

# The role of Rural Development Policy in maximising environmental benefits: The Southern/Mediterranean dimension and perspectives<sup>1</sup>

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## 1. Introduction

Article 6 of the TEC (incorporated in 1992, as part of the Maastricht Treaty) explicitly states that “Environmental protection requirements must be integrated into the definition and the implementation of (all) the Community policies and activities ... in particular with a view to promoting sustainable development”. Due to the environmental significance of the agricultural activity, the CAP was obviously one of the first sectoral policies to be broadened by this perspective.

Indeed, following the so-called “Cardiff process” (June 1998), the EU Council of Ministers for agriculture, working together with the Commission and the other involved EU Institutions, started establishing its own strategy for giving effect to environmental integration and sustainable development within the CAP. By regulating several environmental aspects of programmes, measures and instruments applied in the sector, this strategy became part of a broader and more comprehensive framework for the development of rural areas, giv-

## Abstract

Following the Agenda 2000 orientations, all the targeted environmental and land management measures applied by the EU regime, are pursued through the second pillar of the CAP, as they form a part of the Rural Development Policy of the EU. In addition, the recent 2003/04 CAP reform incorporated some important changes into the market regimes (first pillar), with a strong environmental dimension (cross-compliance, decoupling of aids from production, modulation). Therefore, with all the measures included in both pillars, the fundamental objective of the EU Treaty, dictating the integration of environmental protection into the CAP, has been legally fulfilled.

However, by implementing this strategy in the near future, the Southern Member States of the EU are challenged by the major risk of abandonment, particularly harmful to the environment, and this might put into question the effectiveness of the measures. Given that specific characteristics diversify the Southern Agriculture from the North of Europe, this paper argues that the problems associated with those specific characteristics should be carefully considered, if the overall target is to maximize the environmental benefits pursued by the above strategy. Within this spirit, the present paper examines aspects and prospects, as well as certain priorities for the future development of the environmental protection requirements in the Mediterranean Member States of the EU.

## Résumé

*Suivant les orientations de l'Agenda 2000, toutes les mesures ciblées d'aménagement des terres appliquées par le régime de l'UE sont poursuivies à travers le deuxième pilier de la PAC, car elles font partie de la Politique du Développement rural de l'Union européenne. En outre, la récente réforme PAC 2003/04 a incorporé dans les régimes de marché (premier pilier) des changements importants incluant une forte dimension environnementale (éco-conditionnalité, découplage des aides à la production, modulation). Pour cela, avec toutes les mesures comprises dans les deux piliers, l'objectif fondamental du Traité de l'UE qui impose l'intégration de la protection de l'environnement dans la PAC, a été juridiquement atteint.*

*Toutefois, à travers la réalisation de cette stratégie dans l'avenir prochain, les Etats membres du sud de l'Union européenne doivent faire face au risque majeur de l'abandon, particulièrement nuisible à l'environnement, qui pourrait mettre en cause l'efficacité des mesures. Etant donné les caractéristiques spécifiques qui différencient l'agriculture du sud de l'agriculture du nord de l'Europe, ce travail sollicite la prise en compte de ces spécificités face à l'objectif global de maximiser les bénéfices environnementaux poursuivis par ladite stratégie. Dans cet esprit, ce travail analyse les aspects et les perspectives, ainsi que certaines priorités pour le développement futur des besoins de protection de l'environnement au sein des Etats Membres méditerranéens de l'Union européenne.*

en that, in most of them, agricultural and forestry domains continue to be the main land users.

The Agenda 2000 CAP reform proved to be a turning point in the whole process of the environmental integration. Several innovations related to environmental concerns were introduced and/or strengthened, while new elements were included, the most important of which was the integration of the Rural Development Policy within the CAP, to form the “2<sup>nd</sup> pillar” of it. Within this framework, there is no doubt that the establishment of the RD Regulation 1257/99, as a single legal instrument which also included targeted environmental measures to be provided for the sector, has a prominent role to play. It allows, among other things, to achieve a better coordination with other RD measures, aiming to support the sustainable development of rural areas by pursuing, in particular, the multifunctional role of agriculture. However, it was widely realised that the overall ob-

jective of integrating the environmental concerns into the

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CAP could not be fully achieved by this action alone but only if market policies were also compatible with the environmental protection requirements.

## 2. The concept of environmental benefits in EU agriculture in the framework of the 2003 CAP reform orientations

The last CAP reform agreement of June 2003, together with the ongoing second wave of the reform package, which includes the olive oil, tobacco, cotton, hops and sugar sectors into the same mainstream, is hopefully expected to almost complete this long process. Even if two, major for the South, production sectors (fruits & vegetables and vines) have remained outside the general orientations and provisions, three crucial changes in the relevant market regimes brought about by the recent reform have certainly a strong environmental linkage.

- The decoupling of almost all the area & headage payments and their replacement by the single farm payment signals a decisive shift of most market measures from production to income support. The single payment is kept constant in time, while it does not depend on land allocations among the different cultures. This is expected to enhance the ability of the farming community to remain in the sector in more competitive conditions, to strengthen therefore the sustainability of rural areas, but also to benefit the environment, by lifting those factors (high prices and production-linked payments), which have represented an incentive to intensify production with consequent harmful effects to the environment. It is therefore a sufficient condition for the CAP payments to become fully “green”, in accordance to the WTO classification.
- The compulsory application of the cross-compliance principle in any farming activity, under which all direct payments become conditional to specific environmental & land management requirements, represents a clear tendency of the CAP to become fully compatible with the citizens’ environmental concerns.
- The compulsory modulation of money from Pillar 1 to Pillar 2 measures, even if it is considered moderate at present, indicates a further shift of the available financial resources from market measures to measures that enhance the overall sustainability of the sector.

It is evident that, throughout this adjustment process, each policy pursued by the two pillars cannot be defined in an autonomous way. A large part of the continuing payments in Pillar 1, and the agri-environmental payments of RD Regulation in Pillar 2, have the same prime justification. In other words, as it is the case for the RD policy in total, the role of the targeted environmental and land management measures pursued through the 2<sup>nd</sup> pillar cannot be seen separately but only as accompanying and complementing those of the 1<sup>st</sup> pillar, and/or vice versa, when emphasis is given to the maximisation of environmental benefits.

Besides, the core of the measures included in the “environmental” category of the RD Regulation (LFAs & areas with environmental restrictions, the agri-environmental package and afforestation) were, since their inception, characterised by definition as “accompanying measures”. This also justifies the fact that all these measures are co-financed by the Guarantee Section, irrespectively of Objective 1 or 2 regions, covering therefore “horizontal” needs and not just problems of specific areas.

It should be stressed, however, that in theory and in practice, actual structural change is the outcome of measures which change incentives and patterns of behaviour and practices. This is the case of all the three innovations of the 1<sup>st</sup> pillar which, together with the environmental category of RD measures, both have or could also have a dynamically structural incidence on territorial basis. If this is the case, one could consider that, by bringing also the RD measures into the rules of Guarantee funding, these measures are losing part of their “cohesion” dimension.

From another point of view, however, by fully integrating RD policy within the CAP, a mechanism is set in place that may “facilitate” even further the objective of gradual shift of financial resources from “pure” market measures (Heading 1a) to RD (Heading 1b), as it is the case of the recent proposals on the table for establishing new product-specific funds for the restructuring of cotton and tobacco cultivations.

In our opinion, therefore, this is not to say that, such RD measures should go back and be co-financed by Guidance Section in order to “safeguard” their cohesion potential. By taking into account that cohesion is one of the fundamental objectives of the EU dictated by Article 159 of the TEC, under which “... the formulation and implementation of the EC policies and actions and the implementation of the internal market shall take into account the (cohesion) objectives set out in Article 158 and shall contribute to their achievement ...”, one should consider that there is an actual need to incorporate and/or strengthen any “cohesion” elements that should exist into the 1<sup>st</sup> Pillar as well. Certainly, such a movement could also contribute to maximising environmental benefits. Modulation is an example of incorporating, even partly, certain cohesion elements, while decoupling stands at the opposite side. As it is based only on previous historical data, it represents an unbalanced pattern of income support between the EU territories. In fact, the unequal size of the single payment across the EU territories continues, to a certain extent, the differential treatment between the “Northern” and “Southern” products, expressed historically in the form of differences in the support and protection systems and levels established under each respective COAM. In our opinion, this differentiation has had and continues to have an environmental impact as well.

In any case, the question today is actually how to achieve a joint and more effective coordination between the various activities and measures that will bring both Pillars closer to

the “cohesion” objectives, including territorial cohesion (as it is also explicitly mentioned in Article 16 of the EC Treaty). The idea of having a separate set of programming, financial management and control provisions for RD, by establishing a “Rural Fund” in the future, looks to be a very promising perspective towards this direction.

### 3. The southern / Mediterranean dimension of land use and aspects of environmental protection

Under the new CAP, the implementation of the last reform is challenged by two major risks in terms of environmental & land management requirements:

- Intensification of production systems does not disappear by only making the payments production-neutral. It may still be present in practise, as a result of activities of well-established and competitive farms in fertile areas, aiming to maximise their overall market returns. Decoupling will sharpen farmers’ focus on profitability which should mean more switching between crops under a more intensive use of land for exploiting all the available factor endowments.
- Abandonment of land becomes even more threatening in the light of decoupling, in marginal areas in particular. Fears have been expressed that the abandonment will be a result of low yields and/or high production costs, both limiting market returns, which will not be a sufficient incentive for farmers to continue with their activity. In this sense, the degree of abandonment will crucially depend on the degree of performance of the markets. Therefore, poor performance of agricultural markets will result, not only to acute social & economic consequences threatening a further rural unemployment and remoteness, but also to severe impacts on landscape and bio-diversity, through a marginalisation of land, which will break the symbiotic relationship and interdependencies between agriculture, forestry, management of natural resources (including flora and fauna), rural landscape and cultural heritage.

It seems that due to their specific characteristics, most areas in Southern Europe are much more exposed to both risks (depending on the typology of each rural area), but particularly to the second one.

Which are those characteristics that diversify the South from the North and make management of land more difficult, while boosting the cost of the necessary environmental protection? We think that no one can seriously deny that these characteristics, with the resulting deficiencies, are mostly linked to natural / geo-physical conditions, which could be, indicatively but not exhaustively, summarised as follows:

- Geographical and landscape features.
- Atmospheric and climate factors causing severe environmental damages (droughts, forest fires, strong winds, torrential rainfalls, floods, landslides, mudflows), which are increasingly frequent and intense in South and have, among other things, a strong incidence in farming as well

(soil erosion, impoverishing land further and making farming more vulnerable).

- Shortage of water usually linked to the frequent phenomenon of extensive drought, which creates, among other things, acute competition between the various water users.
- The limited availability of all the factors of production, in particular of land use.
- Higher dependency on agricultural activity, hidden unemployment in rural areas, aging population, depopulation and remoteness.
- The much larger disparities in development between rural and urban regions of the Mediterranean countries.
- Weak farm structures (small average size, dispersed holdings), the high fragmentation of which has called the economic viability of the existing farms into question.
- The production patterns and the share of products in the agricultural output.
- The variety of the natural & cultural heritage and the differing traditional attitudes.

For reasons of emphasising certain incidences and the resulting deficiencies of the above characteristics, we should take into consideration the following aspects as well:

- a) The Mediterranean Member States are characterised by their lengthy coastlines but they are predominantly mountainous and semi-mountainous countries, most regions of which are justifiably categorised as Less Favoured Areas. Mountain areas represent over 50% of the territories of Italy, Spain, Greece, Portugal (as well as Austria). In these territories, island and upland regions suffer from permanent geographic disadvantages, while fertile lowlands are limited to valleys, each one of rather small total surface area. Obviously, these features are the main reasons behind the observed dual pattern of RD in the South. On one hand, islands and uplands are permanently threatened by land abandonment, while, on the other hand, lowlands concentrate intensive cultivations, frequently accompanied with an exhaustive use of natural resources, which cause further environmental damage, as in the case, for instance, of the salinity of waters in coastal areas.
- b) In both cases, there is no doubt that the limited resources and the existing disadvantages increase production costs to levels that cannot be covered by the market prices alone. The additional cost attributed to irrigation needs is a characteristic example.
- c) In general, most of the Mediterranean regions have become environmentally fragile areas and environmental sustainability has become more prominent, requesting a bolstering of agri-environmental measures. This becomes even more necessary, if we take into account that, at the same time, the Mediterranean Member States are still privileged to have the richest concentration of flora and fauna in Europe. For instance, according to research calculations of botanists, out of 3,500 species of endemic wild flora in whole Europe, more than 50% are found



in Spain and Greece alone. 944 species are found in Spain and 950 in Greece, representing 1.9 and 7.2 species per 1,000 sq. km. of their territory respectively, as compared to an average of 0.3 species in whole Europe (data obtained from the Hellenic Society for Nature protection).

- d) Young population is driven to the urban areas, due mainly to the lack of opportunities for profitable employment but also for social reasons, and this continual tendency limits even further the innovation potential of the regions. As a result, the ageing population rises in areas where the maintenance of the landscape is absolutely necessary, which naturally coincide with a large scale of land abandonment. Further abandonment of land would create not only irreversible socio-economic problems but would also have severe environmental impacts.
- e) Agriculture still constitutes the full or partial occupation of the great majority if not of all the remaining population. Contribution of agriculture to local socio-economic conditions is still quite high.
- f) Disparities in development are widened as they are particularly marked, on a regional basis, in indicators like per capita GDP, unemployment, demographic factor, accessibility, research, education & training.
- g) Given that fruits & vegetables and vines are major sectors of production in the South, sectors that remain outside the current reform process, there is still a long way before the orientations and provisions of the recent CAP reform covers the total of their agricultural production. This is of crucial importance if we consider that the reform is beneficial not only to farmers but also to agricultural environment.

#### **4. Priorities for future development of environmental protection in the next programming period – Conclusions**

To a certain extent, both the RD policy and the reform of the CAP have contributed to slowing down or halting the conversion of environmentally fragile or ecologically valuable land to harmful agricultural uses. Contrary to this, however, it is the abandonment of land which constitutes the most environmental threat in the South. The gradual transformation of the CAP towards market orientation has worked as a sufficient disincentive, not only for potential expansion of farming in areas where the rules to respect the environmental requirements are enforced, but also in continuing with previous farming activities, given that the viability of holdings have become even more problematic.

**4.1.** Given that many of the positive and negative environmental effects of agriculture are spillovers to the rest of the economy or public goods (OECD, 2001), the LFAs schemes should be reviewed in future, concerning both the criteria for their classification and the co-financing amounts for compensations, in a way that they become

primarily (but not exclusively) an additional instrument of cohesion on a regional basis in the future.

Criteria for classification of LFAs should be enriched on the basis of regional / territorial dimension of cohesion, as long as development disparities are greater at regional rather than national level. Additional indicators can be elaborated and used for this purpose in the future, like population density, age structure of active persons, education and training, availability of basic social services, accessibility, research and innovation potential, while the degree of remoteness should attract our special attention.

The amount of allowances in LFAs and Natura 2000 areas should be reviewed and go beyond the coverage of income loss and additional costs resulting from the environmental commitments. They should focus on the need to become real incentives sufficient to attract the youth to stay or return to their homeland. This could only become effective if the financial incentive is related to the level of income disparities on regional basis.

**4.2.** It is obvious that agri-environmental action should go hand-in-hand with broader EU-strategies in the field of the general environment. Synergies with the rest RD programmes and/or activities pursued by other sectoral policies should be carefully considered and safeguarded. Some examples might highlight the importance of this:

- The “polluter pays” principle states that the polluter should be held responsible for environmental damage caused. It means that the polluter should bear the expenses for carrying out the measures decided by public authorities to ensure that the environment is in an acceptable state (OECD, 2001). If this is the case, then it looks ironic that sometimes the previous excessive use of nitrates is indirectly subsidised, instead of being penalised, through allowances to reduce nitrogen use, while there is no mechanism to reward areas that have been kept intact of this kind of pollution. In addition, the environmental importance of maintaining the traditional extensive methods of production has not attracted the special attention of the policy makers or the programming authorities.
- There is a growing competition for scarce water resources between agriculture and other users, the tourist industry in particular, which, in the case of Southern economies is rather dominant. This reality has a broad environmental dimension, but it is more obvious in the agricultural domain itself, as far as agro-tourism is involved. Agro-tourist activities, which should always be channelled to attain the objective of indigenous development (widening the sphere of employment of persons truly engaged in agriculture, utilisation of local products, recreational activities linked with farming, etc) cannot compete, in terms of water availability, with programmes promoting irrigation for farming.
- The scientific and social dispute concerning the issue of the potential environmental implications of GMOs is well-known and still on-going. The current EU dispute on regulating “co-existence” necessitates our special atten-

tion. In our opinion, the “co-existence” issue cannot be considered only on the basis of financial compensations to cover potential damages of the farmers with different plantations (GMO, conventional and organic farming). It is true that authorised GMOs guarantee the right of the consumer to choose between GM and GM-free foods. However, the use of GM material in environmentally fragile areas may still pose a threat to the environment and become an issue of high importance in cases of wild flora and fauna or of conventional farming, currently exercised by fragmented small holdings in mountainous or LFAs regions. As long as scientific environment-related evidence and risk assessments on the incidence of releasing GM material have not been completed, the risk continues to exist for marginal areas. In this case, the ideal would be to define Community-wide which of these regions, under certain conditions, may be declared as GMO-free zones, even if this strips some farmers of their choice between GM and GM-free farming. Otherwise, it is fair and appropriate, that current and future Member States, characterised by similar geographic deficiencies, have the choice to take measures, and perhaps the right to define GMO-free zones, ensuring that co-existence does not threaten seriously the local, usually rich, biodiversity (flora and fauna).

**4.3.** If our policy is indeed to be oriented towards maximising environmental benefits, there is no question of replacing one with another measure(s) included in both pillars, but rather enriching them in a way ensuring that environmental functions of farming are maintained in both pillars. It is of first priority, however, to promote the work on the agri-environmental indicators, the clear definition of which would allow distinguishing and lifting any potential confusion that might still exist between the measures taken in the framework of the 1<sup>st</sup> or the 2<sup>nd</sup> pillar. In our opinion, this is of crucial importance, particularly in the light of the EU expansion with the ten newcomers. A clear example of such a “might-to-be” confusion can be driven from the definition, scope, and implementation of the cross-compliance minimum standards (included in Annexes III and IV of the horizontal Regulation) and the production methods which go beyond usual good farming and husbandry practices (which are the baseline for support under the RD Regulation). The establishment of measurable EU-wide indicators at the earliest possible will contribute decisively in drawing the suitable and fair line between minimum statutory requirements and standards and requirements & standards that go beyond and imply an additional cost for the producers, which is not recovered by the market.

**4.4.** Afforestation of agricultural land cannot be linked any longer to the reduction of the production potential. This link is becoming unnecessary in the light of decoupling. In addition, it may be used as an excuse for further abandonment of land without keeping the required land management obligations and, therefore, become incompatible with the implementation of cross-compliance principles (Annex

IV of Horizontal Regulation). Afforestation should be re-targeted more to reduce the impact of natural disasters, which becomes extremely important in the light of forest fires. It should be considered, however, that the growing needs for afforestation, of non-agricultural land in particular, cannot be covered by public authorities alone. Local actors, the hardcore of which could be the remaining farmers, have a crucial role to play, in particular in taking care and maintaining the new forest plantations, on the assumption that they are compensated accordingly.

**4.5.** Irrespectively of the objective to change the production pattern, this cannot be realised on a massive basis in LFAs in particular. Strengthening the agricultural and forestry sector (also including fisheries) remains a target.

It is true that, in some cases (as it is the case of some remote Greek islands), the environmental performance of agriculture has deteriorated with the regional concentration of activities, such as livestock farming. Taking into account that this may result in higher levels of nutrient surpluses and consequences in water pollution in some regions, measures should be taken to ease this pressure. In this respect, encouragement of a multi-sectoral agriculture in fragile areas might be the right balance between continuing agricultural activity and enriching, instead of impoverishing, the environmental dimension of farming.

**4.6.** The current administrative problems at all levels that appear as a result of the complex multiplicity of funding lines, certainly limit the effectiveness and innovation. Mechanisms & processes should be simplified. A better coordination with regional and urban policies is needed. Transfer of know-how to farmers in this area remains uncovered.

Agri-environmental measures in the South appear to have been effective when the environmental objectives were clearly specified and the actions required by farmers are closely targeted to the objectives. The case of building-up or repairing terraces in the mountains and the islands, an activity which certainly goes beyond the Good Farming Practices, is an obvious example.

It should be taken into consideration that for some of the existing Member States, particularly in the South, the agri-environmental action established in 1992 was a real innovation. From this point of view, lack of previous administrative experience in this field was usually a bottleneck to the conception and implementation of environmental programmes and, to a certain degree still is. This should be taken into consideration in the light of enlargement, as there are indications that this kind of action will also be an innovation for some if not all the new Member States. Lessons should be drawn, in particular, from the delays in submissions and approvals of agri-environmental programmes that were the most acute problem in the past.

In this respect, the integration of all the existing funding resources into a single financial instrument with common and simpler rules would substantially increase the efficiency of delivering RD policy on the ground and would offer

additional opportunities to better coordinate and give more emphasis to agri-environmental protection requirements. The long “dispute” between Guarantee and Guidance funding procedures, which currently try to reflect the difference between short- and long-run programming, will be raised. Community long-run programming might coincide with annual appropriations, as appears in the case of LFAs payments. A “Rural Fund”, therefore, could become the suitable instrument for the removal of the huge administrative problems that are created by the multiplicity of funding lines under the current system. At the same time, it may also contribute more decisively to touching on the existing disparities between the regions, with positive environmental effects.

4.7. It should be stressed that, thanks to the implementation of RD programmes, as long as they were accompanied by appropriate compensations, the remaining farmers had an incentive to earn some additional income by widening their activities beyond their traditional production-oriented practices, although there was an underestimation of the necessity for targeted training in making farmers more sensitive to the importance of protecting the environment for their own benefit. Even so, however, it would be an exaggeration if the success of the specific agro-environmental programmes was to call into question.

Concluding the above mentioned comments on the specific measures of RD Regulation and the priorities for the future programming, we should add that no one knows better than the local actors of the local necessities. Decentralisation of responsibility, flexibility of programming should

be targeted and implemented in accordance to regional specific needs. Lessons can be drawn from Leader+ approach.

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