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Reform of the CAP: Progress for grasslands and livestock farming?

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Abstract. The European Commission (EC) presented recently a proposition for a reform of the Common Agricultural Policy (CAP) after 2013. This proposal continues some of the present objectives and includes new ones that take into account the enlargement to new Member States. The mechanisms designed by the EC for reaching these objectives, especially for the "Greening" component of pillar 1, are though very unlikely to succeed. The definition of permanent grassland is far too restrictive and inadequate. Semi-natural grasslands and High Nature Value farmland are not specifically targeted although they are the most valuable ecosystems of the farmland area. Greening measures are too general, not targeted, not contractual and based on one-year farmers' commitments. They do not include farmers' advice and training, and a convincing control system. Most CAP expenditures should shift from pillar 1 to pillar 2 and the agri-environmental scheme. In the medium term, CAP expenditures should support the emergence of a market of public goods (biodiversity, landscape and carbon storage mainly) supported by pillar 2 budget (public money for public goods!). An increase of the grassland area and the implementation of an efficient system for biodiversity conservation in agriculture are highly desirable.

Keywords. Common Agricultural Policy – Greening – Agri-environment – Public goods.

Réforme de la PAC : Un progrès pour les prairies et l'élevage ?

Résumé. La Commission européenne (CE) a présenté récemment une proposition pour une réforme de la Politique Agricole Commune (PAC) après 2013. Cette proposition poursuit certains des objectifs actuels et en inclut de nouveaux qui prennent en considération l'élargissement à de nouveaux Etats membres. Les mécanismes conçus par la CE pour atteindre ces objectifs sont cependant très peu susceptibles de réussir, particulièrement pour la composante « verdissement » du 1^{er} pilier. La définition des prairies permanentes est bien trop restrictive et inadéquate. Les prairies semi-naturelles et les terres agricoles de Haute Valeur Naturelle ne sont pas spécifiquement ciblées bien qu'elles soient les écosystèmes les plus précieux de la surface agricole. Les mesures du verdissement sont trop générales, non ciblées, non contractuelles et basées sur des engagements annuels des agriculteurs. Elles ne comprennent pas de conseil et de formation des agriculteurs, et un système de contrôle convaincant. La plupart des dépenses de la PAC devraient être transférées du 1^{er} pilier au 2^{ème} pilier et au programme agri-environnemental. À moyen terme, les dépenses de la PAC devraient soutenir l'émergence d'un marché de biens publics (biodiversité, paysage et stockage de carbone principalement) soutenu par le budget du 2^{ème} pilier (des fonds publics pour des biens publics !). Une augmentation de la surface de prairie et la mise en place d'un système efficace pour la conservation de la biodiversité en agriculture sont fortement souhaitables.

Mots-clés. Politique Agricole Commune – Verdissement – Agri-environnement – Biens publics.

I – Introduction

On 12 October 2011, the European Commission (EC) presented a proposition for a reform of the Common Agricultural Policy (CAP) after 2013 (European Commission 2011a,b). Three broad objectives of the future CAP are defined: (i) viable food production, (ii) sustainable management of natural resources, and (iii) balanced territorial development. New ideas have been introduced in the 2011 CAP reform proposals of the EC compared to the former CAP. Most changes are related to pillar 1. A new "Basic Payment Scheme" will introduce more equity

in the payments per ha within and between Member States (MS). A compulsory "Greening" component will support farmers for respecting agricultural practices beneficial for the climate and the environment. MS may grant an additional payment from pillar 1 for areas with natural constraints. This support has to be limited to 5% of the national envelope. Part of the budget will target young and small farmers. MS would have the possibility to spend limited amounts of their envelope (maximum 5%) on "coupled" payments linked to a specific product. Limited transfer would be allowed between pillars 1 and 2 or pillars 2 and 1. The cross-compliance principle would be reinforced. Capping would limit payments that very large farms can receive.

More fairness in the distribution of supports is certainly something that could increase cohesion of the EU, support the income of small farmers of the new MS and of extensive farmers of all MS and could be used for enhancing the environment, protecting biodiversity and landscapes. A successful transition of the economies of the new MS is vital for all EU countries. CAP mechanisms should target farmers of these countries for helping them to develop a modern and sustainable agriculture while protecting the environment. Capping is also a tool that can contribute to distributing supports to farmers who need them the most. If one can agree on the objectives, mechanisms for reaching these objectives can be discussed!

II – Analysis of the EC proposals

There is a wide consensus that the CAP must be simplified and its efficiency increased.

The recent proposals do not really go in this direction.

The "greening" component of the 1st pillar introduces confusion between the objectives of the 1st and the 2nd pillars. If the Greening component of pillar 1 is considered as a "light" version of Agri-Environmental Measures (AEM), AEM and Less Favoured Areas (LFA) programmes would have both 1st and 2nd pillar components. The articulation between the green component of pillar 1 and the environmental scheme of the Rural Development Programme (RDP) is not defined.

Even more importantly, the CAP must demonstrate good value for money to tax payers.

That implies the delivery of public goods and the implementation of an effective system for this delivery.

The budget devoted to the greening is important (about 30% of the national envelopes of direct payments) and could triple the amount spent on agri-environment compared to the present situation if the budget of AEM is maintained. **The 3 measures of the greening component – maintaining permanent pasture, crop diversification and maintaining an "ecological focus area" of at least 7% of farmland – are welcome in their principle.**

Supporting permanent pastures is highly justified for many reasons. The environmental benefits of the measure on the maintenance of permanent pastures will though be limited because it is not targeted to precise environmental goals and in particular it does not focus on semi-natural vegetation.

The definition of permanent grassland by European Commission (2011a) – "land used to grow grasses or other *herbaceous* forage naturally (self-seeded) or through cultivation (sown) and that has not been *included in the crop rotation* of the holding for five years or longer" – does not take into account the vast grazed areas that include high proportions of trees and/or shrubs and that have been used for centuries in different areas of Europe from Sweden to the South of Spain and to Greece. Grazed woodlands, *Calluna* heather and other *Ericaceae* communities in the lowlands and in mountains, Mediterranean matorral, the Spanish Dehesa and the Portuguese Montado for instance would be excluded from supports and they are among the most precious and biologically rich, grazed ecosystems of Europe. They are also storing carbon in higher amounts than other grazed ecosystems.

On the other hand, large areas of grasslands are regularly resown without taking part in crop rotations. The soil cover is always grass but the vegetation is not permanent grassland. These

grasslands provide much lower environmental benefits and are species-poor. The definition should only include grasslands that are not regularly ploughed or chemically destroyed and reseeded.

The greening measure for grassland and rangeland conservation should target specifically semi-natural vegetation, i.e. managed ecosystems dominated by indigenous or naturally occurring grasses, other herbaceous species and/or shrubs which are grazed or have the potential to be grazed (Allen *et al.*, 2011). These ecosystems are not substantially modified by fertilisation, liming, drainage, herbicide use, introduction of exotic species and over-sowing. Forestland that produces, at least periodically, understorey vegetation that is grazed should also be included. Compared to semi-natural grasslands, lower level of subsidies should support more intensively used permanent grasslands (PG). The definition of intensively used PG implies more frequent defoliations and higher stocking rates and productions than semi-natural grasslands. Simple maintenance rules should be defined in the support system and controlled by a credible monitoring and evaluation procedure. Legume-based temporary grasslands could be supported too, at a lower rate than intensively used PG.

The environmental objectives and management of the "ecological focus area" are not defined. Terms like "field margins, hedges, trees, fallow land, buffer strips, afforested area" are rather vague and the biodiversity of these areas can be of high-value, but could also be of low-value, sometimes with harmful elements. These areas should be carefully defined, in-field and on field edges, include all types of ecological infrastructures that are beneficial to biodiversity and their management should be checked and the results evaluated. That implies higher levels of control than with the present 1st pillar measures and an implementation philosophy closer to the 2nd pillar.

The greening component should support as a priority those farming systems that provide environmental public goods and services. High Nature Value (HNV) farming systems are one of them. Their persistence is threatened by a low profitability. HNV farmland is often managed by small farmers that the reform would like to support. However, the proposition of the EC insufficiently includes HNV. If it is recognised amongst the main objectives of the RDP, there is no mention of any tool specifically focused on it. This tool could possibly be integrated in a 1st pillar component (Beaufoy and Marsden, 2011). MS may grant an additional 1st pillar payment for areas with natural constraints, for a very limited amount of their national envelope, but no clear environmental objectives are associated to this measure. These payments should be merged with those of the LFA scheme of the RDP and used for financing HNV farming on a simple, clear and effective basis. That would result in giving a stronger content and a clearer environmental objective to the LFA programme (the present definition: "a broad-scale mechanism for maintaining the countryside in marginal areas" is very general and has limited environmental relevance).

All RDP programmes should have clear objectives including environmental objectives like AEM, LFA, investment in physical and human capital and the Leader axis. Special attention should be paid to the avoidance of distortion effects of these policies, especially investment supports and LEADER projects, on the environment. **The current agri-environmental scheme has had a positive effect on the environment** by slowing down the degradations, by maintaining a situation or by restoring biodiversity and landscapes. Its effect was though insufficient, as recognized in the EU Biodiversity Strategy. There are several reasons for this, including issues with national or regional scheme design, the targeting of the measures, the way they are implemented, a lack of farmer's advice, low administrative capacity, low payment levels and insufficient budget. The budget for AEM should thus not be decreased, it should increase, but the proposals of the EC do not guarantee this increase. In each country, AEM should be better targeted. Increasing farmer's advice and training on AEM and increasing monitoring and evaluation will require greater administrative efforts and a somewhat larger part of the budget, but these conditions are necessary for ensuring effectiveness, efficiency and good value for public money (Hart and Baldock, 2011).

The present proposals of greening measures will not deliver important environmental benefits because they are too general and not targeted, they will apparently not include training, monitoring and evaluation of the results. It has been shown that only targeted measures can be efficient for biodiversity restoration and conservation (for instance: Bretagnolle *et al.*, 2011). General and broad measures, like those corresponding to the management rules of pillar 1, are not. Non-contractual agri-environmental actions will thus most likely not deliver significant results! Most measures require long-term adoption for reaching consistent results. The one-year basis of the EC proposal does not fit with this criterion. Multi-annual commitments should be considered.

If all these aspects are not taken into account in the final version of the reform, the credibility of the "greening" component of the CAP and of the whole CAP will be threatened.

Independently of the reform proposals and the previous comments, a change of paradigm is needed for the CAP. **The CAP budget should move from income support to a public good market financing.** That will give a new legitimacy to this policy. The structure in two pillars should be abandoned or the largest part of the CAP budget should be transferred from pillar 1 to pillar 2, with a lowering of co-funding rates in less developed regions (which is included in the EC proposals). The remaining part of pillar 1 budget (for instance about 20% of the total CAP budget) should be mainly kept for stabilizing income in case of high price volatility (safety net). Pillar 2 budget would become the basis for creating a true market for public goods and services and in priority for biodiversity and landscape conservation, carbon storage and water quality. On the supply side, initiatives could come from farmers advised by experts (research organisations, specialized NGO, R&D offices) for proposing (offering) public goods and services. On the demand side, the 2nd pillar of the CAP would be the main source of payments but other public authorities (national, regional, local), private companies, individuals or group of individuals could evaluate these proposals and decide to pay (to buy) them or not. Improved AEM should remain the reference and a source of inspiration for this market. This system based on private initiative, creativity and efficiency would boost the protection of the environment and stimulate rural life. It would create a vibrant countryside, create new jobs and increase contacts between the agricultural sector and other stakeholder types.

III – Discussion and conclusions

The structure of the CAP budget in two pillars is no more really justified. Direct payments, even if better distributed among and within MS, cannot be socially justified anymore in a context of public expense reduction and economic difficulties. Farmers should not be paid just for farming! They should earn income from their farming activities that should be as much as possible economically viable. This viability is though not always guaranteed. It can be increased by complementary activities that must also be based on the reality of a market. Farmers should notably be rewarded for the positive actions they undertake for a sustainable management of natural resources and for the delivery of ecosystem services. A market should be initiated and organized by the CAP for the production of public goods and services. This market should be largely financed by public money (public money for public goods!). This implies a change of paradigm of the CAP. Most CAP expenditures should be redirected to this objective. That will give a long-term legitimacy to the CAP budget.

In every policy document, the support to "permanent grasslands and rangelands" should include ecosystems dominated by shrubs and/or trees and that are traditionally grazed. Given the fast erosion of biodiversity in the EU, specific measures should support the maintenance and the restoration of semi-natural grasslands, within and outside Natura 2000 areas, and the farming systems that ensure their persistence, the HNV farming systems. More intensively used permanent grasslands and, to a lesser extent, legume-based temporary grasslands should also be supported because they protect natural resources and provide ecosystems services compared with arable land, although to a lesser extent than semi-natural grasslands.

Only AEM and greening components that target a species, a group of species, or a habitat can be efficient. AEM and greening components can also be designed to support a broad farming system, e.g. extensive sheep grazing system or other HNV farming systems, that can deliver real environmental benefits. With the exception of the support of these particular farming systems, general horizontal and not targeted measures are not efficient. Farmers' advice and training are essential because they do not yet sufficiently consider themselves as providers of biodiversity and ecosystem services and they do not always have enough knowledge for this new task. Follow-up, evaluation and control systems are also necessary for achieving good value for money.

The relative importance of the EU as an exporter on the world market of meat and dairy products is decreasing. Luxury and high-quality products, like Protected Designation of Origin (PDO) cheeses, have though good chances to compete in this market. European farmers should maintain or increase their income by producing for local markets in priority and by increasingly selling their products in short-marketing chains. PDO labels and private trademarks can be efficient tools for guaranteeing the combination of local origin, better taste, and the protection of biodiversity and landscape. That requires the consideration of biodiversity in the specifications to ensure a production system that favours biodiversity. Agri-tourism can also be helpful, especially in less favoured areas.

The conclusions of the "Dillon Round" of the General Agreement on Tariff and Trade (GATT) negotiations in 1962-1963 included the acceptance by European negotiators of free-tax imports of protein-rich feedstuff for animal feeding. As a result, between 1961 and 2008, feed imports have increased in the 27 countries of the present EU by about 400% (in tonnes) (FAOSTAT). Soy became the main product of feed imports (83% in 2008). That induced a fast increase of industrial monogastric (pig and poultry) production and blocked any further development of legumes and protein crops in Europe. It induced also a decrease of the grassland area. In the EU-6 [Benelux, France, Germany (GFR), Italy], losses of the permanent grassland area are estimated at about 30% and 7 million ha between 1967 and 2007 (Eurostat). In the EU-15, losses are probably closer to 15% or 10.5 million ha in 50 years (FAOSTAT). Feed imports are now equivalent to about 10% of the total EU-27 grassland area on a ME basis, and about 27% on a CP basis (Swolfs, 2011, and own calculations). In the 1961-2009 period, the maize area more than doubled, as a complement to protein-rich feedstuff, it gained 1.2 million ha in France, Germany and Benelux while the total cereal area remained almost stable (FAOSTAT). Other reasons of the decline of the permanent grassland area are urbanization and afforestation. Very large areas were afforested from the 1990s for instance in Spain and Portugal with CAP supports. These evolutions have also consequences on human health. Compared with grain-fed (soy, cereals) beef or milk, grass-fed beef or milk are lower in total fat, lower in saturated fatty acids (Couvreur *et al.*, 2006) linked with coronary heart diseases (CHD), higher in total omega-3 [and has a healthier ratio of omega-6 to omega-3 fatty acids (1.7 versus 5-14)], higher in conjugated linolenic acid (CLA) (cis-9 trans-11) (Dhiman *et al.*, 1999) that is anti-cancer, and higher in vaccenic acid (which can be transformed into CLA) (Duckett *et al.*, 2009). Improving human health and achieving higher protein independence are thus desirable objectives that can be partly achieved by a better use of grasslands, by reducing the importance of monogastric meat consumption compared to beef meat, by producing meat and dairy products on the basis of grass and not on the basis of grain. More grassland in the agricultural area will also provide better landscapes and more ecosystem services.

It is estimated that 30 to 50% of the total food produced in western societies is wasted (WRAP 2009, 2010; Parfitt *et al.*, 2010). Food waste reduction should thus receive more attention than yield and production increases. Policies can in parallel reduce wastes and use them, for instance in animal feeding as sources of protein and energy. Innovative systems are needed for ensuring the respect of hygienic aspects.

Research and development are essential for developing new systems that are efficient both in terms of food and ecosystem service productions. Innovation in the bio-economy is though not

restricted to biotechnologies. New solutions, combining existing knowledge and techniques, or using new techniques, can be developed at the whole farming system level. Research is notably required to define the economic value of public goods and services in different kinds of ecosystems in arable land, grassland and forest; to study the effects of agricultural techniques and systems on the delivery of these public goods and services; to support the conservation and restoration of public goods and services from the technical and economic points of view. Small and Medium Enterprises (SME) should be more intensively associated with the development of new commercial products and processes.

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