

## **Proposals for the EU on the 'Mid-Term Review of CAP of Agenda 2000' with Emphasis on the Environmental Protection**

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### **Abstract**

How agricultural policies affect the environment is within ecological economics. The EU Commission 'Mid-Term Review of CAP of Agenda 2000' of July 2002 proposed to separate production from direct payments, so that farmers would fully compete in the market, without gearing production to the trade-distorting subsidies. The decoupled direct payment to each farm will be conditional upon cross-compliance with the environmental, food safety, animal health and welfare, and occupational safety standards. MTR maintains extra set-aside payment for normal land to avoid overproduction, but no longer for marginal land. This paper suggests not to set aside normal land, because overproduction would be prevented by decoupling; normal land is less environmentally sensitive, and the direct payment would be enough for farmers to keep it in a good agricultural condition; setting-aside normal land would cost money, and make it unavailable for full-time farmers to achieve economies of scale. It recommends to set aside marginal land which is more environmentally sensitive, and the direct payment may not be enough for farmers to keep it in a good agricultural condition. It advises to gradually convert marginal land back to the nature forever, give a conversion payment to its owners to keep it in a good environmental condition, and pursue non-cereal agriculture and off-farm activities. It advocates a tax on those farmers who refuse to keep a good agricultural or environmental condition on the set aside or converted marginal land for maximally two years, and forced land sale afterwards, which would be less harsh than expropriation.

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Faber, Manstetten and Proops (1996: 1-2) point out: 'Why do we need Ecological Economics? The need for such a discipline was not recognized until recently. During the last two decades, however, more and more lay-people as well as scientists have demanded research in areas at the boundaries of, or even outside, traditional sciences. Examples of these include the depletion of resources, the pollution and destruction of the environment, the extinctions of species, the appearance of such problems as deforestation, ozone layer depletion, and the anthropogenic greenhouse effect. These have posed new problems for humankind, which have demanded new responses. It is evident that all these problems stem from economic activity, in particular of the Western type, so these problems have been a challenge for economists. However, since the negative repercussion of economic activity have become manifest in the natural environment, they have also been a challenge for natural scientists.' 'Natural sciences show us where the problems emerge in the environment; economics shows how they are generated, in the extraction of resources, in production and consumption. Research in the natural sciences is a prerequisite for technical solutions, which have to be realized by the engineering sciences. Research in economics is the basis for the introduction of economic schemes, such as charges, licenses, etc., which have to be enforced by the political process. The understanding of this political process requires, in addition, political economy, sociology, psychology and, in particular, political philosophy. For this reason the natural and engineering sciences, as well as resource and environmental economics, and the humanities mentioned above, are all necessary parts of Ecological Economics.'

The Commission of the European Union released 'Mid-Term Review of CAP of Agenda 2000' (MTR) on 10 July 2002 as a watershed document in the reform of CAP (Common Agricultural Policy) for discussion. The CAP reform affects not only the 15 member states in Western Europe, but also 10 present and more future candidate countries in Central/Eastern Europe, with implications to the rest of the world. Therefore, its environmental aspect is of vital importance in Ecological Economics for both Europe and other parts of the world. This paper intends to give comments and new proposals for the MTR.<sup>1</sup>

The main significance of the MTR is that through the incremental partial decoupling during 1992-99, the EU has finally proposed to cut the link between production and direct payments, so that farmers would fully compete in the market, rather than gearing their production to the trade-distorting subsidies. It would be implemented by the candidate countries as well (by the time of accession), thus reducing the financial burdens of the enlargement. It would also improve market opportunities for developing countries, and constitute a good example for other developed countries to follow.

The decoupled direct payment to each farm will be conditional upon cross-compliance with the environmental, food safety, animal health and welfare, and occupational safety standards.

## I. Set-aside

The current set-aside is to give a payment for farmers to set aside land from production of cereals (and other arable crops, i.e., food-used oilseeds and protein

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<sup>1</sup> This paper is based on the author's 'Proposals for EU on MTR', prepared at the request of, and sent to, the Director-General for Agriculture of the Commission of the European Union (Zhou August 2002).

plants). It is chiefly for reducing overproduction and may thus be called *surplus* set-aside. It also has environmental function as farmers receiving the payment are obliged to keep the set aside land in a good agricultural condition. It is composed of two parts.

(I) The *compulsory* set-aside is designated for normal land (producing over 92 tons/20 ha in cereals, representing on average 72% of the arable crops area, and at a rate set each year by the EU currently 10%).

(II) The *voluntary* set-aside is not designated, but actually involves mainly less productive, including marginal, land. Marginal land (steep hill, wet, saline, sandy land, etc.) is not contained in the compulsory set-aside because it is not responsible for the bulk of the overproduction, and those countries with much marginal land prefer not to see their cereal agriculture ceased (which may be a potentially sensitive political and psychological issue).

The so-called 'compulsory' is not truly compulsory, as farmers can choose not to accept the set-aside payment but keep cereal production on the land. This term may lead ordinary people to misunderstand that the compulsory set-aside 'must' be joined by targeted farmers, and few would go to the details to find that the set-aside is compulsory only if farmers want to receive the payment, while farmers can refuse to participate in it. (Similarly, if we say it is compulsory to buy train tickets for traveling from Florence to Brussels, people may think that all travelers have to take train. But actually it is compulsory only if travelers use train, while they may instead employ other transportation means.) Therefore it is still voluntary in nature. But if it were called 'voluntary', it would sound too weak, against the possible intention of the EU to show some disciplines on the land use for the society's interests. Thus it would be more suitable to call the compulsory set-aside *designated conditional* set-aside, while the voluntary set-aside *non-designated conditional* set-aside. The rectification of the terms would be important because it could not only prevent misunderstanding but also avoid a potentially sensitive political and psychological issue after the proposed CAP reforms (see below).

The MTR has now changed the surplus set-aside to *environmental* set-aside. The set-aside payment is only to farmers exercising set-aside, in addition to the decoupled normal direct payment which each farm may receive upon cross-compliance with the environmental, food safety, animal health and welfare, and occupational safety standards attached to the direct payment (farmers may choose to either produce or not while receiving this payment). Although inheriting the title 'compulsory', it is still voluntary in nature, as farmers may decline to join it. It is indeed correct for the MTR to reinforce the environmental function of the set-aside, because after the decoupling, prices would be lowered, overproduction avoided, and more land pulled out of production by farmers themselves including not only marginal and but also normal land. However, the MTR still focuses on the set-aside of normal land in order to maintain the supply control ('Farmers would be obliged to put an amount of arable land equivalent to current compulsory set-aside . . . in order to receive direct payments'); and, although worrying that the decoupling 'may also create pressures towards abandonment in some marginal areas', no longer mentions the present voluntary (or more appropriately, non-designated conditional) set-aside which involves marginal land, probably as a result of anticipating that much marginal land would be taken out of agriculture by farmers automatically.

In the author's view, after the decoupling, it would be better for the environmental set-aside not to remain the same as the current compulsory (or more correctly, *designated conditional*) set-aside of the surplus set-aside, i.e., normal land. It would generally be unnecessary to set aside normal land, because (I) it would no

more bring about overproduction as farmers would no longer have the incentive to produce surplus, and (II) it is usually not or less environmentally sensitive, thus if farmers do not cultivate it, the direct payment should be enough for them to keep it in a good agricultural condition. Setting-aside normal land may also lead to some difficulties: (I) it would cost much money, and (II) if full-time farmers would like to increase farm size to achieve economies of scale, the set-aside normal land would not be available to them.

Rather, it would be more suitable to establish *Designated Conditional Set-aside of Marginal Land*. This is because (I) marginal land is usually more environmentally sensitive; (II) it would cost more for farmers to keep it in a good agricultural condition than doing so on normal land; after the decoupling, some marginal land may be abandoned (i.e., a good agricultural condition is not maintained on it after production is stopped) because the normal direct payment may not be enough for farmers to keep such a condition; this would in turn necessitate to give a set-aside payment for farmers to do so.

## II. Conversion

*Designated Conditional Conversion of Marginal Land*. Furthermore, marginal land could be increasingly converted back to the nature (forestry, grassland, wetland, lake land, etc.) forever, rather than being limited to a fixed set-aside of 10 years (as proposed by the MTR for normal land to replace the rotational set-aside) which could be re-utilized for cereal agriculture once the set-aside is over. The owners of such marginal land could be given a conversion payment permanently to cover their costs to keep a good *environmental* condition (other than agricultural condition) on the converted land. Such measure might be similar to the afforestation of agricultural land as one of 'The four accompanying measures . . . financed inside and outside objective 1 regions by the EAGGF guarantee section' (European Agriculture Guidance and Guarantee Fund) mentioned in the MTR. After the marginal land has been converted back to the nature, farmers may still pursue non-cereal agriculture and off-farm activities (animal husbandry, fishery, fruit production, planned cutting of wood with reforestation, processing, transportation, rural tourism, etc.).

If normal land is no longer set aside as proposed here, the money saved could be transferred to the *set-aside payment* and *conversion payment* of marginal land.

In so doing, farmers of marginal land would have the following choices:

(I) Receiving a normal direct payment, and *producing* cereals (just as normal land).

(II) Accepting a normal direct payment, and *not producing* cereals, but keeping a good agricultural condition on the land for a flexible period to re-start production at any time (just as normal land).

(III) Obtaining a normal direct payment plus a designated conditional *set-aside* payment, with the duty of keeping a good agricultural condition on the land for a fixed term (10 years, non-rotational).

(IV) Acquiring a normal direct payment plus a designated conditional *conversion* payment with the responsibility of retaining a good environmental condition on the land forever.

All these four choices are voluntary or conditional, to be determined by farmers themselves. Not calling them compulsory (as the current term) not only since they are indeed voluntary in nature, but also because it could prevent possible misunderstanding in those countries with much marginal land that their cereal

agriculture is *compulsorily* abolished artificially by the EU policy-makers following the decoupling. Hence the importance of using appropriate terms in order to avoid a potentially sensitive political and psychological issue.

Of course, some very environmentally sensitive land must (i.e., really compulsorily) be converted back to the nature, with compensation to the landowners.

### III. Environmental Tax

The MTR states that 'In the case of non-respect of cross-compliance requirements, direct payments should be reduced while maintaining proportionality with respect to the risk or damage concerned.' Indeed, this method would be enough to oblige the relevant farmers not to violate the food safety, animal health and welfare, and occupational safety standards attached to the direct payments, simply because they could stop farming and animal husbandry. However, it might not be sufficient to oblige them to abide by the environmental standards attached to the direct payments. A part-time or absent farmer earning higher off-farm income may be satisfied with receiving a reduced direct payment and not bother to keep a good agricultural or environmental condition on his (her) home land. [There are already many part-time and absent farmers in the EU, and much more in its CEE candidate countries (Zhou June 2002)].

Those farmers who are incapable of implementing the environmental standards attached to the direct payments on their land may nevertheless commission this task to others as managers, with the part of the direct payments they receive related to it. In case they could not find such managers, the local governments or communities should make such arrangements for them.

On those farmers who refuse to either exercise the environmental standards by themselves or commission it to others, a real compulsory environmental tax could be imposed. This approach, however, may not be effective because (I) if the tax were too low, they might be willing to pay but still abandoning the land; (II) if it were too high, they may claim as not affordable; (III) it would be difficult to catch the tax-evading absent farmers; (IV) the tax officers might not have enough incentive to collect the tax (especially in those countries where law enforcement is weak). (Zhou November 2001)

Therefore, if a land is abandoned, then within one - (maximally two-) year, an environmental tax could be charged. But if it is still abandoned afterwards, and the landowners do not care about reducing or losing the direct payments, while a tax is not effective, then how should the EU respond?

### IV. Forced Land Sale

If the EU were really serious, it would be necessary to exercise a more effective method, i.e., *Forced Land Sale*, including both normal and marginal land. For example, in Denmark, currently although landowners are not obliged to set aside land according to the government planning, possibilities of expropriation exist within the specific Danish rules on nature conservation, nature restoration and wetland restoration (the Nature Protection Act of 3 January 1992), which are not related to the EU agricultural law. The forced sale proposed here would be less harsh than expropriation, as the landowner could get a payment.

Setting aside marginal, rather than normal, land, and further converting it back to the nature is initially proposed in the author's book (Zhou 2001: 398), and

elaborated in the author's papers in the UNESCO Seminar in Bordeaux, France (Zhou November 2001) and Fifth Conference on Global Economic Analysis in Taipei, Taiwan Province of China (Zhou June 2002).

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