

Landowners

Organisations

**EUROPEAN LANDOWNERS ORGANISATION****ENVIRONMENTAL CONDITIONS IN THE EU'S ARABLE AREA PAYMENTS SCHEME****INTRODUCTION**

1. There has been growing pressure by environmental lobby groups to require that farm subsidy payments received under the EU's Arable Area Payments Scheme should be conditional on fulfilling specific environmental conditions.
2. The Commission's stated view is that the appropriate Regulation (EEC No. 1765/92) requires Member States to apply appropriate environmental measures with regard to set-aside land (Article 7.3). The thinking behind this legal position is that the reduction in the cereals price compensated by per hectare aid should itself secure environmental advantage in encouraging less intensive production. It neither requires nor permits Member States to attach environmental conditions to the payment of arable area payments. The compensation was designed to offset the price reductions. If producers were subject to additional environmental requirements they would reduce the value of the compensation. As regards set-aside, however, it seemed appropriate to require Member States to require environmental measures which correspond to the specific situation of the land set-aside.
3. While at this stage, the European Commission appears to be firm on not conceding the point, the pressure for change remains from elsewhere. This paper sets out a reasoned case against cross-compliance measures or conditionality.

**BACKGROUND**

4. A coherent policy for achieving environmental goals is explained in the recent ELO discussion paper "A European Rural Policy". Put simply, it suggests that agricultural support delivered through the CAP has failed to address adequately the needs of the environment and the socio-economic aspects of rural areas. In addition it explains why, in the long run, it will also fail agriculture itself. It recommends that agricultural production be allowed to operate in something closer to a free market while, progressively, new budgets are established from public and private sources to meet environmental and socio-economic objectives directly.
5. This policy suggestion recognises the folly of trying to hit too many targets with one policy instrument. The best policy mechanisms for maintaining agricultural

production and incomes can never adequately deal with environmental concerns. Likewise, those policies which are established specifically to tackle environmental needs will do little to ensure socio-economic sustainability. Attempts have been and are being made to integrate all these concerns within the current policy mechanisms available under the CAP. However, any attempt to aim at a number of targets which are at best not complementary or, at worst, mutually exclusive will produce outcomes for the individual targets which are very much second best. At the extreme, it could mean that any benefit afforded by the policy in attempting to hit one target is overtaken by the cost associated with meeting another target.

6. In order to avoid such conflicts and complexities separate but complementary policy strands must be developed for each set of targets: agricultural policies for agricultural objectives, environmental policies for environmental objectives and socio-economic policies for socio-economic objectives. While these policies will be separate it is essential that, in their development, they take account of the other policies as they develop. The establishment of a set of such policies, will make it easier to identify the areas where the operation of the market fails and, therefore, the need to develop appropriate incentives or regulations which will produce the desired results. At all times, however, policies must be based on good science and respect the normal workings of markets.

### **ENVIRONMENTAL CROSS COMPLIANCE OR CONDITIONALITY**

7. This is one area where policy objectives have been confused. Agricultural policy was designed to meet agricultural needs. In as much as the mechanisms used cause environmental damage, this shows that there is something wrong with these mechanisms and change is likely to be necessary. For example, in the CAP livestock schemes it became apparent that because livestock subsidies are paid per head, there was an incentive to overstock land and to use supplementary feeding which was causing damage to semi-natural habitats such as heather moorland. This was not a sustainable situation and change was necessary. The policy response was to attach over-grazing conditions to the payment of subsidies such that those farmers causing damage lost their premiums. While this may partially meet the environmental and also the socio-economic goals (in that the moorland can be used for other income earning activities such as game shooting), the original agricultural goal will not be met as efficiently as before. Indeed, if stocking has to be reduced dramatically the agricultural goal not be met at all and farmers and landowners will become bankrupt. Given that it is important to protect the habitat thus ensuring that it can be used for other economic activities and also that it is important to meet the agricultural objective, a more appropriate policy response would have been to turn the headage payments into area payments thus automatically reducing the incentive to overstock the land.
8. Cross compliance and conditionality can never adequately take into account the cost involved in meeting the environmental targets. Other schemes developed by Member States are available which do just that both in terms of income foregone and the direct cost of labour and materials. There is absolutely no relationship between the area payment for oilseeds on one hectare within the Arable Area Payments Scheme and the cost of maintaining a dry stone wall around one hectare of land, the maintenance of which some advocates are seeking to make as a condition of receiving the payment.

### **CROSS COMPLIANCE WITHIN THE ARABLE AREA PAYMENTS SCHEME**

9. Before the reform of the CAP in 1992 most of the support to arable farmers (and all of the support to cereal farmers) was directed through the price received per tonne of output. Not surprisingly, there was an incentive to farm more intensively in order to maximise the benefit of the support. This not only involved the application of greater quantities of inputs but also the enlargement of fields to

increase production in order to qualify for more subsidy. This was a rational response to the incentives being offered by the State.

10. The EU's Arable Area Payments Scheme is intended to compensate arable farmers for reductions in institutional prices and the consequences of Set-aside. Now that a large proportion of the support for arable crops is paid per hectare, the incentive to produce intensively is greatly reduced. Farmers are guaranteed a certain level of payment per hectare regardless of the yield they produce. In most cases, the benefit of increasing field sizes in order to get more subsidy is outweighed by the costs involved. In some circumstances, however, it is necessary for farmers to adjust field boundaries in order to make more efficient use of their machinery.
11. The scenario is, therefore, very different from that under the livestock schemes. The Arable Area Payments have no direct environmental consequences, in fact they are more environmentally friendly than the previous method of support. The incentive to remove environmental features or to replace them with modern alternatives (e.g. fencing for dry stone walls) comes from other sources not connected with the subsidy payments such as the efficient use of machinery, or the costs of maintaining features.
12. It is not, therefore, appropriate to tackle environmental concerns by attaching conditions to the Arable Area Payments Scheme. Other methods should be found to either help reduce the costs of maintaining features (management grants, training, etc.) or compensation for loss of output if society wishes features to be retained which otherwise would have been removed.
13. **The ELO remains unconvinced that there needs to be any extension of the current environmental conditions within the Arable Area Payments Scheme beyond those applying to set-aside land.**

**ELO POLICY GROUP  
October 1995**

A0842011

**Any comments or queries on this document should be addressed to  
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