EEAC

The network of
European Environmental Advisory Councils

REPORT

October 2002

A SUSTAINABLE AGRICULTURAL POLICY FOR EUROPE

Report by the Agriculture Working Group of the
European Environmental Advisory Councils

The following EEAC councils have endorsed the Key Messages of this report:

Austria	Austrian Association for Agricultural, Life Science and Environmental Research (ÖVAF)
Belgium	Environmental and Nature Council of Flanders (MiNa-Raad)
Finland	Finnish Council for Natural Resources (FCNR)
France	Commission on Sustainable Development (CFDD)
Germany	Council of Environmental Advisors (SRU)
Hungary	National Council on the Environment (NEC)
Ireland	Heritage Council of Ireland (HC)
Netherlands	Advisory Council for Research on Spatial Planning, Nature and Environment (RMNO) Council for the Rural Area (RLG)
Poland	State Environmental Council of Poland (PROS)
Portugal	Portuguese National Council on Environment and Sustainable Development (CNADS)
Slovenia	Council for Environmental Protection (CEPRS)
United Kingdom	Countryside Council for Wales (CCW) English Nature (EN) Royal Commission on Environmental Pollution (RCEP) Scottish Natural Heritage (SNH) Sustainable Development Commission (SDC)

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Contents

FOREWORD

The European Environmental Advisory Councils (EEACs) are bodies established by governments in Member States of the European Union and in accession countries to provide advice on environmental issues. Some of them are expert bodies, others more in the way of stakeholder bodies, but an essential point is that they provide independent advice. That gives the EEACs a distinctive and authoritative role.

EEACs have long regarded the future of agricultural policy as a crucial issue for the European environment and for sustainable development. In preparation for the Mid-Term Review of Agenda 2000 the EEAC Agriculture Working Group undertook the study which led to this report, on the form that a sustainable agricultural policy for Europe should take.

The Working Group produced a statement, printed at the beginning of the report, which summarises its Key Messages. This statement was adopted by the EEAC network at its annual conference, held at Kilkenny (Ireland) in October 2002, as representing its common position on policies for agriculture and rural development. It has been endorsed by 16 councils, listed overleaf, from 12 countries.

The remainder of this report represents the views of the Agriculture Working Group, and not necessarily a common position of the EEAC network. It provides a valuable analysis of the issues, and a fuller explanation of the points made in the statement on Key Messages. It also gives practical examples of the kinds of agri-environmental scheme now being operated in Member States. It is being made available as a background document.

The European Commission have published outline proposals for the Mid-Term Review of Agenda 2000,[1] but have yet to bring forward detailed proposals. This report is not a commentary on any particular set of proposals. The intended purpose of its recommendations is to provide a template for planning the radical changes in agricultural policies which are now widely agreed to be required, and a benchmark against which EEACs and others will be able to evaluate specific proposals put forward, thus assisting them in developing their advice to their governments.

Richard Macrory
Chairman of the EEAC Steering Committee

[1] Commission of the European Communities. Communication from the Commission to the Council and the European Parliament. *Mid-Term Review of the Common Agricultural Policy*. COM(2002)394. 10 July 2002.

EUROPEAN ENVIRONMENTAL ADVISORY COUNCILS WHICH HAVE ENDORSED THE KEY MESSAGES OF THIS REPORT

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KEY MESSAGES

European agriculture is at a crossroads. Now is the time to accept the overwhelming case for **radical reform of the Common Agricultural Policy** (CAP), and make a decisive start on that process.

Reform must be based on **a new vision** to give impetus and credibility to the European Model of multifunctional agriculture. The future for Europe's farmers does not lie in competing solely on the price of agricultural products.

The relationship between agriculture and the natural environment is of central importance. There is also an intimate relationship between agriculture and the rich cultures and traditions of Europe's peoples. The vision underlying reform must be for **sustainable management of the whole countryside**, and embrace the future quality of life of both rural and urban communities, as well as the beauty and diversity of landscapes and wildlife.

The **purpose of agriculture** can be defined as:

- providing people with food and non-food crops *and at the same time*
- providing other goods and services which
  - are vital for maintaining ecosystems in desirable states'
  - contribute to quality of life, cultural enrichment and diversification of the rural economy.

The adequacy of policies must be judged against **ten basic principles for sustainable rural areas**:

(1) Conserving natural resources, especially soil, water, and biological productivity and diversity

(2) Producing food and non-food crops sustainably to meet local and European needs, while also fulfilling obligations to the rest of the world

(3) Promoting and safeguarding human and animal health

(4) Maintaining viable rural communities with continuing links to the land

(5) Applying environmental regulation and the 'polluter pays principle' to the agricultural and food industries in the same way as to other industries

(6) Ensuring environmental benefits by giving farmers and other land managers fair rewards for supplying them

(7) Encouraging the development and widespread adoption of innovative, less damaging forms of land management

(8) Protecting and restoring diversity in land use within local areas in order to enhance amenity and biological diversity

(9) Achieving the best local solutions in an increasingly diverse Europe through land management programmes drawn up at local level within a common framework of policy and accountability

(10) Ensuring there are effective institutions at local and other levels which reflect the multiple functions of land management.

Some schemes already in operation in Member States illustrate how these principles can be applied.

Future EU policy for the **integrated and sustainable development of rural areas** must reflect the far-reaching changes they are undergoing and the decline in the importance of agriculture within rural economies, but recognise that land management by agriculture will remain central to long-term sustainability. Key indicators for agricultural sustainability should be introduced into the Lisbon Process, which aims to integrate social and economic policies within the EU by means of annual reports.

The **methods used in agriculture** should achieve an appropriate blend of profitability, management of natural resources and social wellbeing, and accept the reality of environmental constraints. Patterns of farming and food processing will vary to reflect environmental and cultural differences and the requirements of local markets. Decisions on what **agricultural research** to carry out should be taken in the light of open discussion of the social and environmental implications of particular technologies.

Creating the second pillar of the CAP was a significant advance, but it has received only a small proportion of total resources. Both pillars of the CAP and other EU rural programmes should ultimately be subsumed in an integrated policy in which the agricultural element should contain the following components:

- a **baseline of minimum standards**, maintained by legal regulation and in the short term by cross-compliance, to ensure that important environmental and cultural resources are protected from irreversible damage
- a **payment per hectare offered to all farmers and other land managers**, provided they agree to act as responsible stewards of a multifunctional countryside by providing employment and undertaking the work necessary to maintain natural and cultural diversity
- **larger payments to those undertaking greater responsibilities**, such as restoration of habitats.

The European Commission's proposals for the **Mid-Term Review of Agenda 2000** could represent the decisive advance that is now needed towards sustainable policies. They would increase the resources available under the second pillar, strengthen the environmental safeguards under both pillars and go a long way to decouple support from commodity production.

Much will depend, however, on the detailed provisions of the legislation the Commission is now preparing, and the contents of the programmes which it will largely fall to national and sub-national bodies to draw up and implement. The European Environmental Advisory Councils stand ready to make a continuing contribution to policy at both levels.

The aim must now be to establish the right framework for agriculture to provide demonstrable public benefits on a locally determined basis within an appropriate model of accountability. The European Commission will retain a major role in funding a substantial proportion of expenditure and ensuring that Member States fulfil their obligations. The outcomes of the new policies must be carefully monitored and the European Environment Agency will have a central role in that.

The particular circumstances of **new Member States in central and eastern Europe** must be recognised. They have seen widespread damage caused by intensive forms of agriculture, but they also contain large areas where biological diversity and valued landscapes have been maintained through the use of traditional approaches, mainly by small farmers. Farmers in these states must be treated equitably in relation to those in present Member States, but there must be effective safeguards to prevent further damage to the environment, without erecting new barriers to progress towards sustainable agricultural policies. Special programmes will be needed to help small farmers in the new Member States to continue using extensive methods, while spending part of their time earning additional income outside agriculture.

Reform of the CAP is an essential element in reinforcing the EU's position within the **World Trade Organization** (WTO). However, international trade should make a positive contribution to sustainable development, in the EU and beyond, and contribute to the international targets for poverty reduction and. other commitments made at the Rio + 10 conference in Johannesburg. If the safeguards needed to ensure that it will do so are not permissible under present WTO rules, the EU must press strongly for appropriate modifications to those rules before agreeing to new measures to liberalise trade in agricultural products.

Part I

EUROPEAN AGRICULTURE AT A CROSSROADS

1. Through a combination of factors, European agriculture is now at a crossroads:

   - epidemics of bovine spongiform encephalopathy (BSE) and foot and mouth disease (FMD) are leading to radical reappraisals of the way food is now produced;
   - in the World Trade Organization (WTO) the current 'peace clause' runs out in 2003, and a new round of negotiations is likely to be linked to defining the types of agricultural support that will be permissible;
   - the European Union's own policy on international trade and development, in particular the 'Everything But Arms' proposals for the poorest nations, will affect the commercial viability of producing some commodities within the EU;
   - enlargement of the EU has implications for internal competition, and hence the location of production;
   - if current EU agricultural policies are applied to new Member States, enlargement will place large areas, with their own unique cultural and environmental characters, at risk of degradation;
   - enlargement could also lead to very large increases in EU expenditure on agriculture and rural development, and this has to be taken into account in assessing the acceptability of budget commitments.

2. This report on the future of European agricultural policy has been produced by the Agriculture Working Group of the network of European Environmental Advisory Councils (EEACs). EEACs are bodies established by governments in Member States to provide scientifically based advice on environmental issues. They collaborate for various purposes, one being to produce joint statements that will have a constructive and effective influence on policy development at European level. Advisory bodies from accession countries also participate in the EEAC network.

3. Individual EEACs have carried out a large number of scientifically based studies (listed in an annex) on agricultural policies and their environmental effects. These have pointed to the need for radical reform of European agricultural policy. Successive modifications to the Common Agricultural Policy (CAP), culminating with Agenda 2000, have been responses to problems in particular agricultural sectors, often not going beyond incremental changes to existing regimes. The need now is for a clear overall strategy which redefines the purpose of EU support for farming. Such a strategy must embrace all agricultural sectors. It must also locate agriculture within a wider perspective, the sustainable development of rural areas. It must be consistent with, and have coherent links with, EU policies in other fields.

4. The EU is committed to pursuing sustainable development. That means fulfilling economic, social and environmental objectives, and achieving the maximum synergy between them. But economic and social development themselves depend in the long run, and most directly in rural areas, on safeguarding the natural environment.

5. The relationship between agriculture and nature has changed over the last half century, although at different rates in different parts of Europe. The main emphasis in agriculture has been on raising output per unit. Success has been achieved through specialisation and the use of increasingly complex technologies. These have offered farmers more direct control of nutrients, water use and pests, but with higher costs and the use of larger amounts of energy from fossil fuels.

6. The emphasis placed on increasing production has obscured the multiple functions agriculture can perform. Traditional linkages between agriculture, environment and society have broken down across much of Europe, although they still survive in some areas. In the past the multifunctional character of agriculture was a natural consequence of the methods adopted. It was those agricultural methods that shaped Europe's landscapes and wildlife, which are in turn strongly related to our cultural and historic heritage. The outcome has been a rich diversity of cultures and wildlife across Europe. This diversity must be maintained. That means managing rural land in ways that both safeguard the overall quality of the environment and protect the distinctiveness of particular areas.

7. People are placing a greater value on landscape and wildlife, and showing an increased concern about the state of soil, water and air. The EU is committed to integrating the environment into all its policies, through the Cardiff Process. The instruments adopted by the EU to protect and restore the environment (in particular, the Water Framework, Birds and Habitats Directives) have considerable implications for agriculture. One of four priority areas for the 6th Environment Action Programme is nature and biodiversity.

8. A key task is implementation of the Natura 2000 network, which the European Commission are required to co-finance. Moreover, at the Gothenburg Summit heads of state and government set the target that by 2010 there should be no net loss of biodiversity occurring in the EU. Agricultural policy could make a major contribution to meeting that target, and to maintaining and restoring terrestrial Natura 2000 sites. There is equally the danger that, unless it is changed fundamentally, the CAP could be a major obstacle to successful achievement of those tasks.

9. The CAP sought to address the economic and social needs of rural areas by increasing income from agriculture. But agriculture is now a less important component of rural economies. Concern has also grown about the big inequalities in earnings and wealth across Europe, within Member States, and in many cases within local communities. Social exclusion in rural areas, associated with low incomes and changes in age and household structure, has emerged as an important political issue. Solutions to these newer issues must lie in more broadly based policies for rural development.

10. Reintegration of agriculture, environment and society will have to be achieved in the face of strong pressures threatening to widen the divide between commercial agriculture and environmental and cultural values. There is the prospect of a further intensification of agricultural methods, driven by market pressures and competition, and made possible by further innovations in technology.

11. Hence the need for a radical reform of agricultural policy and a clear strategic vision for the future. There are signs of hope:

    - in a renewed emphasis on the multifunctional character of agriculture and the importance of the environmental services it provides;

- in the increased willingness of the public to pay to maintain access to valued environments and experiences, including the experiences associated with products which are locally distinctive or derived from production systems which are environmentally or socially desirable;

- in a recognition of the major contribution environmental quality can make to local economic and social development;

- in the attention now given to sustainable development, so that the future of agriculture becomes a concern of the whole European Commission, not just the Agriculture Commissioner and Directorate General.

12. This is an appropriate moment to examine the case for radical reform of the CAP, and to press for a start to be made on that process. In adopting Agenda 2000, and rejecting the more thoroughgoing reforms originally proposed, the Council of Ministers asked the European Commission to carry out a set of reviews in 2002-03 covering certain commodity regimes and the CAP budget. Those reviews are now regarded as amounting to a Mid-Term Review of the policy as a whole.

13. The starting-point must be a definition of what we want from our rural areas in an enlarged EU, followed by an assessment of how farming can best help to deliver that. New policy instruments can then be designed for this purpose. Radical reform may have to be implemented in stages over several years, with appropriate transitional arrangements. But it is urgent to make a start which will mark a decisive shift in approach. We have framed our recommendations to provide a template for planning change, and a benchmark against which to evaluate specific proposals, especially the detailed proposals the European Commission will bring forward later this year.

14. Forests are an essential form of land use in rural areas and can make an important contribution to sustainability. In some Member States they take up a higher proportion of the land area than agriculture. In other Member States, forests have become fragmented or damaged, and programmes are necessary to counter that, as part of integrated rural development. Much of what is said in this report about agriculture applies also to forestry; but, as our immediate purpose is to provide advice on the reform of the CAP, we have not sought to cover forestry in detail.

15. In **part II** of this report we set out in more detail why fundamental changes are needed. We look at the environmental damage caused by some agricultural practices, at agricultural trends in the EU and the effects of the CAP, and at the recent evolution of the CAP. We then consider the implications of the forthcoming enlargement of the EU and negotiations within WTO. **Part III** sets out our vision for the long-term future of agriculture and the basic principles we believe should govern future policies for rural areas. **Part IV** contains our conclusions on what sort of policy ought to be adopted for the future, and what specific changes in agricultural policies ought to be set in train immediately as part of the Mid-Term Review of Agenda 2000. We also give our views on what approaches should be followed in negotiations within WTO and in adapting EU agricultural policies for new Member States.

16. In the final part of this report we draw on the wide knowledge and experience of EEACs to describe schemes already being adopted in some Member States which illustrate the application of some of the basic principles for sustainable rural areas. They provide pointers to the more ambitious and comprehensive schemes that are needed in future.

Part II

THE NEED FOR FUNDAMENTAL CHANGE

17. There is great diversity across Europe in climate, geology and forms of agriculture, and in the part agriculture plays in the wider economy. In part II of this report we demonstrate the urgent need for policy changes by summarising the present situation under three headings:

    - the damage being caused to the environment as a result of certain agricultural practices
    - trends in agriculture and the effects of the Common Agricultural Policy (CAP)
    - the recent evolution of the CAP

    We then review:

    - the pressures for liberalisation of world trade in agricultural products and the implications for the European Union and for developing countries
    - the implications of EU enlargement for countries in central and eastern Europe.

DAMAGE TO THE ENVIRONMENT IN THE EU

18. Most land in the EU (77%) is used for agriculture or forestry, with agriculture the dominant use except in Finland and Sweden. Agricultural practices are therefore of fundamental importance for the quality of the environment. In turn, agriculture is exposed to the effects of pollution from other human activities.

19. Over the last decade the agricultural industry has become more sensitive to the impact of its activities on the environment, and made increasing efforts to limit damage. Nevertheless, there are important respects in which the quality of the environment is continuing to deteriorate, as a previous statement by European Environmental Advisory Councils emphasised.[2] Changes in agricultural methods over the last 50 years have been the major cause of a steady decline in the diversity of species, habitats and landscapes. They are also the major contributor to the increasing problem of water pollution from diffuse sources.

20. Much of the effort devoted to stemming the reduction in *biological diversity* has taken the form of protecting defined areas, using a variety of policy instruments in different Member States. It has now been realised such an approach is inadequate. Effective action often requires measures to be taken over much wider areas than those to which it would be practicable to give a special legal status; and highly valued species and landscape features are not by any means confined to designated areas.

    Many habitats, and the related flora and fauna, depend for their survival on farming continuing in traditional ways. Where there has been a shift to intensive methods of production, involving high inputs of fertiliser and pesticides, there has been a serious loss of variety in species and landscapes, and a dramatic drop in populations of farmland birds.

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[2] EEAC. *Greening Sustainable Development Strategies*. February 2001.

21. Changes in agricultural methods have also caused widespread *disruption of the water cycle*. Mainly in response to demands from agriculture, the water table has been lowered over vast areas of Europe, wetlands have been drained and watercourses have been substantially reconstructed. Many aquatic ecosystems and habitats have been lost. In large areas there has been a loss of natural fertility. In combination with the increased probability of heavy rainfall as a result of climate change, the modifications made to watersheds have also created a much increased risk of disastrous floods.

22. In many parts of Europe *abstractions of water* are rising, and demand for water is approaching, or even exceeding, the amounts available from surface and underground sources. Irrigation of crops is making a major contribution to increased demand, and could grow even more quickly in response to climate change. Because of high evaporation rates in southern Europe, and use of water sources which have received domestic effluent, irrigation can raise the salt content in soils to a level at which they become unusable for agriculture.

23. *Water pollution* caused by runoff from fields or by intensive livestock units has become a major problem. Eutrophication of inland and coastal waters has not been substantially reduced, despite large reductions in discharges of nutrients from the other main source, sewage works.

    Pesticides and veterinary medicines continue to reach sources used for drinking water, as well as being present as residues in foods. Pollution of groundwater by pesticides or nitrate is an especially difficult situation to remedy.

24. Availability of suitable *soils* is the essential basis for agriculture, but the need to conserve soils has been a neglected aspect of policy hitherto. The recent communication from the European Commission[3] is an important step towards remedying that neglect. Inappropriate agricultural practices are causing widespread damage to soils, often of an insidious long-term kind.

    In one-third of Europe, notably the south and the Alps, there is a high risk of erosion by water or wind. In some areas desertification is a risk. In other areas soils are becoming compacted as a result of overgrazing. Over large areas of Europe the organic content of soils and their biological diversity are being gradually reduced, often because excessive amounts of nutrients are being applied or pesticides are being used inappropriately.

25. Agricultural practices have significant implications for *emissions to the atmosphere* of carbon dioxide and some other greenhouse gases. In some rural areas air quality is being damaged by ammonia released from livestock units or the spraying of nutrients onto land.

26. The scale of the environmental damage being caused by agriculture shows that there is still an urgent need to change agricultural policies so that they take environmental considerations fully into account. So that we can identify measures which will be effective in halting and reversing such damage we now analyse current trends in agriculture within the EU and the way it has been affected by current policies. We have also studied some of the successful efforts already made to promote agricultural practices which are less damaging to the environment; these are described in part V of this report.

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[3] Commission of the European Communities. Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions. *Towards a thematic strategy for soil protection.* COM (2002) 179 final, 16 April 2002.

AGRICULTURAL TRENDS AND THE EFFECTS OF THE COMMON AGRICULTURAL POLICY

27. The relative importance of agriculture in national, and even rural, economies has declined considerably in recent decades. There have also been large reductions in the *number of people employed* in agriculture in the EU, although the rate of decline slowed in the 1990s.

28. The total amount of land used for agriculture has remained broadly constant, but agriculture has changed significantly in character. Some Member States have seen sharp falls in the *number of agricultural holdings*, although elsewhere local circumstances and government policies have combined to prevent that. A general trend has been a polarisation in the size of holdings, with a small number of large farms obtaining most of their income from agriculture and a large number of small farms for which agriculture may provide only a small part of household income. In France 30% of the total income of farming households now comes from sources other than agriculture, and in Germany 70%.

29. The emphasis on maximising output per unit has led to *specialisation* in a single crop or type of livestock, both by individual holdings and by entire regions. Rather than feed stock on what can be produced from their own holding, livestock farmers are now much more likely to bring in at least some of their feed from elsewhere.

    Creation of the single market, and the availability of cheap and fast road transport, have given further encouragement to specialisation and led to a great increase in *long-distance movement*, both of livestock and of products for processing.

    Another dimension of specialisation has been the abandonment of traditional patterns of *rotation* intended to maintain the long-term productivity and health of agricultural land. Instead, the same crop is often grown on the same land year after year.

30. The combined effect of these various trends has been to aggravate considerably the problems of *maintaining animals and crops in a healthy condition*. For animals this is illustrated by the epidemic of bovine spongiform encephalopathy (BSE) and the rapid spread of foot and mouth disease (FMD) in the UK. Devoting large areas to intensive cultivation of a single crop has increased the prevalence of pests, which have then become resistant to the chemicals used to control them; as a result, it may cease to be viable to grow certain crops in some areas (for example, spring oilseed rape in France).

31. Intensification, specialisation and concentration are ultimately a result of economic forces and technical innovations. Sectors which do not receive direct assistance under the CAP, such as pigs and poultry, show the same trends. Although the CAP is not the only factor causing these trends, however, it has often exacerbated and added to them, when it ought to have been controlling and mitigating them.

32. By subsiding agriculture the CAP has raised production to higher levels than would otherwise have been achieved. In some areas this has benefited the environment, and rural communities, by making it possible for farmers to continue using traditional and ecologically sustainable methods on land which would otherwise have fallen out of use. Over much of Europe, however, the CAP has provided strong encouragement for the intensification and increasing specialisation of agriculture, without regard to the long-term consequences or effects on the wider environment.

33. Nor has the CAP given farmers incentives to produce quality products. They were to an extent insulated from the preferences of consumers and processors by policy instruments based on quantity, in particular guarantees to buy structural surpluses of certain products.

34. The European Commission claim that the overall trend in *farm incomes* has been quite favourable in recent years, but concede that there have been large reductions in farm incomes in some Member States, some regions and some sectors. There has been strong interest among farmers in finding new sources of income (especially from tourism, in which they already have a long established involvement in some areas) and in capturing a larger proportion of the total value in the food chain (through on-farm, or at least local, processing and marketing of foods, and by creating distinctive brands).

35. There has been a strong growth in *organic farming*, albeit from a very small base and to varying extents in different Member States. Much of the organic food bought is currently imported from outside the EU, although there are also some exports.

36. The trends towards diversification and product differentiation have affected mainly smaller holdings. They have not significant altered the broad picture of an agricultural industry using intensive methods for volume production of single products, and facing declining profitability. Whether the promising trends in agriculture can be consolidated, and extended on a much wider scale, will depend on the future shape of agricultural policy, whether it is integrated with environmental policies, and the extent to which it forms part of an effective EU strategy for sustainable development encompassing energy, transport and tax reform.

RECENT EVOLUTION OF THE COMMON AGRICULTURAL POLICY

37. In recent years there have already been big changes in the CAP. Market and price support have been replaced to a large extent by *direct payments* to farmers. By 1997 these represented almost 60% of total expenditure, and they are projected to be even more important by 2006. They are now, therefore, the predominant element in the *first pillar* of the CAP.

38. The other major change has been the introduction of measures to promote *rural development*, which under Agenda 2000 are regarded as forming the *second pillar* of the CAP. The concept of rural development embraces agri-environmental schemes. In contrast to the first pillar, which is funded entirely by the EU, Member States have to meet between three-quarters and half the cost of support under the second pillar (though only a quarter of the cost of agri-environmental schemes in Objective 1 areas). Creation of the second pillar was an important step forward. But it still receives only a small part (less than a sixth) of the total EU funding provided for the CAP.

39. Moreover, there is wide variation in how much EU funding Member States receive under the Rural Development Regulation and in their current levels of expenditure on agri-environmental schemes. These variations have been heavily influenced by historical factors, and do not necessarily reflect either the amount of agricultural land in each Member State or the need for intervention to counter the pressures on it.

40. Member States have also followed different approaches in their agri-environmental schemes. Some have adopted a *deep and narrow approach*, and used the available money in relatively small areas regarded as having the greatest environmental value or potential. Others have adopted a *broad and shallow approach*, and spread the available money thinly in schemes which operate over the whole, or the greater part of their area. Each approach can have disadvantages. A deep and narrow scheme may leave the greater part of agriculture untouched. On the other hand, the amounts of money available to farmers under a broad and shallow scheme may not be large enough to justify placing more than minor requirements on them; these may not make any perceptible differences to the environment, and it may be difficult to demonstrate that such a scheme is cost-effective.

41. *The present CAP is not informed by a coherent overall vision of agriculture's role and its relationship to nature.* Successive reforms have not overcome the emphasis on maximising production, yet at the same time have failed to maintain profitability. There has been a fragmented and confusing approach based on regimes for particular products, or even several policy instruments affecting the same product, without sufficient consideration given to how different instruments interact in practice.

42. *If anything, the changes made in recent years have increased the confusion.* Direct payments were introduced in 1992 to compensate for losses of income caused by reductions in price support; they are now regarded as fulfilling other objectives, but those objectives have not been made explicit. Overt support for markets and prices has been reduced, but the effective support price in a particular sector (when direct payments are also taken into account) often continues to provide a significant incentive for additional production.

    Nor is there a coherent vision of what the second pillar is intended to achieve. There is an inherent conflict between the two pillars. To an extent, expenditures under the second pillar are remedying, or averting, damage which has resulted from, or would otherwise result from, the support given to production under the first pillar.

43. The CAP would be less unsatisfactory if there were a large increase in the resources available under the second pillar, and a more logical distribution of such resources between Member States. But that would not remedy the lack of a coherent overall vision. We set out in part III of this report our vision for the long-term future of agriculture and the principles we believe must be followed in order to create sustainable rural areas. There are other serious problems raised by the CAP in its present form, and we discuss those in the remaining two sections of part II.

THE GLOBAL CONTEXT

44. Support for EU agricultural production and exports is constrained by rules set by the World Trade Organization (WTO) under the 1992 Uruguay Round Agreement on Agriculture. A threefold classification of support measures has been established:

    - the *amber box* for measures which clearly distort trade,
    - the *blue box* for other measures which have some effect in distorting trade,
    - the *green box* for measures which have no effect, or only a minimal effect, in distorting trade; measures which meet that description are not restricted by WTO rules.

    The correct classification for any particular measure may well be contentious. The EU has placed the direct payments made to farmers under the first pillar of the CAP (paragraph 37) in the blue box; and has been the only major party with a major share of its agricultural support declared as belonging in that box.

45. The WTO has so far had little effect in practice on the scale of agricultural support measures in developed countries. According to calculations by the Organization for Economic Co-operation and Development (OECD), total government support to agriculture in the EU (PSE) was 45% of its production value in 1998. It should be noted that these calculations included payments for environmental services, as well as market support and income support. The corresponding figure for the USA was 22%, but must have been increased substantially by the Farm Act recently passed.

46. A 'peace clause' in the 1992 Agreement on Agriculture, which restricts the right of other parties to challenge internal support measures, will expire at the end of 2003. Moreover, in

the new round of trade negotiations which has now started the USA and the Cairns Group[4] have obtained acceptance that the remainder of the round will not start until agreement has been reached on agricultural products. This increases the danger that agriculture will become a political pawn, without due weight being given to environmental and social concerns.

47. The EU is committed to the concept of free trade. That concept would require, not only removal of trade-distorting support measures, but also removal of tariffs and quotas on imports. However, many people are greatly concerned about the eventual repercussions of free trade in agricultural products. If countries outside the EU are able to produce at lower cost because they do not have the same standards for health and environmental protection, and the result is large increases in imports of agricultural products, there could be serious effects on rural areas of the EU.

48. There is equally concern about the repercussions free trade can have for developing countries. In response to the continuing poverty of large areas of the world targets have been agreed internationally for bringing about improvements. In order to achieve sustainable development the poorest countries need to establish viable agricultural industries, capable of meeting local needs for food, and providing resilience if the world were to run short of food as a result of population growth and climate change. Free trade could impede such an outcome in two ways: imports may undercut local products and the local industry may be distorted by the growth of large (but exposed) sectors producing high-value products for export. Both phenomena are already found frequently in practice.

49. Ad hoc agreements could be a more satisfactory way of giving developing countries access to the EU market, without such damaging side-effects. The European Commission have recently sought to supplement the preferential access many countries already enjoy under the Cotonou Convention (formerly the Lomé Convention) by putting forward the 'Everything But Arms' proposal. Under this, all products from the world's 48 poorest countries would eventually have unrestricted access to the EU market, with major consequences for the growing of certain crops within the EU. The Commission have also put forward proposals for liberalising trade with Mercosur, the Latin American economic bloc.

    To guard against the danger that ad hoc agreements might be abused to recycle surpluses from third countries, there needs to be an upper limit on the quantities of any product imported under them, calculated by reference to the amount produced in the exporting country.

50. The European Commission's strategy in the current WTO negotiations has emphasised that agriculture is multifunctional in character and that 'non-trade concerns' such as food safety and environmental protection are important. It is far from certain these principles will be generally acceptable within WTO; an OECD report in 2001 reflected a widespread view elsewhere that the scientific and economic arguments for multifunctionality were weak.

    Export subsidies, in the amber box, will certainly come under strong attack within WTO. That should equally extend to the indirect forms of export subsidy which the USA mainly uses. The nature of the EU's other support measures will also come under close scrutiny, even if the principles the European Commission are advocating were to be generally accepted. The Commission are seeking to move as much other support as possible from the blue box to the green box. That approach is unlikely to be credible unless the CAP is reformed.

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[4] The Cairns Group includes Australia, New Zealand and South American countries.

51. The prospect of liberalised trade in agricultural products represents a further powerful pressure for reform of the CAP. We are concerned, however, that liberalisation of trade could in itself have undesirable consequences. We set out in part IV, alongside our recommendations about future arrangements within the EU, our conclusions about elements that need to be incorporated in the EU's negotiating position within WTO if such damaging consequences are to be averted.

THE IMPLICATIONS OF ENLARGEMENT

52. Enlargement of the EU is considerably affecting its character. In the last decade Austria, Finland and Sweden have joined, and East Germany has been absorbed. The bulk of the 12 countries now negotiating for membership are in central and eastern Europe, and may join the EU as soon as 2004.

53. Central and eastern Europe exhibits the forms of *environmental damage* identified above (paragraphs 18-26): reductions in biological diversity, soil erosion, disruption of the water cycle, pollution of water sources. But it also contains large areas where *biological diversity* and *valued landscapes* have survived to a greater extent than in present EU Member States. Often this is because traditional, less intensive agricultural practices are still used. Many species which have become rare or extinct in western Europe remain abundant in central and eastern Europe. Their continued survival will depend on the agricultural policies followed in future.

54. Prior to 1990 *government support* to agriculture in central and eastern European countries, although in a different form, was on a scale broadly comparable to the CAP.[5] However, agriculture was both more important in their economies and significantly less intensive on average, with relatively low yields. It was much more important as a source of employment: *agricultural employment* in Poland and Romania combined remains almost as large as in the present EU.

55. The dismantling of state structures of management and control, changes in land ownership as a result of privatisation or restitution to former owners, and the sweeping free market reforms of the early 1990s caused severe *disruption to agriculture*. There was a sharp drop in use of chemicals and in yields, especially of arable crops; although there has been a marked recovery, average arable crop yields in 1998 were generally still well below 1989 levels. Livestock numbers have declined, and large areas of pasture are undergrazed or have been abandoned.

56. Even more than in the present EU, there is a strong tendency towards *polarisation in the size of holdings* in central and eastern Europe, partly mirroring historical differences (for example, between different regions of Poland). Very large collective farms were established in the Communist period, and applied intensive methods; poorly managed ones will probably be broken up, but a substantial number are likely to survive. Moreover, major new livestock and arable enterprises are being established in some countries with foreign capital. At the same time, all central and eastern European countries have a large number of small-scale subsistence farms, which occupy most of their land.

57. In the course of a dramatic increase in trade in agricultural and food products between the EU and central and eastern European countries the *balance of trade* has moved from an EU deficit of €1 billion in 1988 to an EU surplus of €2 billion in 1998. This was primarily the result of increased exports of processed products from the EU. The most likely products for increased sales by central and eastern European countries are fruit, vegetables and

[5] In 1986-88 the average support to agriculture as a percentage of production value (PSE) was 44% in the EU and 37% on average for Czechoslovakia, Hungary and Poland (OECD calculations).

coarse grains. In other sectors it will be a considerable task to raise standards to meet the requirements of the EU market. That process has already begun. Small farmers, however, are in an unfavourable position to respond to new requirements because of their limited skills, poor access to technology in the past and lack of access to capital.

58. *There are serious dangers that agriculture in central and eastern Europe could develop in ways that would be undesirable in both environmental and social terms.* Many large arable farms have become significantly less intensive in their methods over the last decade: at some of these the land is now suffering from a lack of nutrients, at others it would be environmentally damaging to revert to previous methods. The suspicion is that one motive for current foreign investment is an attempt to avoid the increasingly stringent environmental controls now being applied to agriculture in the present EU.

    Rationalisation of small farms into larger, more intensive units, in an attempt to become more competitive, could lead to dramatic losses of biological diversity and landscape features, as well as sharp reductions in employment in agriculture. Abandonment of small traditional farms, because they could no longer compete and provide an acceptable income, would be just as damaging.

59. Some areas now in the EU experienced *sharp adjustments* when their agriculture became subject to the CAP. Finland, for example, saw a substantial increase in average farm size (more especially of livestock farms) and sharp reductions in the number of farms, in the proportion of farm household income derived from sale of agricultural products and in agriculture's share of gross domestic product (GDP). Agriculture in peripheral areas declined; but the agricultural labour force increased significantly. Agricultural prices in Finland had previously been higher than in the EU, so experience there is not necessarily a guide in all respects to what may happen in central and eastern Europe following further enlargement; but it illustrates how significant the effects of accession can be.

60. Extending the CAP to central and eastern European countries will be expensive. The actual cost will depend on the outcome of negotiations now in progress, but direct payments to farmers (paragraph 37) may well account for a large part of it. While it would be illogical to compensate the farmers of new Member States for reductions in prices which occurred long before they joined the EU, that objection is not coercive given the lack of clarity about the current justification for direct payments. We consider in part IV of this report whether there are more effective and appropriate ways to assist farmers in central and eastern Europe.

CONCLUSION

61. Considerable complications will arise in adapting the CAP to new Member States, and in negotiating within WTO, not only on behalf of the present Member States but on behalf of the enlarged EU. To a large extent these complications stem from the confusions and ambiguities about the purpose of the CAP in its present form. They greatly reinforce the case for finding a different basis for agricultural policy, in order to prevent further widespread damage and re-establish agriculture as a positive force for the environment. In part III of this report we set out a vision for the future of agriculture and propose ten basic principles for sustainable rural areas.

Part III

PRINCIPLES FOR SUSTAINABLE RURAL AREAS

62. There is a clear need for thoroughgoing reform of the European Union's policies and programmes for agriculture. The goals of the Common Agricultural Policy (CAP), as they still appear in article 33 of the Treaty, are

    - to increase agricultural productivity
    - to protect and increase earnings in rural communities
    - to stabilise agricultural markets
    - to ensure the availability of supplies
    - to ensure that supplies are delivered to consumers at reasonable prices.

    The first goal has encouraged intensive methods of agricultural production without regard to environmental damage or sustainability in the long term. The second goal remains relevant, but its dependence on the profitability of the agricultural industry is now much less strong. As well as taking no account of the environmental impacts of making food supplies available, the last three goals in the list are now subject to critical scrutiny in a world committed to liberalising trade in agricultural products.

63. Other provisions of the Treaty now require that all EU policies should contribute to environmental protection and sustainable development. Justifications for the EU's agricultural policies now lay emphasis on the 'multifunctional' character of agriculture, and express the aims of policy in terms of the 'European Model of Agriculture'. This model has been described [6] as having four elements:

    - a competitive agricultural sector gradually facing up to the market without being over-subsidised;
    - modern standards for production methods that are sound and environmentally friendly, able to supply quality products of the kind the public wants;
    - maintaining the visual amenity of the countryside, as well as vibrant and active rural communities generating and maintaining employment;
    - taking at EU level those decisions which need to be taken at that level and leaving other decisions to Member States.

    However, neither the concept of multifunctionality nor the European Model of Agriculture has been given any precise formulation or legal status.

64. Although the European Model of Agriculture marked a significant advance, the EU's agricultural policies are not yet coherent and consistent, as we have shown in part II. There is continuing damage to the environment as a result of the agricultural methods that are

[6] By an official of the Agriculture Directorate-General of the European Commission at an EEAC conference on this subject in The Hague in April 2000.

being used. Nor do existing policies seem adequate to ensure the future viability of rural areas. The deficiencies and confusions in present policies are being thrown into sharper relief by the need to reach agreements with the countries wishing to join the EU and to define a negotiating position within the World Trade Organization (WTO).

65. The future for European farmers does not lie in competing solely on the price of agricultural products. The quest for competitiveness in world markets could lead to the adoption of technological innovations involving an even greater intensity of production. Technological progress, driven by competition, has often in human history improved the material conditions of life; but such a beneficial relationship will not necessarily persist in the long run, and damage to other, highly valued aspects of the quality of life may loom increasingly large.

A new vision

66. What is needed is a clear and positive vision for the long-term future of agriculture, to provide both a framework and benchmarks for the new policies that are now required. This vision must be firmly based on the concept of long-term sustainability. In pursuit of sustainability, the aim must be to achieve the maximum synergy between economic, social and environmental objectives.

67. *The relationship between agriculture and the natural environment is of central importance.* Agriculture is no ordinary economic activity. Intimately linked to the vital needs of human beings, the cultural richness of populations and the ecological equilibrium of the planet, it plays a special role in human societies. It must meet both the demands of farmers for an adequate income and the demands of consumers for high-quality products at acceptable prices and traditional types of food, while respecting ecological equilibrium. Agriculture has a responsibility to future generations, and must ensure for their sakes that land retains its quality and soils remain fertile.

68. *Future policies must also recognise the intimate two-way relationship between agriculture and the diverse cultures and traditions of European peoples.* They must respect social equilibrium, in terms of the continuing vitality of rural areas and the survival of traditional skills, customs and religion. They must therefore be policies for rural areas as a whole, embracing the future quality of human communities as well as the beauty and diversity of landscapes and wildlife.

69. But *they cannot be policies for rural areas in isolation*. In some parts of Europe the countryside is suffering depopulation because people have flocked to the towns; in other parts of Europe the countryside is suffering from strong pressures to take land for tourist developments, for homes for commuters or the retired, or for urban development more generally. Throughout Europe the character and viability of rural areas and the character and viability of urban areas are interdependent. There cannot be a sustainable countryside unless towns and cities can also be made sustainable.

70. The CAP has lasted, in its main outlines, for more than 50 years. The new vision for agriculture must also be a *long-term* one, extending at least to the middle of the century. Only by considering the long-term consequences of present trends is it possible to determine which policies and methods will be sustainable. Moreover, in order to be robust, the new vision must take full account of global factors, which are also likely to be long-term in nature (for example, population growth and the possible effects of climate change).

71. Re-establishing sustainable forms of agriculture will entail looking carefully at all the circumstances in which crops are grown and livestock are reared and kept. It will also mean looking more widely at the environmental and social consequences of *entire supply*

chains. This points towards the need for a radical restructuring of the relationship humans have with nature and the ways in which food is produced, based on recovering insights and understanding that have been present almost throughout human history, and only lost in recent years as a result of a one-sided emphasis on increasing food production at all costs. Future policies should involve, as far as possible, decentralised programmes supporting production systems which are adjusted to local cultural and environmental circumstances.

72. Many European farmers have spent their lives looking for ways to increase production, in accordance with the original goals of the CAP. The new vision must be defined in a way that is immediately meaningful to them, that will inspire and motivate them to co-operate in implementing new policies and adopting new approaches which will now be required. The **new vision for agriculture** can be expressed as:

- providing people with food and non-food crops *and at the same time*
- providing other goods and services which
  - are vital for maintaining ecosystems in desirable states
  - contribute to quality of life, cultural enrichment and diversification of the rural economy.

The methods used in agriculture should achieve an appropriate blend of profitability, management of natural resources and social wellbeing, and accept the reality of environmental constraints. For such methods to remain viable, there must be equitable rules for international trade. And the elaboration and implementation of policies for sustainable development must involve all groups with a stake in the countryside.

73. This new vision for agriculture has far-reaching implications. We have expressed these in the form of ten basic principles for sustainable rural areas which we set out and explain below. Parts IV and V of this report then show what those principles imply in terms of changed policies, and how they can be realised in practice. Agriculture is crucial to the multiple functions the countryside serves. But its role also needs to be seen in a wider context, and sustainability will never be achieved unless appropriate polices are also adopted in other fields. What we put forward, therefore, are ten principles for sustainable rural areas.

Principle 1: Conserving natural resources

74. Agriculture is dependent on natural resources of soil, water and biological productivity. The great variety of habitats and species across Europe is also a vital natural resource. Any agricultural practices which have the effect of substantially disrupting natural resources, whether in the short term or the long term, cannot be regarded as sustainable. One form of disruption is overuse, which can lead ultimately to the destruction of resources. Disruption also occurs when human activities induce damaging local excesses, for example a flood caused by changes in land use which increase the speed at which rain water drains into watercourses. Local surpluses of nutrients may give rise to serious waste management problems; or cause serious damage to habitats and species, and potential risks to human health, through eutrophication of water bodies. Irrigation increases the amounts of water available to growing crops, but may in the long run render the irrigated soil unusable.

75. EU agricultural policies ought not to promote or encourage practices which bring about unsustainable disruptions. Instead, they should provide direct encouragement to farmers to conserve natural resources. The need for that is especially urgent in areas where there is a high risk that land may become unusable as a result of desertification. EU agricultural policies should also incorporate the concept of 'biocascading' (taking advantage of all the

different substances that can be extracted from a given plant, in a sequence which makes the most efficient use of materials and energy).

Principle 2: Producing food and non-food crops sustainably to meet local and European needs, while also fulfilling obligations to the rest of the world

76. European agriculture provides a significant proportion of world food supplies. EU agricultural policies are capable of causing considerable damage to agriculture in developing countries. Socially and environmentally responsible trade should be promoted, but subsidies and trade patterns which have damaging effects on sustainability ought to be phased out. In addition to distortions which it can cause in the economies and societies of less developed countries, transporting food and feed over long distances adds to greenhouse gas emissions. European agriculture should provide a model of social, economic and environmental sustainability. Development aid to other countries should help them establish integrated agricultural systems which are equally sustainable.

77. European agriculture also contributes, along with forestry, to supplies of other materials, including fuels. The EU and other developed countries account for a disproportionate share of global use of fossil fuels; and, if the threat of uncontrolled climate change is to be averted, the EU will have to play a big part in reducing net emissions of greenhouse gases. Growing crops for energy purposes and utilising agricultural wastes for fuels can make a significant contribution to achieving such reductions, subject to proper safeguards to prevent damage to local environments. Developing renewable sources of energy can also improve the economic viability of rural areas by making them more self-sufficient.

Principle 3: Promoting and safeguarding human and animal health

78 Future agricultural policies must be closely aligned with health policies. This will mean a greater emphasis on the nutritional values of foods and the consequences of variations in diet. There is scope for deriving medicines from plants. Protecting human health will also entail close attention to the health of farm animals, and to traceability through supply chains, as greater understanding is gained of the routes by which pathogens and other pollutants can be transferred to humans. This has important implications for the conditions under which livestock are kept. The welfare of farm animals will also continue to be an important consideration for public policy in its own right.

Principle 4: Maintaining viable rural communities with continuing links to the land

79 There must continue to be strong communities in the countryside. Everyone living there ought to be able to enjoy a high quality of life. Innovative approaches to providing physical and social infrastructure in sparsely populated areas, and general trends in the economy and society, may be the most significant factors in determining the future economic and social viability of rural areas. However, measures should also be taken to ensure a steady supply of new entrants to agriculture; countryside management and less intensive forms of agriculture may well provide more employment than existing agricultural practices. We also attach importance to forming new kinds of link between local populations and the land: through new local supply chains for food and other natural products, through the new institutions advocated below to reflect the multifunctional

character of land management, and by encouraging the widest possible public involvement in voluntary conservation activities.

80 Creating new links with the land is desirable in both urban and rural areas, but may be vital in maintaining the essential character of rural areas. Although there are likely to be fewer separate agricultural holdings in future, it is desirable that any further reductions in the number of holdings should not be on a large scale, whether or not all holdings continue to provide a full-time occupation.

Principle 5: Applying environmental regulation and the 'polluter pays principle' to the agricultural and food industries in the same way as to other industries

81. All industries have some adverse effects on the environment and on other sectors of society. The three complementary approaches available for controlling such effects are direct regulation by government, self-regulation and the use of economic instruments. In comparison with other industries, there has sometimes not been effective direct regulation of the damaging effects of agriculture. In particular, diffuse pollution from agricultural and other sources is an increasing concern. Although self-regulation will continue to play an important role, direct regulation must be made more credible, with effective penalties on Member States, and on farmers and other land managers, if they do not comply.

82. In circumstances where neither self-regulation nor direct regulation can be effective, the polluter pays principle enshrined in the Single European Act of 1987 requires that industries should be faced with financial disincentives to perpetuate environmental damage. Examples of situations where such financial penalties are appropriate include contamination of water sources and the use of fossil fuels either within agriculture or in transporting agricultural products over long distances.

Principle 6: Ensuring environmental benefits by giving farmers and other land managers fair rewards for supplying such benefits

83. Agriculture has an essential role in maintaining and enhancing biological diversity and attractive landscapes. This goes beyond the actions required to protect long-term productivity (principle 1) or the internalisation of external costs (principle 5) by involving, on the one hand, positive management and, on the other hand, aesthetic valuations and judgements. European Environmental Advisory Councils have emphasised that flora, fauna and landscapes are valuable for their uniqueness, irrespective of any critical services they provide to humans.[7]

84. Society ought to reward farmers for providing environmental benefits which are public goods. The extent to which such rewards need to take the form of payments from government will depend on several factors, including:

- the possibility of devising and introducing agricultural practices which are both efficient in commercial terms and environmentally friendly;
- whether it is practicable to give a particular environmental feature a commercial value, for example as a tourist attraction, or as a service for which water companies or other organisations are willing to pay;

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[7] EEAC. *Greening Sustainable Development Strategies.* February 2001.

- whether substantial numbers of consumers can be persuaded to buy foods certified to have been produced using agricultural practices which safeguard landscapes and biological diversity;
- whether progress can be made towards worldwide environmental standards for agriculture, so that European farmers are no longer threatened by competitors producing more cheaply but in environmentally damaging ways.

85. Everything possible should be done to stimulate buoyant markets which give farmers a fair price for environmentally friendly products, and to establish worldwide environmental standards for agriculture. At least for the time being, however, many farmers will face a conflict between efficiency in meeting demands for food (subject to complying with environmental legislation and conserving natural resources) and meeting the wider public demand for an attractive countryside with abundant wildlife. In such a situation it is justifiable for government to make payments to farmers, as well as to other land managers, to obtain the public goods represented by precisely specified environmental benefits. The amounts paid should reflect the cost of providing those benefits, including the amount of additional work required for a particular benefit and any other income lost as a result.

Principle 7: Encouraging the development and widespread adoption of innovative, less damaging forms of land management

86. The transition to a multifunctional and sustainable agriculture will be a learning process. European farmers have been entrepreneurial and innovative. But in the past these virtues have often led to undesirable outcomes because farmers have been presented with the wrong incentives. The challenge for public policy is to nurture entrepreneurship and innovation but redirect them to creating and maintaining a sustainable and multifunctional agricultural sector. Actions in pursuit of the other principles listed here will help considerably to achieve that. But some specific actions on the part of governments will also be necessary in order to:

- refocus research and development away from technologies aimed at the further intensification of agriculture and towards methods which will not damage the environment
- provide the advice and training existing farmers and new entrants will require in order to be successful in adopting new methods, or where appropriate reviving traditional approaches.

Principle 8: Protecting and restoring diversity in land use within local areas in order to enhance amenity and biological diversity

87. A major effect of existing agricultural policies has been the spread of monoculture. Extensive areas in many parts of Europe are now devoted to growing a single crop or keeping a single type of livestock, using standardised methods. This is a powerful factor working against biological diversity. Monoculture has also considerably aggravated problems of pest control, leading to demands for technical fixes in the form of additional pesticides, genetic modifications, or both in combination. Biological diversity (whether in wild species or farmed crops and livestock) is a crucial natural resource. Agricultural practices which involve variations in land use, in space and over time, are more likely to be sustainable.

88. Promoting diversity will involve, on the one hand, safeguarding and expanding green areas within towns and cities and, on the other hand, rediscovering the benefits of leaving some areas within farmland temporarily or permanently uncultivated. In regions with a low

proportion of forest more areas should be identified as suitable for conversion from agriculture to forestry, or for allowing regeneration of previous natural vegetation.

89. Traditional land uses, such as woodland or wetland, often involve a high degree of diversity which is not only aesthetically pleasing and favourable for wildlife but also provides a material basis for future sustainability. It is crucial that surviving landscapes of this kind are conserved, and new landscapes of comparable diversity are created. Agro-forestry systems are characteristic of Mediterranean countries such as Portugal (where they are called *montados)* and Spain (where they are called *dehesas*). They provide valuable habitats for wildlife, help maintain the cultural heritage, and provide effective protection against drought and desertification. They therefore contribute, not only to principle 8, but to principles 1, 2 and 4.

Principle 9: Achieving the best local solutions for land management in an increasingly diverse Europe

90 The conditions under which agriculture is carried on already show enormous variation across the EU. There will be even greater variety following enlargement. The most sustainable forms of multifunctional agriculture will therefore vary considerably between Member States and within Member States. Local knowledge, formal and informal, will be essential in order to identify and implement the best solutions. The European Commission and national governments must set the broad direction of policy, ensure the necessary resources are available, and monitor the overall effect of the measures adopted. But they must avoid overly prescriptive approaches which remove the scope for, or deter, local initiative.

91 Local plant varieties which have not been registered may be particularly well adapted to local conditions and important for conservation. To encourage the continuing use of such varieties, the testing procedures at present required for registration should be relaxed so that it will become possible to register local varieties on the basis of practical experience of their cultivation and utilisation gained over a long period.

Principle 10: Ensuring there are effective institutions at local and other levels which reflect the multiple functions of land management

92 Local groupings of farmers are valuable in pooling knowledge and experience, and in creating peer pressures for the adoption of sustainable practices. In view of the multifunctional character of agriculture, new democratic institutions are also needed to give an appropriate role to other stakeholders in a given rural area. Two respects in which the involvement of other stakeholders will be essential are in stimulating and meeting demands for locally produced foods and other products and in identifying the priorities for protecting or creating valued features of the countryside in a particular area (as such decisions turn ultimately on social and cultural judgements). At the same time, some features of the countryside have an importance which extends beyond the local area, to national or even European level; and there therefore need to be effective procedures for ensuring that wider interests, and expert scientific knowledge, are also brought to bear in decisions.

93. Effective institutions which fully reflect the multiple functions of land management are essential at other levels of government, as well as at local level. In several Member States the ministries responsible for agriculture have been reorganised recently with the aims of countering any narrow emphasis on production and enhancing accountability to a wider range of stakeholders. At European level it is now recognised that agricultural policy is not a concern only of the Agriculture Commissioner and Directorate General but of the European Commission as a whole.

Part IV

THE WAY FORWARD: RECOMMENDATIONS FOR ACTION

94. We set out in part III of this report a new vision for agriculture and ten principles for sustainable rural areas. On the basis of those principles we set out in part IV our conclusions about the policies the European Union ought now to adopt towards agriculture and towards rural areas. We look first at the general nature of the policies needed in the twenty-first century, then at the changes which ought to be made in the Common Agricultural Policy (CAP), in the Mid-Term Review and subsequently, in order to move as rapidly as possible towards more appropriate policies. In the light of those conclusions, we then also make recommendations about the approaches that should be adopted in the accession agreements with new Member States and in negotiations within the World Trade Organization (WTO). In all these contexts we lay emphasis on the need for closer integration between policies for agriculture and rural areas and other EU policies, including in particular environmental policies.

TOWARDS INTEGRATED RURAL DEVELOPMENT

95. Across Europe rural development is increasingly accepted as a general aim of policy. Measures taken under the Rural Development Regulation now constitute the second pillar of the CAP. Rural development is a major aim of the Structural Funds, and there are also smaller EU programmes such as LEADER+ and SAPARD. Most countries also have programmes they fund themselves, some of which have been operating for a number of years.

96. *Rural areas have been undergoing far-reaching changes.* Everywhere the relative importance of agriculture in rural economies has declined. Additional problems faced in many rural areas include relatively low incomes, an ageing population and poor access to many services. Despite the common features across Europe, the *diversity of circumstances* between and within countries would make it misleading to think in terms of identifying and addressing a single 'rural problem' at European level. Rather, there is increasing recognition that successful rural policies must conserve and build upon the varied assets of each region. In doing so, it is essential that they address economic, social and environmental issues.

97. In more densely populated and industrialised regions, and on the Mediterranean coast, new industries have been established in rural areas, people have migrated to live there, and overall prosperity has increased. These trends, however, require the conversion of significant amounts of land to urban uses, and pose threats to valued landscapes and wildlife. They may also raise serious problems for social and economic cohesion. In areas with more fertile soils the further intensification of agricultural production constitutes a major threat to landscapes and wildlife. In more remote regions the decline of agriculture has often been more pronounced (so that the main threats to landscapes and wildlife may come instead from the abandonment of agricultural land), there is less potential for new industries or for commuting to urban centres for work, and populations are still tending to decline.

98. There is little evidence as yet to evaluate the effectiveness of the rural development programmes which have been drawn up under Agenda 2000. But it is already clear that there are some significant deficiencies in the EU's current approach to rural development. *At the procedural level*, present programmes are too complex and bureaucratic, do not leave enough scope for local discretion and initiative, and need to be co-ordinated more effectively.

99. *At the substantive level* many programmes do not yet sufficiently reflect the far-reaching changes that have been taking place in rural areas, and in thinking about the environment. 'Rural' is still often equated with 'agricultural', even though agriculture now usually makes up only a relatively small part of rural economies. 'Development' has been interpreted to mean construction of new infrastructure of kinds (such as motorways or large dams) which have far too often damaged the landscape, threatened endangered species, disrupted the water cycle, or been out of scale with the needs and characters of rural areas.

100. For the future the aim must be to achieve sustainable development of rural areas, in which environmental constraints are accepted, cultural diversity is respected, and the maximum synergy is achieved between economic, social and environmental objectives.

101. Rural development programmes must continue to include measures to protect communities against adverse social and economic effects from any further reductions in farm incomes or agriculture-related jobs, in particular by encouraging the provision of alternative employment. *Achieving sustainable development in rural areas will have to form part of a much wider transition to sustainable development across Europe.* Moreover, as we have emphasised (paragraph 76), what is done in Europe must be compatible with, and ought to provide a model for, the pursuit of *sustainable development elsewhere in the world*. However, these wider ramifications must not be used as a pretext for clinging onto features of the present rural situation which are manifestly unsustainable.

102. Although the agricultural industry is no longer the dominant element in the rural economy, it retains a central importance in the environments and cultures of rural areas (alongside forestry, in some regions). There are many regions where *the attractiveness of rural landscapes, resulting from and maintained by agricultural operations*, is an essential factor in the success of an economically more important tourist industry, and in making the area an attractive location for other industries and for inward migration. Any programme for moving towards sustainable development must incorporate appropriate measures for agriculture.

103. Although there will be a continuing need for payments to farmers for public goods they provide, these must not give them incentives to intensify production. Such payments should have two essential purposes. The first is to control the abandonment of agricultural land of high environmental value by giving farmers in such areas an incentive to continue farming where it would not otherwise be economic for them to do so. Such situations are most likely to arise for small farm businesses in peripheral regions where, although agriculture has a high environmental value, it has a low commercial value. The second purpose is to encourage farmers to adopt methods which yield specified environmental benefits. Such benefits may take the form of providing or restoring habitats for wildlife. Alternatively they may take the form of switching to agricultural systems which are inherently less damaging to the environment and more sustainable, such as well managed organic farming.

104. We believe that EU policy for agriculture should ultimately have the following *key elements*:

- a **baseline of minimum standards** to ensure that important environmental and cultural resources are protected against any irreversible damage from the activities of land managers – this baseline should be maintained by legal regulation and in the short term by cross-compliance;
- a **first tier** of support in the form of a payment offered to all land managers at a flat rate per hectare under contracts in which (in addition to complying with the minimum standards in the baseline) they undertake to act as responsible stewards of a multifunctional countryside by providing a specified level of employment and undertaking the work necessary to maintain natural and cultural diversity. This would include work necessary to maintain traditional field patterns and features introduced as a result of agri-environmental schemes;

  upper tiers of larger, targeted payments to those who undertake more ambitious forms of land management in areas or on sites which are of high natural or cultural value, or are especially sensitive in those respects, or offer great potential for restoring or creating habitats.

105 Alongside legal regulation, the mechanism for ensuring that minimum standards are maintained and irreversible damage prevented would be 'cross-compliance', that is, every farmer or other land manager receiving any form of grant or subsidy would be required to comply with all the provisions of a code of good farming practice. We regard this as a mechanism for use only in the short term because there will not remain any justification for giving grants or subsidies to farmers, other than under the second and third headings above, if they cease to be subject to competition from producers who are not required to comply with similar standards of good farming practice (see paragraph 141 below).

106. Policies for rural development are addressed to a complex and fast-changing situation. It is essential that proper attention is paid to *monitoring and evaluating* their effects so that, where necessary, timely adjustments can be made. Far too little attention has been paid to monitoring the effects of the CAP, especially its environmental and social effects. Only with data of this kind is it possible to make realistic assessments of the requirements for resources and ensure that policies remain relevant and robust.

107. Considerable effort has been devoted to devising statistical indicators of sustainability for agriculture.[8] We **recommend** that the conclusions from this work should be utilised to create a framework for assessing the overall effects of current and future EU agricultural policies. Agreement must be reached on a small set of key indicators so that these can be incorporated into the annual monitoring of sustainable development under the Lisbon Process and the EU Sustainable Development Strategy.

108. In many respects, and to a much greater extent than in the past, the task of detailed monitoring, evaluation and programme development will fall to national and sub-national bodies. That applies both to agricultural policies and to wider policies for rural development. To ensure this task is discharged effectively, we **recommend** that strong and explicit obligations should be placed on Member States.

109. At the same time, the European Commission will retain a major role in monitoring and evaluation. As well as identifying any policy failures or unintended consequences, and bringing forward proposals where appropriate for amending legislation, it will need to ensure that Member States are carrying out their obligations. We **recommend** that, for

[8] See for example United Kingdom, Ministry of Agriculture Fisheries and Food. *Towards sustainable agriculture: a pilot set of indicators.* February 2000.

these purposes, the Commission should draw on studies by independent experts, as well as returns made by Member States.

110. We envisage the transition to the system we have advocated above will take place progressively over several years, for three reasons:

- the changes required are so far-reaching that it will take a certain time for them to be fully agreed and implemented;
- on some detailed issues further research, analysis and debate will be required in order to arrive at the best solutions;
- farmers and others must be given reasonable time to adjust to new requirements.

It is nevertheless essential that Europe moves forward rapidly towards sustainability. The Mid-Term Review of Agenda 2000, scheduled to be completed and implemented by 2004, provides a vital opportunity to put into effect changes which can be regarded as immediately necessary because of enlargement of the EU, WTO negotiations and other factors, and at the same time specify further changes which can appropriately be made after 2006. We have considered how this opportunity can best be utilised.

MID-TERM REVIEW OF AGENDA 2000

111. Introducing the second pillar of the CAP was a significant step towards the kind of integrated rural development policy we are advocating, but still only a small step. We have identified further significant changes which ought to be, and can be, made immediately.

Availability of resources

112. The European Commission's Communication on sustainable development[9] envisaged a shift of resources from the first pillar to the second pillar. We support that, if the change is at the expense of those aspects of the first pillar which have undesirable environmental and social effects.

113. At present the resources available under the second pillar vary because Member States have discretion over whether to switch up to 20% of first pillar funding in their territory to the second pillar (*modulation*). They have been deterred from making such a switch, at least to the full extent permitted, by the requirement that they must provide matching funding for expenditure under the second pillar. We **recommend** that:

- the provision for modulation already included in EU legislation should be made *mandatory* on all Member States, *unless* expenditure under the second pillar already represents at least 20% of the total spend in their territory from the European Agricultural Guidance and Guarantee Fund (EAGGF);
- in applying modulation, Member States should retain discretion as to whether they adopt *uniform, progressive or discriminatory approaches*;
- the proportion of expenditure under the second pillar which Member States are required to meet should be reduced to 25%, and to 15% in the case of agri-environmental measures in Objective 1 areas and accession countries

[9] Commission of the European Communities. Communication from the Commission. *A sustainable Europe for a better world: a European Union strategy for sustainable development.* COM (2001) 264 final, 15 May 2001.

- the regulations must be simplified, to ensure that greater use of modulation does not lead to increased bureaucracy.

114. To maximise the total resources available for rural development as a result of these changes, reductions in the proportion of second pillar expenditure which Member States are required to meet might be applied only to additional modulation undertaken from the date these changes come into effect, and not to the level of modulation already implemented by a Member State prior to that date. Otherwise, part of the effect of the changes might simply be to substitute EU funds for funds which Member States had previously been providing, without any overall gain. There must also be strong safeguards in future to ensure that activities financed under the second pillar are not in themselves environmentally damaging, as we explain below.

115. The basis on which the total funds available under the Rural Development Regulation are distributed to individual Member States should be reviewed with the aim of achieving a better balance between needs, resources and performance.

Terms on which support is given

116. In addition to moving resources from the first to the second pillar, changes must be made in the *terms on which support is given to farmers and others under each pillar*. We **recommend** that, in contrast to past practice, proposed changes should be carefully assessed in terms of their effect when combined with other measures, existing or proposed; it is the interactions between policies and regimes which often determine what happens on the ground.

117. The specific changes we **recommend** in relation to support under the **first pillar** are as follows:

- subsidies to keepers of livestock, including dairy farmers, should in future be paid at a flat rate calculated by reference to the size of holding (not by reference to the number of stock) so that they do not give farmers an incentive to overstock – the rate of payment should vary between regions (and possibly between sub-regions) in order to reflect differences in climate, geography, carrying capacity and environmental quality, and avoid undesirable social effects;
- within each region the subsidy per hectare should diminish as the size of holding increases;
- the flexibility provided by a national envelope should be available within all livestock regimes, but used only for purposes which can be explicitly justified as promoting higher quality products and more sustainable production systems;
- the forage maize premium should be abolished, because it has encouraged intensive cultivation of maize under unsuitable conditions and disadvantaged traditional methods of keeping livestock;
- regulations should be modified, where necessary, to prevent farmers losing income as a result of preserving landscape features within the area they are farming.

118. Under the first pillar Member States are at present required to take the measures they consider appropriate to protect the environment, in the light of the situation of the agricultural land or production concerned and the potential environmental effect. Measures for that purpose may take the form of support in return for agri-environmental commitments, general mandatory requirements, or specific environmental requirements as conditions for direct payments.

119. These safeguards must be considerably strengthened, and not left to the discretion of Member States. We **recommend** that all farmers receiving support under the first pillar

should in future be required to achieve a basic standard of environmental protection. This standard can be specified by using the concepts of 'good farming practice' and 'minimum environmental, hygiene and welfare standards', which are already used in attaching conditions to certain forms of support under the Rural Development Regulation. The standard required should be common across Europe, but leave enough flexibility to accommodate the different circumstances in different regions.

120. Under the second pillar we **recommend** that:

- support should be given only in cases which meet social and environmental criteria, which should be set out in the relevant rural development programme;
- those environmental criteria, and the detailed content of agri-environmental schemes, should be aligned directly with targets in the EU Biodiversity Action Plan and make specific contributions to implementing the EU nature conservation network Natura 2000 (paragraph 8);
- marginal areas where there is a danger of agriculture being abandoned (for example because of desertification) should be regarded as particularly meriting support;
- grants available to land managers for agri-environmental schemes should reflect the full cost of providing the benefits obtained, including the amount of additional work required for a particular benefit and any other income lost as a result;
- support should be made available under the Rural Development Regulation for extension and advisory services. These would have the aims of attracting new people to enter agriculture and encouraging existing farmers to adopt more sustainable methods and carry out agri-environmental measures more effectively.

121. There should be an increasingly strong focus on using the second pillar of the CAP in the ways best calculated to achieve the wider purposes of rural development. We **recommend** that:

- the European Commission should take all necessary steps to ensure the most effective use is made of the combined resources available from the Rural Development Regulation and the Structural Funds. This will be of particular importance as the support available to the present Member States from the Structural Funds declines;
- for this purpose the Commission should study the creative approaches now being adopted in some Member States;
- Member States should in future be permitted to use the money made available through modulation on any purpose eligible for EAGGF Guarantee funding under the Rural Development Regulation;
- as well as initiating new schemes and agreements, Member States should also be permitted in future to use money made available through modulation to ensure the continuance of existing schemes and agreements;
- more emphasis should be placed on the concerted use of the second pillar of the CAP and other available funds to stimulate activities which strengthen the economies of rural areas by directly complementing agriculture and forestry. Examples of such activities are environmentally friendly forms of tourism and the local manufacture of food and other products, especially by co-operatives of farmers.

122. Strong emphasis should also be given to promoting *organic agriculture* on a co-ordinated basis across Europe. We **recommend** that definitions of organic agriculture and arrangements for certification and labelling should be harmonised across the EU; and that, for a transitional period, more generous financial assistance should be given to organic farmers. The European Action Plan envisaged in the Copenhagen Declaration of May 2002 should be adopted and implemented. We **recommend** that efforts should also be made to

promote widespread use of other agricultural methods which are less damaging to the environment, such as *integrated crop management* and *minimum tillage*.

123. It has already been announced that from 2006 onwards Member States will have to prepare a strategic environmental assessment for schemes funded under the second pillar. It would be desirable to bring forward that date. In any event, individual projects put forward in the intervening period should be required to meet environmental criteria, especially in relation to their effects on water and soil. The need to apply such criteria has become particularly apparent in some Member States in the case of agricultural investment aids under Article 4; they ought to be applied to all types of project.

THE LONGER TERM

124. The recommendations above relate to modifications to the CAP which are immediately necessary. It is also crucial to use the opportunity presented by the Mid-Term Review to lay firm foundations for more fundamental changes to be introduced from 2007 onwards. We **recommend** that a commitment should be made now to replace the CAP and other EU rural programmes by an integrated policy to achieve sustainable development in rural areas. That means both pillars of the CAP would disappear in their present form. However, agriculture would remain central to the sustainability of rural areas. Support to farmers would in future represent payments for the public goods and services which sustainable agriculture delivers to society.

125. Individual measures under either the first or the second pillar of the CAP could be retained as part of the integrated policy if they can be shown to be the most practicable way of protecting or improving the environment, or otherwise contributing to sustainable development. This might apply, in particular, to agri-environmental schemes with clear and specific environmental objectives. As we have emphasised however (paragraph 104), payments to EU farmers on condition only that they comply with the law and good farming practice will remain justifiable only so long as such practice is not followed in other parts of the world.

126. We **recommend** that the definitions and conventions used by statisticians in preparing national accounts should be modified to reflect the multifunctional character of agriculture: as well as the value of agricultural products, calculations of gross domestic product (GDP) ought to include the value of the public goods and services agriculture provides. We **recommend** that a corresponding change should also be made in the way OECD defines government support for agriculture (paragraph 45). From the wider viewpoint of sustainable development it is also desirable that national accounts should be extended to include national stocks of natural resources (including water and soil) and changes in those stocks over time.

127. Another form of action we **recommend** should be taken immediately is the promotion of a wide range of experimental and pilot projects and other measures to gather knowledge and experience. The conclusions drawn from this work will provide an essential input to the detailed design of new policies. In particular, there needs to be an intensive and critical review of the most effective ways of supporting sustainable livestock farming in rural Europe.

128. In designing a radically new system a key objective should be to make it considerably simpler than the present system in order to reduce significantly the bureaucratic burden on farmers and agencies and the proportion of available resources taken up in administrative costs. It is essential, however, that measures to achieve administrative simplicity should not take forms which remove effective safeguards against environmental damage.

129. To facilitate the transition to an integrated rural development policy, agreement should be reached on a further phased transfer of resources from the first to the second pillar of the CAP between now and 2006, over and above the transfer that will result from making modulation compulsory (paragraph 112).

TECHNOLOGICAL INNOVATION

130. Technological developments, especially genetic modifications, could have major implications for the future of agriculture in Europe. European Environmental Advisory Councils have previously set out certain principles for regulating the risks posed by genetically modified organisms (GMOs), and placed particular emphasis on the 'precautionary principle'.[10] Those principles have still not yet been fulfilled to a sufficient degree in the procedures for risk assessment agreed at EU level.

131. The social and environmental implications of significant technological developments ought to be identified and openly discussed from the earliest stages. We **recommend** that a co-ordinated series of 'citizens' conferences' [11] should be held in each European country to inform decisions at national and European levels about what agricultural research should be carried out and the desirable directions for technological progress.

132. The environmental, economic and social implications of GMO products must be carefully assessed before approval is given for their commercialisation. Approval should not be given if their commercial use would disturb organic farming, pose a threat to significant plant varieties (local varieties, ancient varieties or conservation varieties) or create a hazard to human health or the natural environment.

133. Farmers must continue to have the right to produce and use their own seeds, and must not be prevented from doing so by the patenting of living organisms.

134. Research and development in agricultural technology, including machinery, has been concentrated on large-scale, intensive agriculture. As a result, the technology available for small-scale mixed farming has lagged behind, or is at present unreasonably expensive in relation to the value of the output obtainable. We **recommend** that support should be given for the development of appropriate technology for small farms in less favoured areas, especially mountainous areas.

THE ACCESSION TREATIES

135. It is clearly undesirable that the agreements now being negotiated should extend to countries joining the EU those existing features of the CAP which are unsatisfactory, and which we have recommended should be modified or abolished. Instead, all those involved in the negotiations ought to make full use of this unique opportunity to progress towards sustainable agricultural policies for central and eastern Europe. Sustainable policies must recognise the multifunctional character of agriculture, contribute to the integrated development of rural areas, and take into account the differences in circumstances between and within individual countries.

136. If support corresponding to the first pillar of the CAP is extended to accession countries, it must incorporate effective safeguards for the environment, even if such safeguards have not

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[10] EEAC. *Greening Sustainable Development Strategies.* February 2001. See paragraph 83.f

[11] The participants in a 'citizens' conference' are ordinary people selected by an independent panel and given training. They select experts representing a full range of viewpoints on the subject under discussion and pose questions to them. They then produce a report.

been present hitherto in the case of existing Member States. Thus, if agreement is reached that farmers in a new Member State should receive direct payments, or if any other form of commodity regime is applied, all farmers receiving such support should be required to achieve a basic standard of environmental protection, defined in terms of 'good farming practice' and 'minimum environmental, hygiene and welfare standards' (see paragraph 119 above).

137. Similarly, support should be provided for rural development only in cases which meet previously specified social and environmental criteria; and the environmental criteria should be linked directly to policy targets for biological diversity and conservation of habitats (paragraphs 8 and 119).

138. Over and above safeguards to prevent further environmental damage, special agri-environmental programmes will be needed in accession countries to bring about improvements in the present situation, for example by countering undergrazing of pastures or returning flood plains from arable crops to multifunctional management. Special programmes should also be introduced for a limited period of time in areas in which agriculture was not modernised under the Communist regimes. These are still characterised by small-scale mixed farms, and have a biological diversity which it is very desirable to conserve. The objective of these latter programmes should be to enable work on the existing small farms to be mechanised as soon as possible, so that farmers can continue to use extensive methods but also have time to increase their income from new sources of employment outside agriculture established as part of integrated rural development programmes.

139. In the financing of agricultural policy measures in new Member States it is desirable that:

- the new Member State should be required to fund a standard proportion of all such expenditure, irrespective of whether it corresponds to the first or second pillars of the CAP. This will ensure there is local ownership of programmes and a sense of realism in bids for EU funding;
- for the special programmes for unmodernised areas envisaged in paragraph 137 the proportion of the cost funded by the Member State might be as low as 5-10%;
- in order to maintain social balance and the viability of small farms, payments made to farmers should reflect the salary levels prevalent in other sectors of the local economy.

140. Some accession countries have stricter controls on pesticides than apply in the EU. They should be allowed to retain these after joining the EU.

THE WORLD TRADE ORGANIZATION

141. The current negotiations within the World Trade Organization (WTO) represent a strong additional pressure to decouple agricultural support from the volume of production and eliminate some of the features of the CAP which have been most damaging to the environment (paragraphs 46, 50-51). They provide an incentive to categorise as much as possible of the support received by agriculture as environmental in nature or promoting rural development. We strongly support a genuine shift in expenditure towards these purposes, but we should deprecate any attempt to use the environment or rural development as pretexts for continuing with programmes of expenditure which do not genuinely contribute to sustainable development. Such attempts could be seriously damaging if they were to undermine the case for international recognition that agriculture ought to be multifunctional.

142. As we pointed out earlier (paragraphs 47-48), free trade could have damaging consequences for the environment, for rural areas of Europe and for the sustainable growth of the

agricultural industries in developing countries. To avoid the risk of such damage we believe it is essential that safeguards are put in place.

143. For rural areas of Europe the kinds of safeguard required are:

- an accepted definition of multifunctionality which will allow all the forms of long-term support advocated in this report to be placed incontrovertibly in the green box (paragraph 44);
- a mechanism to prevent agricultural production in Europe from being displaced by production in countries in which agriculture imposes larger costs on the environment. This might take the form of confining free access to other countries' markets under WTO to countries which comply with relevant 'multilateral environmental agreements', including in particular the Desertification Convention and the agricultural strand of the Convention on Biological Diversity;
- (more far-reaching) mandatory international standards for good farming practice;
- (as an alternative to putting faith in international environmental agreements or standards) an exemption in the case of agricultural imports from the rule under the General Agreement on Tariffs and Trade (GATT) which forbids importing countries from discriminating between 'like products' on the basis of the methods used to produce and process them;
- acceptance of the 'precautionary principle' as a legitimate basis for restricting imports, for example of GMOs.

On the other hand, the EU should not expend effort and negotiating capital in attempting to cling on to those features of the CAP which, apart from other considerations, are damaging to the European environment.

144. To protect developing countries the EU should seek the following additional safeguards:

- a right for regional groupings of developing countries to maintain tariff walls for agricultural products, so that they can develop trade between themselves without unfair competition from subsidised imports from other sources;
- a right for the EU, in giving access to its market, to differentiate between developing countries in order to obtain the greatest effect in reducing poverty and establishing sustainable indigenous agricultural industries.

These safeguards for developing countries can be regarded as refinements of the principle of 'special and differential treatment' for developing countries as a group, already firmly established in WTO.

145. If the safeguards outlined above turn out not to be permissible under the present WTO rules, we **recommend** that the EU should press strongly for appropriate modifications to those rules before agreeing to any new measures to liberalise trade in agricultural products.

Part V

THE WAY FORWARD: SOME SCHEMES ALREADY ADOPTED

146. Much effort has been devoted across Europe to devising approaches to agriculture in which environmental and social considerations can be fully integrated. In this final part of the report we describe some schemes already adopted in Member States which we believe point the way in which agricultural policies in Europe must now develop.

147. There is not space to cover here all the innovative thinking taking place, nor the whole range of agricultural situations that exist in the present EU, still less the range of situations that will exist after enlargement. As we have emphasised (principle 9, paragraph 90), the approach which represents the most sustainable solution in any given situation will have to be identified and elaborated at a relatively local level. Most of the schemes described here are too recent for an evaluation to have been made of how successful they are. These examples are nevertheless valuable in illustrating how the general principles set out in part III of this report can be applied.

148. To simplify the exposition, the schemes described are referenced to individual principles. In practice, of course, any scheme ought to have regard to all ten principles. Most of these schemes could have been used to highlight several principles.

149. We have not given specific examples here of the application of principles 3 and 5 because those principles will have to be implemented primarily (though not exclusively) through instruments other than agricultural or rural development policies.

Principle 1 Conserving natural resources

I. FRANCE: *Contrat territorial d'exploitation* to promote multifunctionality

The 'land management contract' or 'farm territorial contract' (CTE, *contrat territorial d'exploitation*) is the main tool to promote multifunctional agriculture in France, under the terms of the Agriculture Act of 1999.

The CAP has generally led farmers to make decisions on purely economic criteria at the expense of agronomic and environmental considerations. Increasing production and competitiveness have been the main criteria. There have been damaging consequences for the environment. Subsidies have encouraged irrigation and increased use of water. Crop rotations have been shortened or sometimes abandoned. Such practices have led to technical difficulties: for example, growing spring oilseed rape is becoming very difficult because insects have become resistant to chemicals.

The National Programme for Rural Development (PDRN) seeks to promote the more harmonious development of rural areas through sustainable management and a more balanced division of

activities and to strengthen the multiple functions of agriculture and forestry: production, job creation, maintenance of the countryside and environmental protection. The total cost of the programme is €12,849 million, to which the EU contributes €4995 million; half the cost of CTEs is met by the EU under the second pillar of the CAP.

A CTE lasts for five years and defines objectives and commitments in technical and financial terms for an individual agricultural holding. It is negotiated at local level, between the farmer and the local representative of the Agriculture Ministry (*Direction départementale de l'agriculture*); there is no obligation on a farmer to sign such a contract. The initial target was to have 205,000 contracts in place by 2006.

A CTE is in two parts: socio-economic and environmental/territorial. The socio-economic component can cover investments (including those undertaken to improve animal welfare), assistance for early retirement (in order to make holdings available for new entrants), reforestation of agricultural land, investments in forestry, commercialisation of high-quality agricultural products (including quality control), or diversification into non-agricultural activities.

The environmental and territorial component can cover water resources management; protection of soils, biological diversity and landscapes; protection and conservation of rural heritage; measures against fires on rural land (such as fences); and promotion of practices using less fertilizer and pesticides.

The farmer commits himself to economic, social and environmental objectives according to given criteria (such as employment provided, reduction of pollution, protection of biological diversity, promotion of environmentally friendly practices, diversification). In return for the services he will be providing, the state gives financial support, either for investment or for recurrent costs. The amount of financial support given is determined case by case on the basis of the initial situation and the farmer's proposals; in principle, it is linked to the loss of income resulting from the new environmental services the farmer is providing. The investment element cannot exceed €15,245 per holding.

II. FINLAND: Agri-environmental programme

About 90% of Finnish farmers, accounting for 96% of the agricultural area, have voluntarily joined the agri-environmental programme. Its primary objective is to reduce the load agriculture places on the environment (especially surface and ground waters and the atmosphere) by making more efficient use of nutrients and reducing the risks from pesticides. Other objectives are to safeguard biological diversity and animal and plant species, to manage the rural landscape, to increase the amount of organic matter in the soil, and to maintain or improve the productive capacity of the land.

There are three elements in the agri-environmental programme: basic measures, additional measures and voluntary special measures. Basic measures are designed to be implemented as extensively as possible under varying conditions in all parts of Finland. Additional measures take into account the particular circumstances of different kinds of farm. Both additional and special measures take into account regional differences in conditions. This structure enables the programme to meet the requirements of individual farms, so that the environment can be protected and enhanced in an optimal way.

The basic measures in the programme cover environmental planning and monitoring, basic levels of fertiliser, plant protection, provision of headlands and buffer strips, and increasing biological diversity. A farmer joining the programme can also choose one additional measure from the following list: more precise application of fertiliser, plant cover in winter and reduced tillage, reducing ammonia emissions from manure, improved use of nutrients in manure, and improving animal welfare. The voluntary special measures cover organic farming, efficient use of manure, arable farming in groundwater areas, management of riparian zones, creation of sedimentation ponds and wetlands, maintaining traditional biotopes, management of landscape, raising local breeds, and cultivating local crops.

In addition to the schemes in France and Finland described above, agri-environmental schemes in other Member States include conservation of natural resources among their purposes, for example the Austrian scheme described below under principle 10.

Principles 2 and 4 Producing food and non-food crops sustainably to meet local and European needs, while also fulfilling obligations to the rest of the world

Maintaining viable rural communities with continuing links to the land

DENMARK: Höje Tastrup's plan for self-sufficiency in food

In Höje Tastrup (population 45,000), to the west of Copenhagen in Denmark, the Environment and Energy Centre has drawn up a plan to make the region self-sufficient in food. The advantages of self-sufficiency are seen as less use of transport, more security against shortages, greater knowledge by consumers about food quality, enhanced biological diversity and a stronger sense of community.

By the year 2005 the plan aims to:

- double the proportion of garden owners who grow their own vegetables
- triple the number of allotments
- increase the number of households owning hens from 5% to 25%
- increase production of honey
- strengthen links with nearby farms
- increase the number of schools and kindergartens which have their own vegetable gardens
- make juices from local fruit, rather than leaving half of it to rot on the ground
- install more toilets of a design which enables urine to be used as fertiliser.

One feature of the plan is that families should enter into contracts to obtain some kinds of food from local farmers. There are already two 'grazing companies' which look after animals purchased by local families to provide themselves with veal and mutton; and there may be scope for one or two more. By utilising this and other types of arrangement, the plan hopes to raise the number of families partly covering their need for meat locally from about 80 today to 400 by 2005. In the case of vegetables, the idea (following models which already exist in Britain) is that a co-operative of families will employ a farmer to grow ordinary vegetables on his own farm and deliver them weekly.

Volunteers will arrange a weekly market in summer at which local people can sell vegetables and other food they have produced. They will also run a 'Globe Shop' which will:

- sell products, other than food, from the Third World
- co-ordinate and facilitate self-help groups
- arrange training in such activities as composting and bee-keeping
- arrange summer holidays in Denmark for people from Latvia, on condition they spend half of each day picking berries,
- provide information about practical examples of moves towards self-sufficiency in rural areas of the Third World.

Principle 6 Ensuring environmental benefits by giving farmers and other land managers fair rewards for supplying such benefits

I. GERMANY: Agri-environmental scheme MEKA II

Some agri-environmental schemes are already being used to achieve precisely specified environmental benefits. Under the MEKA II scheme covering the period 2000-06 in Baden-Württemberg (Germany) farmers who control the stocking level, follow good farming practice and balance the supply of nutrients can receive payments determined by their points score: €1 for each 10 points up to a maximum of 4000 points. Points are allocated for additional actions taken by farmers, but also for results achieved, in particular the number of plant species (out of a catalogue of 28) found growing on pasture.

II. ENGLAND: Countryside Stewardship Scheme

The Countryside Stewardship Scheme in England (United Kingdom) makes payments to farmers for providing specific benefits. There is a standard list of such benefits, but payments can also be made for special projects. An example of successful use of this scheme to safeguard biological diversity is the recovery in the population of the Cirl Bunting, a small songbird which is a priority species under the UK Biodiversity Action Plan. In 1989 there were only 118 pairs left, almost all in one narrow strip on the coast. English Nature collaborated with the Royal Society for the Protection of Birds (a voluntary body) to identify and supply the particular conditions this species requires, and by 1998 there were about 450 pairs. Farmers entered into agreements with the Agriculture Ministry under the Countryside Stewardship Scheme to leave fields covered with stubble and weeds during winter (to provide food for adult birds), while other conditions were fulfilled through use of the set-aside scheme. Between 1992 and 1998 bird numbers increased by four-fifths in 2-kilometre squares in which there were such agreements, but scarcely changed in adjacent areas.

Principle 7 Encouraging the development and widespread adoption of innovative, less damaging forms of land management

NETHERLANDS: Countryside management coalitions

Countryside management coalitions in the Netherlands motivate farmers and growers to achieve higher standards and allow them to choose their own path for doing so. This is an initiative by the regional farming association in the south of the Netherlands (LLTB) in response to consumer demands for high standards in terms of quality of product, production processes and the environment.

The scheme differentiates between nine producer groups (four types of animal farming, arable farming, horticulture, glasshouse market gardeners, fruit-, mushroom- and tree-production). The participating farmers can choose to adopt higher environmental standards according to one or more different modules (water and erosion, nature and landscape, environment, production process, entrepreneurship, animal welfare, food safety, marketing and commercial aspects, broadening functions). These modules are developed by expert groups and translated into manuals for the different producer groups, containing criteria and measures to take. Existing quality

marks and certification procedures (for example,. Eurep-GAP and HACCP) have been integrated into this scheme, and the scheme keeps in step with changes in EU regulations. Control and sanction procedures are developed alongside the criteria and measures. The scheme is part of a managerial system that guarantees optimal implementation: responsibilities and organisational questions are integrated into the system.

The basic concept of this scheme is that of a licence to produce. Its objective is a licence to sell. It is intended to be a practical instrument that accords with environmental and consumer demands. It is at the core of a shift towards multifunctionality and rural development. The export-oriented Dutch farmers are attracted to this scheme because of its international and integral character.

Principle 8 Protecting and restoring diversity in land use within local areas in order to enhance amenity and biological diversity

I. HUNGARY: Scheme for the Tisza valley

In Hungary a scheme in the valley of the Tisza, the country's largest river after the Danube, aims to restore diversity of land use over a wide area and thereby achieve a better management of natural resources. Until the 19th century the river had extensive flood plains, which were managed in a multifunctional way. These were then drained, and the river embanked, and most of the land converted to growing arable crops. Large-scale flooding in recent years has indicated this will not be a sustainable use of the land. Moreover, lack of the silt deposited by floods causes a significant long-term decline in the fertility of the land. Plans have been made to restore much of the original flood plain to its original purpose, and use it for pasture or forest. But success will depend on the availability of funding to compensate land owners for the change.

II. WALES: *Tir Gofal*

Tir Gofal ('land in care'), the agri-environmental scheme for Wales (United Kingdom), is voluntary and covers the whole country. Farmers apply to enter into ten-year agreements covering the whole of their farm. They must meet requirements in relation to environmental care of the whole farm and management of any existing semi-natural habitats, and they can also select from a range of voluntary options for the restoration or creation of habitats or features which will improve biological diversity, landscape or public access. The options available include planting new woodland, re-establishing arable cropping in grassland areas, creating wildlife corridors along streams and raising water levels in pastures. Funding is also given for providing new public access to farmland and establishing educational facilities.

Principle 9 Achieving the best local solutions for land management in an increasingly diverse Europe

NETHERLANDS: Environmental co-operatives

Over the last 10 years the Netherlands has seen the emergence of a new form of local self-regulation, 'environmental co-operatives'. Currently there are at least a hundred new local farmers' associations all over the country, each trying to find new ways to articulate and combine new interests and prospects on a local level. The reason for this development was a stagnation in the realisation of environmental goals set by the government and the need to broaden the production function to include rural development at the farm level. Groups of farmers are

prepared to accept the goals formulated at European and national level, but find that the very regulation elaborated in order to achieve these goals is, in their situation, one of the major obstacles to doing so. Consequently they ask for more room for manoeuvre so that they can identify the most appropriate means for reaching those goals. By adopting more appropriate means the goals can be reached more quickly, more efficiently and quite often more cheaply than would be the case with the legally prescribed means.

Moreover, it is argued that, by taking as the starting-point the specificity of the local situation, local resources and local organisational capacities, and by allowing full scope for local innovativeness, it may be possible to overcome potential contradictions between different environmental objectives (for example, between objectives for landscape, nature conservation and reduction of emissions).

Principle 10 Ensuring there are effective institutions at local and other levels which reflect the multiple functions of land management

AUSTRIA: Agri-environmental programme ÖPUL

In Austria environmental objectives are a much more important feature of current support to agriculture than in any other EU Member State: 65% of expenditure is under the second pillar, compared to the EU average of 15%. The agri-environmental programme, ÖPUL, has been built on strong foundations which existed prior to Austrian entry to the EU, and is the most important measure in the national Rural Development Plan. It cost €582 million in 2001, and applied to 70% of agricultural enterprises and 85% of the utilised agricultural area.

The objectives of the programme are:

- introduction or maintenance of production methods (for example,. organic farming) which are compatible with protecting and improving the environment, landscape, natural resources, soil and genetic diversity, to the benefit of society as a whole;
- promotion of environmentally benign agriculture and low-intensity grassland farming;
- maintaining particularly valuable landscapes which are used for agriculture and would otherwise be in danger;
- maintaining the landscape and its historical features in agricultural areas;
- promoting and integrating environmental planning in agricultural practice;
- securing an appropriate income for farmers, and contributing to an ecological balance and to the realisation of agricultural and agri-environmental policies at national and EU levels.

All farmers in Austria are eligible for the programme, provided they agree to comply with good farming practice. They receive a basic payment and can apply to enter all or part of their holding into one or more of a large number of schemes defined at national, provincial, regional or project level. The minimum period for participation is 5 years, and for some nature conservation schemes 10 or 20 years. Processing of applications is undertaken by a trust, Agrarmarkt Austria, which is a state-private partnership. The Chambers of Agriculture and the Offices of the Provincial Governments are closely involved, the latter particularly in nature conservation measures.

In order to match specific needs more closely, there are supplementary local programmes at the level of the provinces. For particular aspects of the landscape to be preserved effectively, it is often essential that a number of neighbouring farmers all co-operate. Under a regional scheme in Lower Austria payments are made to farmers based on the number of points each scores (*eco-points*); but no farmer is eligible for payment unless all the farmers within the relevant area have agreed to participate.

ANNEX:
SOURCES FOR THIS REPORT

This report draws on contributions from a number of advisory councils. It has also drawn on:

– a paper prepared for the Centre for European Policy Studies in Brussels by Professor J. Swinnen, a Belgian economist who is a member of the Dutch Council for the Rural Area

– a recently published book, *The WTO, agriculture and sustainable development*, edited by Heinrich Wohlmeyer and Theodor Quendler of the Austrian Association for Agricultural Research (Sheffield UK, Greenleaf Publishing, ISBN 1 874819 45 4).

– studies carried out for the Land Use Policy Group, a consortium of statutory conservation, countryside and environment agencies s in the UK, which can be found at www.lupg.org.uk

As part of their ongoing work, individual councils within the EEAC network have carried out many studies leading to the provision of important advice on issues relating to agriculture and rural development. Some examples are listed below.

AUSTRIA

Österreichische Vereinigung für Agrar-, Lebens- und Umweltwissenschaften (ÖVAF) / Austrian Association for Agricultural, Life Science and Environmental Research

Impact of globalisation and agro-industry on the evolution of agricultural policies, practices and production system. By Wohlmeyer, H. and O. Schütz (2001); presented at the "Pan-European Conference on Agriculture and Biodiversity: towards integrating biological and landscape diversity for sustainable agriculture in Europe"; Paris, 5-7 June 2002 [UNEP, STRA-CO/AGRI (2001) 4]

SUSTALP 2000: Evaluation of Instruments of the European Union regarding their Contribution to Sustainable Environment and Agriculture in the Alps (Final Report 2000, by a Consortium: Austrian Association for Agricultural Research, OeVAF, Austria; RaumUmwelt Broggi Mattanovich Planungs GmbH, Austria; Accademia Europea per la ricerca applicata ed il perfezionamento professionale Area "Ambiente Alpino", Italy; Alpenforschungsinstitut Gemn GmbH, Germany; Universität Augsburg, Germany). Financed by: European Commission, DG XII, EU Environment and Climate RTD Programme, Project No. ENV4.CT97-0442 [http://www.eurac.edu/SUSTALP]

Entwicklung eines Evaluationsinstrumentariums für Agrarpolitische Maßnahmen auf regionaler Ebene [Development of an Evaluation Instrument for Agricultural Policy Measures on a Regional Level with Special Consideration of Regional Sustainability]. By Schuetz, O., Schuh, B. and Weiss, F. Paper submitted at Vienna SEE conference 2000

FRANCE

Commission française du développement durable / French Commission for Sustainable Development (CFDD)

Opinion 2000-01 (March 2000) on the precautionary principle

Opinion 2000-02 (July 2000) on genetically modified organisms (GMOs)

Opinion 2000-04 (December 2000) on the patentability of living organisms

Opinion 2001-06 (November 2001) on the purpose of agriculture

Report of the national debate on field trials of GMO s (February 2002)

GERMANY

Der Rat von Sachverständigen für Umweltfragen / German Council of Environmental Advisors (SRU)

Umweltgutachten 2002. Für eine neue Vorreiterrolle. [Environmental Report 2002. For a new leading role.] Stuttgart, Metzel-Poeschel.

Section 3.2.5 (pages 312–332) deals with agriculture and fisheries policy.

An English summary of the report is available at www.umweltrat.de

Für eine Stärkung und Neuorientierung des Naturschutzes. [For strengthening and reorienting nature protection.] Special Report. To be published by Metzel-Poeschel, Stuttgart.

Section 5.1.3 deals with the support of nature protection by agri-environmental measures.

A German summary is at: www.umweltrat.de An English summary is in preparation.

NETHERLANDS

Raad voor het Landelijk Gebied / Council for the Rural Area (RLG)

European integration and regional diversity: a challenge for the Dutch Ministry of Agriculture. Publication RLG 00/1a. 2001.

Before it is too late ... Advice on the future of livestock farming in the Netherlands. Publication RLG 01/6a. 2001.

Voorkomen is beter ... Advies over soortenbescherming en economische ontwikkeling. [Advisory report on conservation of species and economic development.] Publication RLG 02/5. 2002. English summary in preparation.

Groene diensten: van ondersteunen naar ondernemen. Advies over groene diensten in het landelijk gebied. [Advisory report on green services in the rural area.] Publication RLG 02/07. 2002. English summary in preparation.

UNITED KINGDOM

The Great Britain statutory conservation, countryside and environment agencies (jointly)

Position statement on agriculture, international trade rules and the environment. April 2002.

Royal Commission on Environmental Pollution

Sustainable use of soil. Nineteenth Report. London, Her Majesty's Stationery Office, Cm 3165. 1996.

Environmental planning. Twenty-third Report. London, The Stationery Office, Cm 5459. 2002.

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