POSITION PAPER

CAP post 2013

Smart change or business as usual?

High time to align the Common Agricultural Policy (CAP) with the demands for high-quality food, sustainable agriculture and a future perspective for farmers

Approved by the IFOAM EU Group on 7th May 2010
The **IFOAM EU Group** is the European working level within the International Federation of Organic Agriculture Movements. It brings together more than 300 organisations, associations and enterprises from all EU-27, EFTA and candidate countries. IFOAM’s goal is the worldwide adoption of ecologically, socially and economically sound systems that are based on the principles of Organic Agriculture.

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Position Paper: CAP post 2013

International Federation of Organic Agriculture Movements – EU Regional Group

Contents

Executive Summary ............................................................................................................. 4
1 Introduction .................................................................................................................. 6
2 Mainstreaming sustainability ....................................................................................... 7
   Organic farming as a model for sustainable Agriculture ............................................. 8
3 New objectives for a new CAP .................................................................................... 9
4 How to redesign the CAP ........................................................................................... 11
   4.1 Principles ............................................................................................................... 12
   4.2 The real value of Public Goods ............................................................................ 13
   4.3 Conditions for support ......................................................................................... 14
5 Budget ......................................................................................................................... 16
6 The Structure of the new CAP .................................................................................... 17
   6.1 Stable markets: Fair prices for fair products ....................................................... 17
   6.2 The new architecture of CAP payment schemes ................................................ 18
      6.2.1 Axis 1: Basic Farm and market support ......................................................... 20
      6.2.2 Axis 2: Innovation, Information and Investments (I&I&I) ......................... 21
      6.2.3 Axis 3: Agri-Environment measures .............................................................. 23
      6.2.4 Axis 4: Farm Diversification and Axis 5: Leader approach ........................ 24
7 Policy coherence ......................................................................................................... 25
   7.1 Green taxes .......................................................................................................... 25
   7.2 Transparent consumer relations .......................................................................... 26
   7.3 Genetically-modified crops ................................................................................ 26
   7.4 Balancing competition ......................................................................................... 27
   7.5 Infrastructures to ensure rural viability ............................................................... 27
8 Annex: Best practice examples for organic farming support ................................... 29
Executive Summary

The current term of the Common Agricultural Policy (CAP) will end with the year 2013. The new farm policy 2014 to 2020 of the European Union is under discussion now; the CAP is an instrument that is crucial to shape agriculture to meet future challenges. The period before the end of 2012 is therefore decisive to finally make the CAP a modern policy that meets the challenges that may massively impact on our future, such as climate change, the loss of biodiversity, degradation of water and soils. The CAP has to ensure the future supply of quality food through sustainable resource use. Moreover, the CAP plays a role in the socio-economic development of rural, particularly remote rural regions.

The IFOAM EU Group calls for a fundamental reform of the CAP. The currently predominant agricultural practices continue to cause environmental harm, which places a considerable economic burden on society, whereas sustainable farming practices are neither supported consequently, nor remunerated for the public goods they deliver. This market distortion has to be ended by setting an appropriate political framework aiming at redefined CAP objectives: Sustainability must be mainstreamed in the new CAP. Organic farming as comprehensive approach to meet sustainability challenges, the only one with an EU-wide regulated certification system in place, offers a model for a system of best practices.

The new CAP will be measured by citizens against the societal benefits they get for their money. Therefore, the public money that is spent within the CAP must serve public interest. Clear conditions for support must ensure that the CAP money is spent in a way that leads to sustainable, quality food supply and sustainable rural employment.

One precondition to make the CAP a strong policy instrument that meets all objectives described above is a sufficient budget; the future CAP budget should not be lower than the current budget. Besides this, a legal framework must be put in place that remunerates farmers for the public goods that they deliver. Furthermore, one legal basis for the whole CAP and a non-discriminative system regarding the co-financing of different measures should be the basis of the new CAP. A new set of strategic principles should guide the reform towards sustainability, fairness and high-quality food for all throughout all CAP measures.
New concepts of market regulation should be assessed and implemented to prevent extreme market volatility and to make sure farmers get remunerative prices for the goods they deliver. A basic payment for farms should ensure fair living standards for the agricultural community and a minimum of sustainable productivity of agricultural land; therefore, the payment will require some environmental conditions additional to the legal basis and an upper ceiling in order to support on-farm employment. The axes innovation and investment, agri-environment, diversification and LEADER approach should be maintained, but policy coherence regarding the sustainability objectives must be guaranteed in all axes. Organic farming deserves particular consideration under all measures and axes: It should be the leading measure of the Agri-Environmental measures and a bonus for organic farming should be foreseen in all the other axes.

At last, the IFOAM EU Group calls for changes in the general EU policy framework that would support the development of sustainable farm practices, such as green taxes on agricultural inputs with a high climate impact, the guaranteed right for GMO-free food and feed production, as well as support for infrastructures that ensure rural vitality under other regional and structure policies.
1 Introduction

The world is facing major challenges that are closely related to agriculture. Climate change, loss of biodiversity, falling water tables, water pollution and soil erosion are a threat to the future agricultural productivity and to human health, while hunger is still a problem in many parts of the world, and the growing population intensifies strains on the food supply. Agriculture is both part of the problem and part of the solution. Whereas unsustainable agriculture practices have contributed to environmental and social damage over the last 50 to 100 years, traditional and sustainable farming practices can deliver safe and healthy food for all at the same time as enhancing biodiversity, protecting water and soil quality, and contributing to the mitigation of climate change.

The Common Agricultural Policy is one of the main instruments of the European Union to align agricultural practices to meet future challenges. A more sustainable CAP has been promised by the European Commission and European governments since 1992. Some steps towards a more sustainable CAP have been taken during recent years, but the bulk of the CAP budget (79% in 2008) still goes to direct farm support without any evaluation of results and to market intervention, including the indefensible practice of dumping surplus production on developing country markets. Despite its small budget, the second pillar with the Rural Development measures has progressed since its introduction in 1992, but implementation differs considerably between Member States. There exist both good examples of environmental measures and very poor ones such as “low input farming” that in many countries supports farm incomes rather than delivering environmental benefits. The incorporation of the challenges identified as part of the CAP Health Check into the ongoing Rural Development Programmes will not reverse the situation, particularly with such a small budget having been allocated for the purpose.

It is high time for a real reform, to reconsider the objectives of the new CAP, and how the money should be spent. Public money should be spent for sustainable agricultural systems that serve the public interest in multiple dimensions and in the long term. The CAP should be designed to address its new objectives and to propose a clear model that accommodates the heterogeneity of European agriculture: Sustainable farming for a healthy countryside and to ensure the availability of high-quality food for all.

In this paper the IFOAM EU Group outlines the key priorities for reform and offers a viable
Position Paper: CAP post 2013

International Federation of Organic Agriculture Movements – EU Regional Group

proposal for a new CAP for 2014-2020, further developed on the basis of the shorter vision paper from 1 December 2009\(^1\). We outline the policy architecture necessary to meet the old and new objectives of the CAP and to better deliver public goods to society.

2 Mainstreaming sustainability

The central concern of the organic farming movement is to achieve ecologically-sustainable agricultural production systems everywhere, capable of providing everyone in the world with a secure and equitable supply of good and healthy food and clean water.

Key characteristics of such systems are that they
- Rely primarily on local, renewable resources, including local production of protein crops and reducing use of concentrate feed;
- Make efficient use of the two basic production factors of agriculture: the energy of the sun and the productive potential of biological processes;
- Maintain the fertility and biological activity of the soil;
- Maximise recirculation of plant nutrients and organic matter, including waste resulting from food consumption;
- Use only natural and mineral substances and processes that do not harm the integrity of food ingredients;
- Maintain a high level of biological diversity in the production system as well as in the agricultural landscape;
- Provide farm animals with diets and living conditions which reflect their ecological role and allow them to express their natural behaviour;
- Adapt to the changing climate and contribute to the mitigation of climate change by cost-efficient carbon sequestration in agricultural soils.

These criteria can lead to different approaches according to the geographical situation, but they can only be met when the principles of ecological sustainability are allowed to influence all relevant social, economic and political factors in the production system. In our experience, this requires that:
- Farmers have full access to the necessary means of production, such as land, water and genetic resources;

• Economic conditions allow adequate remunerative farm incomes;
• Local and regional production is given priority in agricultural policies;
• Traditional farming systems are protected and recognised as an important source of knowledge and progress in the future as well as for their intrinsic environment, social and cultural benefits;
• Farm products are recognised not only as food but also as culturally-specific regional goods; they should not be treated exclusively as a commodity.

Sustainability, in other words, is not a technical issue limited to agronomic practices in the field, it also requires fundamental structural and socioeconomic changes. In particular, it requires a reconsideration of many of the more 'industrial' methods and forms of organisation that have alienated consumers from farming over the last few decades.

**Organic farming as a model for sustainable Agriculture**

The Organic food and farming sector rose from a grassroots movement of farmers and consumers. Thanks to continuous efforts by farmers and processors and support from a growing number of consumers, it has grown from a small niche to an important part of the food market. Organically-managed land represents an increasing share of farmland throughout Europe and around the world.

Organic farming contributes to all aspects of sustainability. It significantly reduces the negative environmental impacts of farming, for example reducing greenhouse gas emissions, nutrient pollution to water and pesticide contamination of food and in the environment. At the same time, organic farms are more energy-efficient, deliver better animal welfare and soil quality, and are based on natural systems, almost closed nutrient cycles and protect biodiversity.

Organic farmers and processors are unique in that they practise a sustainable system that is regulated through an accredited system of audit and certification at a global level. Organic agriculture also provides innovation and working examples of sustainable practices for the whole food and farming sector. Moreover, organic food and farming tends to involve more labour and therefore provides the opportunity for job protection and creation in rural areas, able to attract younger farmers and entrepreneurs.

The organic production system is the most coherent, holistic approach to improving sustainability of farming throughout Europe; but while it delivers many public goods, the market only partly compensates the higher costs of production. At the same time, many conventional farming methods continue to cause environmental harm, which places a
considerable economic burden on society. The prices of conventional and organic products are distorted and owing to this market failure, support through the CAP continues to be necessary to encourage the uptake of organic farming practices. This would help increase the extent of organic farming in Europe to ensure a more sustainable farming landscape.

There are some good examples of effective government support for organic farming in Europe. However, despite the EU Action Plan for Organic Food and Farming (2004) having successfully encouraged Member States to use Rural Development Programmes to support the development of organic farming in the EU, it can be seen from various evaluations that organic farming continues not to be fully recognised and effectively supported in all Member States and regions. The European Commission should provide an assessment of potential impacts of the next CAP reform on the organic farming sector.

The organic food and farming movement does not claim exclusive ownership of the basic principles of sustainability embodied in organic food and farming standards. On the contrary, we believe that they need to be adopted and applied in all agricultural systems; no farming system can afford to disregard them in the long run, as is already evident from the major ecological and health problems caused by the prevalent food and farming systems in Europe.

3 New objectives for a new CAP

The CAP was created during a period of time when there was a firm belief in the importance of industrial growth. Sicco Mansholt, the first European Commissioner for Agriculture, planned to use the CAP in the 1960s to remove small farmers from the land and to consolidate farming into larger-scale farms to create a more ‘efficient’ industry. Following the overproduction and policy stagnation in the 1970s, growing unemployment rates and increasing environmental problems provoked a profound reconsideration of the CAP from the 1980s. MacSharry formulated in his reform proposals in 1991 that the CAP should “motivate a sufficiently large number of farmers to go on farming” and that “there is no

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2 E.g. one study published by IFOAM EU: Alexandra Pohl, 2009: How do European Rural Development Programmes support organic Farming; best practice examples in the annex of this document
other socio-political responsible way to conserve the natural environment that is this landscape built over thousands years, an agricultural model shaped by the family farm.”

Despite these changes, the objectives of the CAP have essentially remained the same since the Treaty of Rome in 1957\(^3\). It is evident that the objective “to increase agricultural productivity” needs urgent revision, although the other objectives continue to be as valid today as they were 50 years ago. The drive for increased agricultural productivity is neither justifiable in terms of the level of expenditure of the CAP budget nor desirable in terms of the failure to deliver public goods and services to society. Intensification has been the main driver of environmental degradation caused by agriculture, due to unsustainable reliance on external inputs such as synthetic fertilisers, pesticides, feed and fossil fuel.

We believe productivity should be considered one objective among many of a multifunctional agriculture which delivers food production in a sustainable way. The first objective of the Common Agricultural Policy should be modified according to sustainability principles:

\[\text{(a) to ensure the productivity of agricultural land by promoting sustainable progress and by ensuring the development of agricultural practices that deliver high-quality food and a healthy countryside, as well as guarantee the careful utilisation of natural resources;}\]

Under the new CAP, money must be spent in a targeted way according to public interest.\(^4\)

We believe that it must:

- guarantee food security and access to high-quality and safe food, without any social exclusion
- ensure rural vitality in terms of local economic development with respect to: fair standard of living of the agricultural community, employment conditions, social fabric and tradition, and the preservation of natural resources

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\(^3\) Article 39 of the consolidated treaty on the functioning of the European Union, Official Journal of the EU C83, 30 March 2010:

**The objectives of the common agricultural policy shall be:**

\(\text{(a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour;}\)

\(\text{(b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;}\)

\(\text{(c) to stabilise markets;}\)

\(\text{(d) to assure the availability of supplies;}\)

\(\text{(e) to ensure that supplies reach consumers at reasonable prices.}\)

\(^4\) Definition Public Interest: Welfare of the general public in which the whole society has a stake and which warrants recognition, promotion, and protection by the government and its agencies.
Position Paper: CAP post 2013

International Federation of Organic Agriculture Movements – EU Regional Group

• ensure market conditions where farmers can achieve adequate living conditions, comparable to other sectors of society, by selling their products at a sufficient price whilst providing services to society and respecting rules of fairness towards farmers and local markets in third countries.
• provide public goods\(^5\) to society through improved agricultural practices, namely:
  • to contribute to climate change adaptation and mitigation
  • to maintain and restore biodiversity and enhance agro-biodiversity
  • to ensure soil quality and protection
  • to ensure better water resources management and water protection
  • to improve CO\(_2\)-efficient clean and green energy production
  • to enhance animal welfare
  • to preserve and restore diverse landscapes.

These new objectives can be implemented within the CAP, and do not require a change to the EU Treaty.

4 How to redesign the CAP

Public Money to deliver Public Interest

Public money should be spent according to public interest to realise the new objectives described above by supporting sustainable production systems that are providing public goods. The past programming periods missed the opportunity to adequately tackle the environmental emergency. This was partly caused by the CAP itself, in particular the first objective of increasing productivity, and the second of supporting the income of farmers (the same ones that profited from production support). The transition from production support to income support and finally to decoupled Single Farm Payments has not prevented the same 20% of farms receiving 85% of the CAP’s total budget. Meanwhile, the common market organisations’ focus on commodity production has supported the food industry rather than the farmers producing quality food.

There is a need for a fundamental reform that recognises the central importance of farmers who produce food whilst reducing greenhouse gas emissions and enhancing the environment. Organic food and farming provides a model of agriculture that does exactly this, delivering public benefit and providing EU citizens with value for money.

\(^5\) A public good is a good that is non-rivalled and non-excludable
4.1 Principles

Following the agreement of the long-term and specific objectives of the CAP, a set of strategic principles should be identified to guide the reform of all individual CAP regimes. We suggest the following principles be incorporated as a minimum:

- **Support only for contribution to objectives.** Public funds will only be used to pay for measures that advance the public interest. No support will remain directly connected to production volumes with the exception of some coupled payments necessary to meet the general public interest of high-quality food, food security and management of grasslands, for instance protein crops for feed production, milk production and suckler cows on less productive grassland. Farms which contribute more to CAP objectives will receive more support.

- **Support only to land-based production.** Under sustainability and quality objectives, there is no reason for the CAP to support production with little or no relation to agricultural land. Animal production will qualify for support to the extent that it is connected to feed production, including the local production of protein crops.

- **Counterbalance.** CAP measures will be designed to counterbalance disadvantages caused by climate, location, size, infrastructure and other economically-relevant factors between regions and individual farms.

- **Non-interference with foreign markets.** Support measures for EU farmers will be designed such so as not to interfere with foreign markets, particularly not in developing countries.

- **Environmentally-sound and fair farming systems beyond borders:** Farming systems, especially industrial livestock production that are based on unsustainable inputs – e.g. feed imports from deforested areas - shall not qualify for support.

- **Polluter Pays Principle (PPP).** In controlling negative environmental effects, PPP-compliant measures will be used to the greatest extent possible, as required by the Amsterdam Treaty, and following normal practices in environmental policy.

- **Fair distribution of support.** Avoid unfair distribution of payments where 20% of farms receive 85% of the SFP. A possible mechanism would be to link payments to farm labour force (mechanism to be implemented above a set threshold of payments per farm).

- **System approach.** Systems of sustainable agriculture which are solution multipliers, and address multiple objectives simultaneously should be preferentially supported over farming methods that only deliver on one or a few components of sustainability.

- **Income from sustainable production of quality food:** A framework that supports farmers to generate the main part of their income from selling high-quality food must
be set; adding value to farm products on-farm should be encouraged.

- **Simplification.** Simple, general measures will be preferred, to provide a better opportunity for market mechanisms to effectively operate whilst providing more flexibility for farmers.

- **Payment calculations should consider externalities.** As long as no system is established to internalise the external costs of conventional agriculture, CAP support should not only cover any loss of income that is the result of applying sustainable farming practices, but also should be based on a quantification of the externalities that such farming practices are able to internalise. Only in this way can sustainable agriculture systems such as organic farming be properly rewarded compared to conventional systems, which externalise environmental and health costs that eventually fall on society’s shoulders in the form of climate change through greenhouse gas emissions; water pollution with nitrates and herbicides; pesticide residues in food; loss of ecosystem fertility due to monocultures, poor crop rotations and mineral fertilisation; soil salinisation due to poor water management, and so forth.

### 4.2 The real value of Public Goods

The WTO framework must allow the full recognition of the production of public goods

The most targeted measures in the existing CAP are the Agri-Environmental programmes under axis 2 of the Rural Development Programme. Due to the WTO agreement\(^6\), the size of the premium paid for these measures must be calculated on the basis of additional costs and income foregone by farmers\(^7\). The value of the public goods provided cannot be rewarded; consequently the incentives for some measures, such as the maintenance of biodiversity-rich agricultural land in remote areas, are often insufficient.

“Public money for public goods” is a widely used slogan within the CAP discussions, but there is little opportunity to properly implement this principle. It must be made possible to

\(^6\) Uruguay Round Agreement on Agriculture - Annex 2 (Green Box)

12. Payments under environmental programmes

a) Eligibility for such payments shall be determined as part of a clearly defined government environmental or conservation programme and be dependent on the fulfilment of specific conditions.

b) The amount of payment shall be limited to the extra costs or loss of income involved in complying with the government programme.

\(^7\) Council Regulation (EC) No 1698/2005

Article 39

(4) The payments shall be granted annually and shall cover additional costs and income foregone resulting from the commitment made.
reward the value of public goods to ensure the success of certain measures for the benefit for the society.

The EU is a major player in the WTO and needs to use its negotiating power to press for an amendment of the definition of the so-called green box criteria, making sure that payments that remunerate the production of public goods are not considered as market distortion. However, the existing WTO framework must not be used as an excuse to fail to incentivise sustainability measures; the EU can improve the situation by reintroducing the “incentive component” as it was part of the EU legal framework for the revision of the CAP until 2007. The incentive component can be added as a top-up to the premium calculated on extra cost/income foregone basis, without requiring any specific calculation; it can be justified by the high value of a measure. For example, an additional support of 30% (based on the traditionally calculated premium) could be given for measures which are very effective in addressing challenges such as biodiversity and climate change.

### 4.3 Conditions for support

If all support is to be directly connected to CAP objectives, it means there must be specific conditions attached to all support systems. How would this work?

**A CAP practice for CAP payments must be set.**

Under the present CAP, direct payments absorb the lion’s share - 60% - of the total budget. The continuation of direct payments as they currently stand is hardly justifiable, as they are mainly based on historical considerations and fulfillment of a few legal requirements. In order to meet the objectives of fair living standards for farmers and the sustainability of farming in all regions of Europe, CAP support is still necessary. But this support should be strictly conditional on the delivery of public interest goods and services. In order to achieve a fair redistribution of funds, measures such as an upper ceiling or regressive payments have to apply to the baseline payment.

In a reformed CAP the new sustainability and quality objectives should be translated into a new and much more ambitious set of minimum conditions for general direct payments: "CAP Practice". Unless the complete set of conditions is fulfilled, a farm will not be eligible for any direct payments. Standards of "CAP Practice" should be substantially above those of existing legal requirements.

A common framework definition of the standard will have to be agreed at the EU level to
ensure equivalent treatment of farmers in all Member States. Detailed criteria must, however, be adapted to national and regional conditions. They should therefore be worked out by Member States, subject to approval by the Commission.

The content of the CAP Practice should be simple and clear and not be limited to environmental requirements in a narrow sense. Various parts of the new CAP objectives should be reflected. The payments are justified for the achievement of the following aims:

- To support a fair farm income despite the higher production costs in the EU.
- To support on-farm employment,
- To foster the European agricultural model: A diversity of farms; sustainable farming for a diverse and healthy countryside and high-quality food security.

In order to serve these aims, the following conditions should apply:

- Maximum livestock density. Only farms below a set limit of livestock unit/Ha should qualify.
- Protection of non-cropped elements. A small percentage of the holding should remain non-cropped to provide for flora, fauna and cultural preservation (hedgerows, watercourses, etc).
- Taking up at least one environmentally-sustainable practice; for example: crop rotation, organic fertilisation, water quality and quantity management, etc.
- Agricultural practices that lead to environmental or socio/economic damages must be excluded: Intensive and industrial agricultural systems that cause damage to the environment or invoke socio-economic damages, such as continuous monocultures, herbicide-treated fallow land, etc. must be excluded from receiving payments.

To support on-farm employment, payments above a certain level—should be linked to labour (working unit) on the farm. An appropriate mechanism, e.g. based on the annual household income in the country concerned, must be developed to calculate the amounts. An absolute upper limit for single payments should be set.

A limited use of coupled payments will be retained if related to the quality and safety of food and feed security, and to those necessary to keep farming in less favourite areas.

Farmers who produce according to legal (minimum) requirements will not receive any payments but will be eligible for safety net measures and will benefit from market regulation.

At the Basic level, which the great majority of farmers could be expected to opt for, there will also be a requirement to comply with “CAP Practice”. This will give access to general
direct payments. At the Advanced Level farmers will be able to voluntarily enter into a range of more specific sustainability or quality commitments. In line with the principle already outlined above, targeted payments should only be available for commitments which go substantially beyond “CAP Practice”.

**Table 1: Levels of farm support**

<table>
<thead>
<tr>
<th>Level</th>
<th>Requirements</th>
<th>Type of support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advanced</td>
<td>Environmental performance support schemes</td>
<td>Support for systems with higher performance on objectives, such as organic farming and environmentally-sustainable farming in &quot;High Value Areas&quot;</td>
</tr>
<tr>
<td>Basic</td>
<td>&quot;CAP Practice&quot;, a range of rules for farming practices that go beyond legal requirements</td>
<td>Flat rate payments (per hectare)</td>
</tr>
<tr>
<td>Legal</td>
<td>EU and National legislation</td>
<td>Safety net and market regulation only</td>
</tr>
</tbody>
</table>

We propose

- On the basis of the new sustainability and quality objectives, a set of minimum conditions for direct payments should be developed. This ‘CAP practice’ should include conditions related to soil fertility, livestock densities, cultural landscape and environment.
- A framework CAP practice should be developed at the EU level. Detailed criteria should be worked out nationally, regionally and locally as appropriate and in accordance with climatic and other conditions and in coherence with regional or local policies, subject to approval by the Commission.
- Measures for stable and fair internal markets, directed to support local markets and diversification in European farming areas.
- The abandonment of any kind of export subsidies
- The end of the historical reference values for payment calculation.

## 5 Budget

In order to redirect the CAP to meet the new objectives, and to address the environmental challenges we are facing, particularly climate change, a considerable budget is needed and no cuts should be implemented on the CAP budget. Within the budget, however, we see the
need for extensive redistribution. There is a need to increase the budget for the current second pillar measures, which are much more justifiable in terms of the provision of public goods and delivery of public interest.

Until now the first pillar budget has been fully financed by the EU, while the second pillar has to be co-financed by the member states. This creates consistent differences between countries regarding priorities, measures activated and results achieved in the Rural Development Programmes. This discrimination should cease. Keeping this uneven financial system will inevitably lead to member states fighting hard for first-pillar budget, leaving the targeted “sustainable” second pillar as a second-choice set of instruments.

The next programming period should have one regulation, one budget and one co-financing approach, common for all support measures. We believe co-financing is the best way to improve responsibility and spending discipline of Member States.

6 The Structure of the new CAP

6.1 Stable markets: Fair prices for fair products

The organisation of markets has always been an important part of the CAP. The Common Market Organisations were meant to stabilise prices despite changing quantities supplied to the market; the toolbox contains production quotas, public intervention mechanisms, support for private storage and aid to producer groups. But the measures implemented tended to serve the interests of agro-industrial companies to get lowest commodity prices, rather than serving the interests of either farmers or consumers. Consumer and producer prices seem to be disconnected; while the consumers pay almost stable prices for food, farmers suffer from devastating income losses due to falling prices. With the measures focused on commodities for the food industry rather than on quality food products, the bulk of measures never supported small farmers, local markets and quality food production.

Measures to manage markets should not be abandoned: Diverse and widespread farming activities in Europe benefit biodiversity, food security and the socio-economic development of rural communities. Keeping all farms in business, necessary to maintain diverse landscapes alive, cannot always be guaranteed by prices that can be obtained by farmers in unregulated markets. A system of support by direct payments and payments for targeted measures that guarantees the survival of these farms would be extremely expensive. This means that remunerative market prices will continue to be necessary to ensure the farmers’ main income and it will not be possible to obtain them without stabilising measures in the
long run.
As the systems currently in place have proven not to support fair prices for the maintenance of a diverse farm structure - rather, they have led to structural changes - the market organisations need serious revision. New efficient measures must be found to support a fair income and better communication between farmers and consumers.
Whereas the old intervention and quota systems are outdated, new supply management structures that can contribute to stabilise prices, including storage and quantitative production limits, must be subject to in-depth-assessment and be further developed while taking farmers’, processors’ and consumers’ interests equally into account. The growing power of multinational food chain operators weakens the negotiating power of farmers in the food chain. Therefore, the setting-up of producer organisations to draw together farmers’ interests should be encouraged.
Local markets, direct marketing and on-farm processing can help to add value to products in rural areas and can deliver contribution to long-term food security, (agro-) biodiversity, farm income and price stability. Therefore, these forms of local marketing should be promoted by the Common Market Organisations. Organic farmers’ initiatives should be given priority within these support measures, as this form of farming best supports the sustainability and food quality objectives of the modernised CAP. Further measures currently under discussion to stabilise farm incomes include insurance schemes and the trading agricultural commodities on future markets. This might be of interest in certain fields, but has to be critically verified as these solutions would mean that insurance companies and stock market-agents will claim their share of consumer prices.

Fairness must also mean to play fair on the international field: Direct and indirect dumping of European products onto the world market contributes to the destruction of local markets und must be stopped, whereas developing countries that want to develop their domestic food production need the right to protect their markets.

6.2 The new architecture of CAP payment schemes

We suggest a five-axis architecture for the CAP payment schemes, which will serve a new set of objectives, a revised financial system and a budget with adequate resources to deliver the public goods expected by society. We believe that the new CAP should respond to the following three criteria:

• **Simpler**: One regulation and one financial system will help achieve simplification of
procedures, management of the measures and the reallocation of the budget between the different axes during the programming period.

- **Justified:** The allocation of the budget between the axes has to be justified and coherent with the objectives and the delivery of public goods to be ensured by the CAP.
- **Effective:** regular assessment of the impact of all measures should be carried out in order to allow corrections during the programming period.

The new five-axis architecture of the CAP should follow the principle of having one single and coherent policy and not two clearly separate policies as at present with the first pillar (78% of Budget, fully EU funded) and second pillar (22% of the budget, co-financed by EU member states) of the CAP.

The proposed architecture effectively combines pillar one with the four axes of the present second pillar, used and modified to clearly target sustainability (in the present system, some measures have clearly achieved this, whilst others have only partly met the sustainability objective).

In the following table, the five axes are presented along with the associated objectives addressed and public goods delivered to society.

Following the system adopted by EAFRD, each axis should have a minimum fixed budget share (for example as it is now for Agri-environment: 25%). In Axis 1 (which replaces the old first pillar), the maximum budget allocation should be 50% of total CAP budget. Transfer between axes will be allowed under certain conditions, but maximum and minimum thresholds should not be exceeded. Organic farming as comprehensive approach to meet sustainability challenges, the only one with an EU-wide regulated certification system in place, offers a model for a system of best practices and therefore deserves particular consideration under all measures and axes: It should be the leading measure of the Agri-Environmental measures and a bonus for organic farming should be foreseen in all the other axes. National best implementation models of organic farming support under the current CAP are shown in the annex of this document.
Table 2: The five axes of the new CAP

<table>
<thead>
<tr>
<th>Axis</th>
<th>Content</th>
<th>Objectives addressed</th>
<th>Services delivered to society</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Basic farm support</td>
<td>To ensure fair living standards for the agricultural community(^8)</td>
<td>Viable rural communities, Stable food supply at fair prices, Basic environmental benefits and the maintenance of cultural landscapes, On-farm employment</td>
</tr>
<tr>
<td></td>
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<td>To ensure a minimum of sustainable productivity of agricultural land</td>
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<td>To provide food at reasonable prices to assure the availability of supplies</td>
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<td>2</td>
<td>Innovation, information, investments</td>
<td>To improve availability of high-quality food</td>
<td>Improvement of environmental and animal welfare performance</td>
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<td>To ensure sustainable productivity of agricultural land in the future</td>
<td>Improved awareness of food sources, improved choice for healthier diet</td>
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<td>To improve competitiveness of farms on quality food markets and on local food markets</td>
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<td>3</td>
<td>Agri-Environment and areas of special public interest</td>
<td>To ensure sustainable productivity of agricultural land</td>
<td>Climate Change mitigation and adaptation</td>
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<td>To ensure availability of high-quality food</td>
<td>Sustainable water management, Landscape preservation</td>
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<td>Soil quality</td>
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<td>Ensure the maintenance of sustainable farming practices in remote areas</td>
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<td>4</td>
<td>Farm diversification</td>
<td>To ensure fair living standards for the agricultural community; Rural vitality</td>
<td>Viable rural communities and improved rural-urban connections, On-farm employment</td>
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<td>Contribution of farms to other services including non-food production activities, for example CO2-efficient clean and green energy production</td>
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<td>5</td>
<td>Leader Approach</td>
<td>Inclusive, sustainable and economically-viable rural communities</td>
<td>Influence on living environment through participation of different groups of the rural society</td>
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<td>To ensure availability of high-quality food</td>
<td>Improving social cohesion</td>
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<td>Availability of local high-quality food</td>
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The five axes are described in more detail in the following sections.

6.2.1 Axis 1: Basic Farm and market support

This axis includes all instruments related to farm direct payments (coupled and decoupled) and market interventions. Flexibility will allow the Member States to fix the level of support but within a framework that is defined on EU level, ensuring that different levels of support

\(^8\) Fair living standards are closely related to stable markets which partly depend on market regulations that are not part of the 5 axes.
do not cause market distortions. The model chosen by member states must not discriminate organic farms.
The historical reference for single payments and most of coupled payments should be stopped by 2014 at the latest.

What should change in first pillar/axis from 2014?
• The “CAP Practice”: the Single Area Payment (SAP) should go to farmers that comply with the legislative baseline and fulfil the CAP practice requirements.
• All crop production, including permanent pasture and grassland should be entitled for the SAP
• Provision of a maximum ceiling for payment received by a single large farm.

At the national level the system should be flexible and the principle of the current article 68\(^9\) should be maintained in order to allow member states to support types of farming with additional assets for sustainability according to national requirements such as organic farming, but clear criteria should be put for its use.

\textbf{6.2.2 Axis 2: Innovation, Information and Investments (I&I&I)}

The new axis 2 will replace the old axis 1 under EAFRD. The structure of measures in this pillar will stay valid both for agriculture and forestry. The aim of the axis and therefore all its measures will be re-orientated towards sustainability.

Axis 2 and 3 will mainly be focused on delivering contributions to meet the challenges identified in the CAP health check, and thus in contributing to the delivery of public goods to European citizens.

What should be included? Among others, capital investment grants, young farmers’ scheme, quality food processing and marketing, quality food support scheme (organic products and products under the protected designation of origin or protected geographical indication scheme), investments in (farming/forestry-related) infrastructures, information and advisory services, capacity-building allocations.

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\(^9\) Council Regulation (EC) No 1782/2003, Art. 69, 3\(^{rd}\) Paragraph: The additional payment shall be granted for specific types of farming which are important for the protection or enhancement of the environment or for improving the quality and marketing of agricultural products under conditions to be defined by the Commission in accordance with the procedure referred to in Article 144(2).
6.2.2.1 Farm investments and innovation

This measure is one of the most fundamental, giving the opportunity to farmers to innovate and improve their farms. Capital grants should be given only under the condition that they lead to clear improvements regarding sustainability objectives and/or delivery of public goods. Under this measure, the “system approach” must be applied, favouring agricultural systems that provide multiple solutions to problems rather than only delivering one component, (example: a farm applying for improved water use in irrigation that uses at the same time herbicides and mineral fertilisers that pollute the groundwater, should not be supported). For organic agriculture as the system approach which performs best in all areas of sustainability, a bonus should be added to all measures under this axis.

Capital investment grants should be given for:

- Investments in relation to environmental services and conservation, animal welfare in connection with reduction of livestock per farm, innovation in quality food production and local commercialisation.
- Investments in organic farming (or: investments necessary to convert to OF) (for example improvement in livestock housing to achieve better animal welfare, new machinery).
- First equipment fund for young farmers or farmers taking up farming for the first time.
- Investment grants for enhancing productivity for sustainable farming systems or adding value to farm products at the local level (such as small slaughterhouses or milk processing facilities).

6.2.2.2 Information and Advisory services

Information (education and knowledge transfer) and advisory services should support farmers running an ecologically and economically sustainable farm business. Therefore, they should be directed towards organic farming conversion, CO₂ efficient green energy production, adaptation to climate change, soil fertility and soil conservation, water management, biodiversity conservation, quality food production including food processing on the farm and local marketing (both of which are closely linked to the other issues mentioned).

For this purpose, a capacity building measure should be initiated in order to promote sustainable farming, in particular organic farming, and environmental quality at the local level, supporting local stakeholders in developing and sharing their capacity and technical skills to achieve better and more sustainable farming systems.
6.2.3 Axis 3: Agri-Environment measures

Following the experience of agri-environmental measures under EAFRD, this axis will focus only on schemes that are effective in addressing the objective of sustainable farming for a healthy environment.

Three conditions must be met:

- support has to give priority to measures targeting a system approach (as mentioned before); organic farming as a comprehensive system to serve many aspects of sustainability and having a control system already in place must be given priority;
- support should consider the internalisation of external costs as described in the principles;
- prevent the abuse of agri-environmental measures to give almost unconditional income support to farms, with doubtful or very limited positive environmental impacts.

During the last two programming periods the majority of member states supported low-input farming schemes that do not deliver real environmental benefit and are essentially “sustainability light” schemes. These kinds of measures have been attracting the lion’s share of the agro-environmental budget in many Member States. We believe that the EU must go further and dedicate this level of support to effective and high-impact sustainable systems such as organic farming. The amount of payments will be decided at Member State level. As described in chapter 4.2, incentives for agri-environmental measures can be set within certain limits.

We propose the following system approach schemes:

6.2.3.1 Organic system support

This scheme will help farmers to convert to and to maintain organic farming. As long as the negative externalities of conventional farming are not internalised, organic products are subject to distortion of competition. This system has proven to be a solution multiplier to the environmental challenges identified.

Payments would be given on a per-hectare basis of organically-cultivated land, and the height of payment would be differentiated by the type of cultivation: arable crops, grassland and pastures, permanent cultivations. During the conversion period, farmers would receive a higher support (i.e. 10%) due to the fact that the higher costs of organic production cannot be sufficiently covered with higher product prices before the certification is valid.
6.2.3.2 Support for Rural Areas of Special Public Interest

This scheme will support maintenance of farming systems that serve the public interest and enhance the public goods identified in the specific objectives of the CAP in special areas, designated at Member State level. These areas should be named Rural Areas of Special Public Interest (RASPI) and combine the principles of Less Favoured Areas (LFAs) and High Nature Value areas (HNVs). They are identified by the Member States in terms of the value and importance of natural ecosystems, traditional or special landscapes and risk of marginalisation or abandonment. Farming communities that are considered as fundamental to preserving the first two features and supporting the social fabric of the rural area involved should be eligible for support. Indicators common to HNV and LFA will be used by MS to designate RASPI. The payment would be a decoupled flat rate per hectare. MS can increase the level of payment according to the type of area and specific requirements of the scheme. Criteria for this scheme should be for example: maintenance of landscape features, extensification of agriculture, maximum and minimum livestock density per hectare, maintenance and proper management of permanent pasture, management of non-crop vegetation on the farm (hedges, ponds, field margins, small woodlands, etc.), maintenance of soil quality (prevention and reduction of erosion, carbon sequestration), reduction of water consumption and pollution (no use of herbicides and reduction of mineral fertilisers).

6.2.3.3 Environmental payments

This scheme would comprise a set of measures targeting single services of sustainability as it is in current agri-environmental programmes. It would be open to all farms but the payment calculations would have to consider the difference between a component approach and a system-level approach. The payments for the range of single approaches per farm should be much lower than the support accessible to a farm through one of the previous two system support schemes.

In this section, the following may be supported: on-farm-conservation of animal and vegetal genetic resources to safeguard and develop agro-biodiversity; non-productive investments in order to enhance biodiversity and landscape features (such as terraces, stone walls, hedges, tree lines), animal welfare, etc.

6.2.4 Axis 4: Farm Diversification and Axis 5: Leader approach

These axes will remain the same as in the current EAFRD. Farm diversification schemes have proven to be an important tool to keep farmers in business and to provide jobs in the
countryside, successfully contributing to rural development through tourism, services and multi-functionality of farming. Organic farms should play a particular role also in this axis, as they can be a motor for rural jobs, are attractive for tourism and can provide knowledge about sustainable land use to tourists.

An important role of Axis 3 is the production of green energy from different sources: biomasses, agricultural by-products, and from renewable sources. Agro-fuels should be supported only if they demonstrate to be energy-efficient during their complete production cycle and the system is in coherence with other sustainability objectives such as the protection of biodiversity and water.

The Leader approach is a progressive tool for sustainable rural development on the basis of democratic processes. It has to remain in place to ensure the development of local capacity. It should focus only on aspects of rural viability that are connected with agricultural and forestry production: local market development especially for organic products, capacity building, multifunctionality of agriculture and forestry.

All other aspects of rural viability such as infrastructure, craftsmanship, social services not directly related with agriculture should not be financed by the CAP, but should enter other means of support.

7 Policy coherence

Sustainable agricultural policy needs a sound legal framework

The Common Agricultural Policy needs a wider set of policies that should be implemented or amended coherently to meet its objectives, in order to secure its efficient implementation and consumer trust. We identify four main areas of policy development.

7.1 Green taxes

Based on the Polluter Pays Principle, we envisage the need of a European policy framework to enforce green taxes at the level of Member States. Agricultural activities that do not contribute to the achievement of the CAP objectives whilst also causing harm to public goods such as the climate, should be subject to these taxes. Special regard should be given to the international impact of European farming practices: Imports of agricultural inputs that contribute to unsustainable use of natural resources and the destruction of small farms and food security in third countries must be subject to taxes.
A proper way to tax environmental impacts of farming would be to tax artificial fertilisers and pesticides. Some member states already tax these inputs, whilst others are considering doing so. However, given that agricultural markets are highly integrated across borders, any measures taken in individual member states will tend to disadvantage national production in competition with that of fellow EU members. This is a strong argument for EU level coordination. Input taxes at the member-state level could also provide a source for national co-financing of the CAP.

We propose:

- Encourage and introduce harmonised EU taxation of external plant nutrient inputs, GMOs, unsustainable industrial crops, and chemical pesticides in agriculture.
- Consider allowing taxation for co-financing the CAP budget at MS level.

### 7.2 Transparent consumer relations

Consumer demand is a powerful force for change in agriculture, as can be seen from the rapid establishment of the organic sector. An absolute prerequisite is, however, that consumers have sufficient knowledge about different products to make informed choices. Apart from organic products, few food items allow informed choices to be made. In particular, the consumer needs information about the origin of their food and the production methods used. These types of requirements need to be made universal to enable consumers to choose on the basis of transport distance, use of pesticides, use of GMOs, animal housing standards, access to grazing, etc.

We propose

- Establish a coherent, clear and easily-understandable labelling and traceability system for all foods on the EU market, domestic as well as imported.
- Require clear information about both origins of the main ingredients and production methods used, for example pesticide use and animal housing systems.

### 7.3 Genetically-modified crops

Organic farming is the most important and only European-wide regulated system of sustainable farming, providing the public goods that taxpayers expect from CAP, but there are also other sustainable and traditional farming systems that are practised across Europe. All these sustainable agricultural systems need to be placed in a position to maintain their economic viability, without obstacles that can undermine their production, reputation, and the trust of consumers.
GMOs are a threat to all farms that deliver GMO-free food, as demanded by consumers. Taking this and the *Precautionary Principle* into account, GMOs should not be authorised for cultivation and as food and feed in the EU. If GMOs are to be grown in the EU, it has at least to be ensured that GMO-free farms and products are not at risk of contamination. Although there are unharmonised co-existence measures and control systems in place in some member states, this situation is inadequate to maintain markets without the risk of GMO contamination.

Organic and traditional food is popular due to its high quality and traditional values, as well as the proven health and environmental benefits. The cultivation of GM crops would make continued production of non-GM foods impossible, effectively blocking normal market mechanisms.

There is no right for contamination.

*We urge the EU Commission to:*

- finally enforce a European legislation for the prevention of any contamination in the field and in the processing chains and to ensure that the market for sustainable farming is not disrupted;
- establish a strict liability regime according to the *Polluter Pays Principle*, ensuring that any costs to third parties of unwanted genetic contamination fall on the biotechnology companies marketing the modified crops;
- to assure the availability in the market of GMO-free seeds of organic and conventional origin.

### 7.4 Balancing competition

The power of a small number of multinational food chain operators counteracts the need for a diversity of players in the market and is a threat to future food diversity and food security. Therefore, competition rules must prevent the further concentration on the market.

Farmers, each being a very small enterprise, are in a weak position in negotiating prices with large food processing companies and retailers. Therefore, they should be encouraged to build local and regional producer organisations that strengthen their marketing power, and exemptions from the antitrust law for farmers should be considered.

### 7.5 Infrastructures to ensure rural viability

All aspects of rural development that are not directly related to the agriculture, food production and forestry, or, in a broader sense, to the conservation and management of
natural resources, and which are not covered by the future CAP, but are essentially important to maintain a vital countryside, have to be provided for by other EU programmes for development such as structural funds. Rural infrastructure such as roads, electrification, cabling of villages, social services for children (kindergartens) and elderly people, tourist activities and services tied to local cultural heritage are all relevant.
8 Annex:

Best practice examples for organic farming support

Best practice examples for organic farming support under current rural development programmes – implementation of action 6 of the European Action Plan for Organic Food and Farming within the CAP:
Source: Alexandra Pohl, 2009: How do European Rural development Programmes support Organic Farming?

**Measure 111** “Vocational training, information, actions, including the diffusion of scientific knowledge and innovative practices for persons engaged in the agricultural, food and forestry sectors”
Proposal:
Dedication of a certain percentage of the budget (according to the estimated development of the organic sector) to “organic applicants” and/or
Priority for training measures for organic farmers, knowledge transfer, etc. and/or
Increased funding for participants of measures with the main focus on organic farming

**Measure 112** “Setting up of young farmers”
Proposal:
Priority for farmers setting up as “organic young farmers”
Example: the Czech Republic

**Measure 114** “Use by farmers and forest holders of advisory systems”
Proposal:
Dedication of a certain percentage of the budget (according to the estimated development of the organic sector) to “organic applicants” and/or
Priority for advisory measures for organic farmers and/or
Increased funding for participants of measures with the main focus on organic farming

**Measure 115** “Setting up of farm management, farm relief and farm advisory services, as well as forestry advisory services”
Proposal:
Dedication of a certain percentage of the budget (according to the estimated development of the
organic sector) to “organic applicants” and/or
Priority for (private) organisations offering advisory services for organic farmers, and/or
Increased funding for (private) organisations offering advisory services for organic farmers

**Measure 121** “Farm modernisation”
Proposal:
Dedication of a certain percentage of the budget (according to the estimated development of the organic sector) to “organic applicants“ and/or
Priority for organic farmers, and/or
Increased funding for organic farmers (bigger grants for projects on organic farms, e.g. construction of stables, investments in certain production types).
Example: Austria, the Czech Republic, Bavaria

**Measure 123** “Adding value to agricultural and forestry products”
Proposal:
Dedication of a certain percentage of the budget (according to the estimated development of the organic sector) to “organic applicants” and/or
Priority for organic farmers, and/or
Increased funding for organic farmers (bigger grants for projects on organic farms, e.g. investment in processing units for organic products).
Example: Austria, the Czech Republic, Bavaria

**Measure 124** “Cooperation for development of new products, processes and technologies in the agricultural and food sector”
Proposal:
Organic farming as a priority within the measure and/or
Increased funding for projects in the organic sector

**Measure 132** “Supporting farmers who participate in food quality schemes”
Proposal:
Obligatory use of the measure in all rural development programmes to support organic farmers by refunding certification costs for organic production (at least partially).
Example: Austria, Germany (regional), Spain (regional), Italy (regional)

**Measure 133** “Supporting producer groups for information and promotional activities for products under food quality schemes”
Proposal:
Organic farming as a priority within the measure and/or
Increased funding for projects in the organic sector

**Measure 142** “Setting up of producer groups”

Proposal:
Organic farming as a priority within the measure and/or
Increased funding for projects in the organic sector

**Measure 214** “Agri-environmental payments”

Proposal:
Obligatory use of the measure in all rural development programmes with support for farmers in conversion and organic farmers, with these measures as the top level of all the programmes, with considerable difference from the level of support to conventional measures.
Dedication of a certain percentage of the budget (according to the estimated development of the organic sector) to the measures for conversion to and maintenance of organic farming

**Measure 215** “Animal welfare payments”

Proposal:
Obligatory use of the measure in all rural development programmes with priority for organic farmers

**Measure 311** “Diversification into non-agricultural activities”

Proposal:
Organic farming as a priority within the measure and/or
Increased funding for projects in the organic sector.
Example: the Czech Republic

**Measure 313** “Encouragement of tourism activities also provides increased income for organic farmers”

Proposal:
Organic farming as a priority within the measure and/or
Increased funding for projects in the organic sector
Example: the Czech Republic