INTEGRATING THE ENVIRONMENT
INTO CAP REFORM

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1. INTRODUCTION

The aim of the project is:

- to assist the British countryside agencies to develop a new model for rural support measures to maximise the environmental benefits of agricultural policy reforms;

- to identify the best means of promoting the ideas, with a view to influencing the debate over Agenda 2000 and longer term CAP reform and making links to wider rural policy.

The starting point for the work is the agencies' response to the European Commission's Agenda 2000 draft Regulations (CEC, 1998). That response, while welcoming certain progressive elements, expressed grave disquiet at "the continuing imbalance in the budget in favour of the market regimes" (para 11.1).

The agencies thus are looking beyond Agenda 2000 to seek more fundamental reform towards "a more sustainable multi-functional model of rural policy" (para 4.1). This is the focus of the second section of our report.

Meanwhile, the agencies are seeking to build upon the progressive elements in Agenda 2000 and have proposed that "the UK must maximise new opportunities to adapt measures to a wider range of 'public good' objectives, including protection of the environment and enhancement of
the natural heritage”. These issues are taken up in the third section of our report.

The agencies also sought guidance on how to promote the ideas developed in the project, including how environmental objectives for CAP reform might be related to rural socio-economic objectives. These issues are taken up in the fourth section of our report.

The report thus has three main sections:

- Section 2, entitled *clarifying the principles*, seeks to present a robust conceptualisation on which to base an alternative vision to guide CAP reform;

- Section 3, entitled *devising a strategy*, seeks to clarify the choices and options currently (or soon likely to be) available in pursuing policy and institutional reform;

- Section 4, entitled *promoting the ideas*, suggests how to take forward the proposals for combining environmental and agricultural objectives and relating these to the implementation of wider rural policy.
2. CLARIFYING THE PRINCIPLES

In response to the Agenda 2000 draft Regulations, the agencies set out their own model for rural support measures in Europe. To match society's needs and expectations from rural areas, rural support measures should include “a combination of regulations to prevent irreversible and damaging activities by land managers; and positive incentives to reward careful management of the rural environment, which cannot be secured by regulations alone, and which goes beyond what markets will pay” (para A1).

The policy model proposed was envisaged as a 'pyramid' of measures fully decoupled from current production, comprising:

- A regulatory baseline of minimum standards applicable to all agricultural land to ensure that key environmental resources across rural Europe were protected from irreversible and damaging activities by land managers.

- A basic tier contract offered to every farm and forest land manager as an “environmental resource payment” for the maintenance of the basic fabric of the countryside.

- Higher tier, more targeted measures available where resources were particularly needed either to achieve special management of areas of high environmental value, or to restore degraded rural areas, or to revitalise the rural economy.
A Pyramid of Decoupled Policy Measures

The pyramid model has certain obvious shortcomings:

- it is static and cannot show changing priorities;
- the social aspect of rural development policy is under emphasised;
- it incorporates a restricted view of the choice of environmental measures;
- its vertical axis confuses environmental value and management requirements.

In rethinking the pyramid it is important to be clear about what it is seeking to achieve. The key objectives appear to be:
- a spatially inclusive approach that recognises a basic and varied
  environmental interest across the whole countryside, with
  concentrations of higher conservation value set within;
- an integrated approach to policy development that seeks to reduce
  the contradictions, and to increase the synergy, between
  agricultural and environmental policy;
- a strategic approach to environmental management and protection
  that recognises that different objectives require a range of measures
  and instruments.

A first step therefore is to clarify the thinking behind each of these
objectives. The three strands of analysis that need to be addressed are the
following:-

- the notion of the multifunctionality of agriculture and rural
  resources (subsection 2.1);
- the critical linkages between agricultural and environmental policy
  (subsection 2.2);
- the differentiation between policy measures and instruments
  available to promote rural environmental management and
  protection (subsection 2.3).

It is also important that an evolutionary approach is adopted to the reform
process which sees each successive stage not as an end in itself but as a
step towards an alternative model. We return to this issue in section 4,
where we also consider how to strengthen the linkages between
agricultural and environmental policy and rural policy.
2.1 The Multifunctionality of Agriculture and Rural Resources

Rural resources have a variety of functions which are used and valued by society in multiple ways. Agriculture is the chief economic user of rural resources in situ. The multifunctionality of agriculture has been defined as follows:

“Beyond its primary function of supplying food and fibre, agricultural activity can also shape the landscape, provide natural resources and the preservation of bio-diversity, and contribute to the socio-economic viability of many rural areas”. (OECD, 1998)

Recognising the multifunctionality of agriculture is a step toward sustainable development. Putting sustainable agriculture into practice implies a multidimensional approach which includes economic, ecological and socio-economic aspects. The Agricultural Advisory Group of the UK Ministry of Agriculture, Fisheries and Food has recommended that “the UK Government should develop the multifunctionality concept so that it supports a wider vision of the positive role of agriculture in the rural economy and the natural landscape” (MAFF, 1999, para. 6.6).

The concept of multifunctionality is set to figure prominently in international trade talks on agriculture. It is being promoted by European countries and some Asian ones (especially Japan) as a counter to free trade arguments and as a justification for continuing public support for agriculture. Multifunctionality has thus acquired political currency and may well become a point of contention between European and Cairns Group negotiators. A key point at issue will be the extent to which trade and production policy can be divorced from rural environmental and
socio-economic policy. From the perspective of multifunctionality the argument would be that they should not, indeed cannot, be divorced.

The multifunctionality of agriculture implies that in producing marketable products, it also generates wider, non-market effects and services some of which are regarded as beneficial and others as harmful. The introduction of policies for these countryside goods (or bads) may tend either to reduce or increase agricultural output: it depends on the measure taken (whether using incentives or penalties) and on the technical relationship (whether substitual or complementary) with agricultural production. Rather than trade distorting, such policies should be seen as correcting the failure of the market to take due account of non-market effects, provided that their impacts on production are incidental to their purpose in improving environmental welfare.

2.2 The Critical Linkages between Agricultural and Environmental Policy

Two models of the relationship between non-market environmental effects and agricultural production have gained currency in policy circles:

- **the ‘impact’ model**, where environmental impacts or negative externalities are directly associated with input use (e.g. more fertiliser use leading to more pollution, or headage payments stimulating overstocking). The model assumes an agriculture operating in opposition to the environment. Therefore a reduction in the intensity of production will automatically lead to an
improvement in environmental quality. It follows that policies to improve the environment should restrict agricultural activity.

- the ‘public goods’ model, where environmental attributes or positive externalities take the form of jointly produced public goods (e.g. the pastoral landscapes maintained by grazing systems, or the management of hedgerows that encourage wildlife). The model is premised on agricultural systems or farming practices that have co-evolved with the environment, often over substantial periods of time, to the extent that there is a close interrelationship between the valued characteristics of the environment and certain features of the farming. The ‘public goods’ model therefore suggests a more complex and indeterminate relationship with production: it assumes not only that different levels of intensity will lead to different mixes of environmental attributes; but also that a cessation in certain practices will actually diminish environmental quality. The implications are less clear cut, but often imply that policy should support agricultural systems, especially where the major environmental threat arises from a decline or abandonment in agricultural uses. Environmental loss may not always follow from abandonment, however: for example, on moorland or heathland the low intensity grazing role played by domestic animals may be replaced by that of wild animals such as deer or rabbits.

While the ‘impact’ model tends to be used in assessments of more intensive production systems and such non-market effects as pollution and soil erosion, the ‘public goods’ model tends to focus on more extensive systems and on such non-market effects as landscape and
wildlife. The two also point to different strategic responses: the ‘impact’ model emphasises a combination of market mechanisms (including price liberalisation) and environmental regulations to achieve an efficient yet sustainable agriculture; whereas the ‘public goods’ model emphasises a combination of market mechanisms and incentives to support conservation-oriented practices.

The two, though, are not necessarily incompatible, but highlight different facets of the relationship between agriculture and the environment. The ‘impact’ model concentrates on resource use and its effects, whereas the ‘public goods’ model concentrates on management practices and requirements. In most contexts, indeed, there can be elements of both. For example, in intensive arable areas, the management of field boundaries is more appropriately considered from the perspective of the ‘public goods’ model. On the other hand, in extensive systems overgrazing of fragile environments exemplifies the ‘impact’ model.

Finally, a change in the type of technology or agricultural system, perhaps induced by shifts in policy or prices, may entail a switch of model. For example, overgrazing of moorland by sheep would accord with the ‘impact’ model: a reduction in the level of bought-in feed might be assumed to lead to more extensive and less damaging grazing. But if there were also a significant reduction in labour input, such farming systems could go over to ranching, with consequent environmental losses, and that would accord with the ‘public goods’ model. The possibility of such system changes (rather than movements up or down a spectrum of intensity of inputs) ensures the bluntness of such macro interventions as price adjustments; and points to the need specifically to maintain desired farming systems or practices, to achieve environmental objectives.
2.3 The Differentiation between Policy Measures and Instruments for Rural Environmental Management and Protection

Any policy field is pursued through a number of **policy measures**. For example, landscape conservation is implemented through such measures as National Parks, hedgerow protection, ESAs, Tree Preservation Orders and land use planning. Particular measures may serve a number of different policies. ESAs are a case in point, being a measure that serves landscape, nature conservation, heritage and agricultural policies. Making such measures multipurpose may thus be an important way of seeking policy integration.

Any particular policy measure can, in turn, draw on a number of different policy **instruments**. ESAs, for example, use two instruments. Firstly, through incentives linked to management agreements, they promote conservation-oriented agriculture. Secondly, through project officers, they also provide information, advice and reinforcement for farmers on suitable land management practices. These two instruments - incentives and persuasion - are common to many policy measures. For example, SSSIs use them both, as well as the instruments of compulsion and public-interest ownership. The combination of instruments under any particular policy measure gives officials a choice of courses of action.

To develop a strategy for rural environmental management we need to establish a framework which systematically classifies the way different measures and instruments are deployed.

The types of **policy measures** used for rural environmental management and protection can be classified according to whether they deal with
positive or negative externalities and how general or specific and intense these externalities are, as follows:

**Promoting positive externalities**
- **protected sites and features**, e.g. National Parks, SSSIs, Protected Hedgerows, etc.
- **stewardship areas**, e.g. ESAs, Tir Cymen, Heritage Land, etc.
- **general environmental standards**, e.g. Codes of Good Practice, Integrated Crop Management, Quality Assurance Schemes, etc.

**Combating negative externalities**
- **general environmental regulations**, e.g. Water Pollution Control, Land Use Planning, Pesticide Use Regulation, etc.
- **specific restrictions**, e.g. Groundwater Protection, Controls over Livestock Housing, etc.

The range of **instruments** available can be classified according to the degree of public intervention in private production activities as follows:

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

- **market mechanisms** (i.e. adjustments to prices and taxes, product regulation and marketing) e.g. cuts in output prices, conditions on subsidies, pesticide tax, organic standards, green labelling, etc.
Figure 1

TYPES OF POLICY MEASURES

Promoting
- Biodiversity, landscape, conservation of natural resources

Positive

Externalities

- Protecting biodiversity, protected sites, and features
  - e.g. National Parks; SSSIs; Protected Hedgerows

- Promoting stewardship areas
  - e.g. ESAs; Tir Cymen; Heritage Land

- Environmental standards (non-compulsory)
  - e.g. Codes of Good Practice; Integrated Crop Management; Quality Assurance Schemes

- General environmental regulations
  - e.g. Water Pollution Control; Land Use Planning; Pesticide Use regulation

Combating
- Pollution, loss of amenity, degradation of natural resources

Negative

Externalities

- Specific restrictions
  - e.g. Groundwater Protection; Controls over Livestock Housing

RANGE OF INSTRUMENTS USED

- Persuasion
- Market Mechanisms
- Incentives
- Compulsion
- Public-Interest Ownership

Area of Land (not to scale)
- **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, the National Trust or wildlife trusts, etc.

Figure 1 combines these two classifications to show the range of policy measures for rural environmental management and protection (the y-axis) and the instruments that each can typically draw upon (the x-axis). The different patterns of intervention that the Figure presents reflect the style of policy from which they are derived. Three traditions are converging here:

- a rural conservation tradition combining land-use regulations, incentives and prohibitions;
- an agricultural policy tradition of incentives and market mechanisms; and
- a pollution control tradition of preventative advice backed up by sanctions.
Inevitably, difficulties arise in reconciling these different approaches. Nevertheless some implicit principles can be discerned acting across the different layers:

- that policy measures to deal with negative externalities usually have an element of compulsion;
- that specific and intense positive externalities may also attract public protection;
- that provision of positive externalities requires or deserves encouragement from incentives or market mechanisms; and
- that persuasion underpins all policies.

The division between the layers is not a technical matter but is institutionally determined according to which instruments prevail - for example, the division between the environmental standards and the environmental regulation layers is determined by which standards are discretionary and which are compulsory. The divisions are therefore not hard and fast, can change over time and are often a matter of dispute.

In particular, there is a lack of consensus over what constitutes a positive externality meriting some reward or a negative externality meriting some penalty. The problem is that different groups in society have different views upon appropriate baselines. For example, a farmer draining a piece of what was wetland may consider the current situation to be a suitable reference point. Consequently, if drainage were to stop and the field reverted to wetland, this would represent a positive effect and would merit some reward. In contrast, an environmental group might regard the appropriate reference point to be the undrained wetland, and therefore the act of continuing drainage would be generating a negative externality.
meriting some penalty. An added complication is that the same farming practice may produce both positive and negative externalities (e.g. landscape maintenance and agricultural pollution).

These conflicts and ambivalences can only be resolved by reference to higher objectives. In the past, when the pursuit of increased agricultural productivity and self-sufficiency was the overriding goal, the norms were those given by considerations of production efficiency. The shift towards multifunctionality as the basis of policy establishes different norms to do with sustainable development or environmental management, as expressed, for example, in the UK Sustainable Development Strategy (UK Government, 1994a) or the Biodiversity Action Plan (UK Government, 1994b). Part of the process of elaborating these new norms should be to formulate agreed baselines concerning the proper state of agricultural environments.

That set of judgements has significant resource as well as institutional implications. A key issue is whether farmers should be rewarded simply for observing minimum environmental standards or for achieving something better. This is the distinction between a regulatory floor and ‘so-called’ target levels, the setting of which is likewise a political rather than a technical judgement. The layer labelled general environmental standards and its upper and lower boundaries are thus the subject of considerable contention and uncertainty. Shifting the boundaries implies moving certain classes of problem from one policy tradition to another. While some environmental organisations press to have the regulatory floor raised, some farming groups seek to lower the requirements for entry into incentive schemes. Thus this issue cannot be divorced from medium-term considerations of resource availability and trends in
regulatory policy and law (see subsection 3.3). Similar issues arise in relation to the possibility of attaching qualifying conditions concerning standards of environmental management to commodity payments (what is termed cross-compliance) - with the debate again being about what, if anything, farmers should reasonably be expected to do over and above legal minimum requirements.

An important corollary of the argument that the division between the layers is institutionally determined is that it will vary between institutional contexts. For example, in different countries similar actions by farmers that may damage the environment are treated differently, reflecting divergent societal judgements regarding farmers’ environmental responsibilities (IEEP, 1991). This renders problematic the search for common standards between countries, including across the European Union, unless this could be achieved through institutional convergence based on a consensus over agriculture’s wider functions and responsibilities. The tendencies may be in the opposite direction, however, especially with the increasing emphasis on the regional and territorial distinctiveness of agriculture. The devolution of legislative authority and resource allocation to Scotland and Wales, for example, opens up the prospect of a growing divergence in resource availability and trends in regulatory policy and law between the countries of the United Kingdom. Already we can see this happening in separate rural policies for England, Scotland and Wales, in the different agri-environment measures adopted and in divergent proposals for the reform of special area safeguards.
3. DEVISING A STRATEGY

In devising a strategy for integrating the environment into agriculture, a number of choices and options present themselves which we consider below under the headings: progressing UK practice through Agenda 2000 (subsection 3.1); implementing agri-environmental policy (subsection 3.2); and improving regulation (subsection 3.3).

3.1 Progressing UK Practice through Agenda 2000

Agenda 2000 is only a partial step forward, for two reasons. First, in its reform of the CAP it only addresses part of the pyramid - essentially the environmental standards and stewardship layers. Second, it is a rather limited reform, and is to be revisited in 2002. It is important therefore to make the most of it, but to keep in mind the larger picture and to look to subsequent stages.

The salient elements of the reform, from the point of view of the greening of the CAP, are (see Figure 2):

- the additional direct resources available for environmental measures (through monies recouped from the imposition of modulation and cross-compliance conditions and through the ‘greening’ of Hill Livestock Compensatory Allowances – HLCAs);
- other, indirect resources that could be inflected towards environmental ends (mainly through the national envelope and the instrument of cross-compliance);
Figure 2  The Changing Architecture of the CAP

1990
Market Support

MacSharry Reforms

1996
Market Support
Compensation Payments
Agri-environment
Structural

Agenda 2000 Reforms

2002
Market Support
Compensation Payments
National Envelopes
Rural Development Regulation

Funds recouped from imposition of Cross-compliance and Modulation
the institutional changes that could facilitate the integration of agricultural and environmental objectives.

The first two subsections below examine the direct and indirect resources. Then the scope is considered for achieving an integrated system of supports specifically focussed on environmental and social objectives for Less Favoured Areas. For agriculture elsewhere, much greater emphasis will need to be given to promoting environmental standards through a variety of mechanisms. Finally, the Rural Development Regulation offers the opportunity to promote the integrated and decentralised planning of agri-environment, agricultural and rural development measures.

3.1.1 Direct Resources

Agenda 2000 commits few additional resources directly for environmental supports. Indeed, agri-environment expenditure as a component of the Rural Development Regulation is subject, in principle, to a freeze on spending until 2006. This contrasts with the situation following the 1992 reforms of the CAP when agri-environment expenditure was allowed to rise year on year in response to the take-up of relevant measures by Member States. The prospects for additional direct resources for environmental ends now depends on the possibilities to reorient certain production-related payments: namely, through the re-use of monies recouped from the imposition of modulation and cross-compliance conditions on commodity payments; and through the ‘greening’ of HLCAs (i.e. the additional payments to support livestock farming in Less Favoured Areas – LFAs).
Under the so-called horizontal regulation, which applies to all the commodity regimes, Member States are required to define appropriate environmental conditions (i.e. cross-compliance) to attach to commodity payments to farmers, as well as proportionate penalties - through forfeiture of payments - for farmers who infringe these conditions. Member States are also authorised to modulate direct payments per farm in relation to either employment on the farm, farm profitability criteria, or the total amount of state aids received. The funds accrued from the withholding of payments under either measure will remain available to the particular Member State as an additional support for certain measures under the Rural Development Regulation, namely agri-environmental measures, Less Favoured Areas, early retirement and afforestation. However, the resources that may come available from penalising farmers for transgressing environmental cross-compliance conditions are likely to be neither significant nor reliable. Modulation, though, could yield significant resources by reducing supports to large farms (typically arable ones). Member States are entitled to modulate up to 20% of compensation payments to farmers, with the modulated savings available to be used within the Member States concerned as additional EU contributions to the accompanying measures. With the Arable Area Payments Scheme representing some £1.1 billion in England, a maximalist approach to modulation could, in theory, yield upwards of £200 million. However, one important constraint on the potential for redirecting resources through modulation will be the availability of national match-funding for the accompanying measures.

Finally, there are the changes to HLCA payments. The agreed shift from a headage to an area basis would not in itself make HLCAs an environmental payment. Allowances will be available to those who apply
"good farming practices compatible with the need to safeguard the environment and the countryside". The UK Government’s statement that it “remains wholly committed to maintaining the environment and social fabric in the hills but has concluded that the support mechanisms should be modified to address these objectives more specifically” hints at a greater possibility. (Brown, 1998) This would, in effect, shift HLCAs from an indirect to a direct environmental and social support.

A key feature of the original pyramid proposal was the notion of a basic tier “environmental resource payment”. With so little additional monies directly for environmental support, it would be pointless to spread these thinly over all rural land. The only place where one could sensibly begin to pursue such an approach would be the Less Favoured Areas, with HLCAs remoulded as basic environmental resource payments. LFA policy would thus become critical in trialling greater integration between agricultural and environmental management. Consequently, there could be two possible courses for policy development: either that the LFAs provide a model for what could be pursued more generally; or that a geographical divide is institutionalised between social and environmental farming in the LFAs and commercial farming elsewhere.

3.1.2 Indirect Resources

Of course, within the CAP commodity regimes there are much greater resources, and over some of these Agenda 2000 offers new scope to exert environmental influence, chiefly through:

- the national envelopes, allowing member states discretion in how to distribute a proportion of direct payments to the beef and dairy
sectors, to give greater flexibility in addressing regional differences and to encourage extensive production;
- the requirement on Member States to apply appropriate environmental conditions (or cross compliance) to support payments.

Any broader effort, beyond the LFAs and stewardship areas, to redirect agriculture towards environmental objectives will depend crucially on these measures, and their effective deployment in turn will depend on the initiative and determination of individual Member States. Even within the LFAs, because HLCAs are only a fraction of the subsidies that hill farmers receive, any effective greening of support policies would need in the short term to be complemented by the use of cross-compliance and the national envelope.

3.1.3 An Integrated Support System for LFAs

An integrated support system for the LFAs under Agenda 2000 could therefore look like the following:
The HLCAs would need to be redesigned as area payments and redirected to support the kind of farming systems that could deliver high biodiversity and landscape goods. The funds specifically available for this, though, are very limited and could neither give sufficient support to the farming nor cover the costs of positive environmental management. This is why careful coordination is needed with the application of commodity payments on the one hand, and with agri-environment and conservation management payments on the other. An additional possibility is opened up with the new LFA regulation which allows for payments to compensate for environmental restrictions. This could mean elements of LFA support being inserted into the top layer to fund some management of protected sites.
The critical requirement will be for careful coordination between the layers to ensure that the rules and resources applied complement rather than duplicate one another. In this regard, the Rural Development Regulation, as the main instrument for programming the middle layer in correlation with both national resources and CAP commodity payments, assumes strategic significance (see subsection 3.1.5).

A different model would need to be applied, under Agenda 2000, to lowland farming in general and arable agriculture in particular - one of special sites and targeted agri-environment schemes resting on a base of environmental standards and legislation. These two baseline layers thus become very important. Conservation organisations have paid them insufficient attention, particularly the environmental standards layer.

3.1.4 The Environmental Standards Layer and Cross-Compliance

This is the layer to do with non-compulsory standards. Its lower limits are set by legally defined environmental minima, and its upper limits by eligibility criteria for stewardship incentives (beyond which farmers can claim payments for their environmental actions). The layer thus covers what is considered to be responsible farming practice. These societal and professional norms are backed up by persuasion and market mechanisms. Persuasion includes advice, information, training, codes, peer pressure, etc. Market mechanisms include green consumerism, quality standards and manipulation of the farmers’ input and output prices through taxes and subsidies. Environmental conditions (cross-compliance) attached to commodity supports can be seen as a type of market mechanism.
Recently there has been much debate about the potential role of cross-compliance as a policy instrument but it has been considered in isolation. Any use of cross-compliance must be related to the other available instruments in this layer, and the layer needs to be thought about strategically. This calls for attention to environmental standard setting for agriculture. While there are codes of good practice for different aspects of pollution and animal welfare, there are no such codes for landscape or nature conservation, although MAFF has in draft a conservation code. Additionally, it is necessary to consider whether the available instruments reinforce and/or complement each other, and what their respective roles should be. As the Environment Agency and the Scottish Environmental Protection Agency (SEPA) have had much more experience in the development of environmental standards and because of the crucial division between compulsory and non-compulsory standards, it would be sensible for the conservation agencies to cooperate with the Environment Agency and SEPA in an investigation of the relationship between standard setting, regulation and agriculture.

3.1.5 The Rural Development Regulation

The Regulation lays the basis for a Community rural development policy as a ‘second pillar’ (to that of commodity management) within the CAP. Rural development embraces both farm and non-farm developments as well as agri-environment measures and forestry. The new Regulation allows considerable discretion to Member States to programme these different elements together holistically and in ways responsive to the diversity of rural conditions and circumstances. Agri-environment measures are the only compulsory element which will have to be implemented throughout the territories of all Member States. There is
also provision for training of farmers, farm workers and forest holders in conservation.

However, initially, there are few additional resources to implement the Regulation (see subsection 3.1.1). The hope is that, in the longer term, monies saved from agricultural support could be made available for rural development. There is no assurance, though, that this will happen.

In the short and medium term, the most significant implications of the Regulation concern potential changes in procedure that could lay the basis for new institutional structures for rural development programming and support, around which over time the larger CAP could be transformed (see Section 4.2 below). A key feature will be rural development plans. These will cover a seven year period from 1 January 2000. It is vitally important that the right, forward-looking decisions are made about who should be responsible for drawing up and implementing these plans, what broader partnerships and consultations should be involved, and how these planning and programming questions should relate to other UK policies and structures for physical, economic and environmental planning.

3.2 Implementing Agri-Environment Policy

There are different possible approaches to the implementation of agri-environment policy. Crucial choices need to be made regarding the strategy for agri-environment expenditure and whether payments should relate to agricultural inputs or environmental outcomes.
3.2.1 Strategy for Agri-Environment Expenditure

Agri-environment expenditure as an instrument of policy can be seen as both a means and an end. As an end in itself it is concerned with enhancing the environmental value of farming; therefore it is important, subject to socio-economic considerations, to seek to maximise the environmental benefits from such expenditure. As a means it is additionally the crucial set of incentives for reorienting agriculture onto a more sustainable course. Different emphases to these twin objectives have led EU member states to adopt different strategies, as revealed in the scale and pattern of their respective expenditures.

In the decade 1987-97, agri-environment expenditure in the UK rose from 0.2% to 3.2% of gross government expenditure on agriculture. This represents roughly a 20-fold increase in real terms. Even so, it still accounts for a very modest proportion of the overall agriculture budget. Moreover, despite being a pioneer of agri-environment policy, in terms of the amount of EAGGF expenditure spent under 2078/92 Britain ranks 10th out of the 15 member states, spending a small fraction of what, say, Austria, Finland, France and Germany do.

The UK strategy to date for implementing 2078/92 can be characterised as narrow-and-deep compared with the shallow-and-wide approach adopted in some of these other countries. The UK approach is oriented to the solution of discrete and specific problems of environmental conservation in the farmed countryside through circumscribed and targeted measures. It places considerable emphasis on devising specific schemes, the negotiation of individual management agreements and the establishment of proper systems for monitoring and evaluation. Start up costs, running costs and
monitoring/enforcement costs all tend to be high. In England, these amounted to almost half of total expenditure (i.e. compensation payments plus administrative costs) on agri-environment measures in 1992/3, coming down to 23% in 1996/7 as the number of farmer-recipients grew. Arguably, the demands placed on administrative resources have acted as a significant constraint on the growth of agri-environment expenditure in the UK.

The alternative approach of shallow-and-wide – typified in, say, France and Austria by general extensification schemes that support low intensity grazing systems – is justified from a perspective that sees agri-environment programmes as less significant in solving specific problems than in playing a pivotal role in the reorientation of the CAP. In the short term at least, high levels of coverage and take-up of schemes may be more important than specific outcomes. Unexacting environmental requirements and light administration may thus be pardonable. The training of farmer-participants in conservation is also recognised as a key component and objective (which it has not been in the UK).

These different national approaches face separate challenges in the future. To achieve significant environmental benefit, the shallow-and-wide strategy needs gradually but systematically to raise the requirements on farmers. Some countries also have to put in place basic systems for monitoring and evaluating the outcome of the measures taken. In Britain, in contrast, the challenge is to enable agri-environment expenditure to expand beyond the constraints of closely supervised and monitored programmes. The UK experience to date could be interpreted as a set of pilot projects from which to devise large-scale schemes. In gearing up in this way, the proportion of costs going on administrative overheads should
be cut sharply. Whereas other countries could learn from British practice in monitoring and enforcement and in solving specific agri-environment problems, Britain could learn from best practice elsewhere in Europe in designing and administering efficient large-scale schemes. The greening of LFAs represents a crucial challenge for Britain in this regard.

3.2.2 Payments for Agricultural Inputs or Environmental Outcomes?

The case now seems accepted that farmers should be rewarded for the provision of certain countryside goods, although it is not clear how best to do this. The ideal might be that payments would be directly related to the environmental functions or benefits provided, e.g. the length of hedgerow maintained or the number of people making use of access land. However, in practice payments are most often linked to agricultural processes and inputs that give rise to the countryside goods in question. There are several reasons why payment by results may be impractical.

Firstly, it may not be possible to characterise precisely the desired environmental outcomes, such as the functioning of a wetland or the composition of a landscape. Second, there may be difficulties in measuring or monitoring such outcomes as wildlife populations or farm pollution. Third, there are factors - such as the weather or the breeding success of wildlife populations in other parts of the world - that may greatly affect these outcomes but that are beyond the control or influence of farmers or landowners. Consequently, relating specific outcomes to specific efforts in place and time may be impossible. Fourth, even with localised environmental outcomes, many are a function of an extended geographical area that covers several holdings: thus water quality is a function of a river basin, pest infestations of a biogeographical zone, and
natural beauty of a field of vision. Although the management of any one holding may strongly affect these outcomes, they are not reducible to individual actions but are a product of the total set of land management practices in the extended area. A final reason relates to bureaucratic logistics. It is often expedient for incentive procedures to correlate with other forms of intervention, and most of the available means of regulating land management (e.g. farm waste regulations, SSSI protection, development control and cross-compliance) target inputs, processes or operations not outcomes.

Even so, although often the only practical course to secure countryside goods, payments linked to agricultural processes and inputs do have drawbacks. They have the appearance of a subsidy rather than a price: for example, they are usually based on the cost of supply rather than the value of, or demand for, the product. They may not therefore lead to the optimum results according to economic theory, and they may arouse public criticism. There is also no incentive for the farmer or landowner to take responsibility for the outcomes nor to experiment to improve the practice and understanding of ecosystem management. Externally devised management prescriptions are unable to harness the farmer’s on-the-spot knowledge, ability and proprietorial concern to respond to the contingency of events and the vagaries of the natural environment. They do not therefore begin to effect the transformation in the role of the farmer to that of a responsible environmental manager. However, it is only by fostering such a role that some of the risks and uncertainties in delivering countryside goods can be minimised.

A way forward could be through stimulating learning partnerships involving groups of local farmers and conservation organisations. To
encourage these arrangements a growing proportion of the input payments could be redirected as outcome payments paid to groups of farmers in relation to identifiable environmental benefits. That would require conservation organisations to specify clearly what environmental outcomes are required and why. This should stimulate cooperation and mutual learning in the provision of countryside goods.

### 3.3 Improving Regulation

Reform of the CAP, as we have seen, only addresses the environmental standards and stewardship layers of the pyramid. Progress on that front needs to go hand in hand with improvements in regulation. The central challenge is to coordinate the incentives and restraints on farmers within a strategic framework of environmental objectives. Improving regulation thus has two facets to it. The first relates to better strategic coordination in the use of different measures and instruments. The second relates to improving the regulatory floor. Arguably, successful agri-environment policy will involve not only incentives for farmers, but a change in what they are expected to do – a change, that is, in the distribution of property rights over countryside goods between private and public rights. One specific possibility to be considered is the case for a formal duty of care upon the owners and managers of agricultural land. The discussion here is limited to options in domestic environmental policy. The important possibilities that the development of EU environmental policy may present are beyond the scope of this study.
3.3.1 Coordination of Regulation

One of the key objectives behind the pyramid idea is “a strategic approach to environmental management and protection that recognises that different objectives require a range of measures and instruments” (see p.4 above). However, a criticism we have levelled at the original pyramid is that “it incorporates a restricted view of the choice of environmental measures” (see p.4 above).

The array of available measures and instruments is wide. Indeed, there has been a great proliferation of them. Compared with, say, the 1970s, public authorities and officials do not lack means to intervene in rural land management.

There is, though, little overall strategy here. The approach represents the typically British one of ad-hoc and pragmatic problem solving. Hence the steady accumulation of a palimpsest of measures, a process encouraged by the fact that old ones are not allowed to die (lines on maps are difficult to erase not least because they become locked into local calculations of property rights and because designations are means of bureaucratic perpetuation). A political factor that helped to ensure no overall strategy is that the greatest growth in available measures occurred paradoxically under the Thatcher and Major governments which were ideologically committed to deregulation. The new Labour government, while far from being dirigiste, is certainly not beholden to rural landowners and is keen to encourage 'joined-up' thinking. The time would seem ripe for a significant rationalisation of measures and the injection of a greater sense of strategy into their deployment.
Where there has been obvious progression in the past has been within policy traditions. Take the following example: from SSSIs as a crude planning designation → compensatory management agreements to counter damaging agricultural activity → the positive incentives of the Wildlife Enhancement Scheme → the proposed tightening of restrictions on agricultural changes in SSSIs. This seems to represent an increasingly sophisticated effort by regulators to achieve a refined balance of carrots and sticks as well as a crab-wise diminution of landowners' property rights. More generally, we could see this as a piece of social learning in which regulators and landowners have come to a closer understanding and accommodation of each others purposes and limits.

The really glaring absences of coordination are between policy traditions. Even such obvious bedfellows as nature conservation, landscape and heritage are only poorly integrated. And there seems to be barely any synergy between rural conservation policies and farm pollution controls (and considerable awkwardness over issues that fall between them, such as organic farming, NSAs and the protection of river ecosystems).

3.3.2 Improving the Regulatory Floor

In the development of British rural land management policy, we can point to a series of examples of what we might call the ‘ratcheting up’ of the regulatory floor. If the ‘pyramid concept’ were to be developed as an evolutionary policy over time, then it is important to build in a process of improved environmental protection. For example, at the start of the 1980s farmers were among the least regulated groups for water pollution. They were exempt from prosecution if they followed ‘good agricultural practice’, and the code of practice which stipulated this was drawn up from an
agricultural production perspective. By the early 1990s, farmers were subject to detailed regulations stipulating the construction standards for farm effluent storage facilities, they were no longer exempt from prosecution, and the Code of Good Agricultural Practice for the Protection of Water (MAFF, 1991) had been revised from an environmental protection perspective. Parallel changes have taken place over wildlife protection and animal welfare concerns.

An underlying force is a change in public values and expectations about farming’s environmental responsibilities. Social change in rural areas, and the rise of a wider environmental consciousness have served to challenge a formerly dominant outlook which portrayed farmers as the natural guardians of the countryside. The emergence of issues such as farm pollution, wildlife decline and animal welfare have generally eroded the public trust in the farming community and led to demands for new regulatory controls.

Raising the regulatory floor in this way may, of course, bring into the realm of legal requirement actions or restraints for which farmers might otherwise have expected incentives or compensation. The effect may be to remove the justification for making such payments. The pursuit of improvements in regulation must be alert to the possible consequences of alienating or undermining the viability of affected farmers. The reallocation of any resources saved, to promote higher (voluntary) environmental standards amongst the farmers concerned may represent an acceptable way forward.
3.3.3 A Duty of Care for Rural Land Managers

A recent report from the UK Round Table on Sustainable Development (HMSO, 1998) called on the Government to “develop a duty of care, in respect of wildlife, landscape and natural features, upon owners and managers of all agricultural and undeveloped land in rural areas” (p.26). It argued that regulation governing water pollution had been strengthened in recent years, but that this had not been matched in issues concerning biodiversity and habitat protection. The report cited analogous ‘duty of care’ approaches in the provisions of the Highway Code and in aspects of waste management.

In its consultation paper on SSSIs, the DETR addressed the question of a duty of care as follows:

“It has been argued that one means of securing conservation of special sites would be through imposing a ‘duty of care’ on owners and occupiers, which would underpin and reinforce other legislative provisions…. A more constructive approach through direct liaison on site management statements, or management plans, and partnership between land managers and conservation agencies, underpinned by Codes of Practice, provides a more practicable way forward and is likely to deliver real benefits for nature conservation on special sites. It should also avoid the prospect of possibly fruitless litigation” (DETR, 1998a, para D9).

However, it has not been proposed that a duty of care could be a substitute for the detailed instruments of site protection and management. Indeed, it would be universal in its application and more general than the many specific regulations covering aspects of farming practice. The argument for a duty of care is that it could help to strengthen, and give some coherence to, a basic regulatory floor governing rural land management. More work
would need to be done to turn this into a practical proposition, particularly in defining the acceptable nature and scope of any legal duty.
4. PROMOTING THE IDEAS

This report has concentrated on the linkages between agricultural and environmental policy. Recognition of the multifunctionality of agriculture and rural resources, though, requires a move away from sectoral policies towards integrated territorial strategies, combining social, economic and environmental dimensions, and responsive to the diversity of rural areas and the functions they serve. In considering how to take forward the report’s proposals, therefore, it is important also to consider the linkages with rural socio-economic policy and how these might be strengthened as part of an integrated rural strategy.

As well as the CAP, Agenda 2000 has reformed the Structural Funds. These have not been part of the present study. However, they clearly offer lessons for the integrated programming of agricultural and rural development. The Rural Development Regulation at least needs to incorporate these lessons, and its implementation will have to be coordinated with the new round of Structural Fund Programmes. In pursuing these and other opportunities it is important to be clear about the potential synergies between agricultural and environmental policy on the one hand and rural and regional policy on the other hand (subsection 4.1).

Agenda 2000 still leaves the CAP as a predominantly sectoral policy. Nevertheless, it does provide scope for certain procedural and institutional changes that could pave the way for a more integrated approach. The important requirement is to establish structures that could begin to reintegrate agriculture into the rural economy and rural environment within a regional context. Subsection 4.2 puts forward a proposal for achieving this.
### 4.1 Potential Links to Rural and Regional Policy

Possible linkages between agricultural-cum-environmental policy and rural and regional policy are as follows:

- **countryside public goods include not only environmental assets but valued social assets too, such as rural amenities and cultures.** Where, as is often the case, these social attributes have co-evolved with traditional agricultural systems, their continued existence may well depend upon the continuity of certain farming activities. Thus, the social and environmental rationales for the support of traditional agricultural systems may well coincide.

- **environmental development can be an element of economic regeneration or restructuring.** Countryside public goods need not only be a product of the past. There may be a strong public interest in the creation of new ones. Landscape restoration or habitat creation may thus be desirable in certain areas as an aspect of rural regeneration. A related need may be the restructuring of agriculture to create farming structures and systems better suited to furnish countryside public goods.

- **countryside goods can play a key role in product and place differentiation.** The countryside is valued for distinct places and products. This is a competitive advantage as well as an environmental or consumption good. A key aspect of the diversification of rural economies is support and encouragement for activities which maintain that competitive advantage. Also important are the promotion and development of products which are identified with a particular place
or reflect local distinctiveness (e.g. Coquetdale cheese and Shetland wool) or which help to maintain environmental values (e.g. organic food and coppicing products). In this way, the creation of value-added and employment can be retained locally. The distinctive environmental and cultural attributes of rural areas can also be useful in product and place marketing for purposes of rural and regional development.

The Rural Development Regulation and the Structural Funds offer scope to explore these different synergies.

4.2 A Regionally Integrated Approach to Programming and Planning

The new Rural Development Regulation provides an opportunity for a strategic and integrated view to be developed for each region of the future of the countryside and the role of farming within it. However, the limited additional resources on offer under the Regulation provide little incentive to alter existing arrangements along the lines proposed. Fortunately, current changes in UK structures for rural and regional policy create both an opening, and the necessity, for new approaches.

In Scotland and Wales, the key factor is the greater devolution of agricultural policy and the possibilities opened up, under the Parliament and the Assembly, for greater integration with environmental and rural policy. In England, the key factors are the new Countryside Agency and the Regional Development Agencies and the increasing need for the strategic coordination of policy delivery at the regional level. Otherwise, there is the risk that MAFF’s emerging rural development
responsibilities, the new Countryside Agency’s expansive remit and the rural responsibilities of the RDAs will lead to overlap and duplication of effort, bureaucratic conflict and public confusion.

What should the coordinating mechanism look like? We would propose Regional Agricultural and Rural Development Strategies (RARDS). These would be drawn up, for Scotland, jointly by the Scottish Office, Scottish Enterprise, Highlands and Islands Enterprise and Scottish Natural Heritage; for Wales, jointly by the Welsh Office, the Welsh Development Agency and the Countryside Council for Wales; and for the English regions, jointly by MAFF, the Regional Development Agencies and the Countryside Agency. RARDS would generate the following benefits:

- The joint exercises would bring together different traditions in rural and agricultural policy in a strategic approach to the implementation of policy, sensitive to different local and regional contexts.

- RARDS would help prevent the duplication of effort by national and regional officials that would occur if development agencies were to prepare rural strategies (from the perspective of economic regeneration and sustainable development) and agriculture departments were to prepare additional rural development plans (from the perspective of agricultural structural and agri-environmental policy).

- RARDS could include wider consideration of the desirable structure of the farming industry, not only from the perspective of
competitiveness, but also of the needs of the rural environment, economy and communities. They could provide access to structural and economic regeneration resources for agricultural interests wishing to diversify, at the same time as opening up the possibility, under the Rural Development Regulation, of CAP monies being paid to non-farming interests to foster the adaptation and diversification of rural economies.

- The RARDS could also provide a framework in which to programme the regional implementation of national envelopes for the beef and dairy sectors; to formulate indicative forestry strategies; and to develop a clear rural dimension to Regional Planning Guidance and to development plans.

A formal requirement for the different organisations to draw up RARDS together, in full consultation with regional partners, is a practical proposal that would help crystallise a truly integrated approach to rural and agricultural policy, that often struggles to take off beyond the level of rhetoric. There is an opportunity here to foster real institutional learning and enhance strategic capacity in the rural and agricultural policy fields in Scotland, Wales and the English regions. In the medium to long term, RARDS would provide a framework through which funds released from reductions in CAP commodity payments would “increasingly allow financial support to rural areas to take account of their environmental and social, as well as economic needs, while encouraging a competitive and efficient agriculture” (DETR, 1998b, para 6).
References


UK Round Table on Sustainable Development (1998) *Aspects of Sustainable Agriculture and Rural Policy* London: UK Round Table