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GREENING **CAP** PAYMENTS

A Missed Opportunity?

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A Missed Opportunity?

Prof. Alan Matthews[1]

Summary

The most prominent innovation in the European Commission's 2011 proposal for new regulations for the Common Agricultural Policy post-2013 was undoubtedly to earmark a proportion of direct payments as a mandatory green payment for farmers who follow a number of practices beneficial to the environment and climate. This was put forward both to address some of the pressing environmental challenges arising from farming activity across the EU as well as to justify the continuation of a large budget for agricultural policy in the parallel negotiations on the future of the EU's long-term budget. The proposal met with a frosty reception, and the amendments being considered by both the Council and Parliament suggest that, while greening Pillar 1 payments will survive as a concept, its practical environmental benefits will be negligible. This policy brief suggests some reasons for this apparent failure of the Commission's strategy and reflects on the implications for future efforts to better integrate environmental objectives into agricultural policy.

Introduction

Greening is a way of moving the Common Agricultural Policy (CAP) towards the principle of 'public money for public goods'. Looking at successive CAP reforms under Commissioners MacSharry, Fischler and Fischer-Boel[2] since 1992, it might be expected that this would occur through a further rebalancing of CAP expenditure between the two CAP Pillars. Resources would be shifted from Pillar 1 (Income Support Pillar) to rural development programmes in Pillar 2 (Rural Development Pillar), with the additional Pillar 2 resources used to encourage more environment- and climate-friendly farm practices. However, this was not the approach taken by the Commission in its proposals for further greening of the CAP post-2013 (CEC 2011a). Instead, its proposal envisages adding further conditions to the receipt of direct payments in Pillar 1.

> ...the likely outcome of the legislative process will be a serious emasculation of the original intention of the proposal and ... the additional environmental benefits from the green payments, certainly in relation to the budget spent on them, will be minimal.

This policy brief describes the background to the Commission's thinking and the mostly critical reactions to its proposal. It argues that the likely outcome of the legislative process will be a serious emasculation of the original intention of the proposal and that the additional environmental benefits from the green payments, certainly in relation to the budget spent on them, will be minimal. It reviews some reasons for the apparent failure of the Commission's strategy. In the conclusions, some reflections are offered on the route to a greener EU agricultural sector in the future.

Integrating environmental objectives into the CAP

Agriculture and forestry play a central role in managing the natural environment, for good and ill. The European countryside, so greatly valued and appreciated by so many people, has largely been created and is largely maintained by those who farm the land. Agriculture contributes to important environmental public goods such as farmland biodiversity and greater resilience to flooding, drought and fire. However, farming practices also put pressure on the environment, leading to soil erosion, water shortages and pollution, and loss of wildlife habitats and biodiversity. Agriculture also contributes to greenhouse gas emissions while facing new production challenges as a result of ongoing climate change.

There has been progress in limiting agriculture's negative impacts on the environment as well as encouraging more environmentally-friendly agricultural practices on a proportion of European farmland (EEA 2010). Emissions of nitrogen and phosphorous into waterways as well as greenhouse gases have been falling. However, successive investigations of the state of the European environment show that we are not yet in a sustainable position. The EU has set ambitious targets for further environmental improvement in connection with water, soils, air, climate and biodiversity (CEC 2011a, Annex 2A; EEA 2010).

Improving the environmental management of Europe's farmland in the past has occurred as a result both of environmental legislation and by incorporating environmental objectives into the CAP (see Figure 1). Environmental legislation has regulated the more harmful farm practices (e.g. slurry spreading under the Nitrates Directive) as well as designating areas and habitats with high environmental value where farming practices may be limited in return for compensation (Jack 2009).

1 Alan Matthews is Professor Emeritus of European Agricultural Policy at Trinity College Dublin.

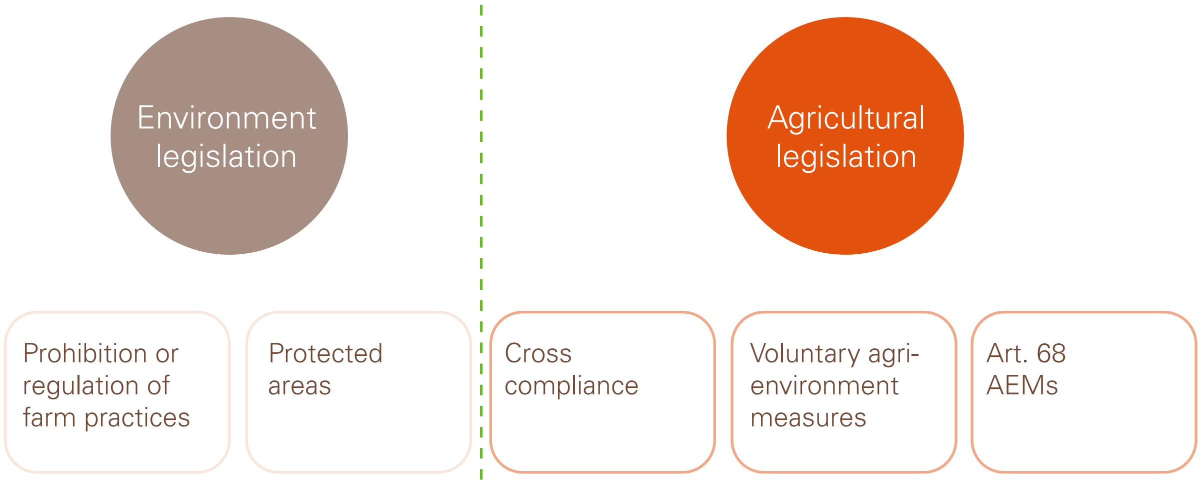
2 Ray MacSharry served as European Commissioners for Agriculture and Rural Development 1989-1993; Franz Fischler 1995-2004; Mariann Fischer Boel 2004-2009.

Environmental objectives have been integrated into the CAP through extending cross-compliance conditions to direct payments in Pillar 1 as well as through funding voluntary agri-environment measures (AEMs) in Pillar 2. For farmers to receive the Single Farm Payment, they have to comply with nineteen Statutory Management Requirements (SMRs) – five of which are environmental – and with a number of standards to ensure the 'good agricultural and environmental condition' (GAEC) of agricultural land. The SMRs are based on pre-existing EU directives and regulations, while GAEC consists of eleven standards relating to soil erosion, soil organic matter, soil structure and a minimum level of maintenance of the land. There is also an obligation on Member States to maintain the ratio of permanent pasture to the total agricultural area at either the national or regional level in view of its positive environmental effect.

The 2008 CAP Health Check extended specific support in Pillar 1 to 'specific agricultural activities entailing additional agri-environment benefits' which could compensate farmers for the additional costs actually incurred and income foregone in fulfilling environmental objectives, exactly as is the case for voluntary AEMs in Pillar 2. An important principle is that the practices covered by cross compliance form the baseline for AEM payments in Pillar 2 and farmers themselves are expected to bear the cost of compliance (but with eligibility for Pillar 1 payments in return).

Achieving future environmental targets is made even more demanding by the significant changes in global food markets in recent years. Those environmental improvements that have occurred took place during a period in which growth in EU agricultural output effectively stagnated.[3] Now, the market context for food production has changed. Projections of global food demand and prices suggest there will be strong incentives to increase production in the coming decade (OECD/FAO 2012). In the context of Europe's ongoing economic crisis, policy-makers in many EU countries are targeting increased food production and agri-food exports as a potential growth sector to help lead economic recovery. At the same time, biofuel and renewable energy targets add further to the demand for agricultural resources within the EU, increasing the competition with nature for land (Burrell 2010; DEIAGRA 2008).

Improving the environmental management of farmland



3 The gross production index number for EU27 agriculture in 1990 was 96.12, in 2010 it was 98.85 (2006=100), a growth of just 3 % in total production over a 20 year period, source FAOSTAT.

The policy context for the CAP post-2013 reform

Direct payments had been introduced as part of the CAP in the MacSharry 1992 reform as compensation for the reduction in guaranteed support prices, which at the time effectively set the floor for the market prices received by farmers. As time went by, this compensation rationale became less and less convincing; indeed, farmers in the new Member States receive direct payments even though they never experienced the reductions in guaranteed prices that occurred in the old Member States. Direct payments were also justified as providing necessary income support to farmers, although this justification is weakened by the evidence that a high proportion of the payments go to farmers whose average incomes are above those of the average taxpayer that finances these payments and some payments go to landowners whose connection with farming appears slight at best (Tangermann 2011).

> To justify retention of the CAP's budget allocation would require a new legitimacy, a new narrative around the justification for direct payments.

The Commission's Directorate-General for Agriculture and Rural Development (DG AGRI), which administers the CAP, was aware that the CAP budget would come under pressure in the negotiations on the EU's long-term budget, the Multi-annual Financial Framework (MFF), for the period 2014-2020. To justify retention of the CAP's budget allocation would require a new legitimacy, a new narrative around the justification for direct payments. Using CAP funds to promote a greener agricultural sector had the support of other powerful Commissioners (Environment, Climate Change) and fitted well with the EU's strategic priorities for a more resource-efficient Europe and a more sustainable growth strategy. The question was how best to pursue this greening objective.

Rationale for the Commission's greening proposal

The Commission began its reflections on the CAP post-2013 in its November 2010 Communication which outlined three potential directions for the CAP called the adjustment, integration and refocus scenarios, respectively (CEC 2010). This Communication contained for the first time the proposal to introduce a top-up payment in Pillar 1 as part of a greening strategy. Specifically, the Communication proposed:

Enhancement of environmental performance of the CAP through a mandatory 'greening' component of direct payments by supporting environmental measures applicable across the whole of the EU territory. Priority should be given to actions addressing both climate and environment policy goals. These could take the form of simple, generalised, non-contractual and annual environmental actions that go beyond cross compliance and are linked to agriculture (e.g. permanent pasture, green cover, crop rotation and ecological set aside). In addition, the possibility of including the requirements of current NATURA 2000 areas and enhancing certain elements of GAEC standards should be analysed.

The Communication attributed the idea of restructuring Pillar 1 payments to the European Parliament. However, the Parliament's resolution in July 2010 (based on the Lyon report) called for the vast bulk of agricultural land to be covered by agri-environment measures and for additional incentives for improved environmental management to be delivered through an enlarged Pillar 2 budget (European Parliament 2010). It mentions the idea of a top-up payment in Pillar 1 but in the context of multi-annual contracts linked to carbon reduction/ sequestration and biomass products.

However, in its resolution responding to the Communication (based on the Dess report), the Parliament accepted that '*natural resource protection should be more closely linked to the granting of direct payments and calls, therefore, for the introduction, through a greening component, of an EU-wide incentivisation scheme with the objective of ensuring farm sustainability and long-term food security through effective management of scarce resources (water, energy, soil) while reducing production costs in the long term by reducing input use*' (European Parliament 2011).

It specified that '*further greening should be pursued across Member States by means of a priority catalogue of area-based and/or farm-level measures that are 100% EU-financed; considers that any recipient of these particular payments must implement a certain number of greening measures, which should build on existing structures, chosen from a national or a regional list established by the Member State on the basis of a broader EU list, which is applicable to all types of farming; considers that examples of such measures could include: support for low carbon emissions and measures to limit or capture GHG emissions; support for low energy consumption and energy efficiency; buffer strips, field margins, presence of hedges, etc.; permanent pastures; precision farming techniques; crop rotation and crop diversity; feed efficiency plans*'. These ideas prefigure the flexibility options put forward in the debate on the Commission's legislative proposals following their publication.

The Commission's intentions were elaborated in its proposal for the next Multi-annual Financial Framework in July 2011 which called for 30% of direct support to be made conditional on 'greening' to ensure that the CAP helps the EU to deliver on its environmental and climate action objectives, beyond the cross compliance requirements of current legislation (CEC 2011b). In its legal proposals setting out proposed changes to the CAP for the post-2013 period on 12 October 2011, the greening requirements were specified to include ecological focus areas (EFAs), crop diversification and the maintenance of existing areas of permanent pasture at farm level. Participants in the proposed small farmers' scheme would be exempt and organic farmers would automatically receive the greening payment (CEC 2011a).

> 'the real novelty of the Commission's proposals was its attempt to define and fund mandatory green standards applicable across the EU which could be administered as a Pillar 1 direct payment.'

Other greening elements included in the draft regulations include changes to GAEC standards, a revamping of Pillar 2 to focus more on climate and the environment, and a more important role for the Farm Advisory Service in facilitating innovations to deliver climate change and environmental objectives. The changes to the GAEC standards were driven in part by a simplification agenda and resulted in a new framework arranged into four thematic areas and nine issues (CEC 2011c, Annex II). On the plus side, Member States are required to develop new GAEC standards for maintaining soil organic matter and protecting wetland and carbon rich soils. Requirements related to the Water Framework Directive and Sustainable Use of Pesticides Directive will become part of cross compliance once implemented by all Member States. A number of other GAEC standards are removed and participants in the small farm scheme would be exempted from cross compliance requirements. Despite the potential significance of some of these changes for environmental management, the real novelty of the Commission's proposals was its attempt to define and fund mandatory green standards applicable across the EU which could be administered as a Pillar 1 direct payment.

In its impact assessment of the proposals in the 2010 Communication, the Commission considered but rejected other approaches to greening the CAP. It raised the question whether it would not be simpler to use part of Pillar 1 funding for complying with environmental measures within rural development policy instead?

Seen from the perspective of providing choice for the farmers, it would seem preferable to envisage measures with payment levels differentiated by measures according to cost incurred and income forgone, as well as to give more discretion to Member States for their design so as to tailor them as much as possible to specific situations (CEC 2011d, Annex 2, p. 14).

Its objection to this approach was that it would give too much discretion to Member States and farmers. Even in a best case scenario, it would not link the greening requirements to Pillar 1 payments and it would not cover the entire EU territory. This would be partly because of insufficient budget resources (comparing existing premia in AEMs with the future payment levels for the greening component) as well as the varied uptake of agri-environment across Member States.

If the green practices were to become mandatory for farmers receiving direct payments, then arguably the conditions become a form of 'super cross compliance'. The Commission noted the attraction of including the greening requirements as part of GAEC standards, but it also rejected this option.

To make the greening effective, the measures in the greening component should be compulsory for the farmer, the discretion left to the Member State limited, and sanctions effective. If greening is effectively a requirement in the direct payments system, then wouldn't it be simpler to work instead on enhancing cross compliance? (CEC 2011d, Annex 2, p. 13).

It responded to this question as follows: '*Although this line of reasoning is put forth arguably on simplification grounds, it hides the complexities inherent in Member States defining and administering GAEC tailored to regional specificities. As the experience with the optional GAEC on crop rotation has shown, this approach would not necessarily ensure that the entire EU territory is effectively greened. At the same time, it would meet with considerable resistance from farmers as it would be framed as a requirement rather than an incentive, and arguably do away with the political visibility of greening direct payments that is one of the main drivers of this reform*' (CEC 2011d, Annex 2, p. 13).

It wanted a universal set of measures which would apply to all farms, it wanted to avoid giving Member States discretion, it wanted farmers to see this as an incentive rather than an imposition, but most particularly, it wanted greening to be associated with Pillar 1 payments in order to promote their legitimacy and to provide an additional justification for maintaining the Pillar 1 budget of the CAP.

These passages point to the concerns the Commission had when formulating its greening proposal. It wanted a universal set of measures which would apply to all farms, it wanted to avoid giving Member States discretion, it wanted farmers to see this as an incentive rather than an imposition, but most particularly, it wanted greening to be associated with Pillar 1 payments in order to promote their legitimacy and to provide an additional justification for maintaining the Pillar 1 budget of the CAP. The Commission's view was that these objectives could only be achieved by proposing a mandatory green payment in Pillar 1.

The gradual erosion of the Commission's proposal?

The Commission's green payment proposal gave rise to a lively and mostly critical debate (Hart and Little 2012; House of Commons 2012; Matthews 2012a; 2012b). At the time of writing (January 2013), the legislative process has not been completed. But enough is known of the positions of the legislative institutions, the Council and the Parliament, to suggest that the outcome will be much less ambitious than what the Commission proposed, which itself was strongly criticised by environmental NGOs as an inadequate response to the stressed state of Europe's natural environment (Birdlife and others 2011).[4] Some of the key changes are likely to be:

- **The conditions attached to the three greening measures proposed by the Commission (crop diversification, ecological focus areas, maintaining permanent pasture) will be relaxed or eliminated**, for example, by raising the minimum farm size threshold where the measures apply, extending the types of land uses that count towards EFAs, and possibly reducing the size of EFAs.

- **Greening will effectively be made voluntary** by limiting the penalty for non-compliance to the loss of the green payment excluding the possibility of also reducing the basic payment as proposed by the Commission. This is despite the Commission's insistence that mandatory participation in the green payment is essential if the measures are to be effective.

- **Additional 'equivalent' greening measures will be introduced in the name of flexibility.** Although flexibility in the implementation of environmental measures is often positive, it also leaves open the possibility that the equivalent measures selected may have even less impact on the environment than what was proposed by the Commission.

- **Farmers will be permitted to qualify for the green payment in Pillar 1 provided they show they are already managing land in an environmentally-responsible way** ('green by definition'), for example, through enrolment in a Pillar 2 AEM or in an environmental certification scheme. The problem with these exceptions is that there is clearly no environmental additionality. There is also the risk that farmers might be paid twice ('double funding') for the same practices both in Pillar 1 and Pillar 2.

- **It is possible that GAEC standards will be weakened.** Although the COMAGRI compromise amendments do not challenge the inclusion of the Water Framework Directive and the Sustainable Use of Pesticide Directive as part of cross compliance once the obligations relevant to farmers have been identified, the current Council position is to eliminate these provisions and to ask the Commission to bring forward relevant proposals at a later stage.

- **There will be less money for AEMs in the rural development pillar.** Not only does it appear likely that the Pillar 2 budget will be reduced relative to the Pillar 1 budget in the MFF negotiations, but flexibility will be

4 The following resumé of the state of play is based on the revised draft European Council conclusions prepared by the President of the European Council, Mr Van Rompuy for its November 2012 special meeting to discuss the next MFF (European Council 2012); the progress report by the Cyprus Presidency of the discussions on CAP reform in the Agricultural Council in December 2012 (Council of the European Union 2012), and the compromise amendments prepared by the rapporteurs and the shadow rapporteurs which will be voted on in the Parliament's Committee on Agriculture and Rural Development (COMAGRI) on 23-24 January (COMAGRI 2013).

given to Member States to shift a proportion of their Pillar 2 budgets to Pillar 1 which could further reduce the funds available for rural development. Rural development programmes are given new tasks, notably income stabilisation and risk management, which could potentially crowd out spending on AEMs. The Commission had proposed that Member States should maintain a minimum spend (25%) of their Pillar 2 budgets on agri-environment and climate measures but only in the preamble to the draft rural development regulation and not in in the regulation itself. Here there is a difference between the two legislative bodies, with the Council accepting the Commission's proposal while the COMAGRI compromise amendments make this mandatory in the regulation itself.

Neither of the two institutions (Council or Parliament) is pushing for a more ambitious greening agenda.

It must be stressed again that these are predictions based on negotiations in progress in the two legislative bodies and the final outcome could be different. However, the Commission's proposals look likely to be seriously emasculated when they eventually emerge from the legislative process. Neither of the two institutions (Council or Parliament) is pushing for a more ambitious greening agenda. We conclude that the additional environmental benefits likely to materialise as a result of adopting the new regulations for the CAP post-2013 will be very minimal, certainly in the context of the budget resources justified by this objective.

Explanations for the political response to greening

In this section, we reflect on this apparent failure of the Commission's greening strategy and the reasons for it. A mixture of strategic, technical and political economy factors appear to have played a role.

First, **farm organisations, as the main beneficiaries of direct payments under Pillar 1, are naturally its strongest defenders.** Direct payments represented on average 29% of agricultural income in the EU in the period 2007-2009 (with total subsidies coming close to 40% of agricultural income) (DG AGRI 2012). Greening would add to the costs of production although the Commission's calculations suggested that the overall impact would be slight (CEC 2011d, Annex 2D). It projected an average decrease in overall farm income per worker of between 1.4% and 3.2%. Livestock farms would be more adversely affected because of higher feed costs, while arable farms might even expect to gain because the higher market margin (due to higher market prices caused by the slight reduction in supply) would be sufficient to outweigh the costs of greening. This calculation assumes that farmers would continue to receive the same level of direct payments even in the absence of greening. If greening were the *quid pro quo* for preventing a cut in the direct payments envelope by anything more than 1-3% income reduction calculated above as the cost of greening, then arguably farmers are better off under the Commission's proposals.

Second, **the Commission's attempt to establish this *quid pro quo* and to link greening to the size of the CAP budget was never credible.** It put forward the green payment in Pillar 1 as a way to enhance the legitimacy of direct payments and to defend its proposal to maintain a constant CAP budget in nominal terms in the next MFF. The promise to green the CAP may have been necessary to gain the support of the College of Commissioners to propose the continuation of CAP funding in the Commission's MFF proposal.

By proposing greening as a way of legitimising the existing flow of untargeted Pillar 1 payments to farmers, the Commission framed the issue in a way that it was bound to lose.

The difficulty was that, once the proposal was made, there was no credible threat to reduce direct payments if the greening measures were not adopted. The two legislative bodies worked on the assumption that the budget allocation was exogenous (not necessarily given but not something which would be influenced up or down by decisions taken on greening). There was thus no counterweight to the incentives for agricultural ministers to minimise the additional 'burdens' that greening imposes on farmers. By proposing greening as a way of legitimising the existing flow of untargeted Pillar 1 payments to farmers, the Commission framed the issue in a way that it was bound to lose.

Third, **the farm organisations had a new card which they played to maximum advantage, namely, food security.** During the 'reform period' of 1992 to 2008, agricultural policy reform and the integration of environmental objectives into agricultural policy were mutually supportive. Decoupling discouraged the use of off-farm inputs, while encouraging more extensive agricultural production helped to limit the budgetary cost of over-production during this period when EU market prices were still above world market levels. But since the 2007-08 price spike and the growing realisation of the fragility of global food supplies, more emphasis is now put on the necessity for Europe to contribute to increased food production in the name of 'food security'. This argument is used particularly against the proposal to designate 7% of arable land as EFAs (which, given the existence of trees, hedgerows, field margins and awkward corners on many farms which count towards EFAs implies leaving around 3-4% of cultivated land fallow). Yet only a few years ago arable farmers had to set aside up to 10-15% of their arable land in order to be eligible for direct payments.[5] The change in the market environment explains the different perceptions of the burden of fallowing land in the two situations.

Fourth, **Member State governments were unenthusiastic about the Commission's proposal. They have no appetite to pursue further greening through Pillar 2 because of the requirement to co-finance this expenditure.** But they are concerned about greening in Pillar 1 because of the additional administrative complexity it implies, which flies in the face of the continuing demand from Member States for simplification. Member States have therefore pushed hard for flexibility and the recognition of alternative practices as being equivalent to the Commission's greening proposals. They have also supported extending automatic eligibility for the green payment ('green by definition') to other groups of farmers, e.g. those enrolled in AEMs, for the same reason. In this way, Member State interests have also contributed to the hollowing-out of the Commission's greening proposal.

Fifth, **although the European Parliament was broadly in favour of some further greening of the CAP, its preferred approach was to advocate further reliance on voluntary AEMs in Pillar 2.** It never embraced the Commission's idea of a mandatory green payment in Pillar 1 in return for higher environmental standards (a form of super cross compliance). Instead, it has sought to effectively connect Pillar 2-type AEM measures to the Commission's Pillar 1 green payment through offering a wider 'menu' approach to the practices which would determine eligibility for the payment. While many of these individual measures are worthy and desirable, it is hard to see how they belong to the broad-brush payments in Pillar 1. By pursuing this approach instead of a more principled position of transferring funds to Pillar 2, the Parliament has also helped to undermine the Commission's proposal.

Sixth, **a lack of confidence in the environmental effectiveness of the measures proposed made them difficult to defend.** Requiring every farmer throughout the EU to follow exactly the same management prescriptions, regardless of the ecological context, environmental pressures, or opportunity costs, is a highly inefficient policy approach. Environmental NGOs pointed out that requiring individual farms to maintain existing levels of permanent pasture would not necessarily help to protect species-rich semi-extensive grasslands and grasslands of high nature value. Crop diversification was seen as a second-best alternative to crop rotation. While the environmental potential of ecological focus areas was more widely recognised, particularly for bidioversity, questions were raised as to whether science supports setting aside individual parts of every farm regardless of its conservation value, or whether a more targeted approach might not be more effective (Godfray 2012). The absence of management prescriptions also reduces their likely environmental value. As the European Court of Auditors pointed out: '*…the regulation does not specify the concrete objectives, which should be achieved by the farming community in that domain, nor does it explain the impact which is expected from implementing such measures. The absence of such justification raises the questions as to the claimed aim that the policy is results oriented*' (ECA 2012, 40

Implications for the future

It may seem inopportune to discuss how future CAP reforms could better integrate environmental objectives into the CAP when the current reform is not yet completed.

> '…the apparent failure of the Commission's greening strategy suggests the need for a fundamental re-think for those seeking to orient the CAP more towards environmental objectives.'

However, the apparent failure of the Commission's greening strategy suggests the need for a fundamental re-think for those seeking to orient the CAP more towards environmental objectives. Three points seem relevant in looking to the future.

First, during past reforms of the CAP, greening Pillar 1 payments through cross compliance and promoting voluntary AEMs in Pillar 2 were seen as complementary strategies to green the CAP. In fact, they should be seen as competitive. Increasing

5 Set aside was introduced on a voluntary basis for Member States in 1988 and was made a compulsory part of the arable regime in 1992 until it was set to 0% in 2008 and eliminated the following year.

the budget for voluntary AEMs in Pillar 2 can only occur by transferring resources from Pillar 1. But the effectiveness of cross compliance in Pillar 1 depends on the level of direct payments. Strengthening voluntary AEMs in Pillar 2 can only occur at the expense of weakening the sanctions for cross compliance in Pillar 1, and vice versa. It is thus inconsistent, as many environmental NGOs do, to call both for stronger cross compliance (which could include a mandatory green payment) in Pillar 1 and for better-resourced AEMs in Pillar 2.

Second, targeted agri-environment payments linked to the provision of identifiable and specified environmental public goods are a cost-effective way to achieve environmental benefits. However, if further greening of the CAP were pursued through targeted AEMs in Pillar 2, then there is a risk that the environmental benefits achieved through cross compliance could be lost. These are mainly the GAEC standards which go beyond the environmental baseline set by legislation and incorporated in Statutory Management Requirements. Currently, GAEC standards do not apply to farmers who opt out of or otherwise do not receive direct payments. It seems necessary that, to be effective, legal force should be given to these codes of good farming practice.

Third, this suggests a need to revisit where European society wants to draw the 'environmental base' or reference level which distinguishes between those obligations which farmers are expected to carry as part of the normal practice of farming ('polluter pays principle') and those obligations which society accepts go beyond normal good farming practice and where farmers should be remunerated for the additional costs and income foregone in achieving them ('provider gets principle'). Many people assume that this is currently given by cross compliance (both statutory management requirements and GAEC standards). However, the strong political view is that direct payments are, in part, a recognition of the costs that society asks farmers to bear through cross compliance, implicitly undermining the 'polluter pays principle'. If farmers who do not receive direct payments are not expected to observe the cross compliance standards, then these do not form the environmental baseline. Whether or not this should be the case deserves wider discussion, taking into account both the impacts on environmental outcomes and the competitive position of farming.

Glossary

AEM
Agri-environmental measures (AEMs) are measures to protect and improve the environment, to maintain the countryside in good condition and to encourage extensive farming.

COMAGRI
The European Parliament Committee on Agriculture and Rural Development (COMAGRI) is responsible for examining and amending the European Commission's legislative proposals by preparing reports on agricultural policy. These may then be considered for adoption by the whole European Parliament in plenary.

CAP
The Common Agricultural Policy (CAP) is the set of legislation and practices adopted by the European Union that provide a unified policy on agriculture.

Crop Diversification
In the context of 'greening' in the proposed CAP Reforms, Crop Diversification requires that a mandatory minimum of three crops must be grown per farm. These crops should occupy a minimum of 5% up to a maximum of 70% of arable land.

Cross-Compliance
To receive direct payments and some other forms of financial support under the CAP (such as compensatory allowance and agri-environmental payments), farmers are required to respect certain rules. This requirement is known as cross-compliance.

Decoupling
Introduced by the 2003 reform of the CAP, decoupling is the removal of the link between the receipt of a direct payment and the production of a specific product. Prior to this reform, farmers received a direct payment only if they produced the specific product to which the direct payment was associated.

Dess Report
"The CAP towards 2020: meeting the food, natural resources and territorial challenges of the future" (2011), or Dess Report, is a report by the European Parliament Committee on Agriculture and Rural Development, authored by Albert Dess MEP. The Dess Report argues in favour of market orientation, promotes further decoupling and more harmonised delivery of payments. The report also advocates greening via Pillar 2 of the CAP.
http://www.europarl.europa.eu/meetdocs/2009_2014/documents/agri/pr/857/857600/857600en.pdf

DG AGRI
European Commission Directorate General for Agriculture and Rural Development

Ecological Focus Areas
Arising from the October 2011 CAP reform proposals, the Commission proposed that it should become compulsory that every farm in the European Union claiming direct payments via the Basic Payment Scheme shall have a certain share of its agricultural land (7%) composed of areas whose benefits for the environment, for the improvement of biodiversity and for the maintenance of attractive landscapes are proven (such as landscape features, buffer strips, afforested areas, etc), known as Ecological Focus Areas (EFAs)

GAEC
Good Agricultural and Environmental Conditions (GAEC) are part of the cross compliance framework. To be eligible for direct payments, farmers are obliged to maintain their land in 'good agricultural and environmental condition,' including: the protection of soil against erosion, the maintenance of soil organic matter and soil structure, and the safe-guarding of wildlife habitats. Member States decide the parameters for compliance with the GAEC, based on standards and issues defined by the EU.

Greening
Arising from the CAP reform proposals of October 2011, greening refers to the enhancement of the environmental sustainability of farming in the European Union. It is proposed that 30% of the national ceilings for direct payments is paid to farmers on the condition that they fulfil certain measures which are beneficial to the climate and the environment.

Green by Definition
In the context of 'greening', farms which follow certain approved management practices, such as organic farming, are deemed to be 'green by definition'. They would be eligible to receive the proposed green payment in Pillar 1 without having to comply with the practices otherwise required.

GHG
Greenhouse Gas

Lyon Report
"On the future of the Common Agricultural Policy after 2013" (2010), or the Lyon Report, is a report for the Committee on Agriculture and Rural Development, authored by George Lyon MEP. The report identifies the key challenge beyond 2013 as a near doubling of food demand by 2050 against a backdrop of less land, less water and major cuts in energy use because of climate change. The report proposes that direct support payments to farmers across Europe would be linked to efforts to reduce harmful emissions and encourages the development of small-scale renewables.
http://www.europarl.europa.eu/meetdocs/2009_2014/documents/agri/pr/810/810067/810067en.pdf

Multiannual Financial Framework
The Multiannual Financial Framework (MFF) is a multiannual EU spending plan for a period of seven years that translates the Union's policy priorities into financial terms. It limits European Union expenditure over a period and imposes budgetary discipline, annual 'ceilings' (maximum amounts) of commitments for the main categories of spending (or 'headings') and provides an overall payments ceiling.

Glossary

Natura 2000
This is a network of protected areas of particular ecological value based on two main EU directives: the habitats directive and the birds directive. If such a site is located on a farm, the farmer is obliged to respect certain practices so that the ecosystem is protected.

Pillar 1
Pillar 1, or 'the first pillar', relates to support for farmers' incomes. This is provided in the form of direct payments and market measures and is financed from the European Agricultural Guarantee Fund.

Pillar 2
Pillar 2, or 'the second pillar', relates to support provided for the development of rural areas. This takes the form of rural development programmes and is co-financed from the European Agricultural Fund for Rural Development.

SMR
Statutory Management Requirements (SMRs) are part of the cross compliance framework. To qualify for income support, farmers must meet a set of legislative standards on environment, food safety, animal and plant health and animal welfare.

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