



“EU: CAP and Enlargement - An Opportunity for Nature and Environment?”

Background Paper

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“Scenarios are images of the future or alternative futures that are neither predictions nor forecasts, but an alternative image of how the future might unfold.”
(Nahicenovic 2000 in: EEA 2001)

Preface

In the course of a research project of the German Federal Agency for Nature Conservation, financed by the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety, Ecologic, Institute for International and European Environmental Policy, will hold the international conference “EU: CAP and Enlargement - An Opportunity for Nature and Environment?” in February 2003, in Berlin/Potsdam.

The conference is based upon the findings of the preparatory workshop “EU-Enlargement: Impact of the CAP on Environment and Nature”, which took place in September 2001, in Bonn.¹ The outcome of this workshop was a flowchart, called “Initial Situation”, which outlines the current situation of the interactions between the Common Agricultural Policy and nature and environment within the Member States.

¹ Choudhury, Keya, Kraemer, R. Andreas and Tanja Draeger 2001: „EU-Enlargement: Impact of the Common Agricultural Policy (CAP) on Environment and Nature.“ Workshop Proceedings. BfN-Skripten 57.

1 Introduction

The conference “EU: CAP and Enlargement - An Opportunity for Nature and Environment?” follows up the activities of the preparatory workshop “EU-Enlargement: Impact of the CAP on Environment and Nature” and aims at:

**Objectives
of the
Conference**

- Raising awareness for the future connection between EU enlargement, Common Agricultural Policy, environmental and nature conservation policy as well as for the emergence of new or intensifying impacts in an enlarged EU.
- Offering a platform for continuing the initiated discussions and promoting exchanges on the impact of the Common Agricultural Policy on nature and environment. This will involve the views and opinions of the Candidate Countries², the Member States and the European Commission.
- Examining and discussing various scenarios on the causes and effects of EU enlargement and on the adoption of the CAP. In this setting the viewpoints and appraisals of the Candidate Countries should show the differences and commonalities among them.
- Supporting experts, policymakers and stakeholders to synthesise scientific and political knowledge and thus integrate various policies, namely EU-Enlargement policy, CAP, nature conservation and environmental policy.

This background paper will describe the initial situation and will present various scenarios outlining the relationships between different aspects of CAP funding mechanisms, transition processes, land use changes as well as environmental effects.

² Poland, Hungary, Lithuania, Latvia, Estonia, Slovenia, Czech Republic, Slovak Republic, Bulgaria, Romania, Malta, Cyprus, Turkey.

2 Presentation of the Initial Situation and Scenarios as well as Project Constraints

The added value of the scenarios concerning the triangle of nature conservation and environmental, agricultural, and EU-Enlargement policies consists of visualising and describing a web of the most important interrelationships between particular aspects of these policies.

The following phases and steps have been carried out during the development of the scenarios:

**Phases of
scenario
development**

1. Phase: Preparatory Workshop - elaboration of the flowchart “Initial Situation”

The creation of the flowchart “Initial Situation” was facilitated by Ecologic while the invited experts provided the creative input using the “Metaplan” – technique. The facilitator ensured that a wide range of views was represented.

2. Phase: Elaboration of scenarios and the questionnaire

The elaboration of three scenarios and the questionnaire involves the following steps:

- Elaboration of the draft scenarios on the basis of the flowchart “Initial Situation”.
- Review of the draft scenarios by the German Federal Agency for Nature Conservation and the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety.
- Presentation of the scenarios in this background paper.
- Elaboration of the questionnaire in order to complement the scenarios.
- Distribution of the scenarios and the questionnaire for commentary and review by the participants of the conference.
- Final revision of the scenarios, based on the received comments and the analysis of the questionnaire.

3. Phase: The Conference

The outcome of the opinion poll and the scenarios will be presented and discussed at the conference.

To ensure the practicability, certain restrictions on the scope of the scenarios had to be made.³ Therefore, global framework conditions such as the WTO negotiation process, changes within the World Market and multilateral environmental agreements (MEAs) were not taken into consideration. For the purpose of this project, the analysis of the European Agricultural Policy is limited to the following CAP funding mechanisms:

**Emphasis
and
constraints
of the
scenarios**

- direct payments;
- modulation;

³ For more background information see Choudhury et al. 2002.

- cross-compliance; and
- selected measures of the rural development programme.

Rural development measures are limited to specific measures related to **environment and nature** such as:

- agri-environmental measures;
- less-favoured areas; and
- special measures for semi-subsistence farms.

Since the focus of the project is set on the impacts on environment and nature, social and economical factors were not taken into account. Similarly, technological changes were not considered, however, the intensification of capital, production and chemical input has been addressed. Land use changes cover the following issues:

- marginalisation,
- abandonment,
- extensification,
- afforestation,
- protected areas and
- organic farming.

It has to be stressed the assessments of the impacts of the particular agricultural instruments on nature and environment are only **hypothetical** and **qualitative**. Moreover, the potential impacts and interrelationships will be indicative and do not claim to be definite. The intention of this background paper is to **initiate discussions** on the impact of the CAP on nature and environment against the background of EU-Enlargement. Therefore, any contributions or comments on the rationales of this paper, aiming to further develop the scenarios, which will be presented at the conference in February 2003, are highly appreciated.

3 Methods, policy instruments and questionnaire

3.1 Overview of the Flowchart “Initial Situation”

Chart 1 shows the flowchart “Initial Situation” – impact of the CAP and Agenda 2000 in the Member States. The individual relationships will be addressed below.

For the development of the flowchart “Initial Situation” the following assumptions have been made:

- Regarding the CAP funding mechanisms the “Initial Situation” builds upon the instruments as brought forward by the Agenda 2000. As some of the agri-environmental measures had already been introduced by the 1992 MacSharry reform, the assessment of environmental effects, however, takes an environmental impact resulting therefrom into account. The date for the observation of an environmental impact is limited to today’s (October 2002) views and assessments. Future predictions are not being made.
- For the further analysis of the “Initial Situation”, it is assumed that CAP funding mechanisms cause certain land use changes which in turn induce positive or negative effects on environment and nature. Furthermore, country- or region-specific elements, such as property rights or national support schemes, have an important influence on land use changes. These elements are summarised under “agri -adaptation” and gain particular importance while reflected in the Candidate Countries.

The main characteristics and interrelationships between the elements of the “Initial Situation”, which reflect the discussions of the above mentioned preliminary workshop, are summarised below:

- A strong influence of direct payments on the **intensification** of agriculture has to be stressed⁴. This is particularly true for productive areas. Direct payments favour high yield regions leading to poor, long-term viability for extensive farming⁵. This might result in marginalisation or abandonment.
- The use of direct payments depends on **property rights** which are generally settled in the Member States. Property rights have a considerable influence on the intensification of agriculture and thereby on environment and nature. In countries where the major part of agricultural land is leased, the farmers have little motivation to investigate or manage the land in a sustainable way as compared to those who own their land.
- **Set-aside** as a condition for direct payments might have benefits for environment and nature but could not always be proved to be successful in the past.

Notes
alongside
the text are
related to the
“Initial
Situation”

Benchmarks
of the
“Initial
Situation”

1, 1a



1



1, 3



⁴ Ibid.

⁵ E.g. ECU 446/ha in the fertile district in Napoli Pianura and ECU 88/ha in the district of Salerno Montagna Interna (Court of Auditors 2000).

- The influence of **agri-environmental measures** and support for **less-favoured areas** is comparatively weak due to low budget allocation in the “Second Pillar”. The support which is financed under the rural development scheme requires national support schemes and might result in extensification, afforestation, protected areas or organic farming. 2 →
- In turn, all these **land use changes** might have various effects on environment and nature. It has to be assessed, case by case, whether land use changes, such as abandonment, have a positive or negative impact on environment and nature. 3 →
- Linking direct payments to **modulation** and **cross-compliance** is of increasing importance although many Member States have only recently considered to implement these instruments.⁶ 4 →
- Funds which could be gained through modulation or cross-compliance can be used for accompanying measures, including agri-environmental measures, and for the support of less-favoured areas. 5 →
- Cross-compliance measures, agri-environment programmes and less-favoured areas require certain **environmental standards**. Farmers can receive direct payments or monetary compensation for management practices, respectively, if they meet the required environmental standards. Member States are requested to set out verifiable standards in their national support schemes, such as the rural development plans. Different agricultural minimum standards could lead to market distortions and to distortions concerning the payments for environmental services undertaken by the farmers (Jungehülsing 1999). 2 →

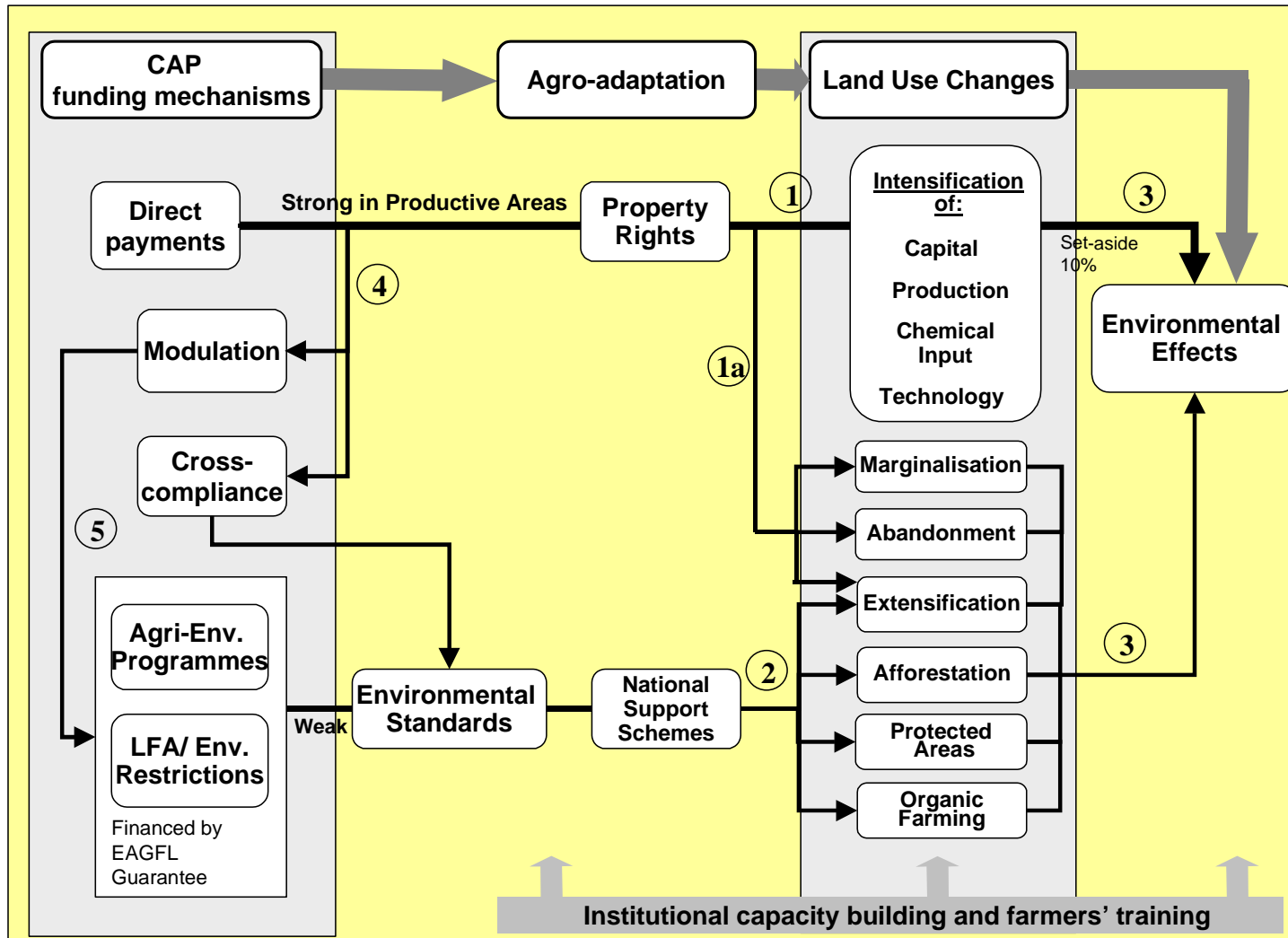
In the following sections the impact of direct payments, cross-compliance, modulation, agri-environmental programmes and less-favoured areas on environment and nature will be examined and discussed in separate chapters. The impacts of particular instruments on environment and nature will be marked by the following signs:

- (☺) **positive impacts**
- (☹) **negative impacts**
- (•) **statement**

As mentioned above, the assessments of the impacts of the particular agricultural instruments on nature and environment are only **hypothetical** and **qualitative**; aiming to initiate discussions on the impact of the CAP on nature and environment against the background of EU-Enlargement.

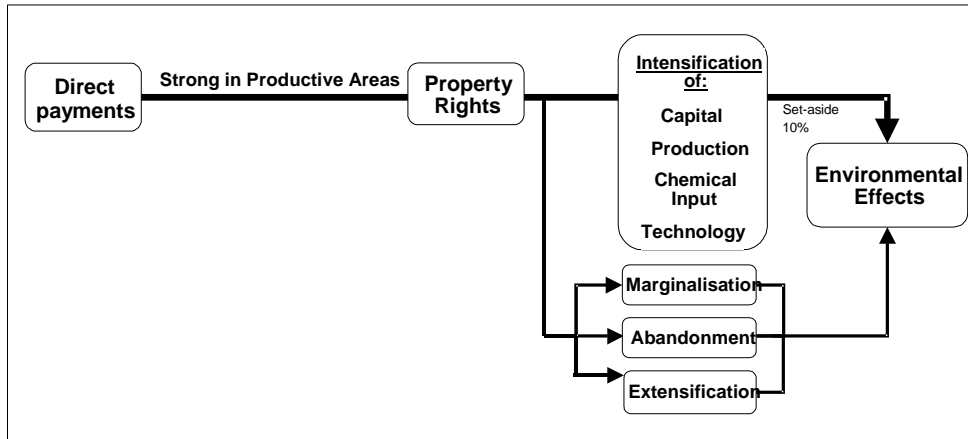
⁶ Dwyer, Janet, David Baldock and Silke Einschütz 2000: Cross-compliance under the Common Agricultural Policy. A report to the Department of the Environment, Transport and the Regions (DETR).

Chart 1: Flowchart “Initial Situation”: CAP and Agenda 2000 in the Member States



3.2 Direct Payments

Chart 2: Direct payments



Please note that the effects of direct payments are also influenced by external factors, such as price fluctuation and technical change and development. Nevertheless, these will not be addressed within the scope of this paper.

- ☞ In many Member States direct payments resulted in an accelerated process of **adjustment towards fewer but larger farms** due to output-related compensation. This has resulted in stimulating rather than discouraging the **intensification** of production in most productive areas, while contributing in disparities throughout the EU more acute. This change in the farming structure, i.e. reduction of mixed farming practices, the loss of traditional rotation systems and increasing specialisation, is accompanied by a loss of landscape features and biodiversity, increased environmental pressure, abandonment and marginalisation (OECD 1998; Pezaros 2001).

1, 1a, 3



In order to describe the impact of direct payments on environment and nature, a distinction is made between subsidies for livestock, crops and set-aside areas:

Livestock

- ☞ **Livestock premia**⁷ did not lead to reduction of the **number of cattle**. While limiting their aid claims to a certain, eligible number, farmers continued to keep as many animals as they wished (Court of Auditors 2000).
- ☞ **Small producers** (up to 15 LU) are exempt from limits for stocking density which might lead to negative effects on environment and nature (Court of Auditors 2000).
- ☞ 85% of EU milk production derives from intensive **dairy farming** with high stocking rates, except where national programmes help to maintain small producers or promote organic production. Due to the EU-support system small and traditional

⁷ Paid as a premium per animal and linked to strict stocking density limits (maximum 2 LU/ha and extensification premium 1,4 LU/ha).

dairy farms dropped out of production or were abandoned. In general, the EU-dairy policy led to a loss of grassland diversity due to increased use of fertiliser, silage production, and reduced grazing and to abandonment (CEAS and European Forum on Nature and Pastoralism 2000).

- ☞ It has to be stated that the minority of direct payments schemes are disassociated from production or factors of production⁸. Only the **Common Market Organisations** for beef and veal include an extensification premium.

Crops

As far as environmental and nature conservation is concerned, the criticism of direct payments is that direct payments generally lead to the intensification of capital and thus of agricultural production. This leads to the environmental effects, commonly known as soil compaction, which is due to heavy machinery or water and soil pollution brought about by the extensive use of agrochemicals. However, the following, indirect effects have to be considered:

- ☞ Although the introduction of production aid for arable land had originally been provided for land which, before the reform, was exclusively used for arable crops; other areas claimed eligibility for arable aid additionally (justified with long rotations). This phenomenon led - contrary to the objective of the reform - to the **conversion from pasture to arable land** (Court of Auditors 2000).
- ☞ Higher direct payments for **irrigated farmland** led to severe environmental and nature conservation problems due to excess water use in some regions and intensification (Court of Auditors 2000).
- ☞ Direct payments are only given for utilised agricultural area and not for **landscape features** within or adjacent to the agricultural area. That meant that farmers were obliged to calculate their eligible agricultural land without, e.g. hedges, strongly controlled by IACS⁹. In order to receive more direct payments farmers removed these landscape features at the expense of environment and nature protection.

In some cases certain effects on land use, environment and nature cannot be directly linked with one form of subsidy but depend on the relation between them. For example, due to **maize subsidies**, paid since 1992, and low prices for cereals the production of milk became more efficient for intensive indoor farming systems which do not necessarily depend on grassland and fodder crops. This resulted in lower incomes for grassland and fodder crops and an enormous decrease of grassland along with a significant increase of maize production as well as environmental and nature conservation problems, resulting from that maize production (Schievelbein 2001; Court of Auditors 2000).

⁸ A degree of market orientation has often been achieved by relating area and headage payment to fixed historical (rather than current) levels of productions (FN 1 OECD 1998).

⁹ Integrated Administration and Control System (IACS)

3.2.1 Set-aside

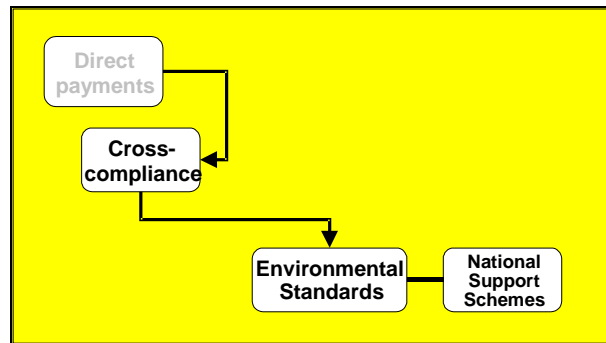
- 👉 Due to the **weak implementation** of the set-aside regulation and the **lack of control** by the Member States, set-aside often fails in having the desired positive effects on environment and nature but causes, for example, bare land or soil erosion (Court of Auditors 2000).
- 👉 Direct payments for set-aside areas could also have a negative impact on environment and nature, if the areas are cultivated with **renewable primary products**, i.e. intensive monoculture of rapeseed (Berger 2001).
- The benefits for environment and nature depends on the former land use, e.g. the rotational set-aside could also have negative impacts when applied to extensive arable land.

1, 3



3.3 Cross-Compliance

Chart 3: Cross-compliance



Certain positive and negative effects on environment and nature by implementing cross-compliance have been identified:

2, 3, 4, 5



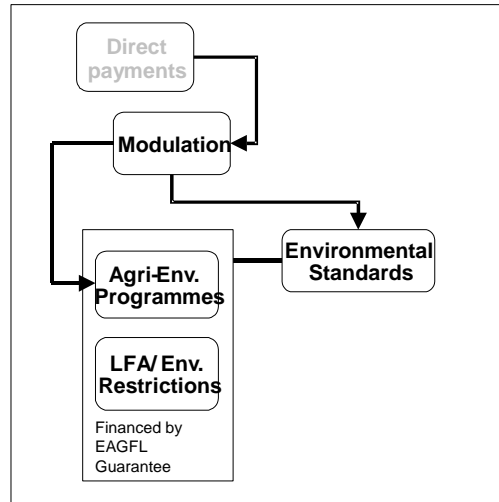
- 👉 Cross-compliance require **environmental standards**.
- 👉 High pressure on farmers in case of **national implementation**.
- 👉 Possibility to link cross-compliance to **set-aside**.
- 👉 Potential pre-condition and complementary for **agri-environmental measures**.
- 👉 **Targeting** specific elements of environment and nature and sources of harm on environment and nature.
- 👉 **Intensive and large farming systems** are preferably targeted (see direct payments).
- 👉 Impact only on **Common Market Organisations**.
- 👉 **Cross-compliance** is linked with the direct payments scheme.
- 👉 **Dependent on farming structures** such as the negligence of small and extensive farming systems.

Furthermore, certain aspects which affect the **acceptance** and **application** of cross-compliance should be considered:

- ☞ The inability of the **regulator** to control the degree of policy incentives has implications for the efficiency of cross-compliance as a policy instrument (Latacz-Lohmann 2001).
- Welfare gain and **farmers co-operation** could be achieved if environmental costs outweigh compliance and incentives outweigh cross-compliance costs (Latacz-Lohmann 2001). Welfare gain will not be realised where potential benefits for environment and nature outweigh the cost of cross-compliance but where the financial incentive is not sufficient to encourage co-operation (Latacz-Lohmann 2001).
- ☞ Cross-compliance mainly affects the behaviour of farmers who depend heavily on **direct support schemes** and this group of farmers is unlikely to be identical to the ones with environmentally sensitive land. Thus, cross-compliance is unlikely to be applied in areas where farmers rely only little on direct income support but where environmental sensitivity of the land is above the average, e.g. grazing marshes or peat land (Latacz-Lohmann 2001).
- ☞ Due to the **absence of EU-wide rules** on making direct payments conditional to protection of environment and nature, Member States - influenced by interested groups on national level - have set the required environmental minimum standards too low (Pezaros 2001).
- ☞ Up to now, there is no specific mechanism to guarantee that the payments will effectively be withdrawn from farmers in cases where there are real **infringements** of existing environmental and nature conservation legislation (Pezaros 2001). Additionally, the lack of **agri-environmental indicators** to assess the impact of cross-compliance measures on environment and nature hinder an appropriate control system.

3.4 Modulation

Chart 4: Modulation



Certain positive and negative effects on environment and nature by implementing modulation have been identified:

2, 3, 4, 5



- 👍 High expenditure on **rural development measures** due to the gain from modulation.
- 👍 Country-wide approach.
- 👍 Funds can only be applied to **accompanying measures** within the rural development programmes.
- 👍 Modulation creates a stronger incentive to take up **agri-environmental measures** due to the reduction of direct payments.
- 👎 Impact of modulation relates to **direct payments**.
- 👎 Problem of **co-financing**.
- 👎 The “**additionality**” condition (Member States have to use funds only for new measures and for new beneficiaries) causes particular difficulties, concerning new support for LFAs. Support for LFAs refers to a pre-defined area of national territory in which most eligible farmers are already beneficiaries.¹⁰
- 👎 If money does not flow back to each farm the following developments might take place:
 - 👎 Competition between different sizes of farming systems;
 - 👎 Competition between regions;
 - 👎 Low income on some farms/ land abandonment.

¹⁰ The Countryside Agency 2002

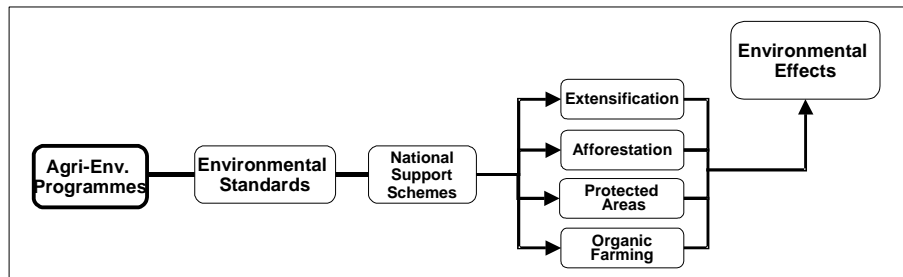
3.5 Rural Development Programmes

2, 3, 5

3.5.1 Agri-environmental programmes (AEPs)



Chart 5: Agri-environmental programmes



An impact of agri-environmental measures (AEMs) within the agri-environmental programmes on environment and nature is not only direct but, very often, rather depends on the level of acceptance of the measures. The following general experiences, relating to the **acceptance** and **application** of agri-environmental measures, should be considered:

2, 3, 5



- If AEPs have a large impact on the whole farming system and consist of **complex and high requirements**, they will be more concentrated in regions with less favourable conditions, due to lower transition costs for these farmers. Respectively, the implementation of AEPs will have lower acceptance in agricultural areas with favourable natural conditions. In general, AEPs, with less far-reaching measures, are applied to a larger extent in both, extensive and intensive agricultural regions (European Commission 1998; Osterburg 2000a; Plankl 2000).
- **Broad and shallow measures** have lower requirements and are simpler to monitor and control than specific **deep and narrow measures** - a mixture of both types of measure is likely to be the most effective in meeting agri-environment objectives (Peppiette 2001).
- **Low uniform payments** for agri-environmental measures, i.e. in Germany, lead to a concentration of participation in AEPs in less-favoured areas, whereas the incentive for intensive farming is too low. These measures lead to an explicit extensification effect, starting from a comparatively low intensity level, and they prevent the abandonment of grassland (Plankl 2000)¹¹.
- AEPs can be most effective in maintaining **extensive and environmentally friendly farming systems** and practices but might have very little effect on **converting** intensive practices to extensive practices (Zellei 2001; Schramek 2000; Osterburg 2000b) (see also extensification of livestock).

¹¹ Uniform payments in Germany are based in most cases on flat rate payments per hectare calculated on basis of average production conditions. (Osterburg, 2000b).

- ☞ AEPs are considered less effective in bringing about any major de-intensification of agriculture in the most sensitive areas in terms of environmental pollution, either because of poor take-up rates or because measures have not been targeted in such areas (Zellei 2001).
- AEPs mainly attempt to protect or to improve the **abiotic resources**, such as soil and water. Issues of **biodiversity**, **nature protection** or the protection of **cultural landscape features** are being neglected (Oppermann 2002).

In the following sections specific groups of agri-environmental measures will be discussed, specifically highlighting the conditions or constraints for uptake.

AEMs addressing input reduction

- ☞ Many of the broad programmes to limit the inputs show large reductions in the use of **fertiliser** (European Commission 1998), **but**,
- ☞ if there is no **adjustment of the payment levels**, there will be over-compensation in extensive areas and under-compensation in more profitable areas (European Commission 1998).

AEMs addressing organic production

- Preconditions for the conversion into organic farming systems comprise **marketing opportunities** for organic products. Thus, the co-ordination with other related programmes, like processing and marketing initiatives, have to be improved (European Commission 1998).
- ☞ If there is no differentiation and exact calculation of the **premia level** at geographical level and by crop, the transformation of intensive into organic farming systems will remain low (European Commission 1998).

Extensification of livestock¹²

- ☞ In regions, characterised by a **high livestock density**, a **low uptake** of measures related to grassland extensification has been observed, due to the rate of payment which does not cover farm losses of destocking, and the concern of the farmers to loose unused quota rights in the future (European Commission 1998).
- ☞ Whereas extensification of already **extensive farming systems** (between 1,4 and 2.0 LU/ha) had a **high uptake**, due to the maintenance of the income or increasing income (European Commission 1998). However, the impact of this measure on environment and nature was low, because only already extensive farming systems were participating.

¹² This measure covers removal of livestock from land with the maximum starting level of 4.5 LU/ha and maximum finishing level of 2 LU/ha. Livestock must be managed to avoid overgrazing and under-utilisation (European Commission 1998).

- ☞ If the measure is not bound to the introduction of a **minimum livestock density**, e.g. 0,3 LU/ha, it could be attractive for farmers to sell their animals or to participate in the programme although having none (Schramek 1999).
- ☞ High uptake or maintenance of existing extensive **farming systems in less-favoured areas** with a positive impact on environment and nature could be observed. Thus, abandonment and marginalisation can be avoided (Schramek et al. 1999).
- ☞ If the **measures** are too strict, they will lead to an uniform landscape and hinder the development and maintenance of specific landscape features (Osterburg 2001; Schramek 1999).
- In general, there is a need for a **coherent approach** to sustainable land management, for example the combination of de-stocking with pasture management (European Commission 1998).

Conversion of arable land into grassland and rotation measures

- If there is no **specific assessment** of the regions to correct measures in each landscape system, the impact on environment and nature can be positive as well as negative (better to promote mixed farming systems with the traditional pattern of rotation than a blanket application of the reversion measure with the danger to create uniform landscapes) (European Commission 1998).
- ☞ **Conversion of arable land into grassland** would have damaging effects, if the previous farming system were based on low-input arable cropping which produces high-nature value farming systems (European Commission 1998).

3.5.2 Set-aside

1, 3

- In AEPs set-aside is only limited to **particular areas** in order to achieve specific objectives in nature conservation (European Commission 1998).
- ☞ If set-aside is applied to **extensive or traditional farming systems**, an impact on environment and nature could also be negative (European Commission 1998).



Upkeep of abandoned land and woodland

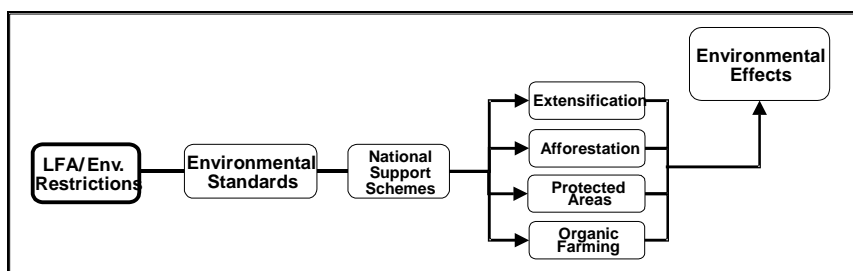
If a certain region is already threatened by abandonment, there might be further abandonment instead of keeping farming systems which maintain environment and nature. This usually results in a strong reduction of the total number or varieties (European Commission 1998).

Despite of many positive effects of AEPs on environment and nature, certain negative effects must be stressed:

- 👉 Poor **design and implementation** of AEPs across many Member States have resulted in few benefits to species and habitats (Zellei 2001).
- 👉 Due to the lack of **codes of good farming practice**, Member States have not been able to monitor and to control the implementation of AEMs (Pezaros, 2001).
- 👉 Similarly, the **evaluation** of the impact of AEMs on environment and nature could not be carried out in an appropriate way because of the **lack of agri-environmental indicators** (Pezaros, 2001).
- 👉 The allocation of funds was mainly determined by the **priorities of governments and regional authorities**, resulting in high financing in some countries and regions with less urgent environmental and nature conservation problems while pressing environmental and nature conservation needs were not addressed in others (Zellei 2001, Buller 2000).
- 👉 **Measures** targeted at nature protection or connected with low input are applicable to nature sites, organic farming and land management and not to intensive farming systems.
- 👉 Increasing **financial volume** could lead to the implementation of AEPs which are better standardised and easier to administrate while covering large areas. This will lead to a better protection of abiotic resources rather than biodiversity (Osterburg 2001).

Less-favoured areas (LFA)

Chart 6: Less-favoured areas



Certain positive and negative effects on environment and nature by introducing LFA payments have been identified:

2, 3, 5



- 👉 Large **areas** and a high percentage of **farmers** can be targeted.
- 👉 In general **broad approach** to meet certain environmental and nature conservation objectives.
- 👉 **Environmental standards** are a pre-condition for receiving LFA support.

- 👉 Promotion of **extensive farming systems** and maintenance of small and low-input farming systems.
- 👉 Potential pre-condition and complementary for **agri-environmental measures**.
- 👉 Avoidance of **abandonment**.
- 👉 Maintenance of farming systems in **protected areas** due to the introduction of LFA payments for areas with environmental and nature conservation restrictions (Natura 2000).
- 👉 LFA payments can be considered as one of the main instruments to protect and maintain **biodiversity** and areas of high-nature value due to the maintenance of certain farming systems (European Commission 2001).
- 👉 Competition between different **rural development measures**.
- 👉 Financing volume is linked with phasing out of **direct payments**.

Certain synergies could be achieved, if LFA payments were combined with other instruments:

- **Modulation** could increase the financial amount of LFA payments.
- Regarding nature conservation LFA payments could be considered as the first baseline due to the required compliance with Good Agricultural Practice. On this basis AEPs could be a further step to meet special environmental and nature conservation needs.

4 Presentation of the Scenarios

In addition to the “Initial Situation”, three scenarios were developed:

- **Scenario 1:** “Phasing in of Direct Payments in the Candidate Countries”
- **Scenario 2:** “Mid-Term Review Proposals”
- **Scenario 3:** “Greenest” Option

Although the “Initial Situation” is applied in the current Member States, the three scenarios are developed for the Candidate Countries after the EU-accession. They are based upon the structure of the flowchart “Initial Situation”, thus presenting comparable interactions between the different elements of the scenarios. However, their impact or importance might vary in the Candidate Countries and some new elements have been introduced. As for the “Initial Situation”, also for the scenarios, the assessments of the impacts of the particular agricultural instruments on nature and environment are only **hypothetical** and **qualitative** and aimed to initiate discussions. We hope that some of the impacts of the CAP instruments on environment and nature will be further elaborated with the help of an analysis of the questionnaire¹³.

The **driving forces** of the scenarios are: the reform of CAP, based on the proposals by the European Commission and the EU-enlargement process, in particular transition processes in the Candidate Countries. The fourth scenario was developed on the basis of a synthesis of the most environment and nature-friendly options of the agri-environmental instruments.

Impacts of the particular instruments of the CAP on environment and nature will be outlined in the event of significant changes when compared to the “Initial Situation”, or the impacts of the instruments would be different, due to the special situation in the Candidate Countries.

For the purpose of this project the main characteristics of the Candidate Countries in agricultural structure and environmental as well as natural conditions were summarised. Although the Candidate Countries vary considerably, many of the characteristics of the countries were similar:

Land use changes:

- large-scale **abandonment** in marginal areas and extensively used agricultural land
- **undergrazing** and **abandonment** of valuable **grassland**
- **afforestation** of, e.g. natural grasslands
- **intensification** in areas with favourable conditions for farming

¹³ The questionnaire will be sent to all participants of the conference „EU: CAP and Enlargement - An Opportunity for nature and environment?“, which will be held in February 2003.

Input:

- **decline in use of fertilisers and pesticides**
- **significant decrease of water use**
- a trend for **re-intensification** can be observed in **fertile regions**, and **extensification** in the regions where **natural conditions are not favourable**

Farms size and structure:

- in many countries there is a strong **polarisation between large and small farms (dual structure)**
- in general a high number of small farms - **subsistence and semi-subsistence farms**, which are mostly **extensive** farming structures
- **on the other hand**, there are **large farms** which could compete in the existing Member States, which are mostly **intensive** farming structures
- the size of **state-managed farms has decreased** significantly
- the size of **individual farms** is slowly **increasing**
- increase in **fragmentation**
- many **farms are too small to be eligible for payments** under the current EU subsidy system

Property rights:

- **reforms of land and ownership**
- **privatisation** of state-owned farms
- due to the privatisation process, **the liquidation** of small state farms **led to the establishment of large farm units**, on the other hand, land of the formerly collectivised large farm units was partially **fragmented**
- **land** is mostly **leased**

Biodiversity:

- high nature-value farming systems, diversity of farming structures and cultural landscapes
- large area (30% of Candidate Countries total area) of the most **valuable biodiversity**

Social and economical factors:

- **high** number of **employment in agriculture sector**
- **low level incomes**
- **lower production** level than in Member States

5 Scenario 1: “Phasing-in of Direct Payments (DP) in the Candidate Countries”

5.1 Overview of the Scenario “Phasing- in of Direct Payments in the Candidate Countries”

For the development of the scenario “Phasing in of Direct Payments in the Candidate Countries” the following assumptions, based on the proposal of the European Commission regarding EU-Enlargement and Agriculture¹⁴, have to be made:

- Introduction of **direct payments** in the Candidate Countries over a transition period of ten years is proposed to be made in a two-stage process: in a first stage - fixed steps up to 2006 (25% in 2004¹⁵, 30% in 2005, 35% in 2006). In a second stage from 2007 - gradually increasing steps up to 100% in 2013.¹⁶
- Introduction of the “**Simplified Direct Payment System**” which will be transitional (up to five years) and optional for the Candidate Countries.
- **Support for RDP** will be reinforced by 50% with a maximum **co-financing rate** of 80%.
- Measure for **semi-subsistence farms** will be included within the RDP, paid as a flat rate aid of 750 EURO.

Benchmarks of the scenario „Phasing in of DP“

1 →

1b →

2, 5 →

6 →

Chart 7 shows the scenario “Phasing in of Direct Payments in the Candidate Countries”.

The distribution and target of the financial EU-support will depend on the state of property rights within the Candidate Countries. The delay of the definitive settlement of property rights and limitations on acquisition of land in certain countries often hinder the establishment of markets in these countries (EC DG Agriculture 1998).

The impact of the CAP instruments on environment and nature might be similar to those in the Member States. However, differences could be expected concerning the impact of direct payments and the Simplified System as well as the Special Measure for Semi-Subsistence farms:

- The **phasing-in** of **direct payments** will have a weaker impact on environment and nature compared to the direct payments currently paid in the Member States.
- Because of the smaller financial amount of the DP during the phasing-in period **cross-compliance** as well as **modulation** will be significantly less effective, when applied, than in the Member States.

1, 3 →

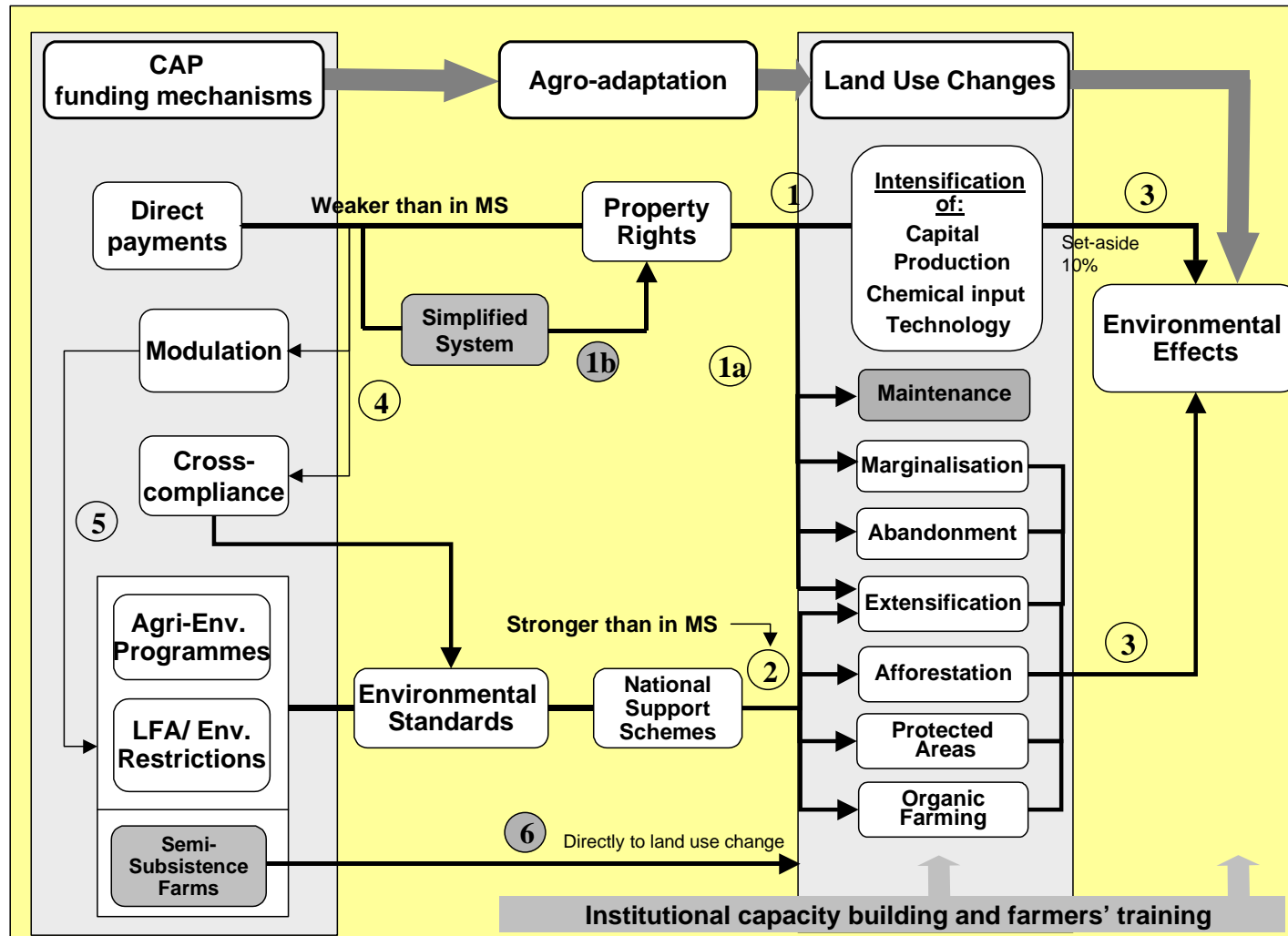
4 →

¹⁴ Commission of the European Communities 2002: *Enlargement and Agriculture: successfully Integrating the New Member States into the CAP*. Issue Paper. SEC (2002) 95 Final. 30 January 2002

¹⁵ The accession of 10 new Member States in 2004.

¹⁶ Further proposals from the European Commission will be considered within the process of the project.

Chart 7: Scenario Phasing in of Direct Payments in the Candidate Countries



5.2 Direct Payments

- ☞ Also in this scenario, increasing direct payments will have an impact on environment and nature and **accelerate the process of adjustment towards fewer but larger farms**. This is especially true for countries characterised by small farms and family holdings, such as Poland. 1, 1a, 3 →
- ☞ Direct payments favour **high yield regions** – therefore the large, extensively used areas in the Candidate Countries become less competitive. Abandonment and marginalisation could be the result. The impact would be much less significant, if the Simplified System would be applied.
- ☞ Direct payments are still linked to the Common Market Organisations. Therefore, **pastures/grassland** as well as the production of **fodder crops**, fruits and vegetables are excluded from payments as before and remain or become less competitive in the Member States or in the Candidate Countries respectively. Taking into account that these crops as well as grassland/pastures are still common landscape features in some Candidate Countries, the introduction of Decoupled Payments could change farming systems to the expense of environment and nature.
- ☞ As for grassland areas, direct payments are not foreseen for **unused agricultural land and for landscape features** within the agricultural land (see “Initial Situation”)
- ☞ The introduction of direct payments in the crop and livestock sectors in new Member States will lead to **intensification**, an effect, which could be reinforced even more, if such payments remain in the hands of **producers** rather than **landowners** (Choudhury et al. 2001).

Livestock and crops

- ☞ The major impact of direct payments on production in the Candidate Countries will be a further **shift towards coarse grains** and a faster development of **specialised beef production**¹⁷ leading to intensification and specialisation with negative impacts on environment and nature (CEC 2002).¹⁸
- ☞ The considerable decline of livestock in all Candidate Countries since 1990 has resulted in significant undergrazing or outright abandonment of valuable grasslands. This effect will be stressed, if **quota** allocations in the Candidate Countries are based on the low reference herds of the last years (Petersen 2001), as proposed by the European Commission (30 January 2002).

¹⁷ European Commission DG Agriculture 2002.

¹⁸ Environmental effects of intensification see “Initial Situation”.

- ☞ The exclusion of **small producers** (up to 15 LU) from stocking density limits could lead to an impact on environment and nature in the Candidate Countries taking into consideration that small producers are still predominant in certain Candidate Countries.
- ☞ Direct payments have so far been favouring intensive and large **indoor dairy** production with the consequence of small farms dropping out of production. Given that many areas in the Candidate Countries are still grassland areas and areas used to cultivate fodder crops, it is to be expected that large areas will be abandoned. Furthermore, it has to be taken into account, that dairy production in the Candidate Countries is still characterised by small producers in certain regions threatened to drop out of production after the introduction of direct payments. This impact would be less significant, if the simplified system would be applied.
- ☞ Support for **irrigated** land and **maize** will lead to an extension of irrigated areas and to an increase of maize production in the Candidate Countries with its negative impacts on environment and nature.

5.2.1 Set-aside

For the effects of set-aside see “Initial Situation”, not relevant in the case of the “Simplified Direct Payment System”.

1, 3



5.3 Simplified Direct Payment System

- ☞ Support will be provided for the **whole agricultural land** on a per hectare basis¹⁹. There is no obligation to produce, but an area which is excluded from production has to be maintained in an environment-friendly way (decoupled area payment). However, it must be taken into account that this scheme is only transitional.
- ☞ The “Simplified System” tends to favour **extensive farming** systems and small and semi-subsistence farmers²⁰ in the Candidate Countries and could therefore contribute to the maintenance of high natural farming systems.
- ☞ The remaining **quota** restrictions will limit the incentive to intensify the land which is probably promoted by the absence of premia ceilings and set-aside (EC 2002).
- ☞ **Set-aside** as a possible instrument for nature conservation will not be eligible²¹.

1b



¹⁹ The support is calculated on the basis of the total envelope of the Candidate Countries and its utilised agricultural area. Thus an average area payment would be calculated for each country.

²⁰ The minimum size of eligible area would be set at 0.3 ha.

²¹ Farmers will not be subject to supply control requirements as regards premia ceilings and set-aside, but remain subject to the quota restrictions (European Commission 2002).

5.4 Cross-Compliance and Modulation

- ☞ Due to the smaller **financial amount of direct payments** during the phasing-in period cross-compliance as well as modulation will be significantly less effective than in the Member States until 2013 as well as the transfer of financial resources from cross-compliance and modulation to the rural development measures, including agri-environmental programmes, less-favoured areas and semi-subsistence farms. 2, 3, 4, 5
→
- ☞ **Intensive and large farming systems** are mainly targeted by cross-compliance (see direct payments) and only for **Common Market Organisations** (Latacz-Lohmann 2001). As in most Candidate Countries, at least half of the farms are less than five hectares and characterised as **subsistence** or **semi-subsistence farms**, a huge number of farms will therefore not be targeted by cross-compliance measures. It must be stressed that from an environmental and nature conservation point of view, small scale, low-input farms are often not sustainable (Zellei 2001). Thus, the negligence of small farming structure could maintain negative impacts on environment and nature.
- ☞ Cross-compliance can be effective in preventing negative change of environment and nature but is not useful for maintaining **extensive farming systems** that are a key asset in Central and Eastern Europe (see “Initial Situation”).

5.5 Rural Development Programmes

2, 3, 5, 6
→

5.5.1 Agri-environmental programmes

- ☞ In relation to the smaller **financial amount of direct payments**, the incentive to implement and apply agri-environmental programmes will be higher than in the Member States. 2, 3, 5
→
- ☞ Due to the **co-financing system**, the financial constraints of the Candidate Countries, the often outdated structure of the holdings and the priorities, laid down by the national governments, the competition between different rural development measures will be higher. Therefore, more emphasis could be placed on modernising the technical and social infrastructure than on, e.g., agri-environmental programmes.
- ☞ In the Member States agri-environmental programmes were most effective in **maintaining extensive and environmental farming systems**. Due to the large share of extensive farming systems in the Candidate Countries, the effects might be more positive than in the Member States.
- Agri-environmental programmes require the compliance with **good farming practice** and therefore depend on the existing implementation of this Code within the Candidate Countries.

5.5.2 Less-favoured areas

- 👍 Due to the objective of the Less Favoured Area Scheme to support farming systems in areas with unfavourable natural conditions for farming, it contributes to the **maintenance of extensive, small and low-input farming systems** often situated in these areas. Taking into consideration that large areas in the Candidate Countries are characterised by extensive farming systems, the scheme could play an important role in maintaining high-nature value farming systems and avoid abandonment and marginalisation in the region. The influence depends on the designation of LFA in the Candidate Countries. 2, 3, 5 →
- 👍 The scheme provides support for farming in areas with environmental restrictions. About 30% of the total area of the Candidate Countries can be classified as unaffected, hosting one of the most valuable **biodiversity** in Europe. Dependent on the designation of **Natura 2000 sites**, the environmental restriction scheme could contribute to the maintenance of these high-nature value landscapes while maintaining the connected farming-systems.
- 👍 **Environmental standards** are a pre-condition for receiving LFA support. Thus, the scheme depends on the existing implementation of a Code of **good agricultural practice** within the Candidate Countries.

5.5.3 Special measure for semi-subsistence farms

- 👍 Measure contributes to the **maintenance of more traditional farming systems** with the main objective of incorporating them into the market (obligation to submit business plans demonstrating the future economic viability of the farms). 2, 3, 5, 6 →
- 👍 **Preservation of the existing landscape** and the cultural heritage with its environmentally important landscape features, but
- 👎 Measure does not require **environmental standards** in order to receive the support. Therefore, the absence of environmental and nature conservation requirements could lead to negative impacts on environment and nature such as intensification and specialisation.

6 Scenario 2: “Mid-Term Review Proposals”

6.1 Overview of the Scenario “Mid-Term Review Proposals”

For the development of the scenario “Mid-Term Review Proposals” the following assumptions, based on the Mid-Term Review of the European Commission²², shall be made:

Benchmarks of
the scenario
„Mid-Term
Review“

- In 2003, introduction of the **single decoupled farm payment** paid per farm on the basis of historical references and conditional upon cross-compliance requirements to environment, food safety, animal health and welfare as well as occupational safety. 1, 3
→
- **Abolition of the non-food regime on set-aside land** and the obligation to maintain **set-aside land** in good agricultural conditions as part of the cross-compliance requirements. 1, 3
→
- Introduction of a **compulsory cross-compliance scheme** that will be applied as a whole-farm approach attached to decoupled and coupled payments and to both used and unused agricultural land. Requirements will include European **statutory management requirements** in the field of environment, food safety, animal health and welfare and occupational safety, **good agricultural conditions** to be defined by the **Member States** and **land management obligations**. 4
→
- As an integrated part of compulsory cross-compliance scheme a **farm advisory system** will be introduced.
- Maintenance of the **voluntary modulation scheme until 2006**²³ 2, 3, 4, 5
→
- **From 2006, introduction of Degression.**
- **Degression and compulsory modulation would not apply in the new Member States until the phasing-in of direct payments reaches the normal EU level (2013).**
- **From 2006**, the financial support for rural development programmes will be reinforced by introducing degression. 2, 3, 4, 5
→

²² Commission of the European Communities 2002:
Mid-Term Review of the Common Agricultural Policy. Communication from the Commission to the Council and the European Parliament. COM (2002) 394

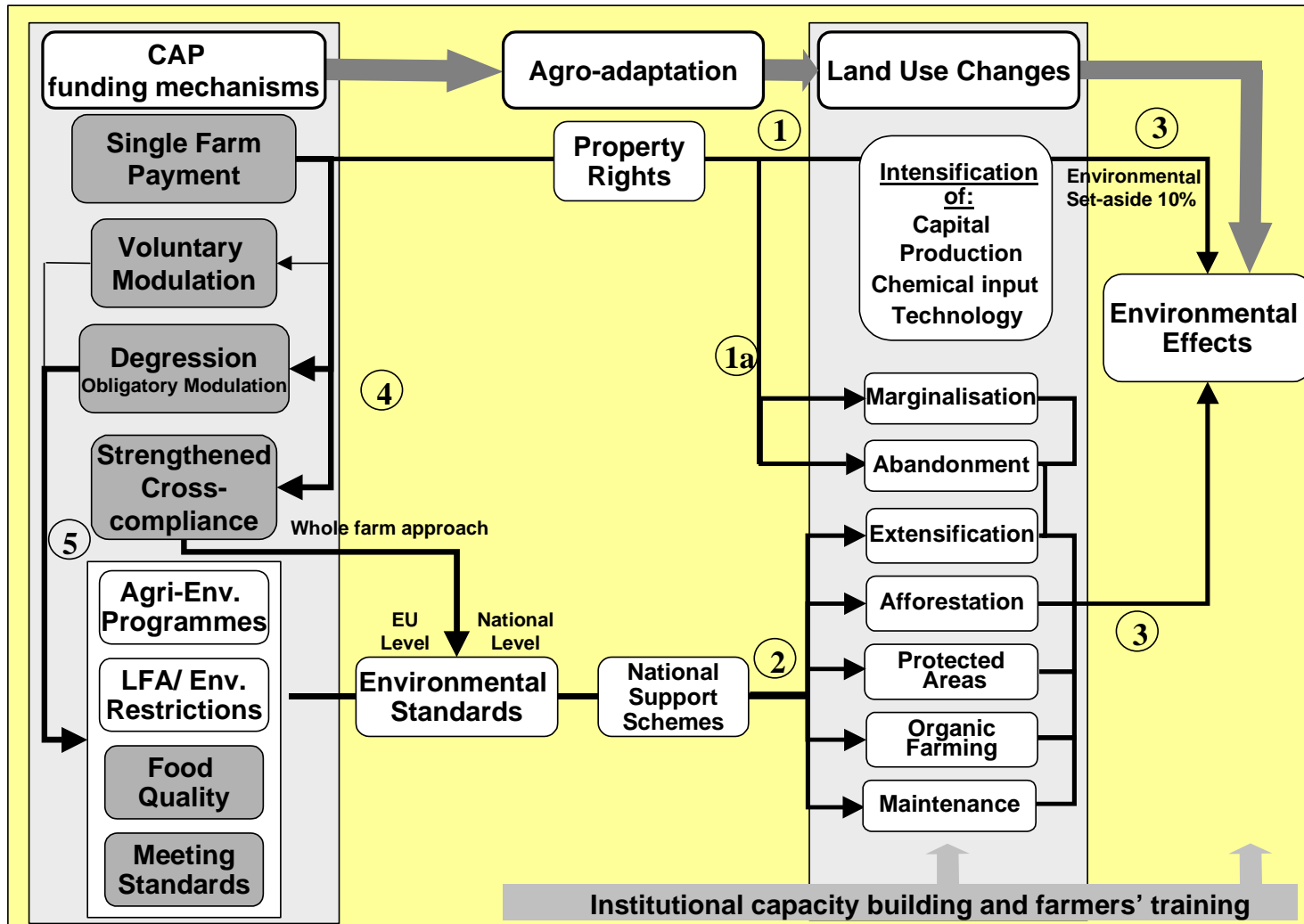
Commission of the European Communities 2003:
Proposal for a Council Regulation establishing common rules for direct support schemes under the common agricultural policy and support schemes for producers of certain crops
Proposal for a Council Regulation amending Regulation (EC) No 1257/1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF) and repealing Regulation (EC) No 2826/2000. COM (2003) 23 final. Brussels, 21.1.2003

²³ In October 2002, the heads of state and government decided at the European Council in Brussels to fix the expenditure for agricultural markets until 2007 while excluding the expenditure for Rural Development Programme. This implies that the mechanism for shifting from the first to the second pillar, like degression and modulation, cannot be implemented before 2007.

- **Within this 2000-2006 period:** Introduction of two new chapters (Food Quality and Meeting Standards) and several amendments of Regulation 1257/1999 especially in the agri-environmental chapter. There will be no changes regarding the basic framework for implementation of Rural Development Programmes and no increases of the co-financing rate from 50% to 60% and 75% to 85%.

Chart 8 shows the scenario “Mid-Term Review Proposals”.

Chart 8: Scenario "Mid-Term Review Proposals"



6.2 Single Decoupled Farm Payment

In 2004, a **single decoupled farm payment**²⁴ scheme will be introduced paid per farm and hectare²⁵ on the basis of historical references²⁶ and conditional upon cross-compliance requirements to environment, food safety, animal health and welfare as well as occupational safety standards.

1, 1a, 3 →

The proposed scheme of decoupled payments can not be applied in the Candidate Countries in the same way as for the Member States due to the lack of historical references. The possible impacts on environment and nature are considered below assuming that the reference for the Candidate Countries would be calculated on the basis of the previous scheme for DP as prepared by the Candidate Countries joining the EU.

- 👉 Due to the decoupled direct payment scheme, the link between **subsidies and production** is abolished for almost all commodities²⁷ and the shift of support from product to producer is strengthened. By removing production specific incentives, decoupled payments contribute to environmental integration, but
- 👉 Decoupled payments, based on **historical entitlements**, will bring no changes concerning the unequal distribution of these subsidies. Therefore, **intensive farming** systems/high yield regions are still favoured compared to extensively used areas having an important impact in the Candidate Countries considering the huge share of extensive and traditional farming systems. Due to the lower competitiveness, the extensively used areas in the Candidate Countries continue to be threatened by abandonment and marginalisation.
- 👉 **Large indoor dairy production** is still favoured (see scenario “Phasing-in of direct payments”).
- 👉 The process of **adjustment towards fewer but larger farms**, enforced in the past by the output-related compensation, will be reduced by the introduction of the decoupled payments and consequently, it could lead to better environmental and nature conservation conditions (see “Initial Situation”, chapter 3.2).
- 👉 Because both **decoupled and coupled payments** are now conditional upon **cross-compliance**, environmental, food safety, animal health and welfare and occupational safety standards will be reinforced and could probably reduce the negative impacts on environment and nature mentioned above.

²⁴ Decoupled Payments will replace the payments for arable crops, beef, veal, milk, dairy products, sheep, goats, starch potatoes, grain legumes, rice, seeds, dried fodder.

²⁵ The Single payment will be broken down into payment entitlements calculated by dividing the reference amount by the number of hectares, which gave rise to this amount in the reference years (including forage areas).

²⁶ Defined reference period: from 2000 to 2002, historical entitlements are based on number of hectares and number of animals.

²⁷ Crop specific payments will be maintained e.g. for starch potatoes and rice.

Livestock and crops

- 👉 Due to the cut between subsidies and production the expected shift towards **coarse grains and specialised beef production** and consequently negative impacts on environment and nature in the Candidate Countries after joining the EU will be reduced (see scenario “Phasing-in of direct payments”).
- 👉 **Headage payments** will be replaced by the decoupled payments and conditional upon land management conditions under the cross-compliance scheme, which could positively effect environment and nature. However, it has to be noted that there are still no EU-wide standards for the management of grasslands.
- 👉 Moreover, the **abolition of headage payments** will reduce the incentive to keep as many animals as possible in order to get the maximum headage premia therefore, reducing the problem of overgrazing (see “Initial Situation”, chapter 3.2). This will have a significant effect in the current Member States and prevent the problem in the Candidate Countries.
- 👉 Regarding Candidate Countries, it has to be taken into consideration that if the level of decoupled payments for the beef sector will be placed on the **low reference herds** from **1990 to 1995 (to be checked, Copenhagen Agreements)**, the already large **undergrazed** areas as well as the abandoned high-nature value grasslands will be further kept in an environmentally unfavourable situation.
- 👉 Due to the introduction of the decoupled payments, the incentive to produce **maize** will decrease significantly (compared to the scenario “Phasing-in of direct payments”) preventing negative impacts on environment and nature.
- 👉 **Irrigated farmland** will no longer be advantaged thus minimising the incentives to extend irrigated land which could have negative impacts on environment and nature (see “Initial Situation”, chapter 3.2).
- 👉 Within the Single Farm Payments, farmers receive an entitlement per hectare including all forage areas in the reference period. Therefore, fodder crops will be included in the payments per hectare minimising the disadvantage of these areas. This could help to maintain land used for fodder crops while reducing the incentive for land use changes such as towards maize production.
- 👉 Due to the historical entitlements and the foreseen calculation of entitlements, **pastures/grassland and fruits and vegetables** are still disadvantaged (see scenario “Phasing-in of direct payments”).

6.2.1 Environmental set-aside

In 2004, the current rotational set-aside will be replaced by a compulsory long-term set-aside (10 years) on arable land while keeping the individual historical set-aside obligation of 10%. The set-aside land should not be used for agricultural nor for commercial purposes. Organic production (EC N0 2092/91) will be excluded from the long-term environmental set-aside.

1, 3 →

- 👉 The introduction of the **long-term set-aside** scheme along with the obligation to maintain this unused land in **good agricultural condition** and to respect **statutory management requirements** as part of the **cross-compliance requirements** will reinforce benefits for environment and nature on set-aside land.
- 👉 Long-term set-aside will provide the possibility to take up **long-term agri-environmental measures** which could improve the environmental benefits for set-aside areas.
- 👉 As the Member States have the possibility to allow **rotational set-aside for environmental reasons**, the environmental set-aside scheme could be better targeted for specific environmental needs on the regional as well as local level.
- 👉 The **abolition of the non-food regime** on set-aside land will improve benefits for environment and nature of set-aside land taken into account the stated negative impact caused, e.g. by intensive monoculture of rapeseed in the past. Additionally, the non-food regime on set-aside land will be replaced by a non-crop specific aid for energy crops with the objective of achieving carbon dioxide substitution. This is a positive step integrating environmental issues into other policies, and moreover it could lead to the awareness raising for farmers.

6.3 Cross-Compliance

The **compulsory cross-compliance scheme** will be introduced as a whole-farm approach attached to decoupled and coupled payments and to both used and unused agricultural land. The focus of the scheme is:

2, 3, 4, 5
→

- to support the implementation of **statutory management requirements** established by **Community legislation** in the field of environment, food safety, animal health and welfare and occupational safety;
- enforcement of **good agricultural conditions** to be defined by the **Member States** while taking into account the framework set up by the European Commission and
- to avoid land **abandonment** by introducing **land management obligations**

As an integrated part of the compulsory cross-compliance scheme a **farm advisory system** will be introduced. It will be mandatory for producers receiving more than 15 000 Euro of single farm payment and voluntary for the others. The advisory system includes advice on how to adapt standards and good practices to the production process, structured and regular stocktaking, as well as, accounting of material flows and processes at the enterprise level related to environmental, food safety and animal welfare standards. The farm advisory system will be supported within the frame of the rural development programme.

- 👉 The introduction of cross-compliance as a **compulsory scheme and the whole farm approach** could reduce the damaging effects of agriculture on nature and environment on a large scale, although the effect will be stronger concerning natural resources rather than biodiversity issues. Taking into account that the level of intensification is lower in the Candidate Countries compared to the Member

States, the compulsory cross-compliance scheme could help to prevent further intensification.

- 👉 Due to the cross-compliance scheme, farmers will be obliged to respect statutory management requirements on **unused agricultural land** and **set-aside land**, and to maintain these lands in good agricultural condition. This could have a positive impact on environment and nature.
- 👉 In order to avoid **land abandonment** due to the introduction of the decoupled payments, land management obligations will be introduced within the cross-compliance scheme.
- 👉 Member States shall ensure, that land which was under **permanent pasture** on 31 December 2002 is kept under permanent pasture.²⁸ This could be especially important for the Candidate Countries by maintaining the current characteristic large areas of grassland and pasture often of high nature value.
- 👉 The new **farm advisory system** will encourage farmers to meet standards and to apply good practices. By improving the agricultural production methods, the negative impacts on environment and nature could be reduced at the farm level.
- 👉 As the farm advisory system demand structured and regular **stocktaking** as well as accounting of **material flows** and processes at enterprise level related to environmental, food safety and animal welfare standards, the scheme could help to better control environmental inputs on a farm.
- 👉 Due to the fact that the farm advisory system is linked to environmental and nature conservation issues and the interactions between agriculture and environment, it will alleviate the damaging effects caused by agriculture taking into account the **growing awareness** of the farmers, in particular in the Candidate Countries.
- 👉 Farmers receiving more than 15 000 Euro will be obliged to take part at the farm advisory system, however given the defined level of 15 000 Euro, only 7% of the farmers have to participate at the scheme. Due to this low percentage, the positive effects of the this scheme on nature and environment will be reduced.²⁹ For Candidate Countries characterised by small farming systems, this scheme will be only a weak instrument to improve the environmental situation on the farm level.
- 👉 Although cross-compliance will be applied as a whole farm approach, agricultural areas predetermined for the production of **non-CMO products** will not be targeted by cross-compliance, assuming that cross-compliance is still linked to direct payments.
- 👉 Because of the historic entitlements of the decoupled payments, **intensive and large farming systems** are still mainly targeted by cross-compliance (see scenario

²⁸ Title II, General Provisions, Chapter 1 Cross Compliance, Article 5 „Good Agricultural Conditions“

²⁹ In July 2002, the European Commission proposed that farmers receiving more than 5000 Euro per farms in direct payments have to carry out a farm audit which implied that 30% of farmers would have had to participate at the scheme (IEEP).

“Direct Payments” and for the impact on the Candidate Countries scenario “Phasing-in of Direct Payments”).

- ☞ The **subsistence and semi-subsistence farming systems** are often too small or not market oriented to get direct payments and are, therefore, not targeted by cross-compliance measures. This is especially important for the Candidate Countries.

6.4 Modulation

The current **voluntary modulation scheme** will be maintained **up until 2006. After 2006, degression**³⁰ will be introduced. One part of the additional funds generated by degression will be made available to the Member States for the rural development programmes (**obligatory modulation**). The second part of the generated funds will be made available for additional financing needs for new market reforms. There will be no **payments ceiling to individual farms**.

Degression and compulsory modulation would not apply in the new Member States until the phasing-in of direct payments reaches the normal EU level in 2013 although the Candidate Countries could apply the voluntary modulation scheme.

Table 7-1: Degression and Modulation - Percentage of reduction of DP

		2006	2007	2008	2009	2010	2011	2012
A	% general reduction in DP							
		1	4	12	14	16	18	19
B	% total reduction applying successively to the different tranches of DP							
	From 1 to 5 000 Euro	0	0	0	0	0	0	0
C (A+E)/2	From 5001 to 50 000 Euro	1	3	7,5	9	10,5	12	12,5
D = A	Above 50 000 Euro	1	4	12	14	16	18	19
E	Of which % of the DP destined for the Rural Development budget							
	From 5001 to 50 000 Euro	1	2	3	5	5	6	6
	Above 50 000 Euro	1	2	3	4	5	6	6
F	Of which % of the DP destined for financing future market reforms							
	From 5001 to 50 000 Euro	0	1	4,5	5	5,5	6	6,5
	Above 50 000 Euro	0	2	9	10	11	12	13

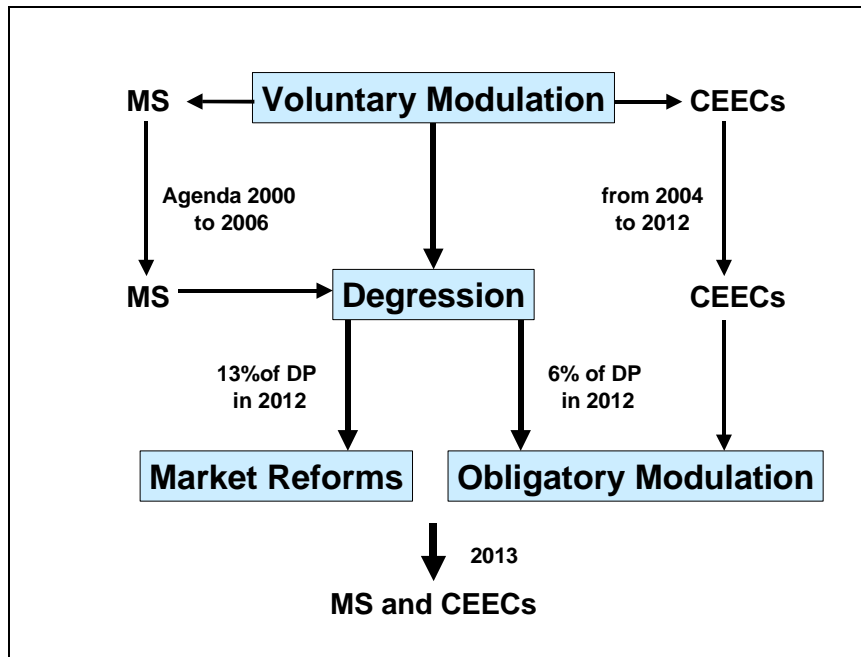
DP = Direct Payments

A: Degression, B to D: By tranche of direct payments, E: Modulation – destined for the Rural Development budget, F: Destined for financing future market needs

Source: EC 2003 Commission of the European Communities 2003

³⁰ Within the first Mid-Term proposal in July 2002, the European Commission proposed the introduction of a compulsory dynamic modulation scheme for all direct payments and for all farms receiving more than 5000 Euro in direct payments per year from 2004 onwards. Progressive reductions of coupled and decoupled direct payments in arithmetic steps of 3% per year to reach 20% in 2012 were proposed (the maximum agreed in Agenda 2000) with a franchise taking into account the employment situation on each farm. The maximum sum paid to a farm should be Euro 300 000.

Chart 9: Introduction of Degression



- ☞ **Up until 2006**, the transfer of funds from the first to the second pillar remains in the hand of the Member States as well as the Candidate Countries due to the voluntary approach. Introduction of modulation therefore depends on the priorities given by the national governments.
- ☞ Due to the voluntary approach until 2006, the funds generated by this scheme would be limited and therefore, the funds available for **Rural Development Programmes** will remain inadequate.
- ☞ **After 2006** onwards, the introduction of degression and the resulting **transfer of funds** from the first to the second pillar could strengthen rural development schemes such as agri-environment and less favoured area payments.
- ☞ The modulation part resulting from degression will amount to 1% per year up to 6% in 2012. The second part of the generated funds will be made available for additional financing needs for new market reforms and amounts to 13% in 2012. Thus the larger amount of funds freed up by degression will be transferred to new market reforms. The impact on environment and nature will depend on the kind of reforms.
- ☞ Unlike the current voluntary modulation scheme, the funds freed up by degression each year will be distributed to Member States on the basis of agricultural area, agricultural employment and a GDP per capita in purchasing power in order to target specific rural needs. This will allow for some redistribution of these funds from intensive cereal and livestock producing countries to **poorer and more extensive/mountainous countries**, bringing positive environmental and cohesion effects. This will mainly concern southern European countries and the Candidate Countries.

- 👉 Large intensive farming systems will be mainly targeted by degression due to the different amount of funds to be reduced from direct payments (depending on the total amount of direct payments which a farmer receive).
- 👉 Farmers receiving less than 5000 Euro in direct payments will be excluded from degression. Therefore, around three quarters of the farms in Europe, mainly small, extensive and traditional farming systems which are often more labour intensive, will not be subject to modulation. As a result, modulation, mainly applied to large intensive farming systems, will not affect the **economic viability of small and traditional farming systems**. This will contribute to the maintenance of these farming systems, also in the Candidate Countries, with benefits for environment and nature.

6.5 Rural Development Programmes

From 2006 onwards, the financial support for rural development programmes will be reinforced by introducing degression. Furthermore the scope of RDPs will be broadened by adding two new chapters (Food Quality and Meeting Standards) and several amendments to Regulation 1257/1999 especially regarding the agri-environmental chapter. There will be no changes regarding the basic framework for implementation of Rural Development Programmes and no increases of the co-financing rate from 50% to 60% and 75% to 85%.

- 👉 Due to the introduction of **degression** in 2006, the funds for rural development programmes (RDP) will remain insufficient.
- 👉 Only as of 2006, RDP will be strengthened by transferring **funds** from the first to the second pillar via the introduction of an EU-wide system of compulsory dynamic modulation as part of degression. Therefore, measures within the RDP related to environment and nature such as agri-environmental programmes will be reinforced as well. 2, 3, 5 →
- 👉 The basic framework under which RDP is to be implemented will not be changed. Therefore the **“additionality” condition** (MSs required to use funds only on new measures within the rural development programmes and on new beneficiaries) will be maintained until 2006 (see chapter 3.4).
- 👉 The introduction of **two new chapters** and the amendments within the agri-environmental chapter will broaden the scope of currently available instruments and improve environmental and nature conservation benefits of RDP.
- 👉 The new chapter **“Food Quality”** aims to improve the quality of products and the production process used as well as support for consumer information.
- 👉 The new chapter **“Meeting Standards”**, which is a temporary and degressive support, aims to enforce the implementation of the standards based on Community legislation in the field of environment, public, animal and plant health, animal welfare as well as occupational safety. This will encourage farmers to produce more environmental friendly.

- 👉 Within the **agri-environmental chapter**, a new support scheme for farmers will be introduced in order to improve animal welfare which goes beyond usual good animal husbandry practice with a maximum payment amount to 500 Euro per livestock unit. This will benefit animal welfare as well as environment and nature
- 👉 Due to the unchanged co-financing rate for rural development programmes³¹, the financial constraints of the Candidate Countries and the priorities given by the authorities and the farmers will keep the competition between the particular rural development measures so long as the Commission is not setting **priorities for environment and nature within RDPs** (e.g. agri-environmental programmes).

6.5.1 Less-Favoured Areas

- 👉 The objective of the Less Favoured Area Scheme is to support farming systems in areas with unfavourable natural conditions for farming. The scheme could play an important role in maintaining high-nature value farming systems and avoid abandonment and marginalisation in the Candidate Countries taking into consideration that large areas in the region are characterised by extensive, **small and low-input farming systems**. Due to the unchanged funds available for the RDP and the given competition within the RDP, the impacts of the scheme could be less effective.

2, 3, 5
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³¹ In July 2002, the European Commission proposed an increase of the co-financing rate from 50-60% and from 75% to 85%.

7 Scenario 3: “Greenest” Option

7.1 Overview of the Scenario “Greenest” Option

The Scenario “Greenest” Option is developed on the basis of the Scenario “**Phasing-in**” and the Scenario “**Mid-Term Review Proposals**”. It highlights the most environmental and nature-friendly options of the agri- environmental instruments presented in the previous scenarios. Additionally, proposals from research institutes and NGOs are taken into consideration³². It is assumed that sustainability (economical, social, and environmental) and the multifunctionality of agriculture will be the priority objectives of the CAP in the future. The following list presents the greenest policy tools selected to develop the “**Greenest**” Option:

- Phasing-out of **price support**
- Phasing-in of a **flat rate area payment**
- Introduction of a **compulsory cross-compliance scheme**
- Introduction of **farm audits** for all commercial farms
- Establishment of an **EU-wide framework for Good Agricultural Practice**
- Phasing-in and phasing-out of **obligatory modulation**
- Introduction of a **special measure for semi-subsistence farms**
- Strengthening of financial support for **rural development programmes**
- Introduction of **two new rural development measures**

Benchmarks of
the scenario
„Greenest
Option“

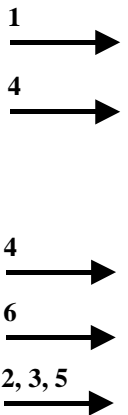
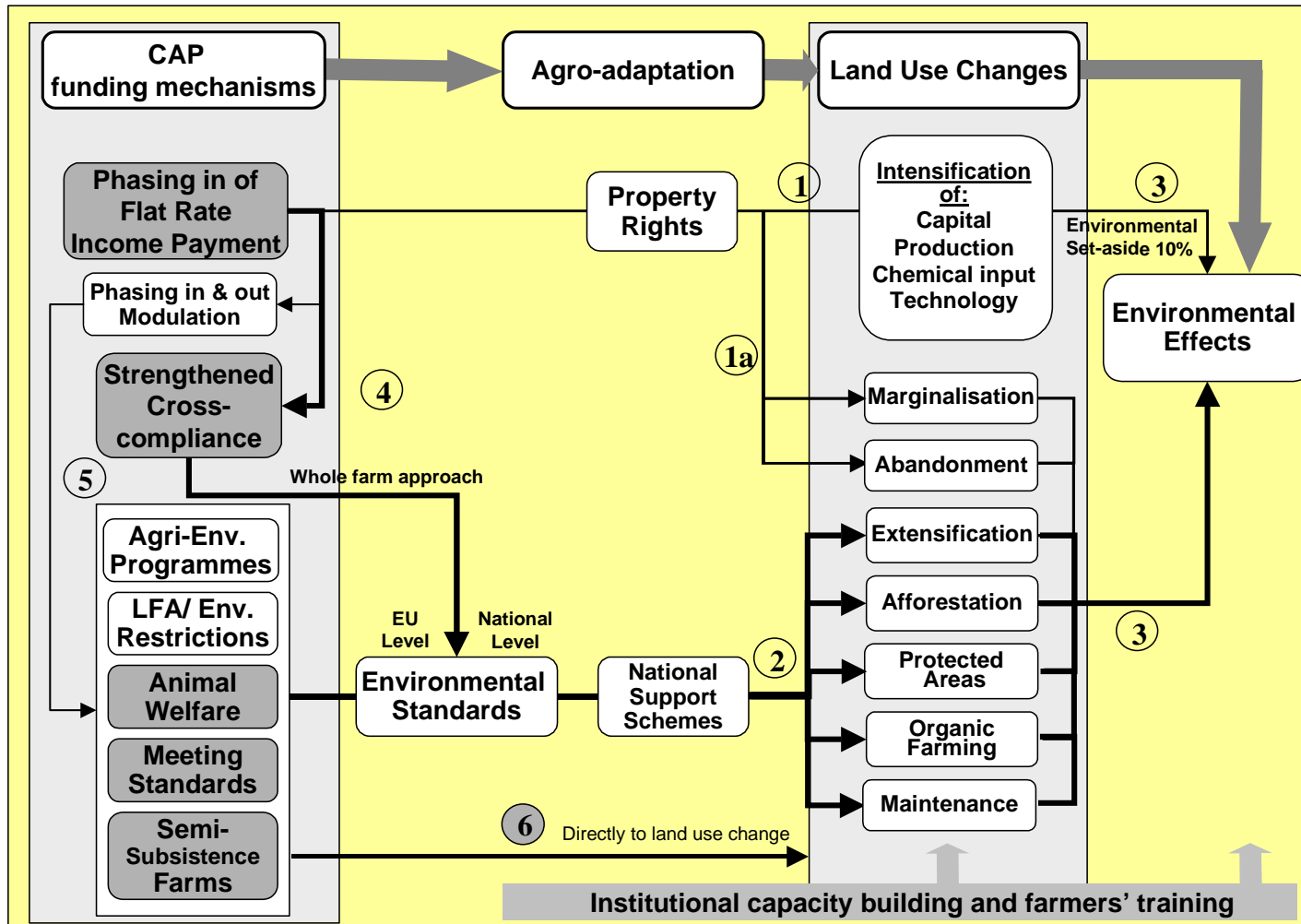


Chart 10 shows the scenario “Greenest” Option.

As mentioned above, the assessments of the impacts of the particular agricultural instruments on nature and environment are only **hypothetical** and **qualitative**; aiming to initiate discussions on the impact of the CAP on nature and environment against the background of EU-Enlargement.

³² Euronatur and Abl 2001, Ifoam 2002, IFOAM EU Regional Group 2002, Bundesregierung Deutschland 2002, BirdLife International 2002, European Environmental Bureau (EEB) 2002, Friends of the Earth 2002.

Chart 10: Scenario "Greenest" Option



7.2 Phasing-in of a flat rate area payment

All existing premia for crops and animal production will be replaced by a **flat rate area payment**³³ provision all agricultural land (used and unused). Additionally, this support will be conditioned upon cross-compliance requirements for environmental, animal welfare and food quality criteria. The flat rate area payment will be paid on a per hectare basis. The amount of support per hectare should be differentiated at the European Level by Member State and at the national level by region, taking into account the different production conditions within the European Union. The support should not be seen as compensation for historic price cuts but as a remuneration for public goods expected by the society and provided by agriculture. These public goods, e.g. the conservation of different traditional cultural landscapes, the support of rural communities, the maintenance of visual amenities as well as environmental services, are currently not rewarded by the European Union nor by the Member States. Within the CAP budget, a significant proportion of funds should be foreseen for the flat rate area payments (up to 60-70%) as the aim to support all kind of farmers in the EU complying with the cross-compliance scheme. Thus the flat rate area payment and the cross-compliance requirements will be applied to almost all agricultural lands which will contribute significantly to benefits for environment and nature.

1, 1a, 3
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The phasing-in of the flat rate income payment³⁴ consists of three steps.³⁵ With the **first step**, decoupled payments for all CMO – crops will be introduced. Additionally, fodder crops, grassland and pastures as well as unused agricultural land (set-aside and landscape features) will be eligible for support. With the **second step**, headage payments will be replaced by the introduction of the flat rate area payment which will be linked to land-based animal husbandry. With the **third step**, a flat rate area payment for all agricultural land, including crops currently not supported by direct payments, will be introduced. As a result, the support will be available for all agricultural land.

- ☝ With the introduction of the flat rate area payment the **link between subsidies and production** is abolished for all commodities and the shift of support from product to producer is completed. Therefore, extensive farming systems and small and semi-subsistence farmers contributing to the maintenance of high-natural farming systems, are no longer disadvantaged.
- ☝ The flat rate area payment will put an end to the **unequal distribution of subsidies** while reducing damage of agriculture on environment and nature, due to the following factors:
 - **Intensive** farming systems/high yield regions are no longer favoured compared to **extensively used areas** because the support is not differentiated according to **yield levels**. This could help to maintain

³³ The introduction of the flat rate area payment is based upon the proposals of Euronatur and Abl 2001; IFOAM EU Regional Group 2002, Birdlife 2002, EEB 2002, Bundesregierung Deutschland 2002.

³⁴ Bundesregierung 2002; IFOAM EU Regional Group.

³⁵ Based upon : Bundesregierung Deutschland 2002.

traditional and extensive farming systems still predominant in large areas of the Candidate Countries what will lead to a reduced pressure concerning abandonment and marginalisation.

- Flat rate area payment will no longer be linked to the **Common Market Organisations**. Therefore, **pastures/grassland** and the production of **fodder crops, fruits and vegetables** are no longer disadvantaged. As a result, this could contribute to the maintenance of grassland areas still common in the Candidate Countries. Moreover, this will reduce the incentive to produce support-getting commodities as it would be the case with the current direct payment scheme. Therefore, the new scheme could maintain existing production patterns in the Candidate Countries having positive impacts on environment and nature regarding environmental-friendly farming systems.

- 👍 Flat rate area payment will be provided to both **used and unused agricultural areas** including non-cropped areas and landscape features such as field boundaries. This would, in addition to IACS, reduce the incentive to remove landscape features such as hedges from the used agricultural land as well as the conversion of unused land into used agricultural land at the expense of environment and nature.
- 👍 Flat rate area payment will put an end to the competitive advantage of intensive and large **indoor dairy production** compared to extensive dairy production. Taking into account the large share of small and traditional dairy farming systems in the Candidate Countries, often with large grassland areas and areas for fodder production, this could help to maintain these farming systems and avoid further land abandonment and marginalisation.
- 👍 **Irrigated farmland** will no longer be advantaged thus minimising the incentives to extend irrigated land, ultimately reducing the problems related to overexploitation of water resources in some regions and intensification (see “Phasing-in of direct payments”).
- 👍 Unlike within the current scheme, **small producers** (up to 15 LU) have to comply with cross-compliance requirements and are therefore no longer exempt from limits for stocking density.
- 👍 The flat rate area payment could lead to an **extensification of intensive grassland/pasture areas**.
- 👍 The process of adjustment towards **fewer but larger farms**, encouraged in the past by the output-related compensation, could be reduced significantly by the introduction of this new payment scheme.
- 👍 Because the flat rate area payment is applicable to the whole agricultural land and conditional upon **cross-compliance**, environmental, food safety, animal welfare and occupational safety standards will be reinforced.

Livestock and Crops

- 👉 Flat rate area payment will replace **headage payments** which will significantly reduce the incentive to keep as many animals as possible such as under the current scheme of direct payments which could bring benefits for environment and nature.
- 👉 Animal production will be connected to **land management requirements** (see cross-compliance below).
- 👉 Flat rate area payment could **reduce** significantly the expected shift towards **coarse grains and specialised beef production** in the Candidate Countries after joining the EU (see scenario “Phasing-in of direct payments”).
- 👉 Flat rate area payment could **reduce** significantly the incentive to **convert grassland areas to arable land** because arable land is no longer favoured.
- 👉 Flat rate area payment could be seen as an instrument helping to maintain the land threatened by **abandonment** or help that currently abandoned land would be reused by agriculture.

7.2.1 Environmental set-aside

With the introduction of the flat rate area payment, the main objective of the set-aside scheme to avoid overproduction would be achieved. Although the main function of set-aside scheme is to control surplus production and therefore no longer necessary. From environmental and nature conservation point of view, the long-term set-aside scheme should be maintained due to the expected benefits for environment and nature (as mentioned in the scenario “Mid-Term Review Proposals”). Furthermore, the abolition of the set-aside scheme would lead to the extension of intensive crop production, due to favourable conditions in these areas, with its negative impacts on environment and nature.

1, 3 →

7.3 Cross-Compliance

Introduction of a **compulsory cross-compliance scheme**³⁶ that would be applied as a whole-farm approach in line with the **flat rate area payment**. Cross-compliance requirements will be introduced as a common EU-framework providing a **set of minimum standards** for “good agricultural practices” including environmental, food safety and animal welfare standards.³⁷ The level of the cross-compliance requirements should be well above legal requirements. Member States should define and enforce standards within this framework taking into account regional farming conditions and national or regional environmental, social and rural development priorities. These cross-compliance standards will set the reference level for agri-environmental measures. The Table 7-2 below presents the different levels of requirements to receive different type of support.

2, 3, 4, 5 →

³⁶ EEB 2002, IFOAM EU Regional Group 2002, Euronatur and Abl 2001, Friends of the Earth 2002.

³⁷ See also EEB.

Table 7-2: Relation between requirements and type of support

Level	Requirements	Type of support
Minimum	National legislation	No direct payments will be available
Standard	Cross-compliance	Access to flat rate area payments
Advanced	Specific per programme	Targeted payments for commitments/services – regarding environmental and rural development measures, specialised measures for particular areas

Source: based on IFOAM EU Regional Group, 2002.

- 👉 Because of the introduction of the flat rate area payment cross-compliance requirements will include **grassland** and **pasture areas** as well as **subsistence** and **semi-subsistence farming systems** which are still predominant in the Candidate Countries.
- 👉 Because of the flat rate area payment, cross-compliance as a compulsory scheme can be effective in maintaining **extensive farming systems** that are a key asset in the Candidate Countries.
- 👉 Regarding **animal production**, land management requirements will be introduced in order to enhance land-based animal husbandry. These requirements should include minimum grazing standards and a maximum stocking density related to the carrying capacity of the land.³⁸ Thus, existing overgrazing could be reduced, high nature-value grasslands and pastures maintained and abandonment avoided.
- 👉 Moreover, the crops excluded from the **Common Market Organisations** within the current direct payments scheme, e.g. fodder crops, will be now included in the cross-compliance scheme. This will lead to benefits for environment and nature taking into account the large areas in the Candidate Countries determined for the cultivation of these commodities.
- 👉 An EU-wide **farm auditing system** for all commercial farms within the cross-compliance scheme should be introduced and must be adapted to the flat rate area payment (see scenario “Mid-Term Review Proposals”). Therefore, the minimum payment ceiling of Euro 5000, as proposed by the mid-term review, has to be revised and adapted to the calculation of the flat rate area payment. The scheme will be supported within the frame of the RDP.
- 👉 For the impact of the farm audit scheme on environment and nature see scenario “Mid-Term Review Proposals”.

³⁸ IFOAM EU Regional Group 2002.

2, 3, 4, 5
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7.4 “Transitional” Obligatory Modulation

- Obligatory modulation should be introduced as a transitional measure for the period 2004-2006 in order to increase the funds for the RDP.³⁹ With the phasing-in of the flat rate area payment, the unequal distribution of payments will be abolished, hence obligatory modulation should be removed.
- Furthermore, in 2007, the reorganisation of the CAP and the shift of funds from the first to the second pillar will provide sufficient funds for the RDP without applying modulation.

7.5 Rural Development Programmes

Rural development programmes will be financially strengthened by a **further shift** from the first to the second pillar and a maximum **co-financing rate** up to 60% and 85%.⁴⁰ The share of funds for RDP should reach 30-40% of the overall agricultural budget.⁴¹

2, 3, 5, 6
→

- 👍 **Broadening scope** of currently available rural development instruments by introducing **two measures** including “food quality and animal welfare chapter” and a “meeting standards chapter”.⁴² This will improve environmental and nature conservation benefits of RDP (see scenario “Mid-Term Review Proposals”).
- 👍 Introduction of an **additional animal welfare** payment for farmers for efforts that go beyond a mandatory reference level in line with agri-environment schemes which will benefit animal welfare (see scenario “Mid-Term Review Proposals”).
- 👍 In order to direct the increased funds for rural development programmes to agri-environmental measures, the European Commission should set environmental and nature conservation **priorities**. At least 50% of the rural development funds should be transferred to the agri-environmental programmes.⁴³
- 👍 As agri-environmental programmes were most effective in maintaining extensive as well as environment- and nature friendly farming systems in the Member States (see “Initial Situation”), the additional shift of funds to RDP would be an important instrument to support these farming systems still common in the Candidate Countries (see scenario “Mid-Term Review Proposals”).

³⁹ IFOAM EU Regional Group 2002, EEB 2002.

⁴⁰ European Commission, July 2002.

⁴¹ Birdlife International 2002, IFOAM EU Regional Group 2002, Friends of the Earth 2002

⁴² European Commission, July 2002.

⁴³ EEB 2002.

7.5.1 Less-favoured areas

- Less-favoured areas will benefit significantly from the increasing funds of the reinforced rural development measures and the introduction of the flat rate area payment on the whole agricultural area. If 50% of the rural development funds are transferred to agri-environmental programmes, the LFAs will be benefited more than other agricultural land, because agri-environmental measures target often high-nature value and traditional, mainly labour intensive, farming systems which are often situated in less-favoured areas (see scenario “Phasing-in of Direct Payments”).⁴⁴

2, 3, 5 →

7.5.2 Special measure for semi-subsistence farms⁴⁵

- Currently farmers have to carry out business plans to receive support and this does not take into consideration environmental and nature conservation issues. Although with the introduction of the flat rate area payment the objective to support semi-subsistence farms would be achieved, the support to elaborate business plans should be maintained to assure the economical viability of these farms and in order to avoid abandonment. With the introduction of the flat rate area payment conditional to the cross-compliance requirements more benefits for environment and nature would be achieved (see scenario “Phasing-in of Direct Payments”).

2, 3, 5, 6 →

⁴⁴ IFOAM EU Regional Group 2002.

⁴⁵ European Commission, January 2002..

8 Glossary

Agenda 2000 - A set of decisions for developing EU policies through the year 2006, with agricultural and structural policy reforms.

Biodiversity - General term that includes diversity of ecosystems, of animal and plant communities, of species and of genetic variation within species.

Candidate Countries - Poland, Hungary, Lithuania, Latvia, Estonia, Slovenia, Czech Republic, Slovak Republic, Bulgaria, Romania, Malta, Cyprus, Turkey.

Common Agricultural Policy (CAP) - Provides the principle framework for agricultural policy in all the EU Member States. Major reforms of the CAP are the Macsharry Reform undertaken in 1992 and the Agenda 2000, released on the Berlin summit in 1999.

Common Market Organisation (CMO) - Refers to measures governing the EU internal market in a number of agricultural commodities. There are market organisations for the great majority produced in the EU. The three sectors commanding the largest share of the budget have been cereals, milk products and beef.

Cross-Compliance - Introduced with the reform of Europe's CAP in March 1999. This new measure gives countries of the European Union the opportunity to attach environmental and nature conservation conditions to the payments received by farmers under the CAP. There are three variants of cross-compliance:

- Red ticket (or mandatory) approach: eligibility for certain agricultural support payments is made contingent upon a farmer's attainment of given environmental standards.
- Orange ticket approach: eligibility for agricultural support payments is contingent upon farmers entering an otherwise voluntary incentive scheme with environmental objectives.
- Green ticket (or bonus) approach: farmers become eligible for additional levels of agricultural support if they comply with or exceed a given set of environmental standards.

Direct payments - (or direct income payments) Subsidies paid directly to individual farmers. Usually related to production levels or other conditions. Decoupled payments are a form of direct payment which is unrelated to agricultural production.

Environment - The combined external conditions affecting life, development and survival of an organism or an ecosystem.

Environmental Standards⁴⁶ - Quantitative agreement for the limitation of different forms of anthropogen impacts on human beings and/ or environment, which are the result of qualitative environmental objectives. This also includes prohibitions and commands in the broader sense.

⁴⁶ SRU 1996: Konzepte einer dauerhaft umweltgerechten Nutzung ländlicher Räume. Bundestagsdrucksache 13/4109 Bonn.

European Commission - Central executive body in the EU and presided over by 20 Commissioners. The Commissioners are supported administratively by a Directorate General (DG) of which there are 23 concerned with specific policy areas. The European Commission is responsible for proposing primary legislation, handling the day-to-day administration of Community laws and policies resulting from the primary legislation and represents the EU in some international negotiations.

European Community (EC) - The term European Economic Community was amended to European Community by the Maastricht Treaty and became part of the European Union. In structure the EC order resembles the constitutional order of a State and functions to establish a common market that unites the national markets of the Member States.

European Union (EU) - Formally created by the Maastricht Treaty and supported by three pillars, including the European Community, Common Foreign and Security Policy, and Home Affairs and Justice Policy.

Extensification - Reduction of use of yield-increasing fertilisers and pesticides and reduction in utilisation intensity (for example, in numbers of livestock units per hectare) and/or the amount of work carried out per area unit.

Good Agricultural Practice (baseline for Direct Payments) - the term is established in Article 4 of the Council Directive 91/676/EEC⁴⁷. Annex II of this Directive defines provisions to be included into *Code(s) of Good Agricultural Practice* with the objective of reducing pollution by nitrates.

Good Farming Practice (baseline for agri-environmental measures) - the term “Usual Good Farming Practice” is defined in Article 28 of the Commission Regulation (EC) No. 1750/1999, p. 37, “For the purposes of Council Regulation (EC) No 1257/1999 and of this Regulation, ‘usual good farming practice’ is the standard of farming which a reasonable farmer would follow in the region concerned. Member States shall set out verifiable standards in their rural development plans. In any case, these standards must comply with general mandatory environmental requirements”.

Intensification - Increase of use of yield-increasing fertilisers and pesticides, of utilisation intensity (for example, in numbers of livestock units per hectare) and/or of the amount of work carried out per area unit.

Intensive Farming - This can refer to land, labour, capital or management. In this context intensive farming refers above all to chemical intensive farming.

Less-Favoured Areas (LFA's) - Areas in the EU designated under Directive 75/268 on mountain and hill farming in certain less-favoured areas and subsequent amendments. Separate Directives have been issued for each Member State listing the LFAs in their territories which fall within the meaning of Directive 75/268. There are three categories for designation as less favoured:

⁴⁷ Council Directive 91/676/EEC of 12 December 1991 concerning the protection of waters against pollution caused by nitrates from agricultural sources. Official Journal L 375 , 31/12/1991, p.p. 1-8.

- Mountain areas handicapped by a short growing season or steep slopes or a combination of the two;
- Regional areas in danger of depopulation and where conservation of the countryside is necessary. These areas exhibit three combined disadvantages; infertility, poor economic situation and a low or dwindling population dependent of agriculture;
- Small areas affected by specific handicaps in which the continuation of farming is necessary to ensure conservation of environment and nature as well as preservation of tourism potential.

Member States - Currently (2002) the European Union consist of fifteen Member States: Belgium, Germany, France, Italy, Luxembourg and the Netherlands which founded the European Community in 1951 and the other States joining the EU in several waves of accession such as Denmark, Ireland and Great Britain in 1973; Greece in 1981; Spain and Portugal in 1986 and Austria, Finland and Sweden in 1995.

Minimum Standards - the term “minimum standards regarding environment, hygiene and animal welfare”⁴⁸ is established in Article 5, 8 and 26 of the Council Regulation (EC) No 1257/1999 and Article 2, 5 and Annex 9.2.B of the Commission Regulation (EC) No. 1750/1999.

Modulation - in this case *modulation of aid* - With effect from 1 January 2000, Member States may decide to reduce direct aid (by a maximum of 20%) in cases where:

- The labour employed on the holding, expressed in annual work units, falls below a threshold set by the national authorities; (annual work unit means the national or regional average annual working time of adult farm workers employed throughout the calendar year).
- The overall prosperity of the holding, expressed as a standard gross margin, is above a certain limit.
- The total payments granted under the support schemes exceed a limit which is also set at national level.

The savings which result and those from cross-compliance (observance of environmental criteria) may be used by the Member State to supplement Community funding for early retirement measures, payments for less-favoured areas and areas subject to environmental restrictions, agri-environmental provisions, afforestation measures and rural development.

To prevent premiums being ‘chased’, provision has been made that no payment will be made to beneficiaries who have artificially created the necessary conditions to be eligible for such payments so as to gain an advantage which runs counter to the aims of the support scheme.

⁴⁸ Council Regulation (EC) No. 1257/1999 of 17 May 1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF) and amending and repealing certain Regulations. Commission Regulation (EC) No. 1750/1999 of 23 July 1999 laying down detailed rules for the application of Council Regulation (EC) No. 1257/1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF).

Semi-subsistence farming systems - in this case the term *subsistence farming* means farming that produces only enough food for the farmer and her or his family to eat and live, none to sell.

Simplified Direct Payment System - “a simplified implementation of direct payments in the Candidate Countries⁴⁹ (transitional and optional)” - a system of granting direct payments to the new Member States (Candidate Countries) in the form of de-coupled area payments applied to the whole agricultural area while direct payments are introduced gradually during a transition period (phase-in approach).

Single Decoupled Farm Income Payment – These decoupled payments will be paid per farm on the basis of historical references and conditional upon cross-compliance requirements to environmental, animal welfare and food quality standards.

Utilised Agricultural Area - The Utilised Agricultural Area (UAA) corresponds to arable land, permanent grassland, permanent crops (vines, orchards, etc.), kitchen gardens and crops under glass⁵⁰.

⁴⁹ Commission of the European Communities 2002: *Enlargement and Agriculture: successfully Integrating the New Member States into the CAP*. Issue Paper. SEC (2002) 95 Final. 30 January 2002, p. 7.

⁵⁰ European Commission - Directorate-General for Agriculture 1999: *Agriculture, Environment, Rural Development: Facts and Figures - A Challenge for Agriculture*. Glossary, http://europa.eu.int/comm/agriculture/envir/report/en/lex_en/report_en.htm, April 2002.

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10 Annex

10.1 Overview of the negative and positive impact of the particular common agricultural instruments on environment and nature

CAP Funding Mechanism	Agenda 2000	Phasing-in of Direct Payments		Mid-Term Review Proposals	“Greenest” Option
Direct Payments			Simplified System		Flat rate area payments
Link between subsidies and production	👎	👎	👍	👍	👍
Adjustment towards fewer but larger farms	👎	👎	👍	👍	👍
Intensification	👎	👎	👎	👎	👍
Disadvantage for extensive areas compared to intensive area	👎	👎	👍	👎	👍
Support for commodities not included in the Common Market Organisation	👎	👎	👍	👎	👍
Shift towards coarse grains and specialised beef production in the Candidate Countries		👎	👍	👍	👍
Support for Grassland	👎	👎	👍	👎	👍
Small producers and limits of stocking density	👎	👎	👍	👍	👍
Support for extensive dairy farming systems	👎	👎	👍	👎	👍
Irrigated farmland	👎	👎	👍	👍	👍
Direct Payments and Cross-compliance	👎	👎	👍	👍	👍
Set-aside Scheme					
Renewable primary products	👎	👎	No scheme	👍	👍

CAP Funding Mechanism	Agenda 2000	Phasing-in of Direct Payments	Mid-Term Review Proposals	“Greenest” Option
Cross-compliance Scheme				
Obligatory Scheme				
EU-wide frame work for standards				
Dependent on the direct payment scheme				
Maintenance of extensive farming systems				
Related only to Common Market Organisations (DP)				
Integration of commodities not included in the Common Market Organisations				
Integration of Semi-subsistence and subsistence farms				
Cross-compliance scheme as a whole farm-approach				
Farm audit				
Modulation				
Obligatory scheme				Will be phased-out
Dependent on direct payment scheme				Will be phased-out
Significant increase of rural development funds				Will be phased-out
Funds could be transferred to any rural development measures				Will be phased-out
"Additionality" condition have to be applied				Will be phased-out
Low income on some farms/ land abandonment				Will be phased-out
Saved funds could be transferred to specific regions within the European Union				Will be phased-out

CAP Funding Mechanism	Agenda 2000	Phasing-in of Direct Payments	Mid-Term Review Proposals	“Greenest” Option
Rural Development Programmes				
Financial amount within the CAP budget				
Increase of funds linked to direct payments and modulation				
Financial amount of direct payments related to the uptake of AEP				
Financial constraints because of co-financing				
Broadening the scope of RDP				
Competition between the particular measures (to the expense of the environment and nature)				
Priorities set on EU level for environmental measures within RDPs				
Funds have to be transferred at a large share to agri-environmental programmes				
Special measure for semi-subsistence farms				
Less Favoured Areas				
Maintenance of extensive, small and low-input farming systems				
Maintenance of high-nature value landscapes	