

## Land Use Policy Group

*The UK statutory  
conservation, countryside  
and environment agencies*



## The Role of Pillar II in Delivering Environmental Outcomes

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'Future Policies for Rural Europe 2013 and beyond'

September 2007

## Executive Summary

The origins of Pillar II of the Common Agricultural Policy (CAP) can be traced back to the early 1970s and the introduction of measures designed to support the improvement of agricultural structures. Today, Pillar II is tasked with delivering economic, social and environmental objectives in rural areas. The focus of this paper is on the role of Pillar II in delivering environmental outcomes, both now and into the future. It highlights some of the key policy issues that will need to be addressed if more sustainable rural land use is to be achieved in the coming years.

Addressing environmental priorities in rural areas requires, in many cases, active management of land resources. Different policy instruments can be employed to achieve the kind of land management society demands – from compulsion at one extreme to offering financial incentives at the other. Pillar II is of particular interest in a policy context since it brings together a number of policy measures and employs a range of instruments in an attempt to deliver not just environmental outcomes, but economic and social ones too.

Early experiences of implementing Pillar II - or the Rural Development Regulation (RDR) as it became known - combined with the outcomes of the 2003 CAP reforms, led to a shake-up of rural development policy and the introduction in 2005 of Regulation 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD). Compared to the earlier RDR, three key components stand out: the EU rural development strategy; the reorganisation of rural development measures into three axes, each reflecting a strategic priority and the mainstreaming of Leader as a fourth, horizontal axis; and, the simplification of the previously rather complicated programming, management, monitoring and control systems.

As it currently stands, EAFRD has a very significant role to play in delivering environmental outcomes. The EU strategy identifies key environmental priorities thereby focusing attention and encouraging a more decisive and deliberate approach to addressing environmental issues through national strategies and rural development plans. However, the strategy could do more to demonstrate the potential for environmental benefits to be delivered across all Axes. EAFRD contains a wide range of measures, mainly within Axis II, which have an explicit environmental function and can stimulate appropriate land management activities. Additionally, many other measures with socio-economic functions, mainly contained with Axes 1, 3 and 4, can be applied in ways which are at least environmentally neutral or can achieve positive environmental outcomes. For example, Axis 1 support could make significant contributions to climate change and water priorities through relevant investments in new, sustainable technologies yet the strategic guidelines for Axis 1 make no reference to these. Meanwhile, Axis 3 could be used to support diversification into 'green' businesses or support eco-tourism activities. Although commanding only a minimum 5% of the EAFRD funds, the Leader Axis appears to have considerable potential to help achieve environmental outcomes if used creatively.

## The Role of Pillar II in Delivering Environmental Outcomes

Almost all of the Axis 2 sub measures have the potential to deliver environmental outcomes apart from animal welfare payments which were introduced to achieve different objectives – namely to recognise consumer concerns and support farmers who voluntarily meet higher animal welfare standards. Agri-environment measures are a core part of rural development programmes in many Member States. Recent evaluations of these measures suggest they are yielding environmental benefits but there is room for improvement. The Less Favoured Area (LFA) measure has, according to a recent evaluation, the potential to deliver greater environmental outcomes if LFA payments could be more focused on ‘enabling the survival of sustainable farming systems rather than agricultural management per se’. Two other Axis 2 measures which have a strong environmental focus and the potential to deliver environmental outcomes are Natura 2000 payments and payments linked to Directive 2000/60/EC and forest environment payments. Similar Natura 2000 payments were not widely utilised in the last programming period.

The measures selected for funding in the 2007-2013 programming period, and the way in which those measures are applied, will have a critical bearing on the overall environmental outcomes of the next programming period. The requirement for Member States to spend minimum amounts per Axis will, to some extent, ensure some balance in expenditure across programmes. Early indications suggest that some Member States, especially the ‘new’ EU 12 are likely to give particular emphasis to socio-economic measures through Axes 1 and 3 and devote fewer resources to environmental measures. Other Member States, such as Sweden, which historically have pursued a strong environmental agenda appear set to continue along this path.

Past experience shows that some rural development funding has supported investments and projects that have been damaging to the environment e.g. funding irrigation infrastructure in Spain. Only some measures, mainly within Axis II, have cross compliance conditions attached to them. Since such conditions have an important role to play in preventing environmentally damaging activities, it is of some concern that these conditions do not apply to all Axes and measures within EAFRD.

While implementation of the next programming period proceeds, more fundamental discussions about the future of the CAP are emerging. The forthcoming Health Check of the CAP due in 2008 is likely to propose a series of adjustments rather than fundamental reform while the wider EU budget discussions in 2009 are likely to raise some more fundamental questions, considering the future of the CAP beyond 2013.

Regarding Pillar II, the Health Check looks set to propose an increase in the rate of compulsory modulation in order to shift a greater proportion of CAP funding from Pillar I to Pillar II. In the longer term, more fundamental questions regarding the purpose of the CAP deserve to be asked. In particular, it seems legitimate to question the rationale and objectives of Pillar I funding and the Single Farm Payment which, unlike Pillar II support, seems insufficiently linked to the delivery of public goods. In future, there is a strong case for the allocation of public funding to be based on an objective assessment of future needs and not on past precedent. Given the large amount of funding allocated to Pillar I, there is an argument that, like Pillar II, expenditure should be justified and prioritised according to EU strategic priorities and national strategic plans and programmes.

## The Role of Pillar II in Delivering Environmental Outcomes

An objective assessment of rural development needs is highly likely to lead to calls for a better funded and strengthened rural development policy in order to address those needs. As part of the CAP reform process, policy makers should not be afraid to ask some fundamental questions about the nature of that rural development policy, including:

*Who are the beneficiaries of rural development funding?*

Currently, Pillar II funding is closely tied to land use and the main beneficiaries are farmers and foresters. But not all of the economic, social or environmental problems in rural areas can be addressed by farmers and foresters alone and there may be a case for targeting funding in future at a wider range of rural actors than at present.

*Does the current policy contain the right mix of measures to achieve the desired outcomes?*

Pillar II has evolved over a period of time, largely building on and bringing together pre-existing measures. We should ask if the measures are well designed to address the many environmental challenges facing rural Europe, especially the issue of climate change and water (quality and quantity).

These and other questions about the future of the CAP demand careful consideration. Now might be the time to consider the establishment of an independent Taskforce for Rural Policy. Comprised of a small number of leading experts from different disciplines, the group could be tasked with providing some blue sky thinking on the future of the CAP and rural policy post 2013, in advance of the EU budget review in 2009.

## 1 Introduction

Successive reforms of the Common Agricultural Policy (CAP) have focused on two key goals: first, controlling over-supply of commodities and cutting back on trade distorting price support and production subsidies; and secondly, dealing with growing environmental and social problems in rural areas. Measures to achieve these two goals are contained within what have become known as Pillar I and Pillar II of the CAP respectively. The origins of Pillar II can be traced back to the early 1970s and the introduction of measures designed to support the improvement of agricultural structures. Later, in 1985 the first environmental measures were introduced into the portfolio of CAP legislation. But it was not until 1999 that Pillar II officially came into being as a result of the reorganisation of existing rural development instruments. Further reforms followed in 2005 resulting in a revamped Pillar II in the form of Council Regulation 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD).

Pillar II is tasked with delivering economic, social and environmental objectives in rural areas. The focus of this paper is on the role of Pillar II in delivering environmental outcomes, both now and into the future. It highlights some of the key policy issues that will need to be addressed if more sustainable rural land use is to be achieved in the coming years.

## 2 EU environmental priorities and measures to achieve them

The environmental priorities and objectives of the European Union (EU) can be found articulated in numerous strategic documents and pieces of Community legislation. From the EU Sustainable Development Strategy to the 6<sup>th</sup> Environment Action Programme to the Water Framework Directive, the need for the protection and enhancement of the environment is elaborated. A review of such environmental priorities at EU level reveals a wide range of desired environmental outcomes relating to soil, air, water, climate, waste, biodiversity and landscapes. At national level, other, additional priorities can be identified such as those relating to cultural heritage or access and amenity. Dwyer (2007) points out that, in the context of achieving environmental priorities in rural areas, ‘the managed nature of rural environmental assets is crucial, in that some kind of active management is often essential to maintain their character and quality’ and that ‘...land management has a critical role to play.’

The health of Europe’s rural environment therefore rests, in large part, on our ability to influence those who manage the land and the natural resources that occur there. Such influence can be achieved in a number of different ways. CRE (1999) identified a range of possible policy instruments that could be employed to achieve environmental protection and management, as follows:

**persuasion** (i.e. information, advice and reinforcement) e.g. conservation advisory services, pollution prevention information, conservation training, voluntary codes, guidance on use of agrochemicals, etc.

**market mechanisms** (i.e. adjustments to prices and taxes, product regulation and

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marketing) e.g. cuts in output prices, conditions on subsidies, pesticide tax, organic standards, green labelling, etc.

**incentives** (i.e. payments or rebates for voluntary action that favours conservation) e.g. agri-environment payments, heritage tax allowances, compensatory management agreements, access payments, etc.

**compulsion** (i.e. legal prohibitions and obligations and regulation of land use and management) e.g. hedgerow regulations, conservation orders, development control, notification procedures, pollution regulations, etc.

**public-interest ownership** (i.e. the transfer of ownership of land to public bodies or public trusts) e.g. compulsory purchase orders, National Nature Reserves, ownership by national park authorities or NGOs etc.

These instruments tend not to be used in isolation but rather in combination in order to achieve different environmental goals. CRE demonstrated this showing how different instruments could be used both to combat the negative externalities of land use activities such as pollution and loss of amenity and promote positive externalities such as habitat and landscape management. Conceptual models for environmental land management policy were further explored by Land Use Consultants (2005) for the Land Use Policy Group.

Today, we can see different policy instruments in action at EU level with the aim of achieving environmental protection and management. A wide raft of environmental legislation, such as the Nitrates Directive and Birds and Habitats Directives, imposes restrictions or obligations on land managers. Meanwhile, environmental conditions attached to Pillar I direct payments seek to promote compliance with such EU legislation by enforcing sanctions in cases of non-compliance. Pillar II is of particular interest in a policy context since it brings together a number of policy measures and employs a range of instruments in an attempt to deliver not just environmental outcomes, but economic and social ones too. It includes measures which incentivise certain rural activities and land management practices but also measures of persuasion such as training and advisory services as well as market measures, mainly those relating to the marketing of agricultural and forest products.

The origins of Pillar II and its role in delivering environmental outcomes are explored below.

### 3 The introduction of Pillar II

The Common Agricultural Policy came into force with an alignment of cereal prices in December 1961, the over-riding objectives for the CAP having been established earlier in 1957 with the signing of the Treaty of Rome. From the beginning it was clear that a wide range of 'structural' issues could not be addressed through price policy. Issues such as: how to encourage young farmers into the industry; how to manage the exodus of people from rural areas; how to address the problems of small and/or marginal farms; and, how to support a broadly based rural economy not solely dependent on agricultural production? In an attempt to address these issues, the then

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Agriculture Commissioner, Sicco Mansholt, published what became known as the Mansholt Plan. His proposals failed to win support but the issues he identified are those which many subsequent reforms of the CAP have, broadly speaking, attempted to address.

The integration of environmental measures into the CAP began later in the 1980s with the introduction of Environmentally Sensitive Areas (ESAs)<sup>1</sup> which allowed Member States to designate areas where ‘the maintenance or adoption of particular agricultural methods is likely to facilitate [the] conservation, enhancement or protection of the nature conservation, amenity or archaeological and historic interest of an area’.

Pillar II officially came into being in 1999 with the introduction of Regulation 1257/99 – also known as the Rural Development Regulation. The introduction of this Regulation essentially constituted a reorganisation and simplification of existing rural development instruments and their bringing together with the three existing ‘accompanying measures’ introduced by the 1992 CAP reform (agri-environment, early retirement and afforestation). These measures were also supplemented by the scheme for less-favoured areas and areas with environmental restrictions.

Pillar II was seen as accompanying and complementary to market policies delivered through Pillar I of the CAP. It was a rural development policy, introduced with the aim of achieving economic, social and environmental objectives. The socio-economic rationale for Pillar II is most clearly articulated in paragraph (6) of the preamble to the regulation as follows:

*‘Whereas over the coming years, agriculture will have to adapt to new realities and further changes in terms of market evolution, market policy and trade rules, consumer demand and preferences and the Community’s next enlargement; whereas these changes will affect not only agricultural markets but also local economies in rural areas in general; whereas a rural development policy should aim at restoring and enhancing the competitiveness of rural areas and, therefore, contribute to the maintenance and creation of employment in those areas;’*

The environmental rationale of the Regulation is emphasised in several paragraphs throughout the preamble, with reference to:

- the need for a particular effort to educate farmers in and inform them of agricultural methods compatible with the environment (Para 22);
- support for less favoured areas contributing to the continued use of agricultural land, maintaining the countryside, maintenance and promotion of sustainable farming systems (Para 24);
- the need for granting support to farmers in areas with environmental restrictions to solve specific problems arising from these limitations (Para 28);

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<sup>1</sup> Council Regulation (EEC) 797/85 OJ No. L93 30.3.85

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- a prominent role being given to agri-environmental instruments to support the sustainable development of rural areas and to respond to society's increasing demand for environmental services (Para 29);
- the continuation of the agri-environmental aid scheme to encourage farmers to serve society as a whole by introducing or continuing the use of farming practices compatible with the increasing need to protect and improve the environment, natural resources, soil and genetic diversity and to maintain the landscape and countryside (Para 31);
- the granting of payments for activities to maintain and improve the ecological stability of forests in certain areas (Para 39).

Recognising the diversity of rural areas within the Community, and that a one size rural development policy would not fit all, the Commission established Pillar II according to the principle of subsidiarity. Implementation of the policy was to be as decentralised as possible with a particular emphasis on participation and a 'bottom-up' approach. Member States were required to produce rural development plans, in consultation with competent authorities and organisations, for the approval of the Commission. These plans were to set out objectives, priorities, the geographical area covered, the measures to be used, indicative financial tables and an appraisal of the expected economic, social and environmental impacts. Reflecting the subsidiarity principle, Member States were free to choose which measures to implement in line with national priorities and objectives, the only constraint being that it was compulsory to provide agri-environment measures throughout their territories and a balance had to be kept between the different support measures. It is also clear from a reading of the Regulation that the main beneficiaries of support were to be farmers and, to a lesser extent, foresters. Even measures which, at first glance, appear to address rural areas more broadly e.g. Article 33 on 'promoting the adaptation and development of rural areas' are targeted at farming activities thereby ensuring that support would be closely tied to agriculture.

The Regulation included some important environmental controls. For several measures, namely assistance for investment in agricultural holdings, setting up of young farmers and improving the processing and marketing of agricultural products, recipients were required to comply with minimum standards regarding the environment, hygiene and animal welfare. The Regulation also introduced the concept of 'Good Farming Practice (GFP) which was to be defined by the Member States. Only environmental commitments above the reference level of GFP could qualify for agri-environment payments and recipients of support in Less Favoured Areas (LFAs) were required to apply usual GFP.

On paper, at least, Pillar II represented the development of an important policy tool for achieving environmental outcomes throughout the EU. Early experiences of implementing the policy led to subsequent reforms which were to apply to the new 2007-2013 rural development programming period.



## **4 The ‘new’ Pillar II – A European Agricultural Fund for Rural Development**

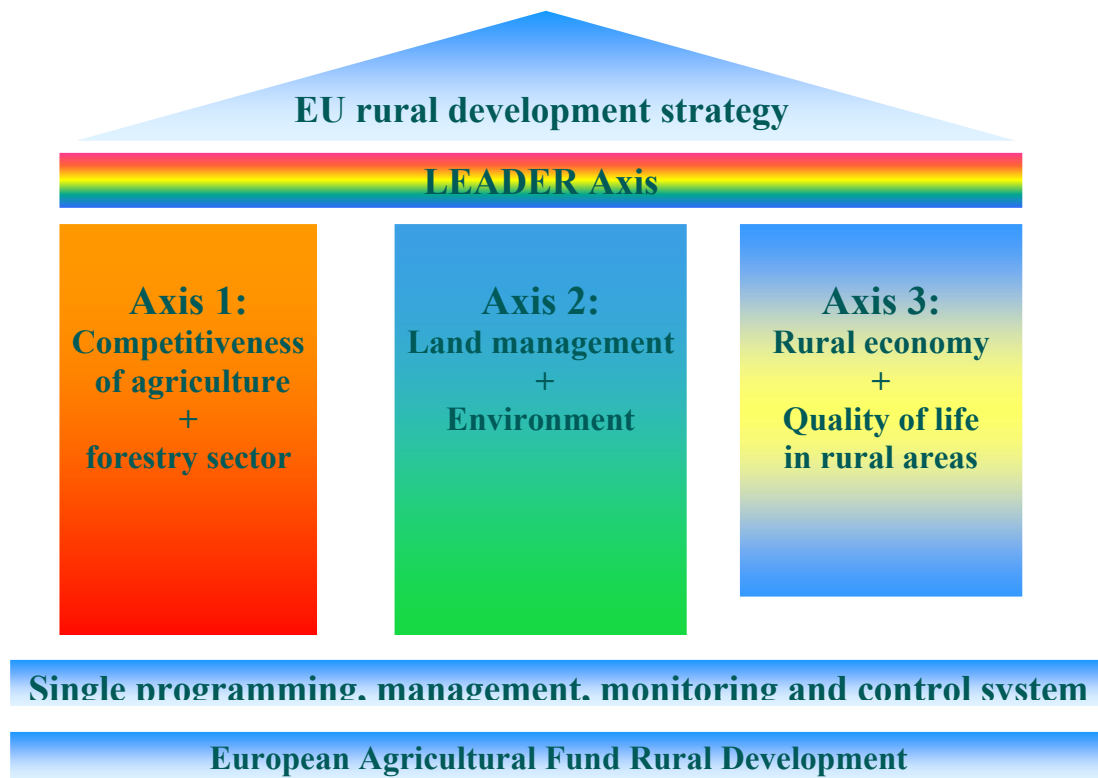
### **4.1 A new policy framework**

Early experiences of implementing the Rural Development Regulation, combined with the outcomes of the 2003 CAP reforms, led to a shake-up of rural development policy and the introduction in 2005 of Regulation 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD). The establishment of EAFRD was, in part, a response to the demands for a simpler and more coherent approach to rural development programming; experience of earlier rural development programming under the European Agricultural Guarantee and Guidance Fund (EAGGF) was that it was overly complex. The new policy was to become operational from 1 January 2007 for the new rural development programming period.

Figure 1 illustrates the key components of the new policy. Compared to the earlier RDR, three key components stand out. First, to help focus rural development policy on Community priorities, the Commission produced an EU rural development strategy for approval by the Council. Secondly, existing rural development measures were reorganised into three axes, each reflecting a strategic priority. The Leader initiative – a small scale, bottom-up rural development initiative – was mainstreamed and introduced as a fourth, horizontal axis. Minimum expenditure levels were established for each of these four axes. Thirdly, the previously rather complicated programming, management, monitoring and control systems were simplified into a single system.

The new policy has potentially a range of implications for the environment which are considered further in the following sections.

**Figure 1: Key components of EAFRD**



Source: European Commission, DG Agriculture

#### **4.2 An EU rural development strategy**

The EU rural development strategy<sup>2</sup> sets the Community priorities for rural development, reflecting the overarching Community goals of competitiveness and sustainable development. It seeks to ensure that rural development support is used in areas where it creates the most added value and in ways consistent with other EU policies, especially in the fields of cohesion and environment. Community strategic guidelines are presented under six main headings as follows:

- Improving the competitiveness of the agricultural and forestry sector (Axis 1)
- Improving the environment and the countryside (Axis 2)
- Improving the quality of life in rural areas and encouraging diversification of the rural economy (Axis 3)
- Building local capacity for employment and diversification (Axis 4)
- Ensuring consistency in programming
- Complementarity between community instruments

The first four headings correspond to axes under which various rural development measures are organised. Axis 2 is the most explicitly environmental in both intention

<sup>2</sup> OJ L55/20 25.2.2006 Council Decision of 20 February 2006 on Community strategic guidelines for rural development (programming period 2007-2013) (2006/144/EC)

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and content (see Section 4.4) and the Community strategic guidelines set out some clear environmental priorities which support under this Axis should seek to address, as follows:

- biodiversity and the preservation and development of high nature value farming and forestry systems and traditional agricultural landscapes;
- water;
- climate change

Specific reference is made to Axis 2 support contributing to the implementation of EU legislation and commitments including:

- the agricultural and forestry Natura 2000 network
- the Göteborg commitment to reverse biodiversity decline by 2010
- Directive 2000/60/EC of the European Parliament and of the Council of 23 October 2000 establishing a framework for Community action in the field of water policy (the Water Framework Directive)
- the Kyoto Protocol targets for climate change mitigation

The identification of clear environmental priorities for rural development support was a significant and welcome development over the old RDR which largely failed to give strategic direction to Pillar II expenditure. In this way, the strategy has helped to shift the policy from being measure led to objective led. National strategic plans and rural development plans will need to demonstrate how Member States intend to respond to these priorities. Ultimately, such a strategic approach should lead to greater transparency and accountability of public expenditure. Where the strategy perhaps fails is in not giving greater emphasis to meeting environmental needs across all Axes and their constituent measures. For example, Axis 1 support could make significant contributions to climate change and water priorities through relevant investments in new, sustainable technologies yet the strategic guidelines for Axis 1 make no reference to these. Only an example of using support to help the development of renewable energy material, biofuels and processing capacity gives any indication of the environmental potential of the Axis.

### **4.3 Axis 1 – opportunities for the environment**

Axis 1 seeks to improve the competitiveness of the agriculture and forestry sectors and includes the following broad measures:

- Measures aimed at promoting knowledge and improving human potential (Article 20 (a))
- Measures aimed at restructuring and developing physical potential and promoting innovation (Article 20 (b))
- Measures aimed at improving the quality of agricultural production and products (Article 20 (c))
- Transitional measures for new Member States (Article 20 (c))

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If experience from the 2000-2006 rural development programming period is anything to go by, some Member States are likely to prioritise expenditure on the modernisation of agricultural holdings and improving the processing and marketing of products. Such investments can, if made in inappropriate ways, have negative environmental impacts but can also be a force for environmental good. For example, some investments e.g. in irrigation equipment can contribute to the intensification and specialisation of production with frequently negative environmental consequences. But, investment in slurry and manure storage facilities could help to reduce or prevent water pollution while livestock buildings could be used for winter housing thereby reducing grazing pressure on important habitats at critical times.

At the very least, Axis 1 expenditure should not be used in ways which damages or degrades the environment. Wherever possible, it should be used in ways which make a positive contribution to delivering environmental outcomes. WWF et al (2005) offer a long list of the possible ways in which Axis 1 funds could be applied to benefit the environment. A few possible examples include:

- Environmental training for land managers e.g. habitats management, water conservation
- Provision of advice to land managers in High Nature Value farming areas, Nitrate Vulnerable Zones and sensitive water catchments
- Investments in sustainable technologies e.g. for water and energy saving or renewable energy
- Supporting the development of food quality or timber assurance schemes which recognise high environmental production standards.

### **4.4 Axis 2 – core environmental measures**

Axis 2 seeks to improve the environment and the countryside and includes the following broad measures:

- Measures targeting the sustainable use of agricultural land (Article 36 (a))
- Measures targeting the sustainable use of forestry land (Article 36 (b))

Almost all of the Axis 2 sub measures have the potential to deliver environmental outcomes apart from animal welfare payments which were introduced to achieve different objectives – namely to recognise consumer concerns and support farmers who voluntarily meet higher animal welfare standards. Under the previous programming period, the sub measure which attracted the greatest proportion of expenditure and hence appears to have been given some priority is the agri-environment measure attracting 27.2% of total 2000-2006 expenditure. Oread Breche (2005) in their Commission funded evaluation of agri-environment measures concluded that the environmental impact of these measures was largely positive but that there was scope for improvement. They noted however strong demand for increased funding in many Member States in order to address environmental needs. The Less Favoured Area (LFA) measure, originally introduced primarily as a socio-economic measure has, in recent years, been refocused toward environmental goals. It appears however that greater effort could be made to use this measure to deliver environmental outcomes. IEEP (2006) in a Commission funded evaluation of LFAs

concluded that, 'LFA payments could be more focused on enabling the survival of sustainable farming systems rather than agricultural management per se'.

The future of LFA policy will be particularly important for the environment since there is a strong coincidence between areas designated as LFA and areas of High Nature Value (HNV) farming. EEA (2004) identified HNV farmland as characterised by low-input farming systems and consisting mainly of semi-natural grasslands although the definition includes some areas of extensive mixed arable systems. Low stocking densities, low use of chemical inputs and often labour intensive management practices such as shepherding are common in such areas. The biodiversity value of HNV farmland is high but threatened by two contrasting trends: intensification and abandonment. EEA identified LFA payments as, '...potentially an effective tool for preventing abandonment of high nature value farmland, provided that they do not create incentives for intensification and particularly overgrazing'. Proposals for reform of LFA policy are anticipated in autumn 2007 and present an opportunity for the Commission to re-focus LFA support on improved delivery of environmental outcomes. However, any proposals which suggest shifting the policy away from primarily an agricultural or socio-economic support to one which is more targeted towards environmental objectives are likely to prove contentious. Both the farming industry and the many Member States that have used the policy as an income support measure are likely to resist change.

Two other Axis 2 measures which have a strong environmental focus and the potential to deliver environmental outcomes are Natura 2000 payments and payments linked to Directive 2000/60/EC (Articles 38 and 46) and forest environment payments (Article 47). Rather few Member States made use of a similar measure in the old RDR for Natura 2000 payments and it remains to be seen how extensively this measure will be used in the new programming period. The forest environment measure is new – similar to agri-environment payments but for forest areas – and has the potential to deliver key environmental outcomes if applied.

### **4.5 Axis 3 – opportunities for the environment**

Axis 3 is concerned with the quality of life in rural areas and diversification of the rural economy and includes the following broad measures:

- Measures to diversify the rural economy (Article 52 (a))
- Measures to improve the quality of life in rural areas (Article 52 (b))
- Training and information for economic actors (Article 52 (c))
- Skills acquisition and animation re preparation and implementation of a local development strategy (Article 52 (d))

In the 2000-2006 programming period, 25.5% of expenditure was directed to Article 33 measures 'promoting the adaptation and development of rural areas', the second largest expenditure after agri-environment measures. Article 33 measures equate to Axis 3 measures in the new EAFRD but relatively few Member States appear set to make extensive use of this Axis in the new programming period (see section 4.7). Similarly to Axis 1, Axis 3 expenditure should not be used in ways which damages or degrades the environment. Wherever possible, it should be used in ways which make a positive contribution to delivering environmental outcomes. WWF et al (2005)

propose numerous ways in which Axis 3 funds could be applied to benefit the environment. A few possible examples include:

- Support for eco-tourism activities
- Support for diversification into 'green' businesses
- Rural community initiatives for sustainable energy production and use
- Supporting capacity building of economic actors re Natura 2000, Water Framework Directive, sustainable forest management

### **4.6 Leader – opportunities for the environment**

Having begun life as a small scale, pilot initiative testing out bottom-up approaches to rural development, Leader has been brought into mainstream rural development programmes by EAFRD. As defined by the regulation, it retains its key characteristics with the Leader approach comprising:

- Area based local development strategies intended for well-identified subregional rural territories;
- Local public-private partnerships (local action groups)
- Bottom-up approach with a decision making power for local action groups concerning the elaboration and implementation of local development strategies
- Multi-sectoral design and implementation of the strategy based on the interaction between actors and projects of different sectors of the local economy
- Implementation of innovative approaches
- Implementation of co-operation projects
- Networking of local partnerships

In a review of the environmental contribution of Leader + in the UK, Swales et al (2006) identified the positive environmental impacts that could be achieved through the Leader approach to rural development. The report highlights the potential for Leader to be used within EAFRD to enhance the delivery and/or effectiveness of Axes 1, 2 and 3 and to facilitate cross-axes projects. Some examples of how the Leader approach might be used with Axes 1, 2 and 3 are given as follows:

#### ***Axis 1***

- To facilitate groups of farmers, foresters and others to work collectively on marketing and processing initiatives for food and forest products.
- Piloting innovative approaches to training and advice for farmers and foresters.

#### ***Axis 2***

- Encouraging farmers, foresters and other land managers to work collectively to achieve environmental benefits at scales larger than individual holdings/forests etc e.g. at landscape, catchment, natural area scale.
- Transnational projects focused on Natura 2000 habitats and species that seek to improve understanding of the management of such habitats and species by learning from experiences in different countries.

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- Demonstration projects or other mechanisms to improve the knowledge and understanding of land managers.

### *Axis 3*

- Supporting community groups to record and document the natural and cultural heritage of their area and promote this both to improve wider appreciation and understanding of the environment and encourage economic activity such as tourism.
- To facilitate community and stakeholder engagement in the drawing up of management plans for Natura 2000 sites and other sites of environmental importance.

Although commanding only a minimum 5% of the EAFRD funds, the Leader Axis appears to have considerable potential to help achieve environmental outcomes if used creatively. Some examples of UK projects funded by Leader + demonstrate the range of activities which Leader can help to support:

#### **Examples of UK Leader + funded projects benefiting the environment**

##### **Green Gym (England)**

The Green Gym concept combined environmental management with a range of social objectives. The core tenet of the project was to engage individuals in physical activity through conservation volunteering, thus simultaneously benefiting the individuals' health and the environment. Individuals benefit from participating in regular exercise, where the Green Gym offers an alternative to the traditional gym or other forms of physical exercise such as sports. The Green Gym also targeted marginalised groups, including those with mental health needs and the long-term unemployed. The environment benefited in many ways through the conservation activities carried out on a range of sites.

##### **Local Provenance Tree Nurseries (Wales)**

A feasibility study concluded that there was a gap in a growing market for small-scale local provenance tree nurseries, but potential businesses and individuals taking part in this scheme would require expert technical and business advice. Leader supported the employment of a full time project officer who could supply the necessary advice and help for both the nurseries and their potential local customers.

##### **River Tweed Catchment Management Plan (England & Scotland)**

A cross-border liaison group of government bodies, NGOs and stakeholders, the Tweed Forum, was established in 1991 with the aim of 'promoting the wise and sustainable use of the whole Tweed catchment through holistic and integrated management and planning'. In 2003 the Tweed Forum published a Catchment Management Plan (CMP), which was intended to guide and help develop the work of those involved in the management of the river. This work was supported by a dedicated project officer, whose post was partly funded by both the Scottish Borders and North Northumberland Leader+ projects.

#### 4.7 Balance of measures

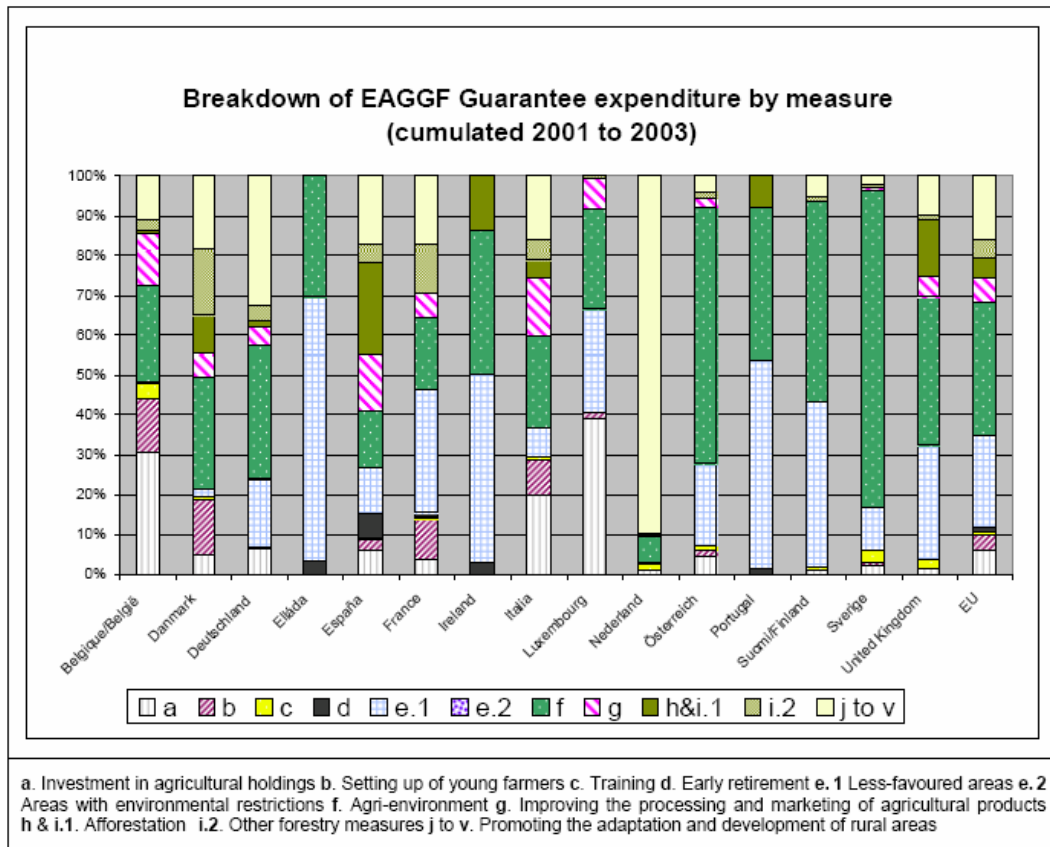
In accordance with the principle of subsidiarity, the balance of measures selected by Member States for the 2000-2006 programming period was highly variable reflecting national and regional priorities. Figure 2 shows the breakdown of Guarantee expenditure (of the European Agricultural Guarantee and Guidance Fund) by measure for the 2001-2003 period. While expenditure levels do not necessarily correspond to environmental outcomes, it is clear that the main environmental measure within Pillar II – the agri-environment measure – was a priority for expenditure in a significant number of Member States. The LFA measure also received significant levels of funding. However, in countries such as the Netherlands, Italy, Spain and Belgium, agricultural investments and broader rural development measures were given greater priority.

The dominance of the agri-environment measure may be partly accounted for by the fact that it was compulsory for Member States to apply it, unlike other measures. The agri-environment and LFA measures were also already well established and operational in Member States pre 1999. In contrast, other measures such as those promoting the adaptation and development of rural areas (Article 33) were relatively new and took time to become established. Total programmed expenditure for the EU 15 for 2000-2006 gives a slightly different picture of the balance between Pillar II measures. While agri-environment remains the measure allocated the greatest share of funds (27.2%), Article 33 measures account for the next largest allocation (25.5%) followed by LFA (12.4%). Overall, in terms of planned expenditure, the balance between measures which have explicit environmental objectives or the potential to meet environmental objectives and measures which have more explicit socio-economic objectives, was approximately 50/50 across the EU 15 as a whole.

The measures selected for funding in the 2007-2013 programming period, and the way in which those measures are applied, will have a critical bearing on the overall environmental outcomes of the next programming period. The requirement for Member States to spend minimum amounts per Axis will, to some extent, ensure some balance in expenditure across programmes. But ultimately, Member States have considerable discretion as to how environmentally focused they desire their rural development programmes to be. Delays in approval of 2007-2013 rural development programmes mean it is too early yet to judge fully the extent to which plans will deliver environmental outcomes (based on expenditure levels and the nature of the measures to be applied). Some early indications suggest however that some Member States, especially the 'new' EU 12 are likely to give particular emphasis to socio-economic measures through Axes 1 and 3 and devote fewer resources to environmental measures. Other Member States, such as Sweden, which historically have pursued a strong environmental agenda appear set to continue along this path. Figure 3 shows proposed funding allocation by Axis for 2007-2013 for those Member States whose rural development programmes have been approved by the Commission (source: DG Agri website).

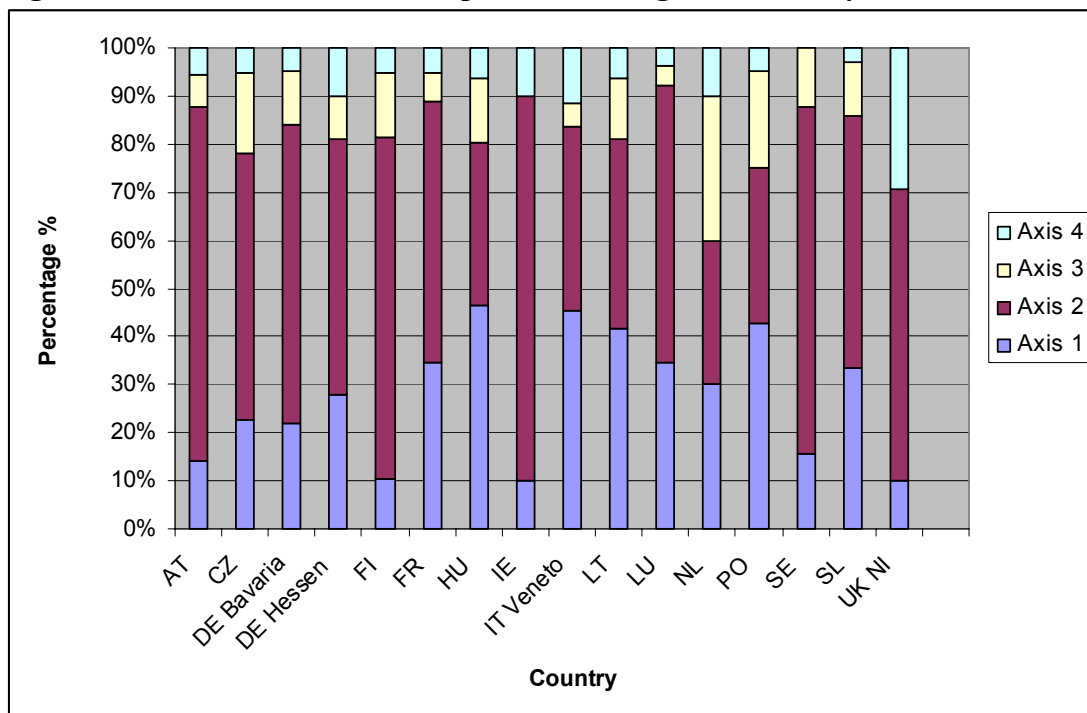


**Figure 2: Breakdown of EAGGF Guarantee expenditure by measure**



Source: SEC (2006) 508 Commission Staff Working Document. EU Rural Development Monitoring Data – Synthesis Report 2000-2003

**Figure 3: 2007-2013 Rural Development Funding Allocation by Axis**



#### 4.8 The impact of environmental conditions and GFP

The Mid Term Evaluation of the RDR provides little evidence of the impacts of the requirement to comply with minimum standards regarding the environment, hygiene and animal welfare for some Pillar II measures. Agra CEAS (2005) conclude that such requirements ‘at least ensure environmental neutrality’ in the case of investments in processing and marketing’ but the evidence base for this is not clear from the report. The most comprehensive assessment of GFP was undertaken as part of the IRENA agri-environmental indicator project led by the European Environment Agency. IRENA Indicator 2 – Regional levels of GFP (2005) offers the following key messages:

##### Key messages

a) Member States have chosen a variety of approaches to defining codes of GFP, ranging from a fairly limited selection of targeted requirements to a broad coverage of relevant categories of agricultural practices. In most MS, mandatory standards of GFP include existing EU, national and/or regional legal obligations. Some countries have added further non-statutory standards, in the form of pieces of advice or verifiable standards (subject to verification and the non-respect of which is considered as an infraction to GFP).

b) The codes of Greece, Portugal and UK are the most comprehensive (covering more than 75% of farming practices considered as particularly relevant), while France, Luxembourg, The Netherlands, Sweden and Finland have the most targeted codes on specific agri-environmental issues (covering around 50-60% of the relevant agricultural practices).

c) Most Member States have defined standards in the field of fertilisation and pesticide management. However, there is a clear emphasis on these aspects in Austria, Denmark, and Germany, the Italian region Emilia-Romagna, The Netherlands and Luxembourg. Many standards for soil management have been included in the codes of Portugal and Greece. Good practices in relation to irrigation methods and equipment are addressed in all the codes of Mediterranean countries (France, Portugal, Spain, Italy, and Greece). The UK, Ireland and France place high emphasis on good practices relative to pasture management, maintenance of field boundaries, and conservation of biodiversity and landscape elements.

d) The codes of GFP have proved to be a valuable tool in order to minimise some potential negative environmental effects of the agricultural activity and ensuring that agri-environmental support delivers more environmental benefits throughout the EU. However, extremely different national approaches have been adopted, with on the one hand, a certain lack of appropriate targeting of some key agri-environmental issues of concern in different Member States, and on the other hand, a high proportion of “advisory” standards not subject to control.

IRENA Indicator 2 – Regional levels of GFP (2005)

[http://eea.eionet.europa.eu/Public/irc/eionet-Circle/irena/library?l=/final\\_delivery/indicator\\_sheets&vm=detailed&sb=Title](http://eea.eionet.europa.eu/Public/irc/eionet-Circle/irena/library?l=/final_delivery/indicator_sheets&vm=detailed&sb=Title)

EAFRD replaced the environmental conditions and GFP of the Rural Development Regulation with a requirement that eight measures<sup>3</sup> under Axis 2 be subject to cross compliance i.e. beneficiaries receiving payments under those measures can have payments reduced or withdrawn if they are non-compliant with requirements established by Articles 4 and 5 and Annexes III and IV of Regulation (EC) 1782/2003. These requirements, known as Statutory Management Requirements (SMRs) and Good Agricultural and Environmental Condition (GAEC) also apply to direct aid under Pillar I of the CAP. Of the eight measures, agri-environment payments are treated rather differently in that such payments can only cover commitments going beyond the mandatory cross compliance requirements. In addition, minimum requirements for fertiliser and plant protection product use and other relevant mandatory requirements established by national legislation and identified in rural development programmes, must apply.

The effectiveness of cross compliance in preventing environmental damage and maintaining an environmental baseline above which certain rural development measures operate, remains to be seen. As with GFP, it is clear that Member States have applied a very variable set of GAEC conditions on farmers. In some cases, GAEC appears rather limited and sets a low environmental baseline while in others GAEC appears more ambitious. The positioning of this baseline is an important issue since it influences the extent to which environmental outcomes are achieved by regulatory approaches on the one hand and incentive led approaches on the other.

Wherever the baseline is set, the inclusion of cross compliance continues the important principle, established earlier by GFP, that farmers should not be able to receive public money and undertake activities that are environmentally damaging. That the cross compliance requirement applies only to certain measures within Axis 2 and not to all measures within EAFRD seems something of a critical omission and represents a retreat from the requirements of the earlier RDR. The lack of environmental conditions applied to Axis 1 and Axis 3 measures is of particular concern in those countries where farm modernisation and investments are rural development priorities. In the 2000-2006 programming period, for example, Spain invested heavily in irrigation and afforestation, both of which were criticised for their negative impacts in environmentally sensitive areas.

### **4.9 Making the most of EAFRD**

As it currently stands, EAFRD has a very significant role to play in delivering environmental outcomes. The EU strategy identifies key environmental priorities thereby focusing attention and encouraging a more decisive and deliberate approach to addressing environmental issues through national strategies and rural development plans. EAFRD contains a wide range of measures, some of which have an explicit environmental function and can stimulate appropriate land management activities. Additionally, many other measures, which although having socio-economic functions, can be applied in ways which are at least environmentally neutral or can achieve environmental outcomes. Less positively, the failure to apply cross compliance requirements across all Axes and measures is likely to compromise the environmental potential of EAFRD.

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<sup>3</sup> Payments made under Article 36 (a) (i) to (v) and Article 36 (b) (i), (iv) and (v)

As Member State rural development plans are approved by the Commission and reach the public domain, a picture of the likely environmental outcomes of the 2007-2013 programming period will begin to emerge. As suggested above, the potential for positive outcomes is significant but it remains to be seen whether that potential will be achieved in practice over the coming years.

## **5 Pillar II and the future**

### **5.1 CAP reform prospects**

While implementation of the next programming period proceeds, more fundamental discussions about the future of the CAP are emerging. Commissioner Fischer Boel has already outlined her ‘one vision, two steps’ approach to CAP reform<sup>4</sup>. Step one, which comprises the forthcoming Health Check of the CAP due in 2008 is likely to propose a series of adjustments rather than fundamental reform. Step two forms part of the wider EU budget discussions in 2009 and is likely raise some more fundamental questions, considering the future of the CAP beyond 2013.

Regarding Pillar II, the Health Check looks set to propose an increase in the rate of compulsory modulation in order to shift a greater proportion of CAP funding from Pillar I to Pillar II. Funding for Pillar II, or rather the lack of it, remains a serious constraint on what the policy can achieve. As the Commissioner has highlighted several times, funding for rural development for the period 2007-2013 is €20 billion below that recommended by the Commission following the agreement by Heads of State on the Financial Perspective and CAP funding remains heavily skewed towards Pillar I (c. 78% of the total CAP budget). An increase in compulsory modulation would enable Member States to expand the scope of their rural development programmes and address environmental priorities. In the longer term, more fundamental questions regarding the purpose of the CAP deserve to be asked. In particular, it seems legitimate to question the rationale and objectives of Pillar I funding and the Single Farm Payment which, unlike Pillar II support, seems insufficiently linked to the delivery of public goods. In future, there is a strong case for the allocation of public funding to be based on an objective assessment of future needs and not on past precedent. Given the large amount of funding allocated to Pillar I, there is an argument that, like Pillar II, expenditure should be justified and prioritised according to EU strategic priorities and national strategic plans and programmes.

An objective assessment of rural development needs is highly likely to lead to calls for a better funded and strengthened rural development policy in order to address those needs. As part of the CAP reform process, policy makers should not be afraid to ask some fundamental questions about the nature of that rural development policy. Two key questions come to mind. The first is:

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<sup>4</sup> See various speeches at [http://ec.europa.eu/commission\\_barroso/fischer-boel/speeches/archive\\_en.htm](http://ec.europa.eu/commission_barroso/fischer-boel/speeches/archive_en.htm)

## The Role of Pillar II in Delivering Environmental Outcomes

### *Who are the beneficiaries of rural development funding?*

Currently, Pillar II funding is closely tied to land use and the main beneficiaries are farmers and foresters. But not all of the economic, social or environmental problems in rural areas can be addressed by farmers and foresters alone and there may be a case for targeting funding in future at a wider range of rural actors than at present. This question of beneficiaries was hotly debated at the time of the Agenda 2000 CAP reforms and the introduction of the RDR. Some rural development advocates argued for a more broadly focused policy addressing rural areas more generally while the agricultural sector lobbied for funds to be retained within the agricultural sphere. What has survived to date is, essentially, an agricultural rural development policy as indicated by the title of the Regulation – European Agricultural Fund for Rural Development. But given the changes being witnessed in rural areas, is the time now right for a ‘European Fund for Rural Development and the Environment’? While any proposals which would result in a redistribution of CAP funding would be highly contentious, this should not be an excuse to avoid discussing the issue. At the same time, perhaps greater consideration should be given to better integration between rural funding and the structural and cohesion funds? Ultimately, building a strong rural economy will benefit all who live and work in rural areas, including – but not only – farmers and foresters.

### *Does the current policy contain the right mix of measures to achieve the desired outcomes?*

Pillar II has evolved over a period of time, largely building on and bringing together pre-existing measures. The appropriateness of these measures to the future task in hand and their ability to be applied in an integrated and coherent way deserves examination. In particular, we should ask if the measures are well designed to address the many environmental challenges facing rural Europe, especially the issue of climate change and water (quality and quantity).

These and other questions about the future of the CAP demand careful consideration. Now might be the time to consider the establishment of an independent Taskforce for Rural Policy. Comprised of a small number of leading experts from different disciplines, the group could be tasked with providing some blue sky thinking on the future of the CAP and rural policy post 2013. It might, if adequately funded, be able to undertake research and analysis and stakeholder consultation. The Taskforce should be challenged with stimulating debate within the Member States and reporting to the Commissioner for Agriculture and Rural Development in advance of the EU budget review in 2009.

This paper began by considering the role of Pillar II in delivering environmental outcomes and ends by raising some broader questions about the future of rural policy. The evidence seems to suggest that Pillar II has an important role to play in delivering environmental outcomes both now and into the future but only if it continues to evolve and adapt. One thing is clear; the environmental challenges facing Europe are significant and inaction is not an option. The financial implications of not addressing the environmental challenges facing Europe’s citizens are likely to far outweigh the costs of taking positive action now.

## The Role of Pillar II in Delivering Environmental Outcomes

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