



# CAP REFORM PROPOSALS





# Executive summary

A ten-point plan from BirdLife International could point the way for radical reform of the Common Agricultural Policy. Ever since its inception in the 1950s, the CAP has been subject to changes, but now the need for all-encompassing reform is urgent and unquestionable. Pressure is mounting from all sides – from the need to protect the environment, to give farmers, consumers and taxpayers a better deal, to facilitate the enlargement of the EU, to meet the requirements of EU legislation and international treaties, and to secure agreement with global trading partners. Yet the exact path any reforms should take is one of the most contentious issues facing the EU today.

Given the potential impact of reforms, many commentators argue not for sudden change but for a more gradual evolution. BirdLife International has produced this paper to contribute to the debate on the CAP.

We propose a vision that if implemented over the next 3–5 years could offer a logical evolution of a policy which at present is failing those it seeks to provide for.

This paper sets out 10 steps for CAP reform. Their benefits include:

- a fairer system of support for farmers and a simpler, more focused CAP
- environmental protection and enhancement
- a better deal for consumers and taxpayers
- economic development and job creation in rural areas
- fewer negative impacts on developing countries and other trading partners worldwide.

**The future of farming depends on effective reform of the CAP.**



A Hay (RSPB Images)

# Our 10 steps for CAP reform are:



4

**Link CAP support payments to the environment and rural development**



1

**Phase out price supports over a period of about five years**

5

**Continue to provide substantial levels of public financial support to deliver environmental and social benefits in rural areas**

6

**Reduce rates of member state funding for environmental and rural development projects**

2

**Change the rules on access to EU markets**

7

**Target some environmental and rural development support to areas with special needs**

3

**Separate all CAP support payments from production**



# 8

**Modulate – i.e. target – payments to help smaller farmers**

# 10

**Extend these proposals to an enlarged EU**

# 9

**Broaden the eligibility criteria for receiving CAP funding**



We recognise that pursuing such reforms could have major implications for farming across Europe. While we believe such reforms would benefit the environment, consumers and taxpayers significantly, it is not in anyone’s interest to adopt policies which undermine the future of farming in Europe. Good quality food, a countryside rich in wildlife, varied landscapes, clean air and water, and cultural diversity all depend on a viable and sustainable farming industry. Future policies must benefit farmers too.

We believe that our proposals will help to secure the future of agriculture in Europe. We intend to undertake further work to determine the impact of our proposals on different farming types and in different areas of Europe so we can construct a more informed picture of what change will mean for farming.

Reforming the CAP in the way we propose is not without its problems. It needs political consensus in Europe on farming policy at a time when there is little or no consensus. There will be winners and losers, especially among the farming community, and hence pressure to resist such change. It will be essential to manage change effectively and build in a period of structural readjustment.

Reforming the CAP in the way we describe could overcome many of the growing problems already associated with the existing policy and offer an attractive range of benefits to many more of Europe’s citizens than at present.

**See page 12 onwards for more detail on all 10 steps.**

**We urge Governments and all parties interested in the CAP to rise to the reform challenge.**

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# Introduction

BirdLife International continues to advocate radical reform of the Common Agricultural Policy (CAP). Reform is needed to protect and restore Europe's biodiversity, much of which depends on agricultural habitats, and has been heavily depleted by agricultural practices under the CAP and national agricultural policies. BirdLife believes that the CAP can be reformed in a way that is better for farmers, improves the rural environment, secures better value for money for Europe's consumers and taxpayers, and prepares the EU for enlargement and world trade negotiations.

BirdLife's last major policy paper on the CAP, *A future for Europe's rural environment – reforming the Common Agricultural Policy*<sup>1</sup>, was published in August 1997, shortly after the European Commission's initial Agenda 2000 proposals. The paper presented several case studies demonstrating the nature conservation value of farming in different parts of Europe, as well as setting out our position on CAP reform.

Since we produced *A future for Europe's rural environment*, BirdLife's understanding of the

environmental and social impact of the CAP has increased. The discussion of nature conservation issues and the regional case studies presented in that report remain pertinent. However, there have been several other important developments since 1997, such as progress towards EU enlargement, preliminary World Trade Organisation (WTO) negotiations, implementation of the Agenda 2000 reforms, and the spread of BSE and foot and mouth disease.

This paper is an update of BirdLife's policy on CAP reform.



M Edwards (Still Pictures)

# The CAP and the environment

Europe's environment faces some major challenges: climate change; reductions in water quality and pressures on quantity; air pollution; soil erosion and degradation; and loss of biodiversity. The scale of these problems is huge and affects every European citizen.

**Groundwater abstraction for irrigation can lead to water shortages.**

Intensive agriculture contributes significantly to these environmental problems<sup>2</sup>; a shift to more sustainable farming systems would be part of the solution. CAP reform is essential if Europe is to meet these crucial environmental challenges over the next decade.

## Climate change

Climate change is already leading to rise in sea levels and flooding of low-lying areas, changes in rainfall patterns with implications for floods and droughts, and changes in the incidence of climatic extremes. These problems are likely to worsen if urgent action is not taken. Ratification of

the Kyoto Protocol is a step in the right direction. Agriculture contributes directly to the production of greenhouse gases such as methane and nitrous oxides which contribute to global warming. Agriculture will also suffer the consequences of global warming if action is not taken.

## Water shortages, flooding and pollution

Groundwater abstraction already exceeds the recharge rate in some regions of southern Europe (where 60% of all water abstracted is for irrigation of crops). The way in which farmland is managed also has an impact on flooding. Land drainage and overgrazing means we remove water from land as fast as possible, which manifests itself most damagingly in flood "bottlenecks" in urban areas. Water quality is also a key issue. There has been no overall improvement of river quality across Europe since 1989/90. Phosphorus and nitrogen continue to cause eutrophication of surface waters. Meanwhile, groundwater quality is affected by increasing concentrations of nitrates and pesticides from agriculture, and admissible levels of both are frequently exceeded. As consumers, we bear the cost of cleaning such residues from our drinking water. The EU Water Framework Directive (Directive 2000/60/EC) will require better control of these agricultural impacts as part of integrated catchment management, to improve the status of surface and groundwater bodies.

## Air quality

Agriculture is both a source of, and affected by, air pollutants such as oxides of nitrogen and ammonia, which can affect ecosystems through acid rain and terrestrial eutrophication, and are linked to health risks. These emissions are a

Jordi Carni (Environmental Pictures)



feature of intensive agriculture, particularly intensive livestock systems. In some areas of Europe, arable intensification on dry soils has contributed significantly to particulate material suspended in the air, also associated with health risks. The EC Air Quality Framework Directive (96/62/EC) (particulates and nitrous oxides) and the proposed National Emissions Ceilings Directive (ammonia), commit member states to reduce emissions below agreed ceilings.

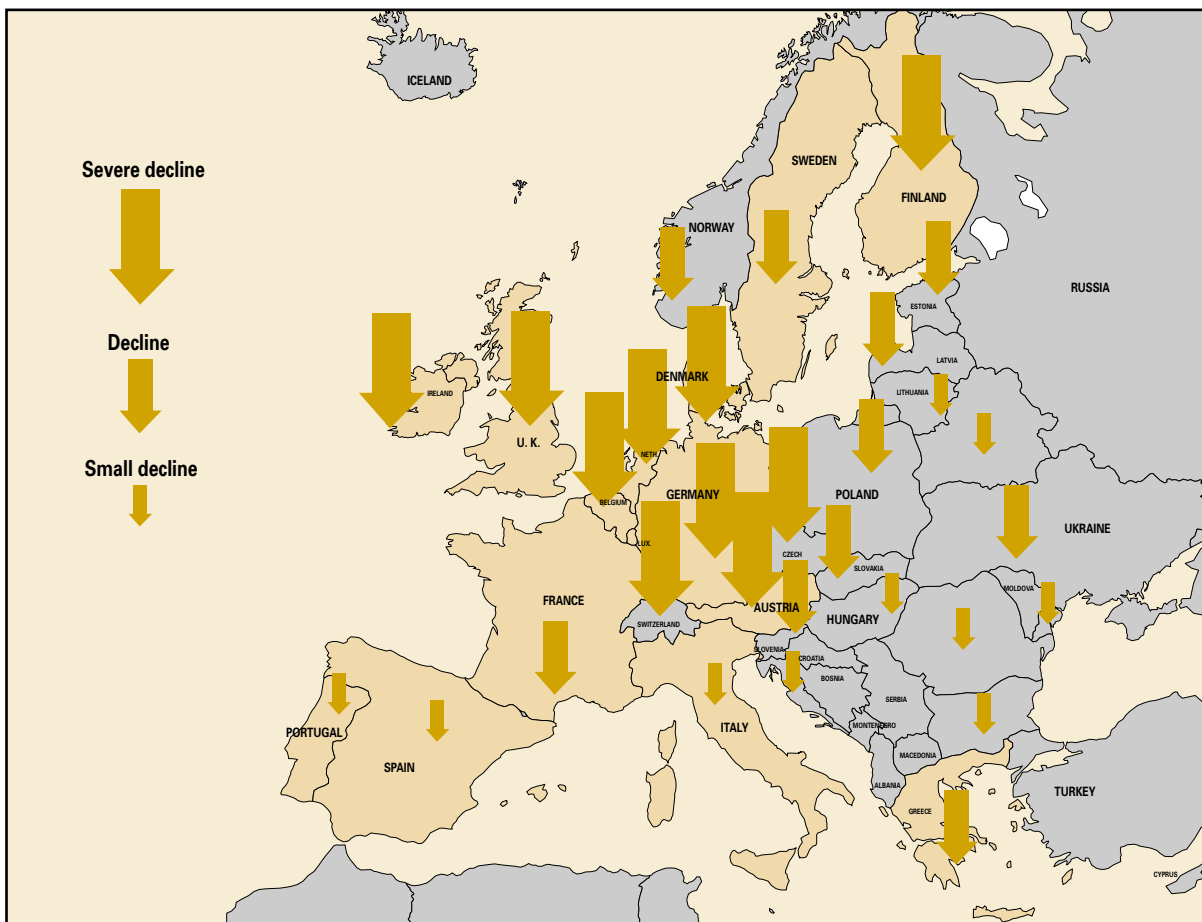
### Soil erosion, salinisation and degradation

Soil erosion is exacerbated by mechanisation, ploughing on steep slopes, loss of grass rotations, overgrazing and land drainage. Some 12% of the total European land area is affected by

water erosion and 4% by wind erosion. Salinisation is a problem in Mediterranean countries, partly caused by over-exploitation of water resources as a result of irrigation. Soil compaction is also a problem as a result of repeated use of heavy machinery as well as overstocking.

### Loss of biodiversity

The threat to Europe's wildlife from agriculture is severe and the number of overall species is declining. In many countries, up to half the known invertebrates are under threat. Birds – probably the best monitored species – have undergone severe decline over the past 30 years (Figure 1). Habitats such as wetlands, wood pastures, meadows and natural and semi-natural woodlands continue to be lost or degraded.



**Figure 1**

Farmland bird declines in Europe 1970-1990 Based on Donald PF, Green RE and Heath MF (2001). Agricultural intensification and the collapse of Europe's farmland bird populations<sup>9</sup> *Proc. R Soc London B* (2001) 268, 25-29

## The CAP and farmers

The original objectives of the CAP set out, in part, to “ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture”.

The extent to which the CAP has met this objective is debatable. Many farmers across the EU have built their fortunes on the back of the CAP subsidy system but many more have simply been unable to make a living from farming and been squeezed out of business. Over the past 25 years the European farm labour force has contracted, falling from 13 million to 7 million. The emphasis on production subsidies has rewarded large farms which produce more. Some 80% of subsidy is handed out to just 20% of EU farmers with some sectors

totally unsupported. In the same way, intensive agricultural regions of the EU such as Belgium, the Netherlands and Denmark have been favoured by the CAP at the expense of less productive regions such as Spain and Portugal.

We argue that the CAP is unfair to many farmers. Support measures that focus more on the environmental and rural development outcomes of farming and less on productive capacity would be much more equitable.



E A James (RSPB Images)

**Some 80% of subsidy is handed out to just 20% of farmers – mainly in the arable sector.**

# The CAP, food and the consumer

In the past 50 years there has been a food revolution. There are 370 million people in the EU. Our demands for variety and value have reshaped the entire food chain. But despite living in an age of plenty and choice, our concerns about food – and the methods used to produce it – are increasing. Recent health problems caused by salmonella and BSE, anxiety about the environmental and ethical effects of intensive farming and genetically modified crops, and the economic problems facing farmers, have spurred unprecedented debate about food and farming.

EU consumers pay for food in three different ways:

- Each year the EU spends €44 billion (euros) of taxpayers' money to support the farming industry through the CAP. Currently only 10% of the CAP budget is spent on environmental schemes or on measures that promote rural development.
- The intensification of farming may produce more food at lower apparent cost, but it has harmful side effects. For example, consumers and taxpayers meet the costs of removing pesticides from drinking water, resolving food safety crises such as BSE, and attempting to mitigate the negative impacts of agriculture on landscapes and wildlife.<sup>3</sup> Many of these problems are not dealt with and the costs are passed on to future generations.
- Food prices in the EU are protected through the CAP, making them higher than in many other countries. For example, milk prices in the EU are almost double the world market price.

By paying for food in these three ways it is difficult for consumers to assess the real price of food. In some respects, the retail price of food is cheap because it does not internalise the costs to the environment of the way in which it was produced, packaged and distributed. For example, if the price of food reflected the costs of cleaning pesticides from drinking water or rather was produced in such a way that water was not polluted in the first place, it would be more expensive. Organic farming is one example of a system which internalises costs and passes these on to the consumer through food prices. In other respects, food in the EU is expensive because CAP subsidies fix the farm gate price of some products above their world market price and this inflated price is then passed on to consumers. If price support and production subsidies were abolished, prices for some foods should be less expensive than now.

Reforming the CAP will not necessarily lead to cheaper prices for consumers; the proposals we set out would lead to reductions in some food prices but potential increases in others. However, other "hidden costs" which the public ultimately pay for – through Government taxes, as consumers of other goods such as water, or through their own health – are likely to be reduced and, we believe, that consumers would be better off overall. Better labelling of food, to allow consumers to make informed choices about what they buy, is also needed.



# How the CAP budget is spent

CAP spending in the EU totalled €45 billion in 1999 and is set to exceed €47 billion in 2001<sup>4</sup>.

Receipts of €2.2 billion from charges and levies will reduce the net cost of the CAP to €44.9 billion in 2001.

In 1999, the CAP spent €11 billion on price supports, and a further €26 billion on direct payments. Only 7% of the budget of the European Agricultural Guidance and Guarantee Fund (EAGGF)

was spent on the accompanying (agri-environment, forestry and early retirement) measures (Figure 2).

In 2001:

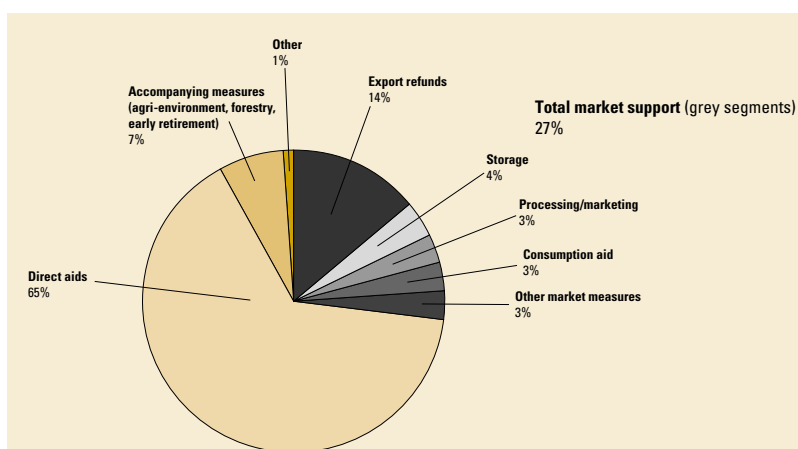
- €27.9 billion are spent on support for producers of plant products
- €10.7 billion are spent on support for producers of animal products
- Only €4.5 billion are spent by the EU on rural development regulation measures.

France receives the most CAP expenditure – €9 billion in 2000.

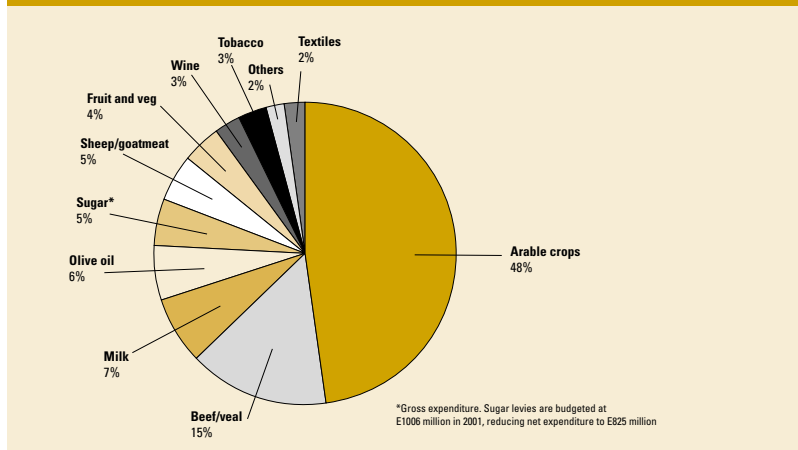
Spending on commodities, through price supports and direct payments, is expected to total €38.6 billion in 2001. The arable crops regime will account for 48% of this budget (Figure 3).

In 2001, the net budgetary cost of the CAP was €44.9 billion. The EU's utilised agricultural area totals 134.7 million ha. Expenditure under the CAP therefore averages €333 per ha of agricultural land in the EU. Average rates of spending vary between member states (being highest in Belgium, Denmark and the Netherlands, and lowest in Spain and Portugal) and between types of commodity. Highest rates of subsidy are paid for tobacco, fruit and vegetables, hops, rice, olive oil and arable crops. Other products, for example potatoes, pigmeat and poultry receive little or no subsidy. Sectors such as pigs and poultry are further disadvantaged since they use commodities, such as cereals, whose prices are supported by the CAP.

Combining transfers to producers from both consumers and taxpayers, the Organisation for Economic Co-operation and Development (OECD) estimated that the producer support estimate (PSE) in the EU totalled €98 billion in 2000, equivalent to 38% of the total value of the EU's agricultural output. This meant that farmers' gross receipts were 62% higher than they would have been if valued at world market prices and without support. The EU's PSE is significantly higher than those in the US (22% of output), Australia (6%) and New Zealand (1%), but below those in Japan (64%) and Norway (66%). The OECD also estimated that the prices received by agricultural producers in the EU were on average 37% higher than border prices in 2000.<sup>5</sup>



**Figure 2**  
Breakdown of expenditure under EAGGF Guarantee Fund, 1999



**Figure 3**  
Budget for CAP production related supports, 2001

# Why the CAP needs to change

- **It damages the environment.** Production supports still encourage intensive farming on land where it would not otherwise be economically rational and leads to environmentally damaging activities.
- **It is unfair for farmers.** A large proportion of CAP subsidies go to the largest and most productive farms, which need them least. The CAP also favours intensive agricultural regions of the EU, such as Belgium, Netherlands and Denmark, at the expense of less productive regions such as Spain and Portugal. This distribution of resources is inconsistent with rural development and environmental needs.
- **It provides poor value for money for the EU's taxpayers.** The cost of the CAP is high, but the benefits to the EU's citizens are often unclear. Only a small proportion of the CAP budget is linked to the provision of real benefits for Europe's countryside or rural communities.
- **It is based on outdated objectives and policies.** Despite talk of the multifunctionality of agriculture, production-linked subsidies still dominate the CAP.
- **It results in hidden costs for consumers and taxpayers.**
- **It encourages the wasteful use of resources.** Price supports encourage the inefficient use of high levels of inputs, often to produce surplus food that is costly to dispose of. The CAP distorts the economy by holding resources in agriculture that may have more productive uses elsewhere.



Malcolm Hunt (RSPB Images)

- **It damages agriculture in developing countries.** Export subsidies provide unfair competition for producers in developing countries.
- **It is incompatible with the enlargement of the EU.** Export subsidy limits and budgetary constraints are barriers to enlargement, and without CAP reform environmental and social problems widespread in the existing EU will be exported eastwards.
- **It is complicated and bureaucratic.** The CAP structure results from a complicated series of price and production supports for different commodities, which have been reformed to varying extents and in different ways.
- **It is inconsistent with EU processes** to integrate environmental protection

at a cross sectoral level, including the 6th Environmental programme, the EU's sustainable development strategy, the Integration process and the EU Biodiversity Strategy.

It is time to consider a radical reform and simplification of the CAP – to reward countryside management, environmental improvement and rural development, rather than commodity production. Further decoupling of subsidies from production – and linking them to environmental and rural development objectives – will help the EU to address priorities for rural communities and the countryside, while meeting its trade and enlargement aims.

# Is trade liberalisation the answer?

In theory, liberalisation of agriculture should result in more efficient use of resources and lead to environmental benefits. In practice, however, trade is distorted by inappropriate subsidies and by a failure to internalise the social and environmental costs of agricultural production.

As one group of eminent economists conclude “since prices do not reflect the full cost of production, economic inefficiencies are introduced, and countries’ real comparative advantages will be mistaken. Trade will thus be distorted and not correctly reflect social and environmental values”.<sup>6</sup> The UK Government, in its sustainable development strategy, further supports this case, saying “where economic activity is unsustainable, trade can act to magnify this, increasing pollution and depletion of natural resources such as forests, fish and other wildlife, and minerals”.<sup>7</sup> Truly efficient agricultural production should not entail the depletion of natural resources or degradation of land. Policies should take proper account of the cultural ramifications of farm amalgamation, the displacement of rural communities, and the social and economic costs of urbanisation. They should also work with, rather than counter to, biodiversity and include costs associated with deforestation, biodiversity decline, soil degradation, water pollution and emissions from fertiliser production. Such accounting should also reflect the transport

costs associated with trans-national shipment of food and inputs.

The EU must address these market failures to “internalise costs”. Continued liberalisation of agriculture will not foster better social, environmental and economic production patterns until market prices truly reflect the full costs of agricultural production.<sup>8</sup> Many of these external costs are currently met through public spending or higher costs to the consumer in other sectors. Water company customers in the UK, for example, pay around £120 million per year in their water bills to ensure their drinking water meets standards for levels of individual pesticides. This is equivalent to a direct production-linked subsidy to the farmers who use these pesticides.

Internalisation of these costs would directly benefit:

- Consumers who currently choose to buy more sustainably produced food.
- Producers who pursue more sustainable agricultural practices, but who are competitively disadvantaged in so doing.
- The environment.

**Cleaning pesticides from tap water is a major cost to consumers.**



Mark Hamblin (RSPB Images)

# BirdLife's CAP reform proposals

BirdLife proposes a vision for the CAP that if implemented over the next 3–5 years could offer a logical evolution of a policy that is failing those it seeks to provide for.

We set out 10 steps for CAP reform that we believe will result in:

- a fairer system of farm support and a simpler, more focused CAP
- environmental protection and enhancement
- a better deal for consumers and taxpayers
- economic development and job creation in rural areas
- fewer negative impacts on developing countries and other global trading partners.

We recognise that pursuing such reforms will have major implications for farming across Europe. While we believe such reforms would benefit the environment, consumers and taxpayers, it is not in any of our interests to adopt policies which undermine the future of farming in Europe. Safe, healthy food, a countryside rich in wildlife, varied landscapes, clean air and water, and cultural diversity all depend on there being a viable and sustainable farming industry in Europe. Future policies must benefit farmers too. For this reason, we intend to carry out more work to determine the impacts of our proposals on different farming types and in different areas of Europe, and to refine them accordingly.

Reforming the CAP in the way we propose has problems. It needs political consensus in Europe on farming policy at a time when there is no consensus, other than in a handful of member states. There will also be winners and losers, especially among the farming community, and hence pressure to resist such change. It will be essential to

manage change effectively and build in a period of structural readjustment.

Reforming the CAP in the way we describe could overcome many of the growing problems already associated with this policy and potentially benefit many more of Europe's citizens than at present. For these reasons, we urge Governments and all parties interested in the CAP to rise to the reform challenge.

We hope our proposals stimulate discussion and would welcome feedback from all relevant parties interested in the future of rural Europe.

BirdLife's 10 steps towards a reformed CAP are:

## 1 Phase out price supports over a period of about five years

Price supports in the EU have encouraged intensive, high-input agricultural systems as farmers have striven for higher yields. This has damaged the environment. High agricultural yields are closely correlated with farmland bird declines in the EU.<sup>9</sup> Price supports have caused many other problems. They have encouraged surplus production, which has been costly to dispose of, and has resulted in the need for export subsidies and supply controls. Export subsidies have distorted world markets and provided unfair competition for agriculture in some developing countries.

Price supports were significantly reduced in the 1992 and 2000 CAP reforms, in response to pressure on export subsidies under the GATT/WTO process.



**Production subsidies have encouraged intensive olive growing with dramatic impact on the South EU environment.**

We would like to see price supports abolished, so that EU prices of agricultural commodities are aligned with world market prices. This would enable all export subsidies, intervention buying and supply controls (including quotas and set-aside for supply control purposes) to be abolished. Price supports should be phased out by reducing support prices for key commodities towards world market prices over a period of about five years, and replacing them with other forms of support decoupled from production.

We would emphasise, however, that:

- We firmly reject the idea that trade liberalisation in itself will solve all of the problems caused by the CAP. A move to world market prices would solve some of the problems. It may have some environmental benefits (in some instances encouraging extensification, and possibly making environmental schemes more cost effective) but it will also reduce the profitability and competitiveness of many enterprises, force farm amalgamation, and reduce

environmental management expenditures. Because of this, abolishing price supports is far from being an end in itself. BirdLife believes that price supports should be replaced by other forms of support that are less distorting to trade and are less environmentally damaging.

- Quotas and set-aside, while introduced mainly for supply control reasons, have brought certain environmental and social benefits. For example, well managed set-aside has brought benefits for farmland birds and biodiversity in intensive agricultural areas of Northern and Central Europe. Quotas are likely to have benefited small and family farms and restricted the rate of farm expansion in the EU. The environmental benefits of set-aside should be captured by dedicated environmental schemes, while the social impacts of removing quotas can be addressed through measures designed to help smaller farms, for example through positive modulation, schemes targeted at the needs of smaller farms and measures

to encourage new farmers. We believe that well designed schemes would be more effective in addressing environmental and social concerns than supply controls, where any environmental and social benefits are a fortunate by-product.

- There is a good case for emergency aid measures to support agriculture during exceptionally adverse market conditions. While we fully reject the idea that the EU should routinely manage market prices to keep them above world market levels, the nature of agricultural commodity markets is such that prices and incomes can crash to low levels in years where supply is unusually strong.

As such market conditions could have significant adverse impacts on the countryside and rural communities by driving farmers out of business, we believe that the EU should retain measures to reduce these impacts. These could include emergency state aids, or measures to encourage farmers to take out insurance or to trade in derivatives. Alternatively, the EU could maintain an intervention system to ensure minimum prices for key commodities, but set intervention prices well below average world market prices, thus becoming a buyer only in exceptional circumstances. Although further research is needed, the cost of emergency intervention measures of this type would be significantly less than the €11 billion the EU currently spends on market support.

- We do not believe that the EU should be obliged to provide direct compensation for cuts in support prices. However, we do

believe that public financial support for agriculture is justified, and we set out proposals below for reformed support. Producers of commodities such as milk and sugar beet, who rely most heavily on price supports at present, will be most affected by price cuts, but will become eligible for new direct payments, which can be phased in as price supports are reduced.

## 2 Change the rules on access to EU markets

At present, market access policy is largely determined by the need to protect high internal prices for a range of products as well as the interests of some EU processors.

Market access is also determined by historical links to former colonies that receive a range of preferences through the Cotonu Agreement (formerly the Lomé Agreement). The EU's recent "Everything But Arms"<sup>10</sup> initiative and the EU's Generalised System of Preferences scheme (GSP)<sup>11</sup> also confer market access preferences on developing countries. Protection is currently provided for producers regardless of the sustainability of their operation and, similarly, market access is provided to products regardless of how they have been produced. While elements of the current policy are laudable (ie preferential access for the poorest countries), there needs to be a rethink about what requires protection and how tariffs can be used as a mechanism to "internalise external costs" and promote more sustainable agriculture.

**WTO rules need to change to help farmers in developing countries.**

Ultimately, the best way to address the problem of internalising the external costs of agriculture, while continuing to move towards the liberalisation of world agricultural markets, is through international agreement. However, in the absence of such agreements, any steps taken by the EU towards the internalisation of the external costs of agriculture could leave EU farmers at a competitive disadvantage with producers in other countries who are not subject to equivalent regulation. Paradoxically, it is those who are producing most efficiently in this inclusive sense (i.e. taking account of the full costs of production) that are adversely affected. This is an inversion of the market-driven efficiency the international community aims for.

Addressing this problem requires a significant rethink of the current WTO Agreement on Agriculture (AoA), which pays no heed to sustainability concerns in its market access rules. The AoA could instead be used as a way to internalise costs through, for example, differential tariffs.

Therefore, in the short term, the EU should approach unilateral reform of the CAP's market access policies cautiously. In the medium to long term, the EU should seek to negotiate reform of the AoA to develop a system that allows discrimination between products or countries based on sustainability criteria.

The development of such trade policies presents technical



J Eichart (Still Pictures)

challenges and also runs counter to conventional interpretation of current WTO rules. The Appendix outlines some possible approaches to using market access restrictions in this way and examines how this can be accommodated within WTO rules.

### 3 Separate all CAP support payments from production

Although CAP payments are less directly linked to production than they were 10 years ago, most still retain a link to output. For example:

- Arable area payments require recipients to grow specific crops – cereals, oilseeds and proteins. They cannot be claimed on land not used for production (e.g. uncropped field margins), except where this qualifies as set-aside. This gives farmers powerful incentives to grow particular commodities and to maximise cropped area, even where output is less than the cost of production, such as in marginal areas.
- Headage payments encourage many farmers to keep more livestock than would otherwise be the case.
- Market price support still encourages surplus production of some commodities, especially dairy products.

As well as distorting markets and trade, these production subsidies have adverse impacts on the environment. For example, headage livestock payments contribute to overgrazing in many parts of Europe and encourage the loss of natural pastures, many of which have been “improved” through chemical applications and/or re-seeding. All production-linked subsidies inflate the costs and reduce the effectiveness of agri-environment schemes aiming to encourage

extensification or re-create non-agricultural habitats. Because they are linked to production, mainstream CAP payments favour farmers in more productive areas, and offer less support to farmers with more marginal land.

Current CAP subsidies favour certain commodities and farming systems, largely as a result of historic patterns of production and price support. More extensive production systems, such as traditional olive groves, which are often rich in biodiversity and cultural values, often receive less support than intensive production. There is, however, little logic in providing higher levels of support for some systems than for others, except where those systems make special contributions to landscape, biodiversity or rural development. We therefore believe that all farming systems should receive the same rates of basic support, while environmental, social and rural development needs should be met by supplementary schemes.

All CAP support payments should be fully decoupled from production, and replaced with a series of non commodity-specific area payments, agri-environment schemes and rural development measures.

Decoupling CAP payments from production, and linking them to the provision of clear public benefits in the countryside, will reduce their impact on other countries making them more acceptable in negotiations aimed at reforming the WTO Agreement on Agriculture. This should help to ensure their long-term future.

Switching to such payments would need to be phased in over the same period as price support is phased out – about five years.

This would allow a period of adjustment and ensure that those farmers who would lose money under the new system were given some time to plan and adapt their businesses. Specific measures could be introduced to ensure farmers do not suffer from a sudden collapse or increase in farm incomes, which could have severe social and environmental implications. For example, those farmers who would receive less from area payments than from current production subsidies could receive a safety net payment equal to 90% of their previous subsidy level in year one, 80% in year two, reducing to their new area payment level by year five. Equally, farmers whose area payment would be greater than the level they received from production subsidies would initially have their payments capped, receiving an additional 10% in year one, 20% in year two, increasing to the full amount in year five.

### 4 Link CAP support payments to the environment and rural development

EU support for agriculture should be much more closely linked to the provision of environmental and rural development benefits in the countryside. Agricultural support should be based on a system of basic area payments, with environmental conditions, and additional environmental and rural development schemes. Environmental and rural development payments should occupy much more of the CAP budget than they do at present, and be designed to achieve specific environmental and rural development goals.

CAP support should be arranged in two levels (Table 1). Level 1 would comprise a flat-rate area payment, for which all or most farms and land would qualify, subject to

complying with basic environmental conditions and contributing to rural development. Level 2 would comprise a series of environmental and rural development measures, similar to those available under the current Rural Development Regulation (RDR), but with much enhanced funding.

As under the RDR, Member States would be able to develop and implement their own schemes, in line with criteria set out in EU legislation. Member states would be able to deliver these schemes either at the regional or the national level, to reflect differences in farming conditions and environmental, social and rural development priorities. Level 2 would reward the positive management and

creation of features, such as hedges, ditches, walls, ponds and field margins. It would also encourage the management and creation of particular habitats, such as heathland, native woodlands, wetlands, dehesas, steppeland, meadows and environmental set-aside of arable land. Rural development support, including processing and marketing schemes, business development grants and training, would also be available under Level 2. Member states may also choose to implement specific environmental measures in Natura 2000 areas, and targeted rural development schemes in areas of greatest social and economic need.

BirdLife supports the expansion of organic farming in Europe, and believes it has an important role to

play in enhancing the environmental benefits of agriculture, as well as contributing to rural development and addressing consumer concerns. Level 2 schemes should help both organic and conventional farmers to provide environmental and rural development benefits.

All farmers would be required to commission a farm audit as a condition for receiving CAP payments. Farmers seeking support under Level 2 would be required to commission a whole farm conservation and business plan. Ideally, farmers would seek advice and commission a plan before they were able to benefit from new schemes. However, because of the practical difficulties of providing plans for so many farmers, it would be necessary to phase this process in over several years, and perhaps to prioritise large farms. Farmers applying to enter major new schemes, particularly those that are more specialised or difficult to implement, could be required to commission such a plan before their application was accepted. Financial support would be provided to meet the costs of producing the plan. Member states could use land management contracts as a means of delivering key objectives from agricultural payments.

C Knights (RSPB Images)



**Environmental payments encourage farming practices that benefit wildlife.**

Level	Eligibility	Form of payment	Requirement
1	All farmers and farmland eligible, subject to satisfying basic conditions	Flat rate area payment	Meeting basic environmental conditions – e.g. codes of good agricultural practice, avoid overgrazing, pollution prevention, no damage to features/habitats, compliance with legislation (e.g. Water Framework Directive), whole farm conservation audit
2	Some schemes should be available to all farmers. Some schemes likely to apply to particular areas according to environmental/ economic/social criteria	Combination of area payments, capital payments, grants	<ul style="list-style-type: none"> <li>• Whole farm plan</li> <li>• Positive management of features such as hedges, walls, ditches, field margins, stubbles</li> <li>• Restoration/re-creation of features</li> <li>• Support for training and basic rural development measures</li> <li>• Manage/restore/re-create habitats such as heathland, reedbeds, dehesas, steppes, traditional olive groves, wetlands, native woodlands, environmental set-aside</li> <li>• Undertake rural development projects – e.g. processing/marketing, new business initiatives, tourism projects</li> <li>• Support for farming practices which have environmental benefits e.g. spring-sown cereals, mixed cropping, extensive grazing, pesticide and fertiliser reductions. Organic farming will help to deliver many of these benefits</li> <li>• Special habitat improvement/management and rural development projects in particular areas</li> </ul>

**Table 1**  
BirdLife's proposed system of agricultural support in the EU

Payment rates would usually be higher in Level 2, reflecting more difficult management requirements, although basic area payments would occupy a significant proportion of the CAP budget as they would be paid to almost all farmers and apply to all farmland. At least 50% of the CAP budget should be allocated to environmental and rural development measures by 2010, with the remainder devoted to basic area payments, and a small amount devoted to emergency support measures designed to help farmers during particularly adverse market conditions. This should be achieved by converting

all production related subsidies to area payments, then by gradually reducing these payments and increasing budgets for environmental and rural development measures.

For example, the current expenditure under the CAP averages €330 per hectare of agricultural land in the EU. This would permit an average area payment of around €150 per hectare, plus environmental and rural development payments averaging at least €150 per hectare of agricultural land in the EU. The latter would not apply uniformly across the EU; some

habitats and projects would qualify for much higher payment rates, and many payments would not be paid on an area basis. The focus of Level 2 on positive management, enhancement and creation of features and habitats would mean that some of the more basic, maintenance-based agri-environment schemes currently operating in Europe would not qualify for this higher level.

Our proposed system would significantly redistribute support between farmers and member states. BirdLife believes that the resulting distribution of support would be fairer and more logical



**Without public support for farming, the management of features such as hedgerows will decline.**

than the current system. Some smaller, more intensive farmers might be disadvantaged by our proposed changes, but we believe that any adverse effects can be tackled through a combination of modulation and targeted environmental and rural development measures. Environmental conditions on area payments would help to ensure that redistribution of subsidies would not lead to adverse environmental impacts.

## **5 Continue to provide substantial levels of public financial support to deliver environmental and social benefits in rural areas**

Agriculture occupies nearly 50% of the EU's land area and has the potential to provide significant public benefits – management of the countryside, protection of the rural environment, production of healthy food, support for rural communities and enhancement of the character and culture of rural areas. A free market in agriculture would force many farmers out of business, with adverse impacts on the countryside and rural communities, would lead to abandonment in some areas, and

cause habitats and countryside features to be under-provided and under-managed. We believe the provision of environmental and social benefits by agriculture will require significant levels of funding by member state governments and the EU, at levels at least equal to current CAP expenditure – and possibly more.

We believe that the current CAP budget represents poor value for money for Europe's taxpayers. The CAP has failed to stem the decline of farm incomes and employment, while encouraging damage to the environment and biodiversity, inflating prices to the consumer, encouraging the inefficient use of inputs, discouraging improvements in food quality, distorting trade and adversely affecting developing countries. The proposals set out in this paper will ensure that European taxpayers obtain much better value from the €40+ billion Europe's taxpayers spend each year on the CAP.

The impacts of CAP subsidies have been poorly monitored in most parts of the EU. All member states should be required to monitor the environmental, economic and social impacts of all CAP expenditures, and to report

these on a regular basis, e.g. once every three years. So far monitoring and reporting has been carried out only for agri-environment schemes, which represent only a small proportion of the CAP budget.

## **6 Reduce rates of member state funding for environmental and rural development projects**

Environmental and rural development payments will assume an increasing proportion of agricultural spending in the EU. Currently these schemes require 50% co-funding by member states, this being reduced to 25% in Objective 1 regions. Mainstream agricultural payments, however, are largely 100% funded by the EU.

The requirement for co-funding of agri-environment and rural development measures has some benefit; it helps to promote a feeling of shared ownership and accountability for those schemes among member states and the Commission, helping to ensure better quality schemes that offer value for money for taxpayers.

The consequence of expanding environmental and rural

development programmes while retaining current co-funding rates would be either: to increase overall levels of public spending on agriculture – as current levels of EU spending would need to be matched by increased co-funding by member states; or to re-nationalise agricultural budgets – as a larger proportion of current spending levels would be funded by member states, and the size of the EU contribution to the CAP would be reduced.

There is therefore a good case for adjusting rates of co-funding as environmental and rural development measures assume a larger proportion of CAP budgets, to limit the impact of co-funding requirements for member states.

Our favoured approach would be to increase the rate of EU funding for rural development and agri-environment measures to 75% in all areas.

## **7 Target some environmental and rural development support to areas with special needs**

A shift to basic area payments, set at an equal rate across agricultural land in the EU, would provide a fairer deal for Less Favoured Areas (LFAs), which have benefited less from CAP production supports than more productive agricultural areas. In addition, LFAs are often richer in environmental assets and more deserving of rural development support than other farmed areas of the EU, and would benefit from increased budgets for environmental and rural development schemes. Member states would be able to target schemes to areas with special needs.

As a result, the need for an EU-

wide LFA scheme to redress the imbalance in the distribution of CAP subsidies would be reduced. LFA farming supplements could be phased out, and new schemes targeted at the development needs of farmers and wider rural communities introduced by Member States, where necessary, as Level 2 measures.

However, some parts of Europe, such as Finland and northern Sweden, face particularly severe climatic disadvantages. Agriculture in these regions, which provides important environmental, social and rural development benefits, is likely to continue to require extra financial support to survive. This could be provided either through a scaled down EU LFA programme, or through nationally funded support measures.

## **8 Modulate payments to help smaller farms**

Under the current CAP, a large proportion of subsidies goes to larger farms, irrespective of their need to be subsidised. Economies of scale mean that larger farms often have less need for support. All farms – large or small – are capable of enhancing the environment and contributing to rural development. However, small farms face extra barriers in entering schemes, because the costs of application and entry are large relative to payments they are able to claim.

We therefore support the principle of modulation of agricultural support – targeting extra help at small farms. This can be achieved either by modulating CAP subsidies – setting higher payment rates for the first few hectares than for subsequent ones – or by developing special schemes targeted to help smaller farms. The latter might include extra training, advice and business support, facilitators to

help farmers enter environmental and rural development schemes, and/or schemes to help new entrants.

Because farm structures vary between member states and regions, we believe that there is a good case for allowing subsidiarity in the application of modulation, and the setting of payment rates, rather than modulating payments on an EU-wide basis. This is a similar approach adopted under Agenda 2000. However, BirdLife believes that introduction of some form of modulation to help farmers should be compulsory, rather than voluntary, for member states.

## **9 Broaden the eligibility criteria for receiving CAP funding**

Half of the total EU budget is spent supporting agriculture, primarily food production, and farmers receive most of this money. Of the €40 billion CAP budget, only about 10% is available to support non food-related activities (through the Rural Development Regulation) such as environmental management. And of that 10%, most of the money relates to farming activities, making farmers the major recipients. Only a tiny fraction can be spent promoting, for example, “tourist and craft activities” or the “renovation and development of villages and protection and conservation of rural heritage”. In reality, this means that less than 2% of the EU population have access to 50% of the EU’s total budget, which most of the population provide through their taxes. This is another example of the inequalities of the CAP.

In the future, if the aim of public support is to deliver environmental and social benefits in rural areas, there is little

justification for farmers being the only recipients of public money. Other land managers and rural dwellers who can demonstrate they can deliver environmental and social benefits in accordance with objectives set out at member state level should also have access to funding. As most EU land is managed by farmers, we would still expect farmers to be the major recipients of public support but they would not be the only recipients and hence the CAP would become more equitable. Such a move could also lead to better value for public money as bidding for funding would become more competitive and only those best able to deliver the required benefits would be successful.

## 10 Extend these proposals to an enlarged EU

These CAP reform proposals should be extended to new EU member states, by phasing in new payments over 5–10 years.

The reforms proposed here would greatly assist the EU to expand eastwards, because they would:

- eliminate concerns about surplus production, as produce could be exported without subsidy
- reduce the cost of enlargement, by increasing the proportion of the CAP budget allocated to co-funded rather than 100% funded schemes. The need for 25% co-funding would facilitate the gradual development of environmental and rural development schemes in central and eastern European countries (CEECs), reducing any initial impact on the CAP budget. A reduced rate of co-funding of 15% (as applied to the Structural Funds) would facilitate uptake of environmental and rural development schemes by the CEECs.
- help to address the environmental and rural development concerns of the CEECs, by allocating a

significant proportion of the budget to these issues, and reducing expenditures on production support.

Nevertheless, extending the CAP to the CEECs in this way would require significant additional expenditure. Phasing the new payments into the CEECs over 5–10 years would help to manage the impact on the EU budget, while allowing CEEC farmers to adjust. We believe that growth in the CAP budget is justified to deal with the extra costs of enlargement.

BirdLife believes that enlargement cannot take place without allowing farmers in the new member states access to the same payments made to those in the EU15. On these grounds, enlargement will be expensive for the EU whether or not the CAP is reformed. We believe that reform is needed if the EU's taxpayers are to gain value for money from the enlarged CAP budget.



Farmers in Central and Eastern Europe need help to adjust to changing circumstances.

# Political, social, economic and environmental implications of BirdLife's proposals

We believe that our proposals for CAP reform will have major benefits for farming and the countryside in Europe, summarised in Table 2. We believe our proposals will result in a fairer system of farm support.

## A better deal for farmers

A redistribution of subsidies, partially in the form of a flat area payments with basic environmental conditions attached, should bring about a more balanced sharing of resources between intensive and extensive producers. Abolishing price supports and production-linked subsidies, and replacing them with flat rate area payments will distribute support more fairly between different farming sectors, promoting production that matches market demand. Decoupled area payments should guarantee a reliable and steady income for farmers, helping them to make long-term decisions and remove the distortions in production caused by price supports and production-related payments.

While larger producers are often better placed to take advantage of market opportunities, all farmers will have access to rural development support, and will be able to secure additional payments proportional to their willingness to provide environmental benefits. This will help all farmers – large and small – to diversify their incomes.

## A better deal for consumers and taxpayers

The abolition of price support will encourage supply to meet market demand, and will encourage farmers to seek opportunities to add value to their products, by

engaging in processing and marketing activities, and by enhancing the quality and distinctiveness of the food they produce. Consumers will benefit from lower prices for basic commodities such as milk and sugar. There will be no further need for wasteful expenditures on intervention and storage of food surpluses. Linking subsidies much more closely to the provision of public benefits will help to promote recreational opportunities in rural areas and benefit tourism. Taxpayers will get much better value from the money they spend on the CAP.

## A better deal for the environment

Our proposed reforms will remove the incentive for intensification that the CAP still provides, and will reward extensified production. The environment will benefit from reduced inputs. An enlarged budget will allow wide access to environmental schemes, bringing environmental benefits across Europe's farmed countryside. Furthermore, decoupling all subsidies will remove the competition with agri-environment measures, making environmental schemes more efficient and cost-effective. Basic environmental conditions on area payments will also raise baseline environmental standards and enable schemes to focus on positive environmental improvements.

## Better for developing countries

Scrapping export refunds will benefit developing countries that have suffered from "dumping" of cheap European food surpluses, and will help to revive local and

regional markets that have been heavily undermined by this practice. Removing unfair competition from export subsidies will help agriculture in developing countries to grow, and food security to be enhanced.

## Better for wider rural development

Increasing resources for rural development will help farmers to diversify and will provide benefits to the wider rural economy. Farmers will be encouraged to broaden their business planning and seek new income opportunities, thus becoming less reliant on the variable nature of agricultural production.

## A simpler, more focused CAP

Our proposals will abolish the complex, commodity-specific measures operating under the CAP, and replace them with a simpler overall system of support based on area payments, environmental and rural development measures. Increased expenditure on environmental and rural development schemes will improve the focus of the CAP.

## Better for the rural environment in CEECs

Our proposals will ensure that the CAP does not provide incentives for central and eastern European agriculture to intensify at the expense of the environment. Abolishing export subsidies will also ensure that enlargement does not lead to unsustainable surpluses of agricultural commodities. Our model will enable resources to be targeted at the rural development and environmental objectives that the CEECs must address in developing their agriculture after

Impact	Cut price support and abolish export subsidies	Decouple farm support	Increase agri-environment schemes/budget	Increase rural development schemes	Modulation
Small farmers	*	◆	■	■	■
Large farmers	*	◆	■	■	*
WTO negotiations	■	■	■	■	■
EU enlargement	■	■	■	■	■
Rural economy	*	◆	■	■	■
Consumers	■	◆	■	■	◆
Developing countries*	■/*	■/*	◆	◆	◆
Environment	■	■	■	■	■

Key: \* negative effects ■ positive effects ◆ neutral effects

**Table 2**

Expected impacts of BirdLife's CAP reform proposals

\* Most developing countries will benefit from abolition of export subsidies and decoupling farm support, as domestic farming will become more competitive. However, net food importing developing countries will face increased import bills.

enlargement, reducing land abandonment and social and environmental decline.

### A better agricultural trade agreement in the WTO

BirdLife's proposed CAP reforms will ensure that CAP payments have minimal impact on agriculture in other countries. By reforming the CAP in line with clear objectives to provide public benefits in the countryside whilst minimising production distortions, the EU will be well equipped to argue for a reformed WTO Agreement on Agriculture and seek changes to the regulation of market access.

### Challenges ahead

Our proposals involve significant changes in the distribution of CAP spending among farmers, agricultural sectors, regions and nations. There will be losers as well as gainers. However, the current distribution of CAP payments is unfair, inefficient and irrational, and fails both the farming community and the EU's taxpayers. One of the biggest challenges will be to overcome the significant political resistance to change.

Some farmers could lose financially if our reform proposals are pursued. Understanding

exactly who will be the winners and losers at farm, region and country level will be critical in determining exactly how to take forward any reform package. It is for this reason that we propose to carry out further work to model the impacts of our proposals. While it would be understandable if those farmers likely to become worse off lobbied against any such reforms, there are strong reasons for Governments to resist such pressure.

Increasing the proportion of the CAP spent on environmental and rural development measures will provide challenges for farmers,

who will be required to undertake additional work and encouraged to embark on new initiatives in return for their CAP payments. Shifting funds to rural development activities will initially be easier for those member states with comprehensive rural development programmes already in place. Member states with an efficient administrative and advisory system are likely to adapt more easily. The effectiveness of rural development funds in stimulating the rural economy will depend on the level of integration with other measures, such as use of structural funds and specific projects. The farming and rural community will need business

advice and retraining to make funds realistically available to all and provide an opportunity for economic growth. A period of adjustment and financial help for some farmers may be needed. The development and implementation of a range of schemes might also require a detailed set of rules at member state level and extra administrative effort.

There will be much discussion about the future of the CAP in the next five years. BirdLife believes that major reform is needed to meet the challenges facing farming and the countryside in Europe. We hope the ideas set out in this paper will contribute to this discussion.



John Lythgoe

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- 9 Donald P F, Green R E and Heath M F (2001) *Agricultural intensification and the collapse of Europe's farmland bird populations*. Proc. R. Soc. London B 268, 25–29
- 10 An attempt to win least developed country support for a broader round of trade negotiations by providing immediate tariff and quota free market access for all products except rice and sugar, for which market access will be phased in between 2006 and 2009.
- 11 This voluntarily provides a range of tariff and quota preferences to developing countries.

## Appendix – The WTO Agreement on Agriculture

As outlined in Step 2, the WTO Agreement on Agriculture (AoA) should be used to address market failures in the agriculture sector. In particular, the tariff system could be used to discriminate in favour of more sustainable production. However, such a proposal raises a range of technical and legal questions that this Appendix seeks to address.

### 1 Approaches to differentiating between produce on the grounds of non-product-related process and production methods (PPMs), or countries of origin

There are two main possible approaches to discriminating between produce or exporters, as a basis for providing differential tariff access:

*a) Through preferential market access for sustainably produced crops.*

This would entail discrimination of produce based on what are called 'non-product related process and production methods' (PPMs).<sup>i</sup> Thus, for example, Italy has suggested that tariff-free access might be afforded to organic produce from developing countries.<sup>ii</sup> More generally, higher tariffs might be implemented on all foodstuffs not produced according to specific sustainability criteria.

Recent developments in international standard setting and product certification (e.g. organic, fair trade and Forest Stewardship Council certification) suggest that problems with implementing product-based discrimination are surmountable. These schemes tend to take internationally agreed principles and criteria and

adapt them to national circumstances. Certification, labelling and monitoring is then used to verify production schemes and provide consumer choice. What is missing from such schemes is the element of cost internalisation so that more sustainably produced goods become relatively cheaper.

It is also possible, using development indicators, to identify developing countries that should have additional preferences, more time to implement standards or receive technical and financial assistance. Using revenue from tariffs on less sustainable products could provide one source of such financial aid.

*b) Through calculation of tariffs on a bilateral basis, reflecting the ratio of sustainability indexes between importing and exporting countries.*

The tariff levels which could be legitimately maintained to protect more sustainable domestic production from imported foodstuffs might be calculated as a function of the ratio of sustainability indexes in the importing and exporting countries. The greater the sustainability index of the importing country, relative to that of the exporting country, the greater the level of protection of domestic markets which could be legitimately levied. This would require the formulation of a sustainability index which was both fair and applicable across a range of national contexts. Sustainability indexes are discussed further in the RSPB publication *Eat this: fresh ideas on the WTO Agreement on Agriculture*.<sup>iii</sup>

It would also be possible to factor in the development dimension by

using a “sliding scale” of human development indicators to provide additional preferences to developing countries based on levels of development. The practice of providing greater preferences to developing countries is well established in the WTO. This suggestion is merely aimed at making such a system more transparent and objective.

## 2 Discrimination and WTO agreements

Any attempt to discriminate between products based on their methods of production or country of origin potentially conflicts with WTO rules. However, it is important to bear in mind the following points:

- Although conventional interpretation of WTO “principles” holds that there is a presumption against making PPM-based distinctions, analysis of all the WTO agreements suggests that there is significant uncertainty surrounding such an interpretation. Recent case-law (e.g. the so-called ‘shrimp turtle’ ruling<sup>iv</sup>) casts further doubt over this conventional interpretation.
- The Agreement on Agriculture (AoA) is already “exempted” from the WTO agreement on subsidies and countervailing measures and the use of agricultural quotas is a clear derogation from a central WTO “principle” banning the use of quantitative restrictions. There is no reason why, as an “annexed agreement”, the AoA cannot derogate from a presumption against PPM distinctions.

- Although differentiating between countries runs counter to the WTO’s so-called most favoured nation (MFN) “principle”<sup>v</sup>, exemptions from MFN already exist. For example, so-called “Special and Differential Treatment” for developing countries, the Generalised System of Preferences schemes operated by industrialised countries and Regional Trade Agreements. Country-level distinctions based on sustainability criteria could therefore also be “exempted”.

- Finally it should be remembered that, if it can be agreed between members, there is no reason why governments cannot change the letter, interpretation or application of any of the above-mentioned trade law.

These points are further explored in the RSPB publication *Eat this: fresh ideas on the WTO Agreement on Agriculture*<sup>iii</sup> (The RSPB, March, 2001).

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- i Non-product related process and production methods are methods of production that do not affect the characteristics of the final product (e.g. sustainable/unsustainable logging)
  - ii Comment made by Alfonso Pecoraro Scanio, Minister of Agriculture and Forestry, Italy, at the conference Farming – Fit for the Future? 23 November 2000
  - iii The RSPB (2001) *Eat this: fresh ideas on the WTO Agreement on Agriculture*. The RSPB, Sandy
  - iv For a comprehensive overview of the Shrimp-Turtle case, see Omar Renne (1999) *More leeway for unilateral trade measures? The report of the appellate body in the Shrimp-Turtle Case’ Intereconomics* 34 72–83
  - v MFN requires that trade preferences given to a country’s ‘most favoured’ trading partner should be extended to all WTO members. In other words, a country must provide the same treatment to all WTO members.

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