# Eco-schemes: the opportunities & the challenges

Nic Lampkin

Organic Policy, Business and Research Consultancy
and Researcher, Thünen Institute, Germany
http://niclampkin.eu

IFOAM EU Group Conference:
*The Future of Organic Farming & CAP post 2020*
Härmän Rati, Finland, 20th November 2019

# Eco-scheme Guide

- For managing authorities and stakeholders
- An IFOAM-EU project funded by the Ekhagastiftelsen
- Delivered by FIBL and IEEP
- With support from the Organic Policy, Business and Research Consultancy

- See also:

  Meredith S and Hart K (2019) CAP 2021-27: Using the eco-scheme to maximise environmental and climate benefits, report for IFOAM EU by IEEP

FiBL www.fibl.org Institute for European Environmental Policy IFOAM EU GROUP MAKING EUROPE MORE ORGANIC niclampkin.eu

# Eco-schemes – what are they?

- New CAP instrument
- Voluntary for farmers scheme for climate and environment
- MS are free to develop the content of eco-schemes to address national/regional priorities, provided they
- Meet one or more of the CAP environmental objectives:
  - Climate change mitigation, adaptation, sustainable energy
  - Sustainable resource use including water, soil, air
  - Biodiversity, habitats, ecosystem services, landscape protection
  - Animal welfare?  (EU Parliament request to include)
- Part of Pillar 1 – 100% EU funded

# The opportunities …

- Potentially no limit on funding for Eco-schemes (no 30% limit as previously for Greening)
- Do not require additional national or regional co-funding
- Not necessarily constrained by income foregone/ costs incurred rules for AECMs – can be top-up to the “income support for sustainability”
- Annual commitments (on both sides)

- Alan Matthews has suggested that “farms in receipt of more than €50,000 direct payments annually should have to earn that money through environmental and climate action” – maybe this could be an option?

# … and the challenges

- Must complement, not duplicate, AECMs
- Organic no longer specified in either case
- Not available for other land managers (e.g. local authorities)
- Annual commitment means risks for farmers in later years, but multi-annual agreements may be possible
- Payments only available on per hectare basis, not lump sum or per livestock unit/tree etc.
- Payments may be reduced if schemes oversubscribed, or schemes may be suspended in future years
- Financial implications for MS if schemes undersubscribed
- Assumes that MS have the ambition, knowledge and capacities to use flexibilities well.
- Challenge to ensure attractiveness of schemes so uptake addresses pressing environmental and climate issues
- Risks being seen as a new voluntary option to prop up the status quo – how can Eco-schemes achieve more?

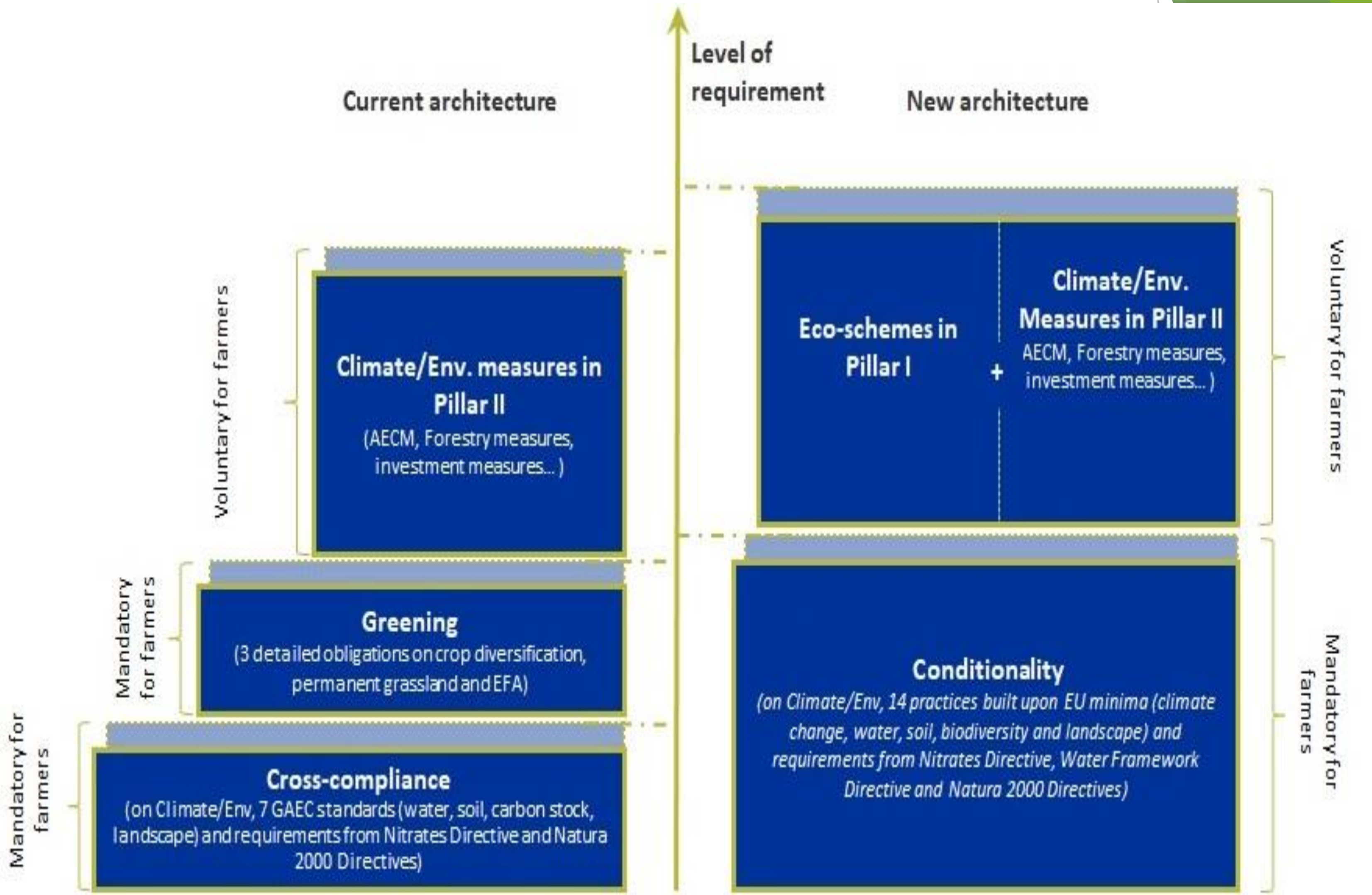
# Desirable characteristics of Eco-schemes

- Flexibility in scheme design
- Administrative simplicity
- Stakeholder engagement (including self-assessment)
- High producer acceptance
- Supported by good advice/training/tools (e.g. carbon/nutrient budgets, sustainability assessment)
- Good governance systems needed to ensure transparency and accountability

# Legal basis: Article 28 of Commission Proposal

- Mandatory for MS, voluntary for farmers, linked to CAP Strategic Plans needs and priorities
- Payments to genuine farmers for agricultural practices beneficial to environment and climate, such practices to be defined by MS and meet CAP environmental Objectives
- Must go beyond
  - Conditionality (SMRs and GAEC)
  - Minimum national and EU regs for fertilisers, plant protection and animal welfare
- Annual payments per eligible hectare either
- Need to be consistent with/not duplicate Pillar 2 AECS

# Eco-scheme in the new CAP green architecture




Source: European Commission

# More than Conditionality

- What is Conditionality?
- Statutory management requirements
  - Water, biodiversity, food safety, pesticides
  - Animal registration?/ health?/ welfare
- Good agricultural and environmental condition (GAEC)
  - Climate: Permanent grass, wetlands, peatlands, burning
  - Water: Buffer strips, nutrient tool?
  - Soils: Careful tillage, winter cover, crop rotations/diversity
  - Biodiversity: uncropped land, no-input legumes?, landscape features, hedges, permanent grass in Natura 2000
- Includes former Greening elements
- Eco-schemes could include national voluntary codes of practice for improved environmental performance, but not regulations – Extended Conditionality

# Options for Eco-schemes

- Management or results-based, or a mix?
- Extended conditionality
- Entry level scheme for Pillar 2
- Use of planning tools and advice (sustainability assessment, nutrient balances, carbon calculators)
- Targeted schemes (e.g. nutrients, climate change mitigation)
- Point-based schemes (e.g. Schleswig- Holstein model)
- Multi-functional, agro-ecological systems-based approaches (e.g. conservation agriculture, integrated, organic farming, agroforestry)
- Certified and/or legally-defined approaches

# Eco-schemes in MS - selected examples

- FINLAND: Not in favour due to impact on basic income. Eco-schemes should be on voluntary basis for MS, simplified conditionality and Pillar 2 AECMs preferred.
- PORTUGAL: Annual commitments and EU funding attractive. Use to promote sustainable intensification. More flexibility e.g. payment per LU would be good
- FRANCE: Interest in use of certified schemes (e.g. organic, HNV) for administrative simplicity
- ORGANIC DENMARK: Focus schemes on nutrient cycling and GHG mitigation, including input use restrictions compatible with organic standards, but no specific organic scheme. Payment by results, e.g. max N surplus, $CO_2$ emissions thresholds.

# Comparison of Eco-scheme options (an example)

| Option | GHG mitigation | Certified/Reg. |
|---|---|---|
| Farm assurance | O | Yes/No |
| Conservation agriculture | + | No/No |
| Integrated management | + | (Yes)/(Yes) |
| IP+ (CH) | ++ | (not EU) |
| Organic farming | +/++ | Yes/Yes |
| Pasture fed livestock | +/++ | (Yes)/No |
| HNV/Natural 2000 | +/++ | (Yes)/(Yes) |
| Agroforestry | +/++ | No/(Yes) |
| Ext. conditionality | (+) | No/No |
| Measures bundle | + | No/No |
| Points-based system | +/++ | No/No |

# Determining payment rates

- AECMs restricted to income foregone, (opportunity) costs incurred and transaction costs – no incentive or profit/return on activity
- Eco-schemes offer more flexibility in calculation and are 100% EU-funded
- Two payment models are permitted for Eco-schemes:
  - compensatory payment, covering all or part of the costs incurred and income forgone
  - an incentive payment - top-up to the basic income support
- Goal: to provide sufficient incentives for farmers to enter commitments on the scale required over time, whilst also providing good value for public money
- Pros and cons of both approaches

# Pros and cons of different payment methods

| **Income forgone + additional costs (including transaction costs)** | **Top up to basic payment** |
| --- | --- |
| • Often criticised – too weak an incentive to encourage high levels of participation, but in fact has more flexibility than may at first appear<br>• **Opportunities:** exploration of greater range of opportunity costs and transaction costs / determine payments locally and set at a rate that would achieve a target level of participation<br>• **Risks:** setting payments to secure the participation of large numbers of farmers means many farmers will be compensated at a higher rate than they require to participate – **reduces value for money and availability of funds for other purposes.** | • Allows payment to be divorced from cost of management<br>• **Opportunities**: can be set at whatever rate judged sufficient to secure participation & allows innovation – how to determine these rates remains an open question<br>• **Risks**: MSs set **arbitrary payment rates and use eco-scheme as an additional direct payment with minimal environmental actions required 'greenwashing'** |

**Possibility to combine both methods?**

# Annual versus multi-annual commitments

- Most environmental and climate action on farmland needs to take place over a long time period to have the required effect.
- Annual commitments are the norm under Pillar 1:
  - May lead to opportunistic uptake and changes to activities funded each year
  - But could also lead to opportunities to trial and test different types of management
  - Provides participants in certified schemes opportunity to respond to market conditions
  - Risk that funding may not be available in future years
- But annual payments can be made within pluri-annual contracts – experience already under Pillar 1 previously. This should be further explored.

# Ensuring adequate funding

- No ring-fenced budget compared to current Pillar 1 greening measures
- Theoretically MS could run schemes with a very large  or very small budget
  - The majority of the Pillar 1 envelope could be allocated to the eco-scheme to help farmers transition to more sustainable systems
  - Very small budgets would have to be justified given requirement to increase environmental ambition
- Volume of spend ≠ quality of spend, but sufficient investment is required to address the current scale of environmental/climate challenges
- Ring-fencing is a blunt tool but **a good way to send a clear signal about the importance** of the issues and to avoid them being under-resourced
- Risk that no minimum spend could **lead to competition with other Pillar 1 interventions** and undermine adequate investment

# Organic farming: a special case?

- Are separate schemes still needed? Yes, because
  - Delivery of multiple public benefits/CAP Objectives and market opportunities (dual role of OF) can be addressed in a single scheme
  - Specific, significant challenges associated with system redesign and the transition process
  - Needs to take account of interactions with market supply and demand while retaining focus on public benefits
  - As a legally-defined, certified scheme, it is administratively easy to implement as Eco-scheme or AECS
- How can the interaction with the market be addressed:
  - Recognise price premiums as a reward for business activity developing specialist markets, not a payment for public goods – exclude premium prices from income foregone
  - Issue of conversion period, commitment longer term, but problem of market uncertainty and five year agreements, but could conversion support be multi-annual, and maintenance annual?
  - Integrate demand-pull and supply-push policies in action plans

# High payment variability in EU (arable maintenance, 2011 & 2015)

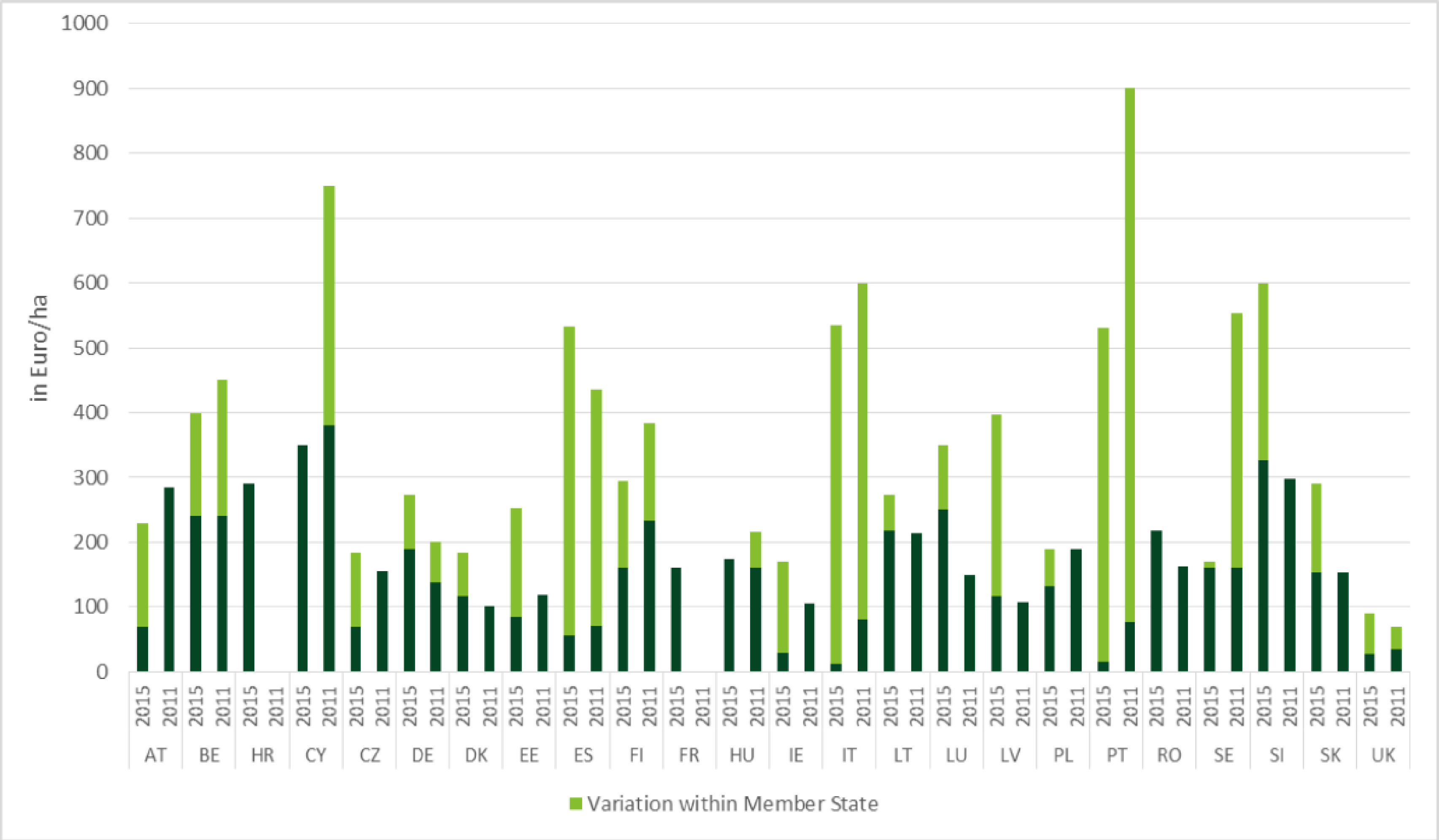



Figure 3.4: Organic support payments 2011 and 2015 for maintenance of arable land

Source: https://www.ifoam-eu.org/sites/default/files/ifoameu_study_organic_farming_cap_2014_2020_final.pdf

# Current organic maintenance support in selected countries/regions

| €/ha | BG | ES-ARA | ES-NAV | GR | PL | PT* | RO |
|---|---|---|---|---|---|---|---|
| Arable/fodder crops | 168 | 93* | 91-241* | 51-516* | 220 | 80-380* | 218 |
| Rice | - | 411 | 250 | 311 | - | 530 | - |
| Vegetables | 399 | 365 | 600 | 488 | 309 | 600 | 431 |
| Herbs/medicinal | 405 | 365 | 225 | 375 | 312 | - | 350 |
| Perennials/fruit | 577 | 119* | 225-1200* | 225-766* | 156-354* | 760-900* | 432 |
| Olives | - | 267 | 399 | 415 | - | 250-536* | - |
| Vineyards | 577 | 229 | 418 | 483-735* | - | 515 | 479 |
| Temp. grass | 112 | 210* | 175 | 353 | 155 | - | 129 |
| Perm. grass | 112 | 210* | 175 | 247-347* | 126 | 170 | 129 |

Fiche guidance is same for all, but methods used to calculate payments can different significantly

# Concluding issues for Eco-schemes and organic farming

- Interaction with market – need for sensitivity
  - High payment rates could attract more supply than market can deal with – governments can modify intervention rate
  - Not role of governments to second guess the market – could be an option to permit companies to provide additional incentive when needed to stimulate interest
  - Need to avoid period when schemes are closed, or situations where some producers qualify and others don't (examples: Ireland, Greece, Wales)
- Organic farming not specified as an Eco-scheme option or AECM – up to MS to make the case as part of Strategic Plan, although EU Parliament pushing for inclusion
- Eco-scheme funding not ring fenced, payment per farm may be affected by unexpectedly high uptake
- Normally annual agreements – no certainty on either side, funding could be withdrawn without notice, but also means farmers can leave the scheme/revert to non-organic more easily

# Eco-scheme Guide

- For managing authorities and stakeholders
- An IFOAM-EU project funded by the Ekhagastiftelsen
- Delivered by FIBL and IEEP
- With support from the Organic Policy, Business and Research Consultancy
- See also:

  Meredith S and Hart K (2019) CAP 2021-27: Using the eco-scheme to maximise environmental and climate benefits, report for IFOAM EU by IEEP

FiBL www.fibl.org

Institute for European Environmental Policy

IFOAM EU GROUP MAKING EUROPE MORE ORGANIC

niclampkin.eu