EU-CAP reform – the history of the CAP and key issues for the organic sector

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The debate on further reform of the Common Agricultural Policy is in full swing, with position papers coming from all directions and the Commission engaging in extensive public consultation before the difficult decisions are taken. At the European level, the IFOAM EU group has produced a position paper in alliance with Birdlife. Within the UK, organic NGOs met in July 2010 (see ORC Bulletin 101) and agreed some joint positions. Building on 15 years of research on European organic farming policies, most recently summarised in a special issue of Food Policy published in 2009, this position paper is an attempt to summarise some of the key issues that need to be considered.

A brief history of 50 years of CAP reform

CAP reform has been a perennial theme since the Treaty of Rome was signed in the 1950s. Attempts to improve the profitability and productivity of farming through price support, consolidation of farms and technological intensification quickly led to unintended environmental and social problems, both within the EU and further afield. The butter mountains and wine lakes of the late 1970s/early 1980s led to the introduction of milk quotas in 1984 and voluntary set-aside and extensification programmes in 1988. These were followed by the McSharry reforms implemented in 1994, introducing arable area and livestock headage payments linked to compulsory set-aside and livestock quotas. The process of decoupling support from production, so that market signals could be more keenly felt, had begun.

At the same time, a series of accompanying measures were introduced, including agri-environmental and marketing and processing grants, which specifically prioritised organic farming. This was in part a consequence of the introduction of the first regulation defining organic agriculture, 2092/91, which took effect in 1993. Within the UK, the first Organic Aid Scheme, introduced in 1994, provided support for conversion only and was characterised by low payment levels, attracting only limited interest. With the change of government in 1997, the scheme was reviewed, becoming the Organic Farming Scheme in 1999. Higher levels of payments, still for conversion only, combined with strong market demand proved much more attractive.

EU Commissioner Fischler then sought to merge the agri-environmental and market development policies into a coherent Rural Policy, which with much fanfare became the Agenda 2000 Rural Development Programme, often referred to as Pillar 2 of the CAP, covering the period 2000-2006. However, the hoped for integration of policy did not really materialise due to the continuation of the institutional structures at national and EU level that were previously responsible for the implementation of the disparate individual regulations.

One change that did take place at that time to the advantage of organic producers was the exemption from set-aside requirements applied to wholly organic farms, in recognition of the lower output, high market demand and environmental benefits from organic production. Within the UK, most of the organic schemes were also extended to include maintenance payments for established organic producers by 2004.

The mid-term review (MTR) of the CAP in 2003 led to the introduction of the single farm payment and the cross-compliance requirement to comply with Good Agricultural and Environmental Practice (GAEP) in 2005, which was followed by the removal of compulsory set-aside and eventually completed the process of decoupling support to producers from individual commodities. However, for many producers, particularly in the UK, payments were linked to historical receipts, leading to significant inequities between different types of producers – organic and non-organic as well as livestock and arable compared with horticultural producers, who have only recently become eligible.

As a result of the major changes implemented in 2005, the 2007-2013 CAP Reforms saw relatively small changes to Pillar 1 support. However, the Rural Development Programme (Pillar 2) was restructured around four axes: The first three axes were notionally linked to the familiar concepts of economic, environmental and social sustainability, with:

- Axis 1 focusing on economic issues, in particular market development, capital investments and human capital development,
- Axis 2 focusing on environmental and land management issues, including agri-environment schemes, but also forestry, agro-forestry, rare breeds and animal welfare,
- Axis 3 focusing on social or rural community issues, primarily via measures designed to support diversification of rural enterprises.

The fourth Axis was used to integrate the previous LEADER programmes, originally developed as bottom-up, community led approaches to policy making that saw some interesting examples of integrating agri-environmental programmes with, for example, tourism. However, under the new framework, these programmes have tended to become more institutionalised and arguably less innovative, although a focus on the development of pre-commercial ideas has been retained.

A key issue for the restructured Rural Development Programme was to avoid the four axes becoming 'silos' with little or no interaction between them. The Commission placed some emphasis on exploiting cross-axis synergies – for example with respect to organic farming where agri-environmental support could be reinforced by marketing, training and rural diversification support. While it is difficult to see extensive use of cross-axis approaches in the rural development plans of many member states, many of the action plans for organic farming applied at national and regional level relied on drawing down support from the different axes.

The 2008/9 CAP Health Check saw further decoupling of Pillar 1 (direct aid) payments and encouraged members states to move to flatter rates of support – i.e to reduce the extent that payments to individual farms were based on what they had historically received under the old regimes. It also introduced a new Article 68 providing for targeted measures to address economic/environmental disadvantages in certain regions/sectors. In a few countries, Article 68 has been used to 'supplement' agri-environmental support under Pillar 2, including support for organic farming (for example France), although there are rules to prevent duplication between the two funding streams (so France no longer offers an organic agri-environment scheme). The Health Check also picked up on key 'new' challenges including climate change, bio-fuels, water management, bio-diversity and soil conservation, which were reflected in modifications to Pillar 2 (rural development support), together with an increased level of modulation to support transfer of funds from Pillar 1 to Pillar 2.

Which way will the CAP go from 2014?

While some had argued that the current CAP Reform debate provides an opportunity to end subsidies to farmers, it is now clear that the reforms will not be this radical. The experience of the 2000 and 2007 reforms is that radical-sounding reforms are negotiated away in the compromises needed to ensure agreement between the 27 member states. At best some modest reforms, with a probable reduction of the overall CAP budget, some stronger conditions attached to receiving the full rates available under Pillar 1 (the mainstream commodity measures) and some streamlining of the support under Pillar 2 (the agri-environmental and rural development measures) is now expected, with legislative proposals expected later in 2011.

The 2014-2020 CAP reform debate is taking place within the context of the recently agreed Europe 2020 strategy for 'smart, sustainable and inclusive' growth. Prepared in the wake of the economic crisis, the 'Brussels' strategy agreed by the European Council in June 2010, like its predecessor Lisbon and Gothenburg strategies, struggles to balance economic growth with environmental sustainability. In some senses this continues a trend, started in Lisbon, of reducing the emphasis on

environmental issues, but clearly also reflects recent financial crises and current public expenditure constraints. This is likely to imply a stronger emphasis on fostering innovation and potentially knowledge transfer also in the agricultural sector.

In preparation for the public debate, the Commission carried out an extensive public consultation earlier in 2010, culminating in a conference in July. Launching the consultation process, the Commission however identified (EC, 2009) that policy intervention was needed to address volatile markets (following the rapid price rises in 2007 and subsequent fall in 2008), the delivery of public goods and a sustainable rural environment. To an extent this reflects a continued commitment to the original CAP objectives from the Treaty of Rome, which were retained unaltered in the Lisbon Treaty. However it also recognises the new challenges imposed by climate change and the need to better address the provision of public goods by agriculture. The web-based public consultation received a large number of responses, but was less conclusive about the types of policies that should be implemented, with a distinct division between those seeking a greater emphasis on food production and profitability, and those looking for environmental gains.

Delivery of public goods

The issue of justifying payments to farmers (particularly the Single Farm Payment in Pillar 1) in terms of benefits to society as well as to the agricultural sector is now much higher up the policy agenda. In part this is due to current constraints on public expenditure, but also to the campaigning activities of environmental NGOs. The case for justifying policy support in terms market failure, because there is no incentive in private markets to deliver public goods, is not new – it has been part of the CAP reform debate for the last twenty years, if not longer. But there has been clear shift of public and policy opinion against particular industry sectors being supported for their own sake. Agriculture has not been immune to this, even though it may have a compelling case to make concerning its uniqueness with respect to food security and the climate/biological uncertainty with which it has to work. A focus on the delivery of public goods is therefore seen to provide a clearer justification for support.

In a detailed report for the Commission, Cooper et al. (2009) set out the nature of public goods delivered by agriculture, the support measures used to achieve this, and their recommendations for policy changes. They emphasise the delivery of environmental goods such as agricultural landscapes, farmland biodiversity, water quality, water availability, soil functionality, climate stability (greenhouse gas emissions and carbon storage), air quality, resilience to flooding and fire, as well as a diverse suite of more social public goods, including food security and quality, rural vitality and farm animal welfare and health. While many of these may be considered tangible benefits, a number reflect less tangible concepts of security/stability maintenance and resilience that are as relevant to food production and the environment as they are to energy security and military defence.

Cooper et al. argue that while the agri-environmental and cross-compliance measures previously implemented have succeeded in stemming decline in several areas of public good provision, there is a need for clearer target setting and improved cost-effectiveness of measures, and a need to learn from some of the more innovative, smaller-scale programmes currently being implemented.

While a focus on public goods is undeniably attractive politically, it is much more difficult to realise in practice, particularly if actual outputs need to be measured and valued so that they can be paid for. The principle of payment for public goods contrasts with the current approach to agri-environmental policy, which involves the implementation of prescriptions that are expected to generate environmental benefits, with compensation to producers for their opportunity costs (implementation costs and income forgone). The EU regulatory requirement for payment levels to be determined according to additional costs and income forgone, rather than the value that might be attributed to outcomes delivered, also reflects the need to be able to audit and verify what is being paid for. Many of the environmental externalities in question are diffuse in nature, or expensive to quantify, and do not lend themselves to this type of accountancy framework. The resulting

compromise is that payments are related to a set of management prescriptions that are expected to generate the desired environmental outcomes, even though there is no guarantee that they will, or even a clear idea of the size of the environmental benefit that might be generated.

The increasing pressure to justify agri-environment payments in terms of guaranteed or measurable outputs is also leading to an increased emphasis on targeted measures to deliver specific outcomes. This carries the risk of focusing on schemes for administrative benefits rather than their overall environmental potential. In some cases, emphasis may also be placed on proxy indicators that are less expensive to monitor. This can work successfully, but there is a risk that attention will switch from, for example, the ecosystem that needs to be supported to deliver the environmental services, to the indicator itself, leading to a distortion of the originally intended outcomes.

An alternative approach is to focus on multi-objective systems such as integrated or organic farming, where the production standards underpinning such systems have been developed to address a number of environmental, social and other sustainability goals simultaneously. Cooper et al. (2009) support the case that the delivery of public goods can also be achieved by encouraging specific farming systems that tend to be associated with their provision. These include extensive livestock and mixed systems, particularly in mountain or high nature value areas, and the more traditional permanent crop systems as well as organic systems. However, the farming systems approach can be more challenging to relate to specific deliveries of public goods, because of the range of farm types to which the production standards can be applied (from intensive horticulture to mountain pastures). Despite this, there is now substantial evidence (Lampkin, 2010; Schader, 2010) that organic systems can deliver a broad range of environmental services, addressing biodiversity, pollution, soil and energy conservation and climate change issues, justifying their continued agri-environmental support.

However, it is important that there is real understanding on the part of policy-makers as to what organic standards require farmers to do, and their environmental implications, so that we don't end up with a view, implicit in the National Audit Office review of the Organic Entry Level Scheme (NA0, 2010 – see ORC Bulletin 99 April 2010), that organic certification is the minor component of the scheme, not worthy of assessment in its own right (even though the assessment of this part was favourable), while all that really matters are any added environmental requirements.

Cost-effectiveness of agri-environment schemes

With the pressures to reduce public expenditure following the recession comes an increased emphasis on cost-effectiveness of agri-environment schemes. This can be looked at in two ways – generating as much benefit as possible for a fixed amount of support, or achieving target levels of benefit for as little resource as possible. Some agricultural economists have argued that, according to the Tinbergen rule (Schader, 2010), there should be at least as many instruments as there are policy objectives in order to provide the most economically-efficient solution. This has been used by policy makers to argue that targeted policies supported by specific instruments are more efficient than multi-objective approaches supported by a single instrument, such as organic farming.

However, there is broad agreement that where such approaches are part of the agri-environmental toolbox, they deliver on a range of objectives, though perhaps not as intensively with respect to any single objective than more targeted measures. The cost-effectiveness of the different approaches will depend on the combination of outputs, payment levels for each measure implemented, and the transaction costs involved, which may be significantly reduced in cases where, for example, third party certification systems are used.

However, the Tinbergen Rule is applicable only on the assumption that there are no conflicting goals and no transaction costs, which hardly every applies to agri-environmental policy instruments. Conflicting goals and/or detrimental side-effects exist for many agri-environmental policy instruments. Even if policies are designed especially to deal with a single environmental problem, they may have substantial effects on other environmental concerns. Schader (2010) has analysed

this issue in more detail with respect to the cost effectiveness of organic farming as a tool to deliver agri-environmental goals in Switzerland. His analysis indicates that, provided systems-based approaches are part of a mix of options with targeted approaches, they can be a cost-effective means of delivering agri-environmental outcomes and that the Tinbergen rule critique only applies where systems-based approaches are used exclusively.

Transaction costs, the hidden administrative costs not included in the published payment rates to farmers, are also a significant part of the equation. If the measures undertaken, or the outputs to be monitored, are highly specific to individual farms, and particularly if project officer visits and customised plans/contracts are involved, they can be very high and may in extreme cases exceed the payments to the producers and the value of the services being delivered. There is therefore a trade-off to be made between cost and accuracy in implementing schemes. Certification of land use systems that are considered to deliver environmental services (such as organic) may be used to verify compliance, reducing transaction costs further if linked to appropriate marketing opportunities. However, in order to reduce transaction costs and burdens on producers, multiple visits duplicating control functions should be avoided and there is a need for greater communication between grant agencies and certification bodies to achieve this.

Making more of the potential benefits

To make sure that the anticipated environmental benefits from schemes are achieved to the greatest extent possible, there is an ongoing need for research and education. Research is needed both to understand the nature of the environmental problem and to understand how human actions can be used effectively to address it. Research is also needed to provide evidence on the extent of impacts of normal human activity, and the scale of any external benefits or environmental services that might be delivered by a relevant policy instrument.

Education, encompassing training, advice, participatory research and other extension activities, is arguably even more fundamental than research, since many producers do not set out deliberately to cause environmental damage, but are less well-informed with respect to the impacts they are having and the potential for improvement. Education in a broad sense is essential to ensuring regulatory compliance as well as increasing the outputs that can be delivered for a given level of policy investment, and reducing the costs to the producer of delivering the outputs sought. While there have been a number of initiatives in this direction, including scheme project officers visiting farms to help with planning, the Farm Advisory Service introduced in 2007 to help farmers comply with regulations, and more recently Natural England's ETIP, the level of resources allocated has not generally been high.

From an organic farming perspective, the Organic Conversion Information Service in England and Wales has played a valuable role in supporting producers considering conversion, but in England at least the availability of information post-conversion has been sparse, and the situation will become worse with the likely closure of English OCIS in 2011. There is a need to develop training and advisory support further to include detailed organic farm planning, ongoing access to advice and training during the conversion period, support with problem solving and assessment of public good delivery, for example using the new tool being developed by ORC for Natural England.

Balancing policy and market goals

Unlike many agri-environment schemes, certified organic production is also strongly market focused. This has potential advantages in encouraging producer interest in conversion, and in sustaining organic land management in the event that agri-environmental support for organic land management is too low or withdrawn completely. However, there have always been concerns that support payments can encourage increases in supply ahead of increases in demand, distorting organic markets and reducing premium prices. Some have argued that the support for conversion should be limited to what the market will bear, but should we then forego the potential

environmental benefits from more widespread organic land management? In some cases it has been argued that continued organic management should be supported only by the market (particularly in the UK, France and the Netherlands), but should a minority of consumers be expected to pay for environmental benefits that accrue to society as a whole? Do organic food consumers even share the same goals as environmental policy-makers? If many organic producers do not have access to premium markets, would it not be better to separate organic land management for environmental gain from organic food marketing as an entrepreneurial activity by farmers – even if the transaction cost advantages of organic certification are then lost? For some policy-makers working in an environment which is heavily dominated by public sector approaches to public good delivery, balancing policy-led and market-led solutions can also be a significant challenge because they do not have ownership of, and therefore do not trust, the market-led solutions.

These tensions can be seen in the way in which organic farming is dealt with in different European agri-environment schemes. In some countries such as Sweden, organic farming has been encouraged as an agri-environmental policy in its own right, with a certification requirement and market link left to the individual operator to develop separately. In other countries, such as Portugal and to some extent Scotland, failure to market products as organic has been seen as a disqualification criterion, even though the environmental benefits from organic farming result from the land management, not the marketing activities.

Addressing this apparent conflict between market-led and policy-led approaches is partly an institutional issue. If the regulations at international or national level are drafted in a such a way as to focus attention on specific approaches in isolation, for example the split between Axis 1 and Axis 2 in the current EU Rural Development Regulation, and national/regional government departments are structured to deliver to specific axes (for example the traditional separation of 'food', 'agriculture' and 'environment'), then it is likely that the interaction between activities, and the synergy that could result from that, will be lost. Where it does make sense for this type of departmentalisation of activities for other reasons, then specific efforts need to be made to ensure cross-departmental communication. These initiatives can be supported by increased engagement with a broad range of stakeholders, including both industry and civil society.

Conclusion

While the increased focus on delivery of public goods is to be welcomed, land management system based approaches such as organic farming, still have an important role to play. They can make a significant contribution to several policy objectives, and can be a cost-effective option for agri-environmental/land management policy, while also taking advantage of market opportunities and consumer willingness to pay for relevant benefits. However, research into improved organic systems, and training and to enable producers to manage their systems better, are essential if the full potential contribution of organic farming to policy goals is to be realised.

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