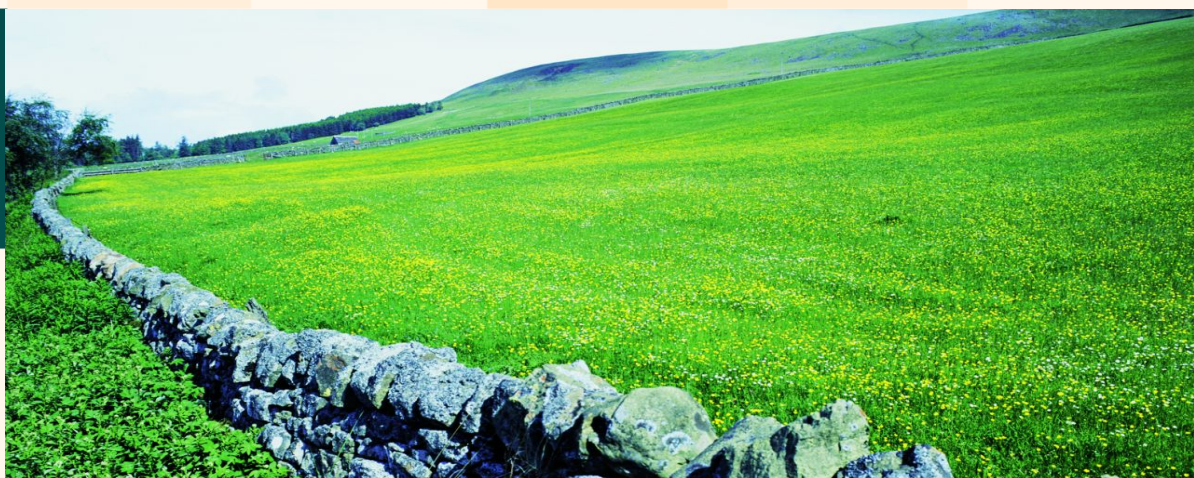




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How does the Common Agricultural Policy support the provision of Public Goods?

Christiane Canenbley

European Commission

Directorate General for Agriculture and Rural Development



Main questions:

- What is a public good?
- What are the policy tools of the CAP supporting the provision of public goods?
- What are the key questions for the future?



Agriculture and the supply of Public Goods



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- What is the rationale for public intervention?
- What do we learn from the theory of Public Goods in this context?
- What is the difference between providing environmental services and avoiding environmental damage?
- How do we apply the approach to agricultural policy?



Characteristics of Public Goods



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Public Goods are characterised by:

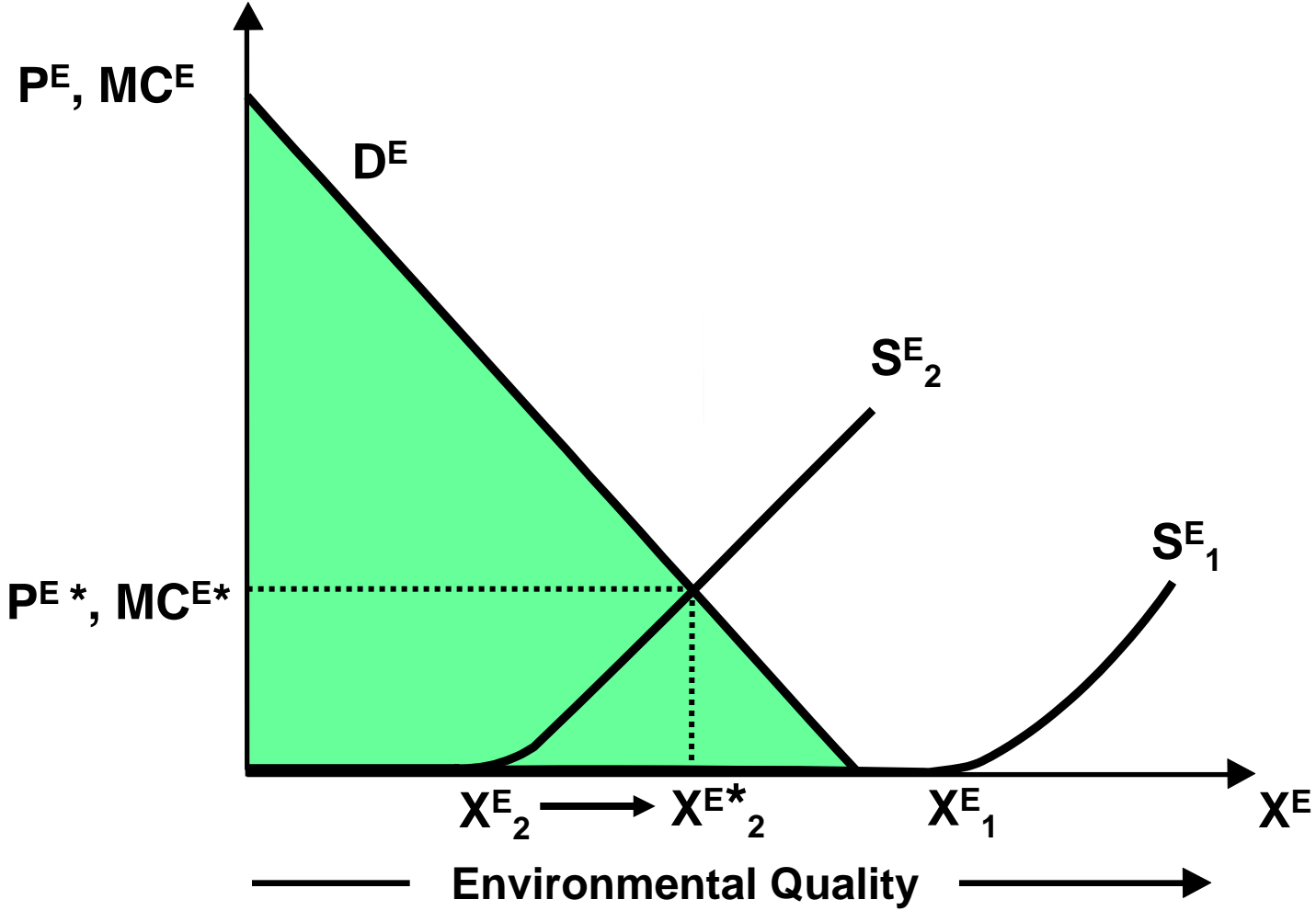
- Jointness in consumption
- Non-excludability (free-rider option)
- Non-divisibility in supply

However, these characteristics apply in reality only partially. Therefore, those characteristics are used for describing the “**degrees of publicness**”

Economic Foundation of Providing Environmental Goods and Services



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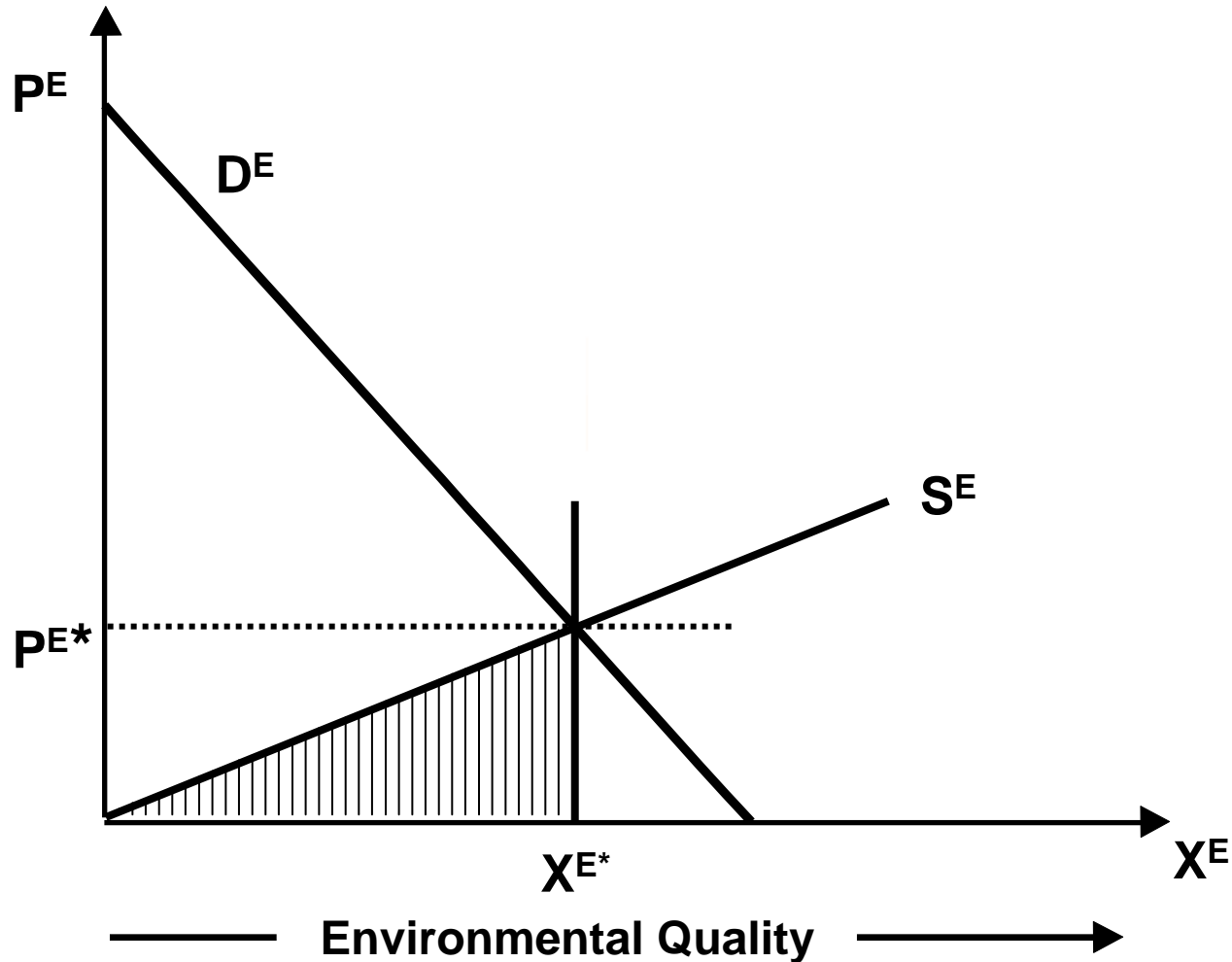




Paying for Public Goods on the Basis of “Cost Incurred or Income Foregone”



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WTO-Requirements for Agri-Environmental Payments



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Uruguay Round Agreement on Agriculture - Annex 2 (Green Box)

12. Payments under environmental programmes

- a) Eligibility for such payments shall be determined as part of a clearly-defined government environmental or conservation programme and be dependent on the fulfilment of specific conditions under the government programme, including conditions related to production methods or inputs.
- b) The amount of payment shall be limited to the extra costs or loss of income involved in complying with the government programme.

EU-Requirements for Agri- Environmental Payments




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Council Regulation (EC) No 1698/2005

Article 39

(4) The payments shall be granted annually and shall cover additional costs and income foregone resulting from the commitment made.



Providing “Environmental Goods” Versus “Avoiding Harmful Effects”




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Conclusions of the OECD Council (1972)

The polluter should bear the expenses carrying out ... measures decided by public authorities to ensure that the environment is in an acceptable state.

EC Treaty, Article 174 (2):

Community policy on the environment shall be based on the principles that environmental damage should as a priority be rectified at source and that the polluter should pay.



Providing “Environmental Goods” Versus “Avoiding Harmful Effects”



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1998 OECD Report "Agriculture and Environment"

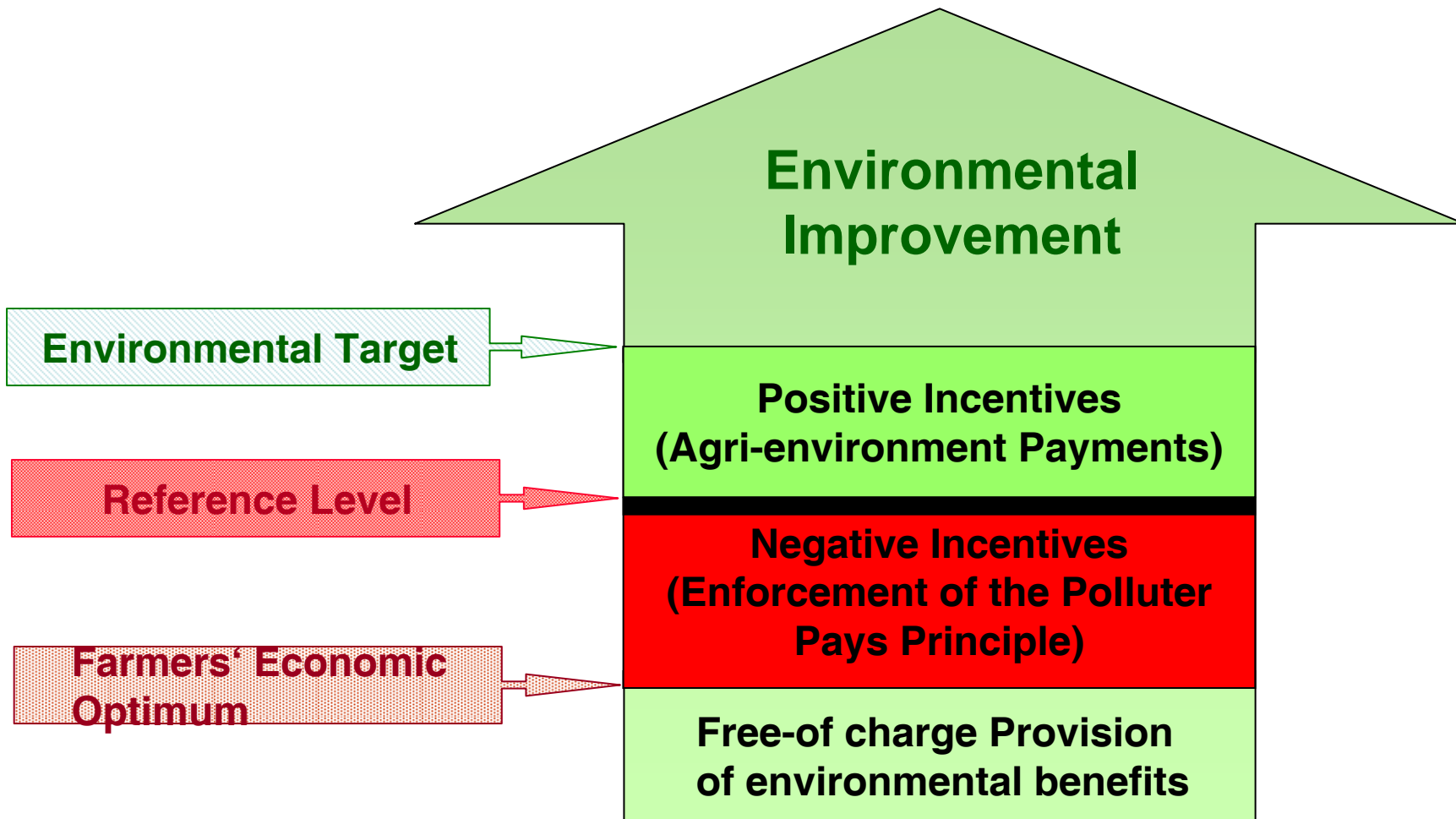
All these effects of agriculture can be considered as ***either harmful or beneficial***, depending on the direction of change from a ***reference level*** or benchmark

The ***reference level*** determines those agricultural practices for which the ***polluter-pays principle*** shifts the costs to farmers, or those practices for which farmers could be ***remunerated for providing benefits***.

Provision of Environmental Benefits Versus Avoiding Harmful Effects



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Cross-Compliance as a “Reference Level” for Agri- environment Payments



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Council Regulation (EC) No 1698/2005

Recital 35

In accordance with the polluter-pays principle these payments should cover only those commitments going beyond the relevant mandatory standards.

Article 39

(3) Agri-environment payments cover only those commitments going beyond the relevant mandatory standards [cross compliance; national legislation].




CAP measures contributing to the provision of public goods



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Support measures with no or a low degree of targeting towards provision of public goods

- Decoupled direct payments
 - Keeping farming in place
- Cross-compliance
 - Ensure that farmland is kept in good agricultural and environmental condition
 - Can preserve landscape features, existing habitats, water courses and contributes to soil conservation
- LFA payments
 - Keeps farming in place; often in marginal areas or areas of high nature value
- Farm modernisation
 - Can contribute to enhanced water quality, better application of pesticides and fertiliser



CAP measures contributing to the provision of public goods



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Measures targeted towards encouraging the provision of public goods

- Agri-environment measures
 - By far the most important measure when it comes to the provision of public goods (also in monetary terms)
 - Provides for landscape preservation, maintenance or enhancement of habitats, biodiversity, soil quality etc.
- Natura 2000
 - Preservation of biodiversity and habitats
- Training/ advisory services
- Diversification measures
 - Contributes to keeping traditional farming methods and region specific production methods in place



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Thank you for your attention!

http://ec.europa.eu/agriculture/index_en.htm