

## The Common Agricultural Policy Post-2013: Could Reforms Make Baltic Sea Region Farms More Sustainable?

### Key Findings

- In the Baltic Sea Region, implementation of the European Union’s Common Agricultural Policy during the 2007-2013 period has had limited success in reducing negative environmental impacts from agriculture and enhancing the ecosystem services that farms provide. The proposed reforms to the CAP for 2014 and beyond should offer a chance to make the policy more effective at meeting the region’s needs.
- Agriculture in the BSR is very diverse, with a wide range of farm sizes and a mix of intensive and extensive farming systems. Our research suggests that this diversity should be viewed as an asset, because it provides multiple opportunities to generate ecosystem services and other public goods. Policy-makers should embrace approaches that support a more diverse agricultural sector – but this will require a more flexible CAP payment scheme than is currently envisioned.
- Our national studies found an uneven playing field in the implementation of the CAP among EU Member States in the BSR. The countries have different entitlements under the CAP, so they have different options available when using the CAP to comply with EU environmental directives. We also found a growing trend to employ CAP payments to boost national compliance, which happens at the expense of regional collective action around common water bodies such as the Baltic Sea.
- Many agri-environmental measures implemented under Pillar 2 have failed to produce the expected results, or had unexpected or unintended consequences. This is partly due to the fact that the measures, which include both technological and management interventions, were not well targeted. In most of the BSR countries, stakeholders reported a significant mismatch between the financial incentives available and the market forces they aim to influence. In general, farmers feel they are underpaid.
- There is a broad distrust of the farm payment system, among farmers and land owners as well as among civil servants, NGOs and the private sector. Other widely cited problems included the lack of measures designed for different agricultural systems and the lack of effective monitoring. Across the region, the national studies found a need for more stakeholder involvement, including the private sector and civil society, and greater cross-sectoral coordination to improve the design and implementation of measures.

The European Union’s 2008 *Green Paper on Territorial Cohesion* identifies the Baltic Sea Region as one of several large and diverse regions in Europe where policy coordination and cooperation could build territorial cohesion to foster sustainable and “harmonious” development.

Within the BSR, agriculture is both a major economic sector that has strongly shaped the landscape, and the greatest contributor to water pollution from diffuse sources, leaching nutrients into ground and surface water. Historically, each country has grappled with these issues in a different way, but there is a growing recognition that agricultural and environmental policy integration would benefit the region.

As the European Commission considers proposed reforms to the Common Agricultural Policy for 2014 and beyond, we examined the BSR countries’ experiences during the current CAP implementation period (2007-2013), with an emphasis on the BSR as a macro-region of the EU. The work was



part of Baltic COMPASS, a project funded by the EU Baltic Sea Region Programme that aims to increase the legitimacy of adaptive governance processes in integrated agri-environmental policy development and deepen that integration in the Baltic Sea Region.

Our analysis drew on national-level studies of the implementability of the CAP and its environmental boundary conditions that included extensive consultations with public officials, farmer and advisory organizations, non-governmental organizations (NGOs) and research institutes. The goal of our analysis was to show some of the opportunities and risks that country-level actors may face as they move towards regional cohesion in their national responses to the EU reform.

### Proposals for the CAP post-2013

The European Commission presented its legal proposals for the CAP post-2013 as a package of seven draft regulations issued in October 2011. The proposals draw on an analysis of three policy scenarios put forward in 2010 by the Commission to explore the range of options available in combining free-market approaches, voluntary and incentive-based measures, and regulations: adjustment, integration and refocus.

A refocus would have targeted direct payments solely on the delivery of public goods, but after a public and stakeholder consultation process, the approach chosen was integration, with a more limited reform of direct payments to farmers. The stated goal is to “better target support to certain actions, areas or beneficiaries as well as to pave the way for convergence of the level of support within and across Member States”.

The proposed new regulation would replace the Single Farm Payment Scheme (SPS) with a “basic” payment starting in 2014; in addition, farmers could earn a supplemental payment of up to 30% of the national ceiling for “following agricultural practices beneficial for the climate and the environment”, such as organic farming, crop diversification, and maintaining permanent pastures and ecological focus areas.

Like the SPS, the new basic payment would be subject to cross-compliance requirements, so farmers would have to meet EU environmental standards to qualify – and the policy explicitly aims to raise those standards. But while the reach of those requirements, under Pillar 1 of the CAP, would be greater, it is the “green payments”, under Pillar 2, that offer the greatest potential from an ecosystem services and public goods perspective.

The green payments are to be provided uniformly across each region, but the current proposals do not prescribe how those regions should be defined by Member States. This means countries should be able to tailor the payments according to territorial criteria, and create ecological focus areas that take into account regional differences in farming systems (and their socio-economic situations) and environmental and bio-physical conditions.

For best results, the creation of ecological focus areas needs to be integrated in spatially explicit approaches and strategies, linked with lower-level cross-compliance requirements and higher-level agri-environmental measures. Such concepts should also pay particular attention to group applications to generate landscape- and catchment-scale benefits for ecosystem services.

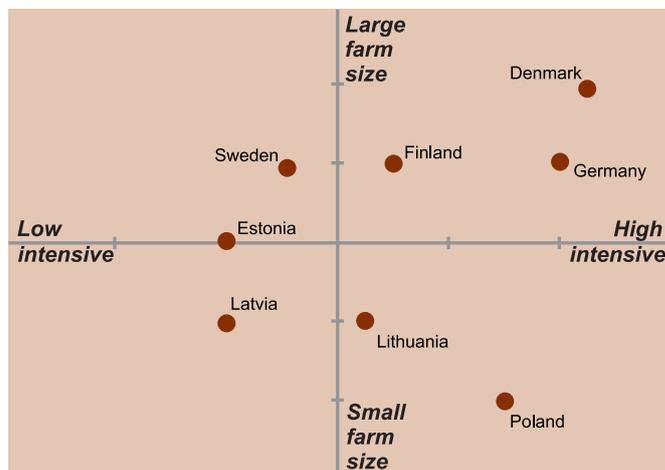


Figure 1: Intensity and farm size matrix for BSR countries

### Embracing diversity

The Baltic Sea Region is home to some 100 million people in 10 countries. Its agricultural systems are diverse and nested in different sets of ecosystems, institutional arrangements and policy environments. This diversity is partially reflected in the many distinctions made when discussing agri-environmental governance in the region: extensive vs. intensive agricultural systems, EU members vs. non-members, old vs. new EU members, Eastern vs. Western states, etc.

A look at farming systems in the BSR shows the great variability of ecosystem services under different modes of agricultural production, as shown in Figure 1. Our research suggests that the diversity of agricultural systems should be viewed as an asset, because it provides a wide range of opportunities to generate ecosystem services and other public goods. Agriculture in the BSR is at a crossroads, and the choices made for the new CAP implementation period will shape the sector’s future. Policy-makers should embrace approaches that support a more diverse agricultural sector – but this will require a more flexible payment scheme system than is currently envisioned.

### Lessons from the 2007-2013 CAP period

Our national studies found an uneven playing field in the implementation of the CAP among EU Member States in the BSR. The countries have faced many similar or related challenges in the 2007-2013 CAP period, but because they have different entitlements under the CAP, they have different options and resources available when using the CAP to comply with EU environmental directives.



COMPASS Regional flood prevention and welland meeting © Anders Pålsson, Kristianstad Municipality

We found a growing trend to employ CAP payments to boost national compliance, which happens at the expense of regional collective action around common water bodies such as the Baltic Sea. This means that the competitive nature of the national application of the CAP risks undermining the ambition of territorial regional cohesion as espoused under the Cohesion Policy.

A key challenge identified across the region was the lack of coordination between the agricultural and environmental sectors. It is also apparent that the construction and negotiation of robust and acceptable environmental boundary conditions (i.e. policy targets, regulatory requirements, etc.) is complicated by a lack of required data and information, and/or uncertainties in these data sets. This includes issues pertaining to data-sharing between riparians in transboundary catchments (between Poland and Belarus, e.g.). Altogether, this highlights how national interpretation of EU obligations is frequently made in the face of intrinsic and irreducible uncertainties, which may include disagreement on the nature of the scientific models underlying target-setting.

Many agri-environmental measures implemented under Pillar 2 have failed to produce the expected results, or had unexpected or unintended consequences. This is partly due to the fact that the measures, which include both technological and management interventions, were not well targeted. In most of the BSR countries, stakeholders reported a significant mismatch between the financial incentives available for agri-environmental measures and the operation of market forces they aim to influence.

Our research suggests that the measures have not been adapted adequately to the contexts in which they are being applied. This poor adaptation grows out a general sense that measures are based on data and models from “experts” rather than from sufficient stakeholder involvement via participatory processes. This problem is exacerbated by sectoral silos without due coordination across sectors.

The national reviews also found that many farmers contest the ways in which measures are monitored in their countries. Not only is there distrust amongst the recipients of payments (farmers, land owners), but equally a lack of confidence from civil servants, NGOs and private sector in the assumptions, indicators and calculations underlying these procedures. The lack of effective monitoring was a problem cited across the region.

### **Are farmers adequately compensated?**

One of the concerns raised in our national studies was that the agri-environmental measures do not provide sufficient compensation. Moreover, there are significant administrative hurdles and high transaction costs involved in obtaining farm payments. This may undermine the effectiveness of the measures. In Finland, for example, we found that the current agri-environmental payments have not reduced nutrient discharge from agricultural sources.

Discrepancies also exist within countries. The distribution of payments frequently benefits large-scale farming systems at the expense of small holdings, which in some countries results in a tension between entire regions (e.g. north vs. south in Sweden). Agri-environmental payments are also unevenly distributed on a spatial scale, covering only around 10% of the national utilized agricultural area (UAA) in some coun-



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tries, while in others, such as Finland and Germany, they cover around 90% and 30%, respectively.

### **Administrative hurdles**

Across the region, the national studies found that a broader stakeholder involvement, including the private sector and civil society, would improve the design and implementation of measures. The study of Germany, for example, found the current system prevents active involvement of farmers, because the defined management requirements at the national level include strict deadlines and documentation requirements, and sometimes require specific mechanization as well.

Low institutional capacity is also a significant problem that has hindered the implementation of environmental directives, in the BSR and across Europe. In fact, Member States’ record of implementing EU environmental legislation has been described as poor, at least when seen within the broader picture of the overall number of infringement procedures.

Moreover, there are inherent conflicts between the principle of national subsidiarity and the goal of transboundary collaboration. This is particularly evident in the extensive national and sub-national mandates affecting the design of rural development programmes. Those mandates reflect the underlying philosophy of agri-environmental measures – that they are meant to enable countries to meet national priorities – so it is not surprising that countries generally prioritize national targets at the expense of transboundary collaboration.

### **Conclusion**

Our research suggests that limited appreciation of regional diversity presently serves as a barrier to transboundary cooperation on agri-environmental issues in the BSR. Indeed, the data suggest that the implementation of actions to manage environmental boundary conditions at a national level can compromise the governance of boundary conditions at a BSR scale.

Differences in “compliance” with EU environmental directives across the BSR tend to be ascribed to higher or lower levels of “advancement” or capacity, but we find those differences must be seen in the context of the unequal playing field created by the EU’s CAP as an implementing instrument, which creates differentiated benefits between countries and within sub-national contexts.

The post-2013 CAP reform provides an opportunity to foster more sustainable agriculture across the EU and in the BSR in particular. We believe more can be done in the current proposals to recognize the diversity of farming systems and allow for more flexible, regionally adaptable agri-environmental measures. This will require enhanced funding and capacity-building, as well as more participatory processes that engage a wide range of stakeholders across the region.

## Policy recommendations:

- **There is a need to change how the CAP is operationalized.** We propose to promote a consolidation of Pillars 1 and 2 that treats environmental services as a core part of the value of farming. Thus environmental services would no longer be a precondition for CAP payments, but rather part of the package of benefits that those payments recognize, along with food security and rural development. This would also allow for a broader consideration of the multiple benefits that various payment approaches can support. For example, constructing wetlands not only contains nutrients, but can also increase biodiversity, protect from floods, and support ecotourism.
- **The CAP should embrace diversity in agriculture.** In order to promote sustainable agriculture that recognizes the diversity in the region, the CAP should complement the existing technical measures with a new set of “soft measures” geared to supporting the diverse needs and preferences of different actors in the system. An example of a soft measure, in line with the EU Baltic Sea Region strategy, could be to support a dialogue between riparian countries on a joint target for nutrient reduction in the Baltic Sea. Other types of soft measures would be directed to facilitate negotiations between stakeholders on needs (e.g. nutrient leakage, food security, flooding, etc.) and actions in different systems linked to different benefits.
- **The CAP should recognize stakeholders from different scales and sectors to reconcile differences and inequities and identify synergies and win-wins.** Identifying context-specific solutions requires improved capacity and opportunities for bottom-up local governance approaches. Here it is worthwhile to recall that EU policy has recently moved towards prioritizing such stakeholder-based “soft measures” to propel collective action. However, funding and human resources to support such innovations have largely been lacking. There is now be an opportunity for the EU and its Member States to provide targeted payment schemes to launch such stakeholder negotiation platforms, for instance through the rural development programmes post-2013.



Farm, Sweden © Gustaf Alstromer

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Kräftriket 2B  
106 91 Stockholm  
Sweden  
+46 8 6747070

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### Contact: Maria Osbeck

[maria.osbeck@sei-international.org](mailto:maria.osbeck@sei-international.org)

### Further Information:

SEI Director of Communications  
Robert Watt +46 73 707 8589  
[robert.watt@sei-international.org](mailto:robert.watt@sei-international.org)