies some goods and services whose total cost to him may be less than that which would be generated by the separate production of each.

Detailed targeting of agri-environmental aid payments entails high transaction costs (administrative costs). For example, a programme of support for biodiversity would entail a battery of different measures whose implementation would certainly cost more than a measure that was more comprehensive and partly uncoupled from support for holdings contributing to the maintenance of biodiversity.

Direct aid may also enable targeting of population and regional policies that it is desirable to develop, through the criteria and arrangements for the making of payments. For example, the Suckler Cow Premium Scheme (SCPS) provides for payments subject to constant ceilings in terms of premium rights per territorial department, the effect of this being to maintain in the desired areas extensive dairy farming well suited to the characteristics of soil and climate of the regions concerned.

Certain modes of production that are less profitable but more environmentally friendly may be encouraged. In this way, many extensification level criteria govern the payment of livestock production aid, and an extensification premium is even paid out for livestock production. Moreover, the practice of leaving land fallow must ensure that the soil is maintained and that the environment is protected, if necessary by adding plant cover.

First pillar aid is therefore likely to be an important potential lever for the inclusion of environmental concerns in agriculture. As part of the development of multifunctional agriculture, the negative effects on the environment of excessive productive activity must nevertheless be kept under control to ensure that the pillar enjoys its full legitimacy.

The prospective clarification of the objectives of the two CAP pillars described above, or at least, initially, eco-conditionality, offers a means of making aid under the first pillar “greener” while stabilising the system. (See also the contribution of SUMPSI VIÑAS / BUCKWELL in this volume)

By combining in this way the two objectives of “production” and “protection of the environment” or “sustainability” within the direct aid system, the multifunctional character of the first pillar would be substantially strengthened. This makes it possible:

- to preserve a harmonious distribution of production over the areas concerned, and
- to produce a number of amenities with limited transaction costs.

Alongside this, differentiation is an instrument that could enable reinforcement of the second pillar and/or the generation of budget savings.

5 Tools for the future...

In the system as described above, transaction costs were seen to be one of the factors restricting the development of agricultural policy directed at improving consideration for the environment in agricultural practice.

As for regulations, these require substantial human resources to ensure effective compliance.

While eco-conditionality may be part of the answer insofar as it allows two management systems to be coupled, it also entails the setting up of compliance checks.

Incentives for voluntary moves toward the environmentally-friendly management of agricultural holdings (or product chains) could be a winning strategy for all those involved:

- Firstly, for agricultural professionals, who would thus be enabled to improve their productivity, ensure the long-term survival of their outlets, and add value to the image of the profession in its dealings with society at large,
- For society, through the improvements to the condition of the environment that could arise if these approaches involve a large proportion of agricultural producers (given the extreme fragmentation of agricultural production, only mass take-up is likely to generate any effect in terms of environmental improvement),
- For the consumer, whose confidence in European agricultural production and its “production standard” would be increased,
- For processors and distributors, whose businesses would be made more secure,
- For the authorities, who would be enabled to save on the implementation of restriction-based tools (notably regulations) and by the same token on the associated transaction costs. This latter scenario is also beneficial for producers, who would voluntarily anticipate (at less cost, in theory) measures that could be forced on them by regulation.

The tools for acknowledging such voluntary measures exist but would doubtless benefit from greater development.

Certification is developing to an increasing extent in certain production sectors (grain, fruit and vegetables, for example).

The qualification of holdings, as adapted for the world of agriculture, could make it possible to reach out to a substantial proportion of such holdings, and to acknowledge the value of horizontal, holistic approaches of “rational agriculture” type, if however the technical content of such approaches is common to all those involved.

A strategy based on encouraging this type of approach, for example by means of a regulatory framework, as is the case for “rational agriculture” in France, or other types of incentive, would make it possible to develop synergy and a convergence of resources between the objectives of the Common Agricultural Policy and those of the farming profession.

The break with a production-driven philosophy would then be complete at all levels of the “world of agriculture”, and a new contract would be in place between farmers and society.

6 Conclusions

The CAP has got some tools which can promote the European model for a multifunctional agriculture.

In this respect, the two pillars of the CAP must be promoted, with complementary impacts in terms of integration of the environment into agriculture.

Following on from the reform of 1992, Agenda 2000 provides Member States with the tools to allow the development of the European model for multifunctional agriculture.

In this way, the CAP can be a useful addition to environmental regulations through constraints imposed on production attracting aid and may even go beyond this to the implementation of incentive measures aimed at developing positive, social amenities at regional level.

The recent implementation of these tools in Europe does not however as yet allow any evaluation of their effectiveness or their impact on the condition of the environment, or, at the very least, a modification of farming practices.

It does open the way to promising prospects for the development of a more sustainable agriculture.

Beyond this two balanced CAP pillars, we must imagine how we could promote transparency, quality and food security as a third pillar of the CAP strategy.