

## Executive Summary

The traditional objectives of the European Union's Common Agricultural Policy (CAP) do not take sufficient account of new preferences of society concerning nature conservation, environmental protection, and animal welfare. National and European policy should enable agriculture to make an optimal contribution to public prosperity. This means that it should not only produce "food" (marketable agricultural products) but also provide "green services" (such as attractive landscapes). In order to achieve this, the present system of single farm payments must be replaced by targeted forms of payment for the production of services that society values and desires. This conversion must not, however, lead to unacceptable distortions of competition in the markets for agricultural products.

### *Vision and innovation needed to guarantee position after 2013*

The CAP's main objective regarding "food" should be to promote competitive, sustainable and safe agricultural production tailored to the effective demand for food (inside and outside the EU). That implies that the CAP is geared towards the world market. The Dutch and European agriculture and horticulture sectors can only retain their leading position in the international marketplace if they continue to innovate, not only by increasing the efficiency of their operations, but also by investing in animal welfare, reducing their ecological footprint and satisfying consumer demands more effectively. Farmers can only take sound investment decisions if they have a clear idea of what the CAP will be after 2013.

### *Protecting social values primarily by means of market regulation*

The key social values of agriculture are related to food security, food safety, employment and the quality of work, animal welfare, nature conservation and the preservation of valuable landscapes. Many of these social values require protection in the form of government intervention. In most cases, market regulation is the most suitable approach. European rules pertaining to nature conservation and environmental protection, health (human, plant and animal) and animal welfare play a key role in this respect.

### *Targeted payment for "green services"*

Some social values can be regarded as public services, for example nature conservation and landscape preservation. These are sometimes referred to as "green services". If farmers are required to make an extra effort to provide such services, society will have to pay for them. Not by subsidising them, but through a targeted payment for the services delivered.

Agricultural nature and landscape management requires an area-specific approach that takes into account the diversity of starting situations, regional needs and aims. Information about the precise opportunities for agricultural nature and landscape management

and the associated costs is insufficient at central level, and it is, moreover, important to take local preferences into account.

In that sense, most of the responsibility for financing agricultural nature and landscape management should lie with government and civil society organisations within the Member States.

#### *Review of payment system needed*

Farmers currently receive a per-hectare payment. This payment compensates for the price support mechanism, which has been phased out (“historical rights”), but it also covers a number of public services that the agriculture sector generally delivers.

This advisory report advocates ceasing payments to farms engaged in the regular production of agricultural products in normal regions (without handicaps). However, if there are significant natural impediments to farming in a “handicap area” where abandonment would be undesirable (e.g. for food security reasons), then a payment would be justified.

In addition, targeted payments may be made for public services related to nature conservation, water and landscape management, insofar as the farmer must make an extra effort or deliver an extra performance. Basically, then, this covers all the reasons previously underlying single farm payments, but in a different way.

#### *Preventing distortions of competition*

The advisory report attaches one condition to the foregoing review of the single farm payment. Competition in the internal market for agricultural products must not be distorted. The EU must provide effective assurance that national and regional payment schemes for green services and for regions with a production handicap do not result in unfair competition. It is up to the European Commission to keep a close watch on existing state-aid rules. It is also important to impose strict rules on co-financing. The current “Hill Farm Allowance” scheme is over-used in various Member States. Should imbalances be introduced in the level playing field despite every precaution, it must be possible to support farms in regions without a natural handicap. Effective policy must furthermore remain possible in order to guarantee food security.

#### *Shifting the responsibilities*

European agricultural policy is in a period of transition from a traditional, general system to a policy that specifically rewards the production of services society values and desires. The challenge is to ensure that the transition from the existing to the new policy goes smoothly. The change will go hand in hand with the transfer of financial responsibilities to the Member States. National, regional and local government must step up their investment in agricultural nature and landscape management in the Netherlands (as in other Member States).