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The new CAP creating new horizons

CURIA RATIONUM
EUROPEAN COURT OF AUDITORS

A more sustainable CAP… there is no choice!

Table of contents

13

30

ECA JOURNAL LONG READ

Can the new CAP help EU agriculture to meet the targets in the European Green Deal?

By Professor Alan Matthews, Department of Economics, Trinity College Dublin, Ireland

INTERVIEW

IInterview with Janusz Wojciechowski, Commissioner for Agriculture

The new CAP – building on the transition in Europe

By Derek Meijers and Gaston Moonen

39

Performance at the heart of the new Common Agricultural Policy

By Mihail Dumitru, Deputy-Director General for Agriculture and Rural Development. European Commission

Table of contents

Editorial by Gaston Moonen

The new CAP – *business as usual* or stepping stone to the *Big Reset*?

Many people will associate agriculture and farming with the nostalgic image of fields of cows separated by hedges, a flock of sheep blocking a country road, a meandering river, small villages with local markets, nature and quietness - less stress. No wonder that a television programme such as 'Farmer wants a wife' on Dutch television (known in other countries under a less stereotype name, such as 'L'amour est dans le pré,') is so popular. This longing for an idyllic countryside has become even more prominent during the COVID-19 pandemic, when the search for nature and space has only increased.

As a farmer's son, I know that the reality of farming can be far from nostalgic these days. Hard work has always been a part of most farmers' lives, for many a way of life – often seven days a week. And also, during the last decades, part of a life increasingly driven by a scaling up of production to make a living, to meet the price constraints imposed by the market. Agricultural production has become increasingly industrialised with large agro-industrial conglomerates calling the shots. My grandfather's then sizable farm, over five decades ago, with, among other things, 20 cows, is no comparison anymore with the industrialised farm of my cousin, with over 700 cows. Upscaling has led to specialisations in which monocultures instead of diversity dominate. In parallel, expenditure on groceries has decreased – relatively – in most European citizens' budget, while the choice of food products from all over the world has increased. But this *grobalisation* – homogeneous growth – comes at a certain cost in other areas, becoming more tangible every day. With temperatures of 50° Celsius even in Canada, something that used to be a clear yet distant danger called climate change has there become a clear and present danger for farmers and non-farmers alike.

Agriculture and rural development have always been an important part of our society. From ensuring food supply, food autonomy and stable farmers' incomes in the early days of the EU, to food quality and preventing depopulation of rural areas with the most recent EU Common Agricultural Policies (CAP), the CAP is the longest serving EU policy and one of the largest in terms of expenditure under the EU budget. Most of these objectives inspired the Commission's initial proposals drawn up from 2017 onwards. And they still make sense, as can be seen in times of crisis, when empty shelves in supermarkets are clear signs of everybody's basic needs. However, soon these objectives were at least equalled, if not superseded, by other objectives, reflected in the European Green Deal and more specifically in the Farm to Fork Strategy and Biodiversity Strategy presented by the European Commission in 2020. This only goes to show again that agricultural policies, like many other policies, cannot be designed in splendid isolation but need to be congruent with many other policy areas, certainly with climate action. If those other policy area objectives are not achieved, farmers are among the first groups to suffer the consequences. To what extent the new CAP framework will make the achievement of the goals set in the Green Deal possible, will depend, according to Professor Alan Matthews (see page 13) on the implementation measures, which are more than ever before in the hands of the Member States, as also observed by Julie Klöckner, the German Minister of Agriculture (see page 37). The idea is to make them more tailor-made, more responsive to needs and more effective (see page 39).

The EU is perhaps a frontrunner but by no means alone in this endeavour to make agriculture and food production climate neutral and safer, to better support biodiversity instead of destroying it, to be more animal friendly and fairer towards those producing food. This endeavour is part of the Agenda 2030 goals to which 193 countries subscribed in 2015 and which include 17 Sustainable Development Goals (SDGs) – an endeavour to change towards the *Big Reset*, as was called for by leaders of the World Economic Forum. With these SDGs in mind the UN Food and Agriculture Organization has called for a transformation of food production (see page 7), which necessitates long-term measures that go further than various EU proposals. This transformation should not only address food security issues, which are nevertheless very urgent considering a recent UN report identifying the biggest spike in world hunger in a decade, with one tenth of the global population being undernourished, also due to the fallout of the COVID-19 pandemic. It should also address several other often interrelated SDGs.

These SDGs, and more particularly their 169 targets for action and 230 indicators regarding compliance, provide a good framework for public auditors to do their job. Not only by looking at specific aspects but even more so by looking at the interdependence of the multiple objectives and whether the individual programmes established contribute to the overall goals set. And which policy adaptations are needed to improve this? With this in mind, in 2017 the ECA assessed, for example, the 'greening' instruments of the 2014-2020 CAP (see the interview with ECA Member Samo Jereb on page 47) and looked at the CAP in relation to Greenhouse Gas Emissions, publishing in June 2021 (see page 67), and came to conclusions that are startling when it comes to the effects of EU expenditure on agriculture, which is intended to mitigate climate change.

Public audit institutions are well placed to collect the necessary data, assess what is happening on the ground, and how this aligns with the policy goals set, regardless of whether these data relate to policies to enhance farmers' resilience, water management, monitoring implementation of EU policies on the ground or to what extent they promote biodiversity (see pages 25, 55, 67, 77, 80, 92 and 98). Or, as Peter Welch, ECA Director, puts it: to demystify what is happening (see page 86). For the ECA this also extends to demystifying what a rather complicated framework proposal, such as the CAP proposal launched by the Commission in 2018, actually entails when it comes to addressing the goals set, the solutions proposed, and overcoming the hurdles identified in the past. In other words: assessing whether proposals address issues differently or are actually old wine in a new bottle (see page 62). The ECA's views were summarised in its opinions on the new CAP and voiced loudly and clearly by ECA Member João Figueiredo, who passed away suddenly on 29 June 2021.

Is the new CAP the great reset that has been projected? Does it address the needs of farmers for not only an environmentally viable CAP but also an economically and socially sound framework (see page 117)? Does it fulfil the needs for a green CAP that truly increases biodiversity instead of harming it (see page 121)? Will it stimulate more performance by farmers instead of serving as cash for landowners (see page 47)? Will it provide farmers with better access to finance (see page 112)? The Commissioner for Agriculture, Janusz Wojciechowski, is very much aware of the various interests the new CAP has to respond to. By breaking the trend of monocultures, enabling small and medium size farms to service consumption locally and by diversifying, he thinks the new CAP can turn us away from the old adage of as much, as fast and as cheap as possible (see page 30) towards the new motto of organic farming. However, he is also fully aware of the various compromises the new CAP agreement contains, which is not confined only to EU policymaking, as Professor David Blandford's insights into agricultural policy making in the US show (see page 20).

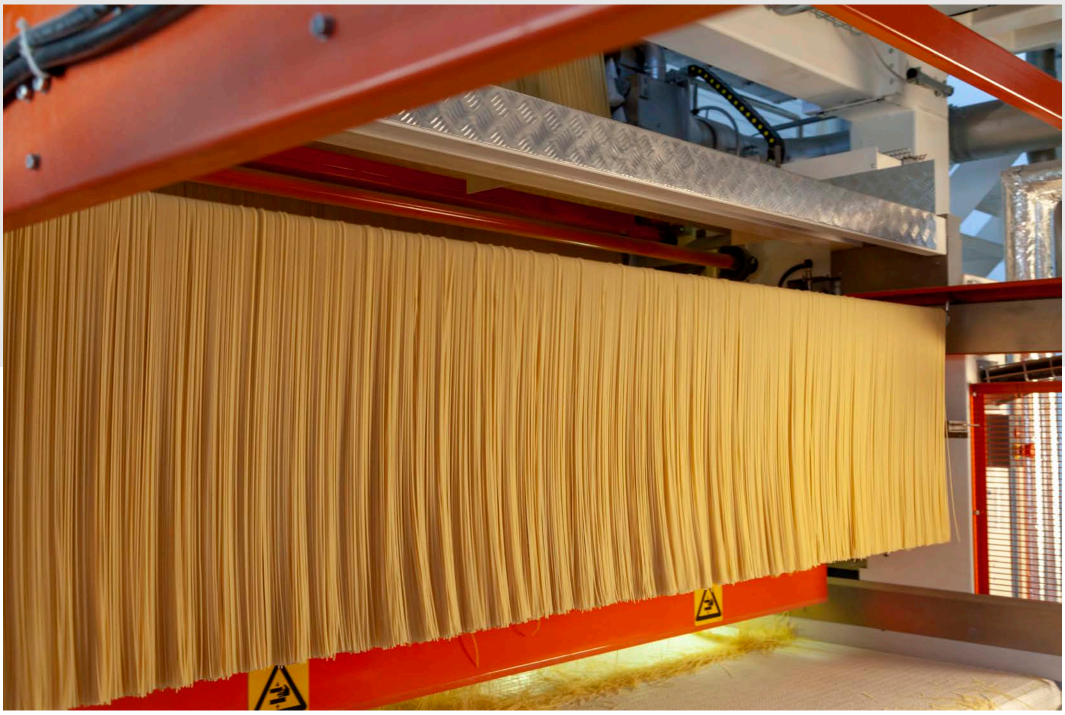
That the new CAP agreement is a compromise is also readily admitted by Norbert Lins, MEP and negotiator in the almost 30 trialogue discussions between the Parliament, Council and the Commission during the last three years. He identifies the instrument of eco-schemes as the big game changer to reach the targets set in the European Green Deal (page 103), as does Lukas Visek, whose focus in the Timmermans cabinet is on how EU agricultural policies contribute to Green Deal ambitions (see page 44). Like many contributors to this Journal, both underline that a lot will depend on the design and implementation of the National Strategic Plans of the Member States. Which, according to Luis Capoulas Santos, chair of the European Affairs Committee in the Portuguese Parliament, will give more powers to national authorities but also create more accountability expectations (see page 108), and thus higher expectations of the work of public auditors, be it at regional, national or EU level.

As for many other policy areas the key transition for the CAP will be from simply using natural resources – now often at the cost of the planet – towards taking care of these resources for the next generation. This requires not only policies but also behavioural changes, which, in all fairness, should not be limited to farmers but also apply to us as consumers. By buying local, sustainably produced, going for *glocalisation*. But our behaviour might need to be *nudged* into the right direction.

Price is still the key driver for most consumers, also when buying food. Sustainable food pricing can bring fairness to the issue of who bears the costs of the environmental externalities of agricultural production, currently borne by society. These externalities cannot be taken over by farmers, unless they are properly compensated for by higher prices for their products. To reverse the trend of privatising gains but socialising environmental losses towards actually privatising costs and socialising nature's benefits, the polluter pays principle may need to be enshrined in food prices to reflect *all* the costs. Only then will fair competition be feasible between sustainably produced food, likely sourced through organic farming, and unsustainably produced food, destined to fade. Consequently, food prices may no longer be *business as usual*. But, hopefully, the landscapes we like so much, the world of nature we like to breathe in, the biodiversity we like to observe and a diversity of crops, will then become business as usual, and also something for our next generations to become nostalgic about.

The future of food and agriculture - transformative changes for sustainable agri-food systems

By Gaston Moonen



Source: Ignatiev/Getty Images

Large scale production of pasta

During the past 60 years, agricultural policies and actions have developed in Europe in such a way that they have guaranteed almost everyone in the EU has been free from hunger. But this is not the case yet in parts of the rest of the world. Hence the vision of the UN's Food and Agriculture Organization – FAO – of creating '*a world free from hunger and malnutrition*', as reflected in Sustainable Development Goal (SDG) 2. Such a vision requires insight into the different pathways to achieving a world free from hunger in an economically, socially and environmentally sustainable manner. The FAO report '*The future of food and agriculture – Alternative pathways to 2050*' and other key FAO documents help to identify some of the opportunities for the transformation towards sustainable agri-food systems, and some of the core challenges.

Questioning the historical *business-as-usual*

The overarching concern regarding the future of food and agriculture is whether, globally, agri-food systems will be able to sustainably nourish humanity while accommodating the demand for non-food agricultural commodities. This concern raises further questions:

- can agri-food systems concurrently meet an unprecedented demand for food, ensure sustainable use of natural resources, drastically reduce its own greenhouse gas emissions and contribute to mitigating the impacts of climate change?
- can agri-food systems and rural economies be transformed in ways that provide more and better employment and income earning opportunities, especially for young people and women, and help stem mass migration to cities where labour-absorptive capacities are limited?

- can socio-economic and agri-food systems secure access to safe, sufficient and nutrient food for all, especially in the low-income regions where population growth is expected to be the most rapid?
- can national and global regulatory structures protect producers and consumers against the increasing monopoly power of large, multinational, vertically integrated agro-industrial enterprises and big-data platforms?
- can the impacts of conflicts and natural disasters, both major disrupters of food security and the causes of vast migrations of people, be contained and prevented?[1]

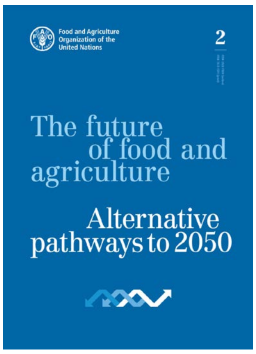
Source: Food and Agriculture Organization of the United Nations

FAO and the Sustainable Development Goals

These concerns arise because the current trends of main determinants of agri-food systems are calling into question their economic, social and environmental sustainability.

To analyse the overarching concern above and the questions it raises, the FAO has designed and explored three scenarios for the future of food and agriculture until 2050:

- business-as-usual, characterized by a continuation of recent trends and a failure to address outstanding challenges facing agri-food systems, including climate change;
- towards sustainability, characterised by proactive policies to promote sustainable agri-food systems, accompanied by efforts to mitigate climate change; and
- stratified societies, characterized by increased inequalities between and within countries, limited innovation and intensified climate change.



Source: Food and Agriculture Organization of the United Nations.

Projections portrayed in the FAO report The future of food and agriculture – Alternative pathways to 2050 clearly indicate that a business as usual scenario would lead to persistent undernourishment and malnutrition while agri-food systems would continue to exert an unsustainable pressure on natural resources such as land, water, bio-diversity, the atmosphere and eco-systems in general. In fact, undernourishment and malnutrition could even dramatically worsen, if income inequality within and across countries, unemployment, climate change and unsustainable natural resources use were further exacerbated, as in the 'stratified societies' scenario.

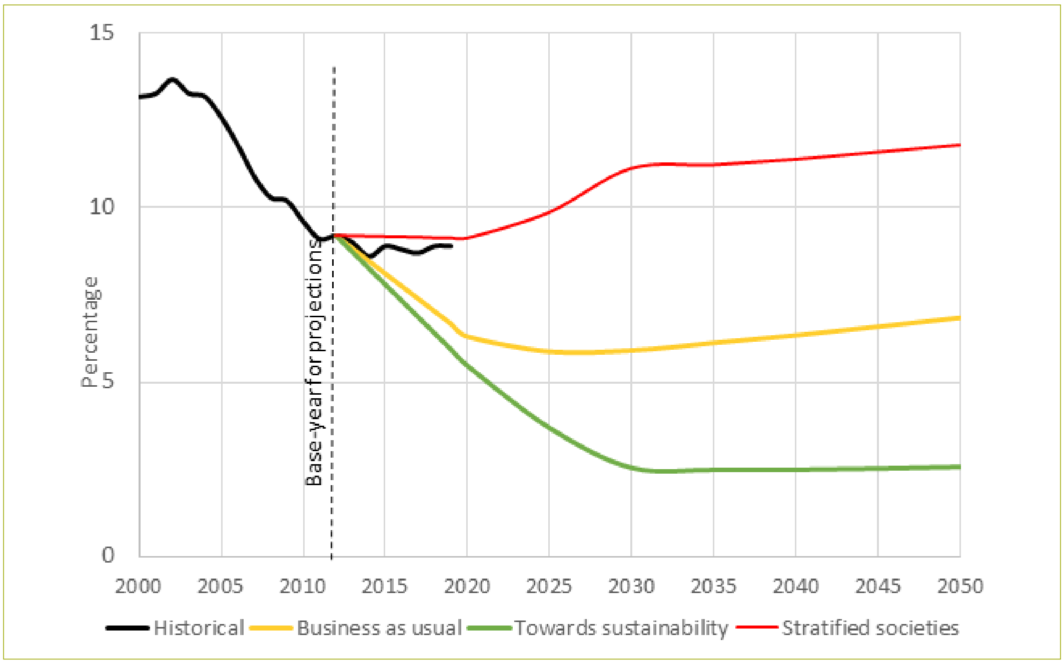
Achieving UN 20230 Agenda objectives makes transforming agri-food systems a must, not a choice

A comparison of the latest available global statistics on the prevalence of undernourishment provided in the recent report on the state of food security and nutrition in the world[2] with projections to 2050, show that, even before the outbreak of the COVID-19 pandemic, we were already moving towards the '*worst case*' scenario (see **Figure 1**). The pandemic, which, according to the FAO, has already generated around an additional one hundred million undernourished people, is just an added signal that further exacerbation of inequality in its most outrageous forms is already occurring, thus pushing societies far away from achieving the UN 2030 Agenda for sustainable development.

1 Achieving the UN Agenda 2030 on sustainable development requires addressing these concerns that were originally raised in FAO, *The future of food and agriculture – Trends and challenges,* 2017. The new FAO strategic framework 2022-2031 takes stock and further explores these concerns.

2 SOFI 2021: http://www.fao.org/3/cb4474en/cb4474en.pdf.

Figure 1 - Global prevalence of undernourishment. Historical and projected



Source: UN CPD, *Population, food security, nutrition and sustainable development*. Report of the UN Secretary-General to the 54th Commission on Population and Development, New York, 2021. Notes Scenario projections are based on FAO, *The future of food and agriculture - Alternative pathways to 2050, 2018*. The base-year for projections is recalibrated based on FAO et al., *The state of food security and nutrition in the world* – Rome, 2020. Historical data from 2000 to 2019 are drawn from the same publication.

How can we shift away from '*business as usual*', avoid the likely risk of falling into worst-case scenarios and move agri-food systems and the entire societies '*towards sustainability*'? In fact, it is only by transforming agri-food systems to ensure their social, environmental and economic sustainability that agri-food systems can contribute to achieving the UN 2030 Agenda for sustainable development.

To transform agri-food systems we need to understand and master their 'systemic' nature:

- first, we need to investigate what happens at the core of agri-food systems. That is the complex interrelationships that exist among agricultural production, agri-food processing, domestic food distribution and international agri-food trade, consumption, and disposal of food losses and waste, which are all interlinked through flows of goods and services (see the white box in **Figure 2**);

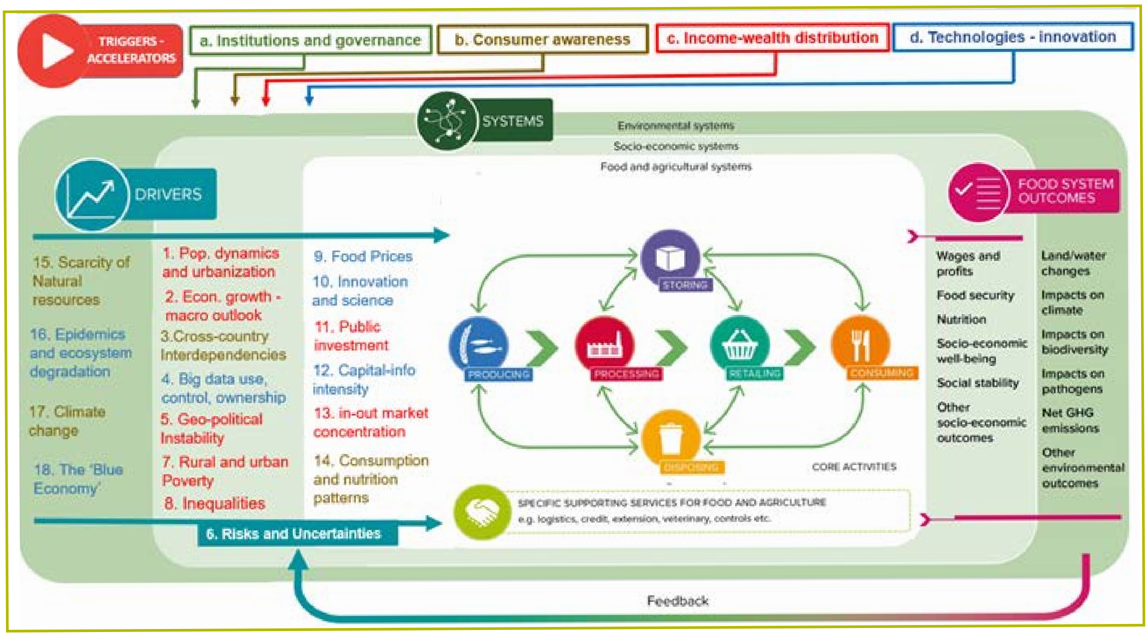
- second, we need to understand the relationships of agri-food systems with the other systems that frame and closely interact with them, notably socio-economic and environmental systems (green boxes in **Figure 2**). Social, economic and environmental 'drivers' determine the way agri-food systems carry out their core activities. Concurrently, socio-economic and environmental systems are influenced by the outcomes of agri-food systems in terms of food security, wages and profits generation, renewal or depletion of natural resources, social cohesion and the provision of other goods or bads (right-hand side of **Figure 2**);

- third, we need to scrutinize agri-food systems in the light of the sustainability dimensions and desired socioeconomic and environmental outcomes, to diagnose pitfalls and limitations, identify triggers or accelerators of positive changes (top of **Figure 2**), address trade-offs among the different sustainability dimensions and desired objectives;

- fourth, we need to design transformative strategies and implement policies and actions at global international, national, and local levels such that agri-food systems deliver expected results and desired outcomes.

In its new Strategic Framework 2022-2031, the FAO has identified eighteen drivers that are contributing to determining, with some degree of uncertainty, the future of food and agriculture.[3] They range from selected drivers directly affecting agricultural production and distribution processes - mostly endogenous to agri-food systems themselves, (science-based innovation processes, including those that push towards capital and information intensification of production, public and private investment in agriculture, power concentration in agri-food input and output markets, etc.) - to overarching drivers affecting all socio-economic systems and directly influencing livelihoods and access to food (population dynamics and urbanisation, economic growth, inequalities, food prices, etc.) - to drivers affecting the environmental aspects of agri-food systems (scarcity of natural resources, epidemics and eco-systems degradation, climate change, etc.). See in particular the left-hand side of **Figure 2**.

Figure 2 - Agri-food systems in the socio-economic and environmental context



Sources: drivers and triggers are based on findings of a Corporate Strategic Foresight Exercise run in support to the preparation of FAO strategic Framework. The graph is adapted from the Foresight for Food (F4F) web-page.

Note*:* The different colours of the drivers reflect their relationship with the main trigger-accelerator affecting them. The trigger-accelerator '*Institutions and governance*' affects all the drivers and directly impinges on the functioning of the whole agri-food system and its relationships with the other systems. Given the systemic relationships among drivers, core activities of agri-food systems and their outcomes, the various triggers-accelerators may concurrently affect different drivers, while each driver can be affected by different triggers of change.
Sources: drivers and triggers-accelerators are based on findings of a Corporate Strategic Foresight Exercise run in support to the preparation of the FAO Strategic Framework 2022-2031. The graph is adapted from the Foresight for Food (F4F) web-page and from FAO: Policy responses to COVID-19 crisis in Near East-North Africa, 2021

Necessary factors to trigger or accelerate the transformation

To move agri-food systems towards sustainability, the FAO has identified selected factors that need to be 'handled' to trigger or accelerate transformative processes in an integrated and systemic way.

Technologies and innovation

To produce more to satisfying the needs of an increasing global population, with less, for conserving natural resources we need to combine innovative science-based findings and traditional and indigenous knowledge. Nationally controlled, locally tuned and affordable precision agriculture, agro-ecological approaches, organic, integrated multi-cropping and pest management control technologies that reduce the pressure on natural resources and the need of external inputs, are just some of the possible technological shifts for reversing natural resource degradation and producing enough food for all.

3 These drivers came from an Internal Expert Consultation, as part of a broader Corporate Strategic Foresight Exercise (CSFE) run to support the preparation of the new FAO Strategic Framework.

Innovative technologies should help de-carbonizing the whole of economic systems. Countries with very high per capita emissions, which can afford overhauling their capital stock and technologies, should lead this pathway. Agri-food systems are key in this endeavour not only because they are hit by climate change but because they originate significant Green-House Gases (GHG) emissions. To this end, we need to exploit the multiple nexuses between agriculture and the rest of socio-economic and environmental systems such as energy co-generation, GHG absorption, bio-diversity preservation and restoration. These are just examples of economic and environmental services that multi-purpose agri-food systems can provide, deserve payments, and contribute to income diversification in rural areas.

To incentivize the adoption of sustainable technologies, food prices should reflect all production and consumption costs, including resource degradation and GHG emissions. Full-cost food prices would likely stimulate a more careful use of natural resources, as well as a reduction of food loss and waste.

Income and wealth distribution and human capital

However, a trade-off may arise between adopting full-cost food pricing and ensuring access to sufficient, safe and nutritious food to poor people.[4] A further trade-off may arise between the adoption of new productivity-enhancing technologies and possible negative impacts on employment, with consequences on poverty, food insecurity and malnutrition in both rural and urban areas. In fact, the manufacturing and service sectors that have traditionally absorbed the excess labour freed from agriculture during development processes are themselves undergoing capital and information intensification that may reduce their job creation potential. The structural transformation of economies may therefore result in increased poverty, including poverty in urban areas, despite productivity gains.

Addressing these trade-offs requires a significant improvement of the real income distribution, that is a drastic reduction of inequalities within and across countries. Ensuring universal access to high-quality services such as education, health care, security, justice is surely a step in this direction. Strong labour market institutions in both rural and urban areas are also needed to ensure fair remuneration and decent working conditions. In addition, savings of the weak population layers must be protected by increasing the transparency, and ensuring the accountability of the banking system, investment funds, pension schemes and corporations. This would allow poor people to save and accumulate physical, financial and human capital, thus increasing their future earning potential.

Institutions and governance

All the above would only be possible if improved institutions and governance at country, regional and global level:

- ensure efficient and effective fiscal systems that prevent fiscal dumping;
- are able to capture and retain value added at local level; and
- track and tax income flows - including illicit financial flows and fiscal leakages from low-income to high-income countries, as set by the UN 2030 Agenda (see for example target 16.4).

Improved institutions and governance should also ensure that domestic and international markets for inputs, outputs, information and big-data platforms be competitive and equitable, thus that concentration, oligopolies or monopolies be prevented, discouraged or regulated, to avoid unduly appropriation of rents. Indeed, in an increasingly digitalized era, arrangements to clarify big-data ownership, and ensure control, openness, transparency and confidentiality are definitely urgently needed.

In addition, international trade rules for agri-food products should effectively take into consideration their social and environmental impacts and prevent social and

4 In the long-run, this trade-off may dissolve because the costs of unsustainability would materialize and reflect anyway on food prices, pushing them upward. This comes clearly from FAO projections of future food prices.

environmental dumping, thus eliminating unfair competition against countries that have decided to adopt more stringent environmental and social regulations. This would incentivize investment in rural areas for the provision of social and environmental services to serve the whole societies and reduce the rural-urban divide.

Consumer awareness

Last but not less important, actions to increase consumer awareness are the necessary complement to all the above. Increasingly, studies from the scientific community, reports from UN bodies and documents from the civil society and media, highlight the need for high-income countries to shift part of food consumption from animal-based products towards more sustainable food items.

For instance, the recent report on the State of food security and nutrition (FAO et al, 2020) highlights that '…governments still support livestock while penalizing the production of more nutrient-rich fruits and vegetables; in upper-middle income and high-income countries people consume more animal source foods than required; this leads to detrimental impacts on health; and there are higher environmental impacts associated with the consumption of animal source food, just to quote few instances among many.'[5] In addition, the FAO report 'The future of food and agriculture – Alternative pathways to 2050' highlights that, inter alia, even a modest reduction of animal-based products consumption in high-income countries could significantly reduce the need to expand agricultural output to 2050, despite expected population and income increases.

Moving towards more balanced diets, favouring the consumption of sustainably produced food and drastically reduce food waste may indeed trigger positive changes all across agri-food systems locally and globally. In addition, raising consumer awareness regarding sustainability issues may definitely influence strategy and policy decisions required to move agri-food systems towards sustainability because, after all, in very many instance consumers are also citizens and voters.

Producing and consuming locally promises benefits well beyond the realm of agriculture

The benefits of structural transformation need to be shared with rural areas, people living there and poor urban people. While there is a global call to not disrupt international trade, with the COVID-19 crisis the importance of domestic food supply and the multiple benefits of local agri-food systems have come to the fore[6], as they make both urban and rural areas more resilient to crises thanks to existing rural and peri-urban food production, processing and local food reserves.

The urbanisation modalities and patterns observed in recent decades may not be considered as an ineluctable future, if we want to prevent disruptive migrations likely to exacerbate the rural-urban divide and further fuel urban poverty and food insecurity. Income generation and capital accumulation needs to be shifted back to rural areas and in the hands of the weaker layers of societies. This helps to materialise the four strategic betters that the FAO has chosen as inspirational pillars of its strategic framework: better production, better nutrition, better environment and better lives.

5 FAO UN et al, *The state of food security and nutrition in the world* - Rome, 2020, pp.133; pp. XXIV and XXV; pp.49-50; p.44 and section 2.2.

6 See for example FAO, *COVID-19 and the role of local food production in building more resilient local food systems*. Rome, 2020.

Can the new CAP help EU agriculture to meet the targets in the European Green Deal?

By Professor Alan Matthews, Department of Economics, Trinity College Dublin, Ireland

Source: Petmal/Getty Images

Agri politics and eco outlook – which weight in the balance of scale?

It is no coincidence that the key items on the negotiation table between the European Parliament and the Council regarding the new European Union Common Agricultural Policy (CAP) related to environmental measures to make the Union's future agricultural policies greener and more sustainable. To what extent can the new CAP contribute to the ambitious targets of the European Green Deal and its related strategies? Alan Matthews is Professor Emeritus of European Agricultural Policy in the Department of Economics at Trinity College Dublin and a reputed expert on the EU's CAP, reflected in the many articles he has written on the subject. Below is his analysis on how well the new CAP's framework is designed to accelerate a green transition in EU's farming.

Linking the European Green Deal strategies with the new CAP

The European Commission launched its proposal to reshape the Common Agricultural Policy (CAP) post 2020 on 1 June 2018. This proposal followed a Commission Communication *The Future of Food and Farming* published in November 2017 that set out the main principles for this reform. The Communication noted that the EU is strongly committed to action on the COP21 Paris Agreement and the United Nations Sustainable Development Goals. It further noted that the CAP underpins the policies spelled out in the 2030 Climate and Energy framework, which calls upon the farming sector to contribute to the economy-wide emission reduction target of 40 % by 2030 relative to 1990. The Communication underlined that a modernised CAP should enhance its EU added value by reflecting a higher level of environmental and climate ambition, and address citizens' concerns regarding sustainable agricultural production.

On 1 December 2019 a new Commission took office and launched its flagship proposal for a European Green Deal. This injected a new sense of urgency into the debate. The Green Deal was presented as a new sustainable and inclusive growth strategy, seeking to turn urgent challenges into opportunities. Its headline target that the EU should become a climate-neutral region by 2050 with net zero emissions by that date has now been enshrined in the European Climate Law, together with a more ambitious reduction target for 2030 of at least a 55 % reduction in net GHG emissions compared to 1990.

But its coverage is broader than climate stabilisation alone. In the framework of the Green Deal, the Commission adopted several communications addressing issues relevant to agriculture and rural areas, including the Farm to Fork (F2F) and Biodiversity Strategies published in May 2020. The F2F Strategy recognised the need for a fundamental transformation in our food system and, for the first time in an EU context, recognised that the food chain needs to be addressed as a whole, with economic, environmental and societal concerns treated in parallel. As Commissioner Kryiakides has stressed on several occasions, business as usual is no longer an option.

ECA Journal Short Read

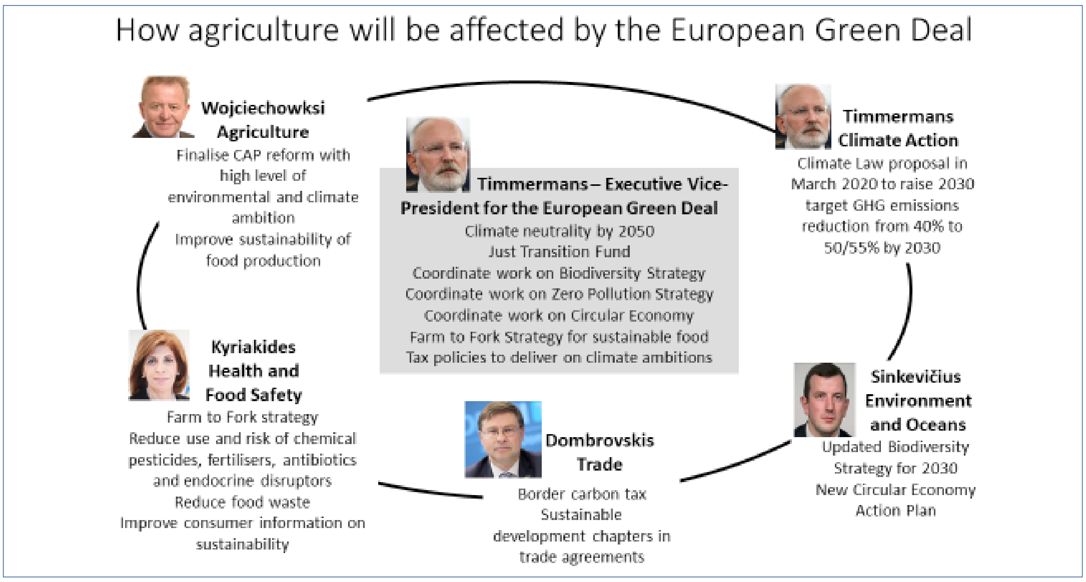
The **European Green Deal** and its related strategies have set **ambitious targets when it comes to agricultural policies**. These ambitions must be addressed by the new CAP, following the political agreement on the future CAP reached by the Council and Parliament at the end of June 2021. While the overall aim of the *what* – climate neutrality by 2050 – is now legally binding, the *how* of realising these ambitions remains open. **How** will the new CAP framework **contribute** to achieving the **Green Deal targets**?

The new CAP legislative framework proposes **a new delivery model** that provides Member States with greater flexibility, and a **new green architecture** with mandatory standards, aimed at promoting environment and climate friendly practices by farmers. However, not all the **Commission's proposals** to strengthen the mandatory standards were adopted and related eco-schemes run the risk to be used as income support. Much will depend on the **Member States' *Strategic Plans***, which will set out their intervention strategies to achieve the CAP goals. There are concerns related to Member State's capacity to design such strategies, the extent of their ambitions, and the availability of data to monitor implementation.

The latter also relates to the **CAP governance structure**. The Commission must **approve** these plans but whether its preferred approach of structured dialogue rather than wielding the threat of withholding approval will generate the desired level of ambition remains to be seen. The Commission has levers such as the **'no backsliding' principle** and has requested Member States to provide **national targets** in their Plans for six of the most important objectives in the Farm to Fork Strategy, but the CAP political agreement is clear that approval can only be based on legally binding obligations. Monitoring tools should provide insights and possible adjustments, but Member States consider the **pre-allocated CAP budget envelopes** as their money, regardless of quality delivered.

While the 2021-2027 CAP budget may not have decreased in nominal terms, Green Deal targets will initially have **negative effects on farmers' incomes**. Although politically sensitive, the classic **negative externalities** of farming for the environment and climate must be **internalised for both farmers and consumers**, which is also in farmers' own interests in the longer term. **New income models** can become a win-win situations both for farmers and environment, also with the aid of technology and innovation using both nature-based and high-tech solutions to address climate and food security concerns.

The CAP political agreement weakened several of the Commission's **original CAP proposals**. But several **elements remain** that will strengthen its effects in **addressing environment and climate goals** compared to the old CAP. An essential **litmus test** will be the **contents** of the Member States' **Strategic Plans**, still to be published. Then the real potential and intentions of Member States to address the *how* regarding environment and climate goals will appear.



Source: Alan Matthews

The Farm to Fork and Biodiversity Strategies include a range of ambitious targets intended to put the EU food system on a transformative path to greater sustainability. Those with the greatest relevance to agricultural production include the following:

- agriculture to contribute to a reduction of at least 55 % in net GHG emissions by 2030;
- reduction by 50 % of the use and risk of chemical pesticides and the use of more hazardous pesticides by 50 % by 2030;
- a reduction of nutrient losses by at least 50% while ensuring that there is no deterioration in soil fertility. This will reduce the use of fertilisers by at least 20 % by 2030;
- a reduction by 50 % of sales of antimicrobials for farmed animals and in aquaculture by 2030;
- reaching 25 % of agricultural land under organic farming by 2030;
- a minimum 10 % area under high diversity landscape features; and
- 100 % access to fast broadband internet in rural areas by 2025.

These targets were announced in Commission Communications. While the broad direction of travel was welcomed by the Council in its conclusions on the Farm to Fork and Biodiversity Strategies in October 2020, it did not explicitly endorse the specific targets. It took note of the reduction targets in the F2F Strategy and called for legislative proposals to be based on scientifically-sound ex-ante impact assessments. The European Parliament has (in June 2021) yet to adopt its formal position on the Strategy. Thus, it is important to underline that the specific targets have, until now, no legal or political legitimacy. Establishing legally binding targets would, under the Interinstitutional Agreement on Better Law-making, require an impact assessment. The Commission sees no need for an impact assessment of the F2F Strategy although a study by the Joint Research Centre is under preparation, but it has indicated that impact assessments will be prepared in connection with specific elements in the Strategy where legislation is required.

The fact that the Commission's CAP draft legislative proposal was published prior to the more ambitious targets set out in the Green Deal raises the question whether the Green Deal ambitions can be realised within the parameters of what the Commission had earlier proposed. In an analysis accompanying the publication of the Farm to Fork Strategy in May 2020, the Commission concluded that its reform proposal was compatible with the Green Deal provided that key aspects were retained during the legislative process. It noted that ring-fencing funding for eco-schemes in Pillar 1 – the source of direct support payments to farmers - and integrating animal welfare and antibiotics legislation would strengthen the legal texts and help achieve the ambitions of the Green Deal. Among other initiatives, it proposed to establish 'a structured dialogue for preparation of CAP strategic plans, including by providing recommendations to each Member State in respect of the nine CAP specific objectives, before the draft CAP strategic plans are formally submitted.' It floated the idea that the incorporation of the recommendations in the CAP Strategic Plan would be part of the criteria that the Commission would use in the assessment to approve each of the CAP Strategic Plans. It also proposed to verify at the time of approval and modification of the CAP Strategic Plans the coherence with the aggregated Green Deal targets.

Against this background, I assess the likelihood that the new CAP legislative framework will ensure achievement of the Green Deal targets, one of the top, if not *the* perceived top priority of the Von der Leyen Commission. For space reasons, the discussion is limited to four topics: the robustness of the legislative framework itself; the likely ambition of national CAP Strategic Plans; the rigor of the governance process for approving and monitoring these Plans; and the extent to which adequate account has been taken of political economy considerations in implementing the Green Deal.

Is the legislative framework robust enough?

The Commission proposal introduced two main novelties relevant to the Green Deal: a new delivery model that gives Member State greater flexibility to pursue those CAP specific objectives they find most relevant to their needs within a performance framework, and an enhanced green architecture. The new green architecture consists of:

- mandatory standards that all farmers in receipt of CAP payments must observe;
- a new eco-scheme to reward farmers who adopt more environment and climate friendly practices on a voluntary basis funded as part of Pillar 1 of the CAP;
- the continuation of the voluntary agri-environment-climate measures;
- support for productive and non-productive investments; as well as
- 'soft' infrastructure such as training and advice, all in Pillar 2 of the CAP, its rural development policy.

The Commission proposed to raise the minimum compliance standards that farmers would be required to observe to be eligible for CAP payments by adding new mandatory standards and strengthening existing ones. In the final legislation, many of the innovative mandatory elements were either removed (e.g., the proposal that farmers would be required to prepare nitrogen and phosphorus budgets using a Farm Sustainability Tool for Nutrients) or watered down (e.g., in the Commission's original proposal, all farms including grassland farms would have been required to have a minimum share of non-productive features, but this in future will again be confined only to arable farms over a certain size). Still, Member States have the option to set additional standards provided they are relevant to the objectives identified in the relevant section of the legislation (Annex III of the CAP Strategic Plans Regulation) and some of these objectives can be advanced through other CAP measures, e.g., eco-schemes could be used to increase the share of non-productive features beyond the legislated minimum.

Eco-schemes can reward farmers for practices that go beyond these mandatory standards and at least 25 % of the Pillar 1 budget has been allocated for this purpose. The practices supported can address Green Deal targets through actions such as lower input use, creation of biodiversity habitats, conservation tillage, or carbon farming. Eco-schemes have a more flexible funding model than agri-environment-climate measures in Pillar 2. Many practices can be rewarded through an additional payment to the basic income support payment rather than being limited to compensating for costs incurred and income foregone. This option has been applauded because it could enhance the attractiveness of enrolling in eco-schemes for more intensive farms, but it also may allow schemes that are primarily intended to provide income support under the guise of being an environmental scheme.

Will Member State Strategic Plans be ambitious enough?

The legislative framework, even if weakened in certain respects compared to the Commission draft proposal, nevertheless provides a set of tools that Member States could use to pursue the Green Deal targets. Their level of ambition will be set out in their CAP *Strategic Plans*. Based on a needs assessment, these plans will set out how each Member State intends to address the various CAP specific objectives set out in the legislation and will describe the intervention strategy to achieve its goals. This exercise in strategic planning is a familiar part of rural development programming under CAP Pillar 2 but is now extended to all CAP expenditure.

Although the Commission is providing technical assistance to Member States in preparing their strategic plans, questions have been raised regarding the capacity of Member State administrations to prepare high-quality plans. The responsible ministries may have an ambivalent attitude to the value of strategic planning. Even if the will is there, strategic planning requires a different mind-set and different skills and capacities for ministry officials, and there may be limited human resources and institutional capacity to undertake strategic planning. Strategic planning requires setting targets, measuring progress against these targets, and making adjustments where it is clear progress is off course. There will be a natural temptation to set the level of ambition low, to avoid the outcome that targets are not met. In the case of some interventions, including related to some environmental objectives, data availability may be inadequate to support evidence-based policymaking.

Are governance structures rigorous enough?

The safeguard in the legislation against weak or unambitious strategic plans is the requirement that these plans must be approved by the Commission. Draft plans should be submitted by the end of 2021. The Commission can then make observations on the plans to the Member States. Member States should respond to these observations but are not obliged to adopt the recommendations if they can provide a reasoned explanation for their preferred approach. The threat that the Commission will refuse to approve a plan is theoretical, and the Commission has made clear it does not intend to use this nuclear option, preferring instead its structured dialogue with Member States to nudge the plans in a more ambitious direction.

Source: Pixabay

Addressing biodiversity

The Commission can rely on the 'no backsliding' principle in Article 92 of the CAP Strategic Plan Regulation, obliging Member States in their national plans to show an increased ambition than at present regarding environmental- and climate-related objectives. Member States must also show how the plans make a specific contribution to achieving the objectives of various pieces of EU environmental, climate and energy legislation listed in Annex XI to the Strategic Plan Regulation and addressing biodiversity, water and air quality, greenhouse gas emissions, energy and pesticides.

As part of its structured dialogue with Member States in the preparation of their plans, the Commission issued recommendations to each Member State in December 2020, outlining specific priorities that it felt should be addressed in their plans. These recommendations also covered environmental and climate objectives addressed in the Green Deal. The Commission has asked Member States to determine specific national values for six F2F and Biodiversity Strategy targets and to align their strategic plans with these targets (though a notable omission is a requirement for a target for reductions in agricultural GHG emissions). The Commission now accepts that its approval of the Plans will be based on the criteria set out in the Strategic Plans Regulation but that its recommendations will be 'an important reference'. On this point, the AGRIFISH Council of Ministers had pushed back strongly. The Council's view has been that approval must be based solely on any legal requirements, and that the recommendations should serve simply as additional guidance for the elaboration of strategic plans. This principle is now reflected in the political agreement on the Strategic Plan Regulation which states that '[…] The assessment [of the Plans] shall exclusively be based on acts which are legally binding on Member States.'

Plan approval is just one element of governance. Monitoring progress and adjusting strategies in the light of outcomes is equally important. The draft legislation proposed annual monitoring of progress against milestones and targets. Plan targets according to the legislation will be set for result indicators but not necessarily in terms of impacts (though, as noted, the Commission has requested national targets for six impact indicators related to the Green Deal). A result indicator measures, for example, the share of agricultural area under management contracts to sequester soil carbon, but not necessarily the amount of carbon that will be sequestered because of these actions. The political agreement on the future CAP limited performance review to two bi-annual reviews in 2025 and 2027 on a much-reduced set of indicators, not covering all interventions or full expenditure. Where the results achieved are significantly below the Plan milestones, the Commission can ask that Member State to submit an action plan setting out the remedial actions it intends to take. Member States have an interest to comply because otherwise they risk not to be able to draw down on all their pre-allocated funds.

How these governance arrangements will work in practice remains to be seen. The legal basis for Commission oversight and its possibilities to intervene to ensure greater ambition in the final legislation appear relatively weak in the face of the strong pressures we can expect within Member States to maintain the status quo. Ultimately, the major weakness in the governance framework is that Member States' CAP budget envelopes are pre-allocated during the negotiations on the EU's Multi-annual Financial Framework (MFF). This means that the resources they receive are not influenced by the quality of their Strategic Plans nor by the level of environmental and climate ambition that they set for themselves.

Are political economy issues adequately addressed in the Green Deal?

To achieve the Green Deal targets for agricultural production will require millions of farmers across the EU to change their farming practices and the way they manage their land. The CAP budget (including the contribution to rural development from the Next Generation EU fund) was maintained in nominal terms in the 2021-2027 MFF but farmers are aware that, at least in the short-run, the Green Deal targets will have a negative effect on their income. Limits on input use, the requirement to set aside land for nature, and higher animal welfare standards will likely raise their costs. And they will have to work harder for the direct payments from the CAP budget that account on average for 50 % of the entrepreneurial income from farming across the EU. As many farms currently struggle with low profitability, these additional requirements are viewed with apprehension. Farm groups argue that they are willing to do more for the environment and climate but only if they are compensated for this (see also page 117).

Green Deal targets are a necessary step on the path to a more sustainable food system. They are needed to redress the environmental damage caused by imbalances in nutrient flows, to reverse the ongoing loss in biodiversity, to prevent destabilising change in the climate system, to limit material resource use and to move towards a more circular economy, and to improve human health outcomes from the food system. These are classic negative externalities that have not been fully integrated into farm-level decision-making. Farmers themselves are at risk from the consequences of some of these developments. Biodiversity loss, soil degradation and weather extremes will impose increasing costs on farmers in any case that might be avoided or minimised by taking early action now. The counterfactual in assessing the impact of the Green Deal on production and incomes is not the continuation of business-as-we-know-it.

Nonetheless, if the Green Deal is to succeed and not give rise to political counter-movements that reject the need for change, the potential trade-off between environmental and climate action and farm incomes needs to be acknowledged and addressed. The Green Deal can create new income streams for farmers, e.g., through the production of industrial raw materials for the bio-economy, biomass for energy, or carbon farming as a new business model. It should also be emphasised that improving resource efficiency (e.g. nitrogen use efficiency) and promoting a circular economy (thus valorising waste streams) can be a win-win situation both for farmers and the environment.

The future market context will also be important. World market prices for agricultural commodities (in June 2021) reflect a tight supply and demand situation. It would make the green transition easier if this situation were to continue over the medium-term and if it were reflected in higher producer prices within the EU. More generally, internalising the costs of health and environmental externalities that are currently mostly borne by taxpayers cannot all be borne by farmers. Consumers and other actors in the food chain will also be expected to contribute by increasing the price they pay for food at the farmgate. The F2F Strategy has an objective to preserve the affordability of food, while generating fairer economic returns in the supply chain. The Commission intends to bring forward a legislative proposal for a framework for a sustainable food system before the end of 2023 which, among other issues, will examine how farmers can benefit from sustainable practices, for example, through certification and labelling.

Other steps should be taken to ease the green transition. Much greater investment in research and innovation is needed to enlarge the toolbox of environmentally-friendly practices available to farmers. Innovation is needed in nature-based solutions, data-driven farming, as well as more high-tech solutions based on molecular genetics, vertical farming, and alternative proteins. Existing income supports under the CAP could be better targeted to protect more vulnerable farming groups, making use of the various redistributive instruments included in the new CAP legislation. The way trade policy could be used to support the green transition needs to be reviewed. A joint statement by the Council, Parliament and Commission attached to the political agreement on the next CAP confirmed that it was appropriate to require that imported agricultural products comply with certain production requirements so as to ensure the effectiveness of the health, animal welfare and environmental standards that apply to agricultural products in the EU and to contribute to the full delivery of the European Green Deal and Farm to Fork Strategy communications. The Commission has been requested by the Council and Parliament to provide a report by June 2022 outlining the rationale and legal feasibility of applying EU health and environmental standards to imported agri-food products.

New CAP addresses green transition needs… but proof of the pudding is in the eating

The European Green Deal and its associated communications emphasise the importance of accelerating the transition to more sustainable farming and food systems in the EU. The potential impact of the Green Deal can be evaluated at two levels. One level looks at the proposals and targets set out in the Green Deal documents and asks whether these proposals are sufficiently coherent and ambitious to address the pressing environmental, social and health challenges linked to our food system. For example, it can be questioned whether the F2F Strategy adequately addresses the question what is the safe operating space for EU livestock.[1] The second level, and the focus of this contribution, is to ask whether the new CAP legislative and budgetary framework is adequate to accelerate the necessary green transition.

Some provisions included in the Commission's draft legislative proposal have been removed from the final legislation, which weaken its impact. Nonetheless, the new legislation does contain new instruments and provisions that will strengthen the effectiveness of the CAP in addressing environmental and climate goals as compared to the existing CAP. In this sense, the new CAP represents a continuation of the incremental and path-dependent reform process that has characterised CAP reforms to date.

Whether this potential for greater effectiveness is realised or not will depend greatly on the design and ambition of national CAP Strategic Plans. Draft Plans should be submitted by the end of 2021 following which the approval process will take several months. The significance of the new CAP for the European Green Deal will only become clear when the final Plans are published and can be assessed. Here the Commission has flagged that the F2F Strategy will be reviewed by mid-2023 to assess whether the action taken is sufficient to achieve the objectives or whether additional action is necessary. So depending on how seriously Member States address sustainability needs in the new CAP, they may find themselves back at the negotiation table in two years' time to discuss opening up the new CAP…

1 Buckwell, A., and E. Nadeu, *What Is the Safe Operating Space for EU Livestock?* Brussels (RISE Foundation), 2018.

Agricultural policy in the United States – stability or instability?

By Professor Emeritus David Blandford, Penn State University

A patchwork of fields in northern California, an illustration of US agricultural policy decision-making?

When the European Commission was working on its proposals for a new EU Common Agricultural Policy (CAP) in 2017 and 2018, culminating in its new CAP proposal in June 2018, the US government was preparing its proposals for its five-year legislative cycle regarding its agricultural policy, its 'Farm Act,' presented in January 2019. Looking at another key player's policies and actions can serve as a mirror for EU's own activities. Professor Emeritus David Blandford is a well-known expert from the Department of Agricultural Economics, Sociology and Education of Pennsylvania State University who has not only published extensively on a variety of agricultural topics, but has also advised a range of international organisations, including the UN Food and Agricultural Organisation, the OECD and the World Bank. In his article, he provides background and context of recent US agricultural policies, the main focus until now and the key changes the new Biden administration proposes to introduce, also in view of its plans to mitigate climate change.

The US Farm Act – basis for a five-year agri policy cycle

The principle vehicle for agricultural and related programmes in the United States is the Farm Act, which is legislated every five years. The current act (the Agriculture Improvement Act) was signed into law by President Trump in December 2018 and expires in 2023. The Act has its roots in legislation passed during the 1930s as part of President Roosevelt's New Deal to provide assistance to farmers in response to the economic crisis created by the Great Depression and environmental problems created by extreme drought (the Dust Bowl).

Over the years, the scope of the legislation has expanded to cover a range of issues, including rural development and, most important, food and nutrition assistance.[1] The scope of environmental provisions has also increased. However, the economic interests of farmers, pursued through a range of price and income support measures, remains a central focus of the legislation and a key element in the politics surrounding the drafting of the Farm Bill, see also **Box 1**. This is undertaken by agricultural committees in the House and Senate of the U.S. Congress. Once both bodies have reached agreement, the Bill is forwarded to the President for signature. The Administration has only a limited role in fashioning the legislation. It can, and does make suggestions on content and these can be taken into account by the Congress, but the ultimate sanction of a presidential veto of the final Bill is rarely exercised.

Box 1 – Farm Act in its political context

Discussions on the Farm Act have to be considered in a political and demographic context. As to the latter, in the US there has been a significant redistribution of population to urban and suburban areas, and from predominantly rural to predominantly urban states. The US Census Bureau showed in 2016 that although 97 % of the country's land mass is classified as rural, less than 20 % of the US population lives there. Consequently, a relatively small proportion of the population has any direct interest in farming or the farm economy. However, the non-farming population has considerable interest in issues affecting them directly, such as food availability and the impact of farming on the environment. As a result, the enduring structure of the Farm Act relies on Senators and Congressmen who represent more urban states and districts lending their support to programmes - such as price and income support for farmers – that benefit more rural states and districts. This in exchange for the continuation of other programmes that they view to be priorities – for example food assistance.


Source: Getty images

Cornfield at a farm in Iowa, USA

Programmes covered by the legislation include those that are *mandatory*, i.e. whose level of funding is not subject to annual appropriations by Congress and those that are *discretionary*, i.e., authorised by the legislation but whose funding is determined annually. Mandatory components include crop insurance, the main nutrition assistance programmes, farm commodity and trade programmes, and a number of conservation programmes. Discretionary components include some of the nutrition programmes, food safety, rural development loans and grants, research and education, soil and water conservation technical assistance, animal and plant health, management of national forests, wildland fires, other Forest Service activities, and domestic and international marketing assistance. During the life of the previous Farm Act (2014-2018), mandatory programmes accounted for roughly 82 % of actual expenditure.

Planned continuity under the current Farm Act

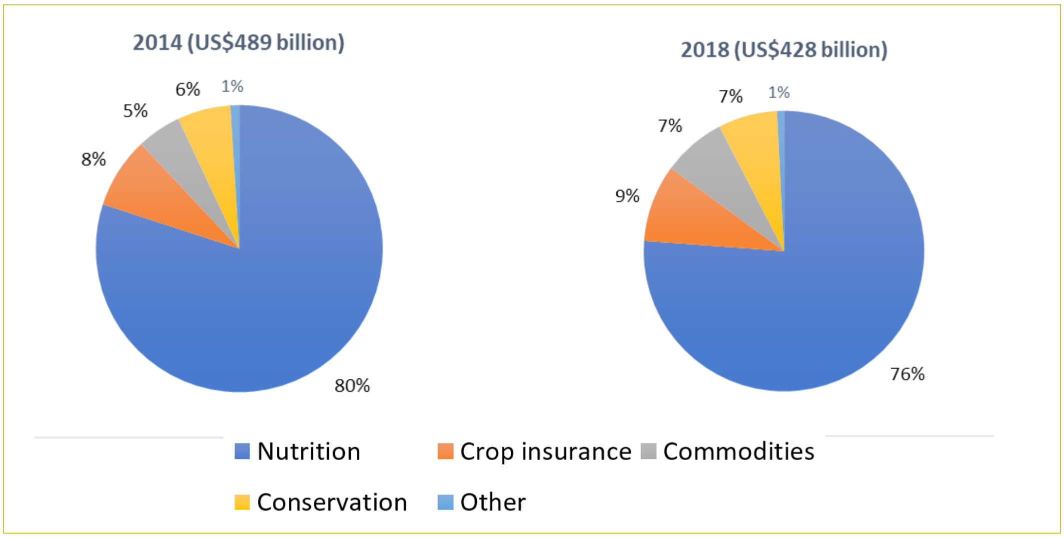
Despite being enacted under very different political circumstances, in particular the replacement of President Obama by President Trump, the 2018 Act made few major changes in agricultural and food policy. There were some changes in detailed provisions for conservation programmes and some expansions, e.g. for trade, research and extension, energy, specialty crops, organic agriculture, local and regional foods, and beginning/socially disadvantaged farmers and ranchers. Projected mandatory spending increased by US$1.8 billion (less than 1 %) compared to a continuation of the 2014 Act. Overall projected spending was significantly lower than when the 2014 Act was approved. This was primarily due to a significant reduction in projected expenditure on nutrition programmes as a result of the strength of the U.S. economy and the decline in unemployment.

The composition of mandatory expenditure predicted under the two acts is shown in **Figure 1**. Mandatory outlays are dominated by nutrition programmes, in particular the Supplemental Nutrition Assistance Program (SNAP), formerly known as the Food Stamp Program, which enables eligible recipients to purchase eligible food items at reduced

1 A range of programmes that provide subsidized food to those subject to food insecurity and inadequate diets, such as adults and children in poor families.

costs in authorised retail food stores. The next two components, which provide subsidies to farmers are programmes relating to commodities (price and income supports) and for crop insurance. Collectively these accounted for 16 % of projected mandatory expenditures. Conservation programmes, i.e. payments to farmers and landowners under various agri-environmental schemes, accounted for a further 7 %. Notably absent from **Figure 1** are expenditures on rural development programmes since the bulk or these are discretionary, rather than mandatory. Much of the federal activity on rural development focuses on housing in rural areas through the provision of loans and loan guarantees.

Figure 1 - Projected expenditure under mandatory programmes in the 2014 and 2018 Agriculture Acts



Source: USDA, Economic Research Service

Actual expenditure can deviate from projected expenditure and can fluctuate from year to year. This is because payments to farmers (and crop insurance subsidies) vary with prices and the weather (yields and crop losses). The cost of nutrition programmes varies with the number of participants, which is influenced by the state of the economy, in particular the level of unemployment. Despite these sources of instability, it is typically only when exceptional circumstances apply that there are large fluctuations in the costs of agricultural policies. Such exceptional circumstances have certainly applied in recent years.

Instability and increased agricultural subsidies in recent years

In 2018, President Trump began to impose tariffs unilaterally on a range of imports from China and American allies as part of his '*America First*' policy to reduce the US trade deficit. The most significant effect for agriculture was felt through retaliatory tariffs and restrictions on agricultural imports imposed by China. The United States exports roughly 20 % of its agricultural and food production (in value terms) and China has been the leading importer of US soybeans. Agricultural exports to other major markets, such as Canada and Mexico, were also affected by retaliatory tariffs.

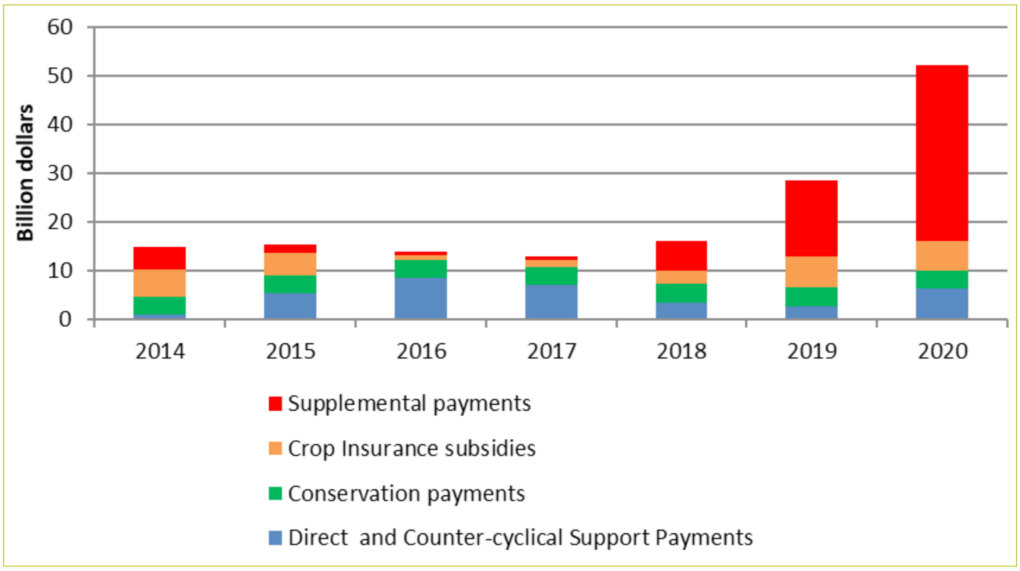
The loss of export markets and its impact on agricultural income led the administration to provide additional subsidies to producers of a range of products through supplemental appropriations. More than US$24 billion was provided to farmers in 2019 and 2020 to compensate for losses attributed to the tariff measures. In 2020, US$35 billion in emergency aid was authorised to compensate for losses attributed to the effects of the COVID-19 pandemic. Further payments were authorised in March 2021. Since January 2021, US$11 billion has been allocated by the U.S. Department of Agriculture (USDA) for pandemic assistance to agricultural producers and related businesses.

The impact of supplementary payments to farmers on spending in recent years can be seen from **Figure 2**. While such payments have not been uncommon in some years, typically in response to drought or natural disasters, the sharp increase in recent years is clear from the chart. While payments in response to the COVID-19 pandemic could be considered to be consistent with earlier responses to natural disasters, those made as a result of Trump's unilateral trade policies are in a different category. The high levels of support provided in 2019 and 2020, particularly since much of this was linked to current production and prices, could result in the United States exceeding agreed limits on trade-distorting support under the World Trade Organization (WTO) agreement on agriculture. Whether this would have any practical implications is an open question, but it is reflective of a weakened respect for international obligations in recent years.

Figure 2 - Major categories of financial support to US farmers (2014-2020)

Priorities for the future – climate change

The authority provided under the 2018 Farm Act expires in 2023. The economic and political environment that will apply as work begins in the Congress on framing its successor is impossible to predict. The Biden administration has provided some strong signals on priorities



Note: Figures for 2020 are preliminary. Source: USDA, Economic Research Service

under current and future agricultural legislation, but as noted earlier it is the Congress that will determine whether these priorities will be reflected in the new legislation.

The evolution of agricultural and related policies in the United States has reflected limited willingness or ability to make significant advances in policy design to address the changing structure of agriculture and the challenges related to public goods – e.g. environmental quality. Efforts may surface to discontinue this trend.

Chief among the new administration's priorities is action in response to climate change. Such action could be reflected through programmes administered by USDA and other agencies, such as the Environmental Protection Agency (EPA).

If recent practices are followed, the focus of the USDA will be on the provision of financial incentives for the adoption of more '*climate friendly*' agricultural and land-use practices. The focus of the EPA would be on regulatory measures under existing legislation, such as the clean air and clean water acts. As might be expected, farmers are generally supportive of the USDA approach but generally opposed to the EPA approach. While many economists would argue that subsidies can play a role in achieving reductions in greenhouse gas emissions from agricultural production and in increasing carbon sequestration, they would also argue for the use of taxes or regulations as disincentives to pollute. The effectiveness of existing voluntary, financial incentive approaches to improving environmental quality in the United States, for example in reducing the pollution of surface and groundwater by agriculture, has been questionable and consequently the effectiveness of relying exclusively on such an approach to address climate issues in agriculture is open to debate.

How much could actually be achieved through environmental programmes funded through the Farm Act (conservation programmes in U.S. terminology) is unclear. The Environmental Quality Incentives Program, which provides financial incentives for farmers to adopt a range of measures to remediate the environmental impacts of production, could be used, for example to improve the management of livestock waste to reduce greenhouse gas emissions. The Conservation

Reserve Program could be used to reward landowners for converting marginal agricultural land to sequestration uses, such as growing woody biomass. The Biden administration has proposed the creation of a '*carbon bank*' through which farmers, ranchers and foresters would receive payments for carbon sequestration. The USDA would be responsible for setting up the bank and government funding would be provided to purchase carbon credits. The hope is that the bank would provide a vehicle for private non-agricultural companies to purchase credits to offset their own emissions.

Whether an increase in funding to permit an expanded climate focus in the agricultural legislation would be approved would depend on the balance of power in the Congress when the legislation is being drafted - there are important mid-term elections in 2022 that will determine which party controls the House and the Senate - and the opinions of farmers and landowners, as expressed through politically powerful organisations such as the Farm Bureau. In earlier years, resistance to increasing the federal budget deficit would probably have ruled out significant changes in the use and amount of funding under the agricultural legislation. However, since the passage of tax cutting legislation in 2017, which resulted in a major increase in the budget deficit, budget discipline seems to be out of fashion in the US Congress – at least temporarily.

Priorities for the future - equity

A second priority announced by the Biden administration is '*equity and fairness*' in food and agricultural policy. There are several aspects to this issue.

First, since many payments to farmers are based on farm size and the level of production, a large share of total payments goes to a relatively small number of large farmers. There have been attempts in the past to impose a cap on the amount of payments that individual farmers can receive but these have largely been ineffective. The 2014 Act imposed a cap on the amount of payments that an individual farmer could receive through price and income support programmes for crops. Total payments were limited to a maximum of US$ 125 000 per person, combined with a ceiling of US$ 900 000 in adjusted gross income for a person '*actively engaged*' in farming. In practice, family-owned farming operations could have an unlimited number of immediate family members qualify for payments. While efforts were made in the Senate to tighten these '*capping*' rules, these proposals were not accepted. Previous attempts to completely '*decouple*' payments from production (introduced in the 1996 Farm Act) have not been sustained (discontinued in the 2002 Act). It is likely that there would be strong resistance from existing beneficiaries to changing the distribution of payments to achieve greater '*fairness*'.

Second, farmers are, by a large majority, white – roughly 95 % fall in that category. There has been a history of allegations of discrimination by the USDA against African Americans and other minority groups in the administration of programmes, but whether there will be significant changes in the future depends partly on politics and the judgements of the courts. It is likely that the courts would also play a significant role in determining whether stricter regulations on pollution could be applied to agriculture through the EPA.

Third, in line with the focus of Democratic administrations on food insecurity in the United States, the current administration has indicated that it would like to see an increase in funding for nutrition programmes. Typically there is reluctance to change the balance between expenditure on the three main elements – support for farmers, conservation and nutrition. Absent firm constraints on total expenditure, it remains to be seen whether any significant changes in the overall structure of expenditure would be achievable in the new legislation.

Policy stability or instability?

The recent history of agricultural policy in the United States has been one of considerable instability. Some of the instability has been created by policy decisions, particularly trade policies, and some has been due to unforeseen events, the COVID-19 pandemic. It is perilous (foolhardy?) to try to predict the future for agricultural policy in the United States and whether there will be any significant changes. All that can be safely predicted is that agriculture is unlikely to be a policy backwater in the foreseeable future.

Policies for a more resilient agro-food sector

By Jesús Antón, Jonathan Brooks, Emily Gray and Urszula Ziebinska, Organisation for Economic Cooperation and Development (OECD)[1]

Farming is an inherently risky activity, being exposed to unpredictable weather and associated production and price volatility, to animal and plant diseases , and to policy uncertainties. The Covid-19 pandemic has highlighted further vulnerabilities, such as shortfalls in the supply of seasonal labour, while climate change will only increase the uncertainties that farmers face. Equipping farmers to absorb and recover from shocks is an important element in many countries' efforts to strengthen agricultural resilience. Jesús Antón, Senior Economist in the Trade and Agricultural Directorate, Jonathan Brooks, Head of the Agricultural and Resources Policies Division, Emily Gray, Agricultural Policy Analyst and Urszula Ziebinska, Senior Statistician, all with the OECD, explain various concepts involved with resilience in agriculture and how the EU's Common Agricultural Policy can better address resilience in agriculture.

Resilience as a growing concern in agriculture

As the world recovers from a once-in-a-generation shock imposed by the COVID-19 pandemic, the word 'resilience' has become fashionable, reflecting the idea that economies must rebuild in a way that makes them more robust to future shocks. Yet in the case of the food and agricultural sector, the concept is not new, nor is the need for policies that build resilience, that is the ability to prepare and plan for, absorb, recover from, and more successfully adapt and transform in response to adverse events. Managing natural hazard risks is inherent in agriculture, given the sector's reliance on climate and weather conditions and the natural resource base. And climate change is increasing the frequency and intensity of natural hazard-induced disasters, causing production losses and damaging farm land and assets in agricultural sectors across the world, and threatening livelihoods. The sector is also exposed to market shocks from both domestic and international sources.

The COVID-19 pandemic delivered twin health and economic shocks, compounding the stresses on agro-food systems. The main impacts came through changes to the structure of food demand and disruptions to supply chains. The production of most commodities was generally able to withstand the pandemic, although products requiring greater labour input – notably fruits and vegetables – were more affected. Policy responses were generally successful in maintaining the overall functioning of food supply chains, and overall, the agricultural sector proved resilient. Even so, major risks remain, especially in developing countries.

OECD Agricultural Ministers in 2016 emphasised a strengthening of resilience as a central priority in their Ministerial Communiqué. Since then, this topic has been a growing concern for agricultural policy makers. The bad news is that the challenges remain significant and may have become more acute. But the good news is that we now know more about the governance arrangements, policy measures and on-farm strategies that can enable governments, farmers and other agricultural sector stakeholders to better prepare for shocks before they occur. And we know more about the approaches that can help these players – where necessary – to widen opportunities to adapt and transform successfully afterwards.

Strengthening resilience for a more responsive agro food sector

All businesses are subject to risks, but agriculture is a particularly risky activity. Supply side shocks, stemming from weather events, and pest and disease outbreaks, can wipe out livelihoods very easily. It can be difficult for farmers to manage these risks through their own individual actions, and private risk markets are often not operational or accessible for individual farmers – especially smaller farmers. As a result, governments have a long history of intervention to help mitigate risks, often through market interventions such as price stabilisation that shield farmers from the true costs of their risk of loss.

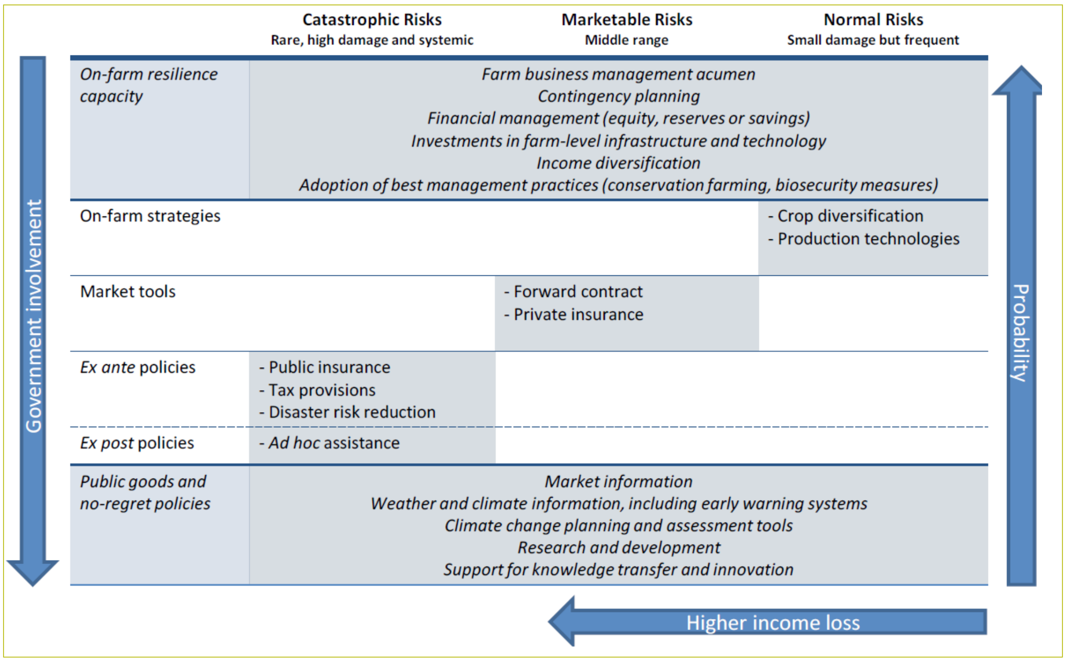
1 The views expressed in this article are the author's and not necessarily those of the OECD or its member countries.

One basic problem is moral hazard: the more extensively the government gets involved in risk management, the less incentive farmers have to manage their own risks. Accordingly, the OECD has long suggested a 'layering' of different kinds of risks.[2] That consists of:

- a clear delineation of the risks that can be borne by farmers themselves, as part of normal business risk;
- risks that can be managed by the use of private contingency markets; and
- finally a layer of risk that calls for government intervention.

These layers are represented by three columns in **Figure 1**. The third type of risk would typically comprise catastrophic risks, such as those stemming from natural disasters.

Figure 1 - A holistic approach to risk management for resilience



Source: OECD, *Strengthening Agricultural Resilience in the Face of Multiple Risks*, OECD Publishing, Paris 2020

More recently, work on risk management has been expanded to cover the concept of resilience. There are lots of definitions of resilience based on which the OECD identifies the following core attributes of a resilient system: the ability to prepare and plan for shocks; to absorb & recover from them; and finally the capacity to adapt & transform. There are five key considerations;[3]

- *consider the risk landscape over a longer time frame.* Public and private actors should place a greater emphasis on what can be done *ex ante* to reduce risk exposure, and plan and prepare for possible shocks, rather than on *ex post* reactive strategies;
- *account for trade-offs*: For example, between policies that enhance different capacities. Actions to strengthen drought resistance could ultimately undermine resilience in the face of climate change. Resources also need to be prioritised;
- develop policies through p*articipatory collaborative processes.* Engagement of a wide range of stakeholders can help develop a common understanding of the risk landscape and respective responsibilities for managing risk;
- *investment in on-farm resilience capacities.* Policies should encourage farmers to develop entrepreneurial skills and their human capital more broadly, as well as promote or support the uptake of resilience-enhancing practices or technologies;

2 See OECD, *Managing Risk in Agriculture: A Holistic Approach*, OECD Publishing, Paris 2009; OECD, *Managing Risk in Agriculture: Policy Assessment and Design*, OECD Publishing, Paris 2011.

3 OECD, Strengthening Agricultural Resilience in the Face of Multiple Risks, OECD Publishing, Paris 2020; OECD-FAO, *Building Agricultural Resilience to Natural Hazard-Induced Disasters: Insights from Country Case Studies*, OECD Publishing 2021.

and

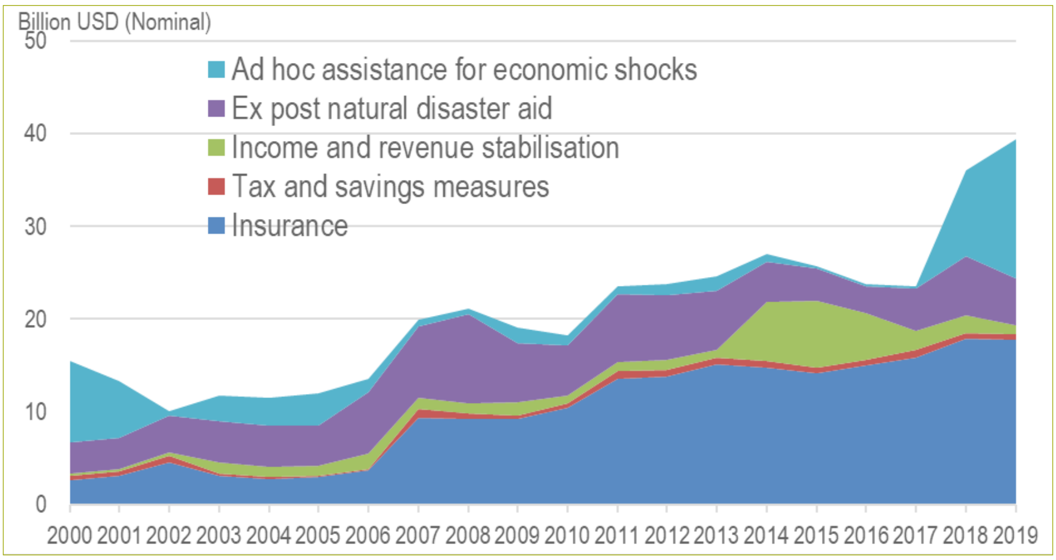
- *no-regret policies.* More focus is needed on policies and investments in key sectoral capacities that build agricultural sector resilience to risk under a wide range of future scenarios and contribute to agricultural productivity and sustainability, even in the absence of a shock.

The first three considerations can lead to a more effective process for developing policies; the latter two (shown in the top and bottom rows of **Figure 1**) suggest more active policy interventions to foster resilience. A shift to resilience-based policies can shift the boundaries between risk layers, so that a greater share of risks can be managed by farmers or by private markets. In other words, an expanded government role in fostering resilience may be cost effective by reducing the need for expensive interventions in the form of disaster assistance. Digital technologies can accelerate those boundary shifts by enhancing information on risks and uncertainties and resolving information asymmetries.

Keeping the pace of CAP reform to increase resilience

However, policy trends have not always moved in the right direction. Globally, public support devoted to conventional risk management is increasing (see **Figure 2**). The largest share of this support takes the form of insurance subsidies, which, if not well designed, may smooth the financial impact of extreme events but, at the same time, reduce incentives to develop other resilience capacities such as to increase preparedness or to adapt and transform in response to future risks.[4] The other measures reported in **Figure 2** are dominated by ex post disaster aid and ad hoc assistance, which significantly increased in 2018-19, mainly reflecting the trade loss mitigation programmes in the US.

Figure 2 - Global expenditure on risk management policies is increasing

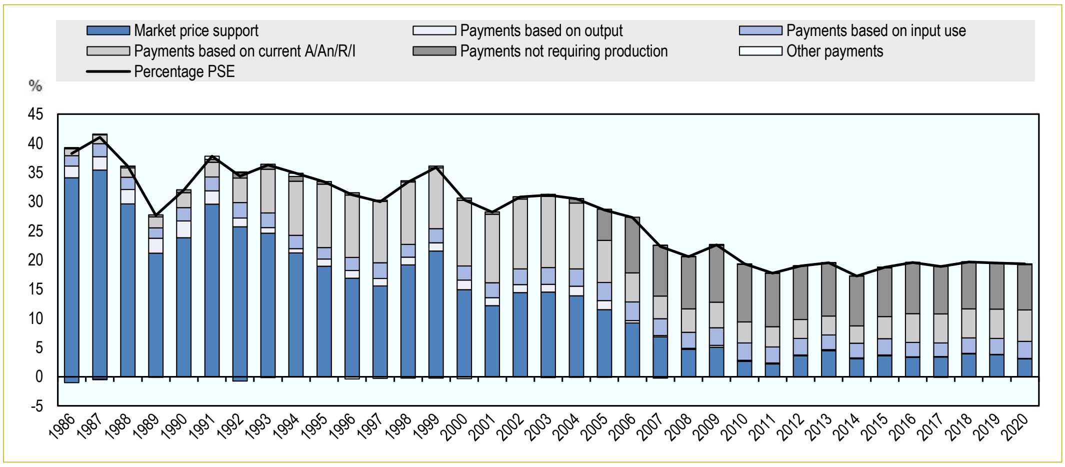


Source: Glauber, J. et al., *Design principles for agricultural risk management policies*, 2021

Has the Common Agricultural Policy (CAP) moved towards a resilience approach? The EU has undertaken significant reforms of the CAP over the years, making it less production and trade distorting. The 1992 MacSharry reforms substituted support tied to production (through intervention buying and export subsidies) in favour of support to producer incomes through direct payments. Subsequently, the 2003 Fischler reforms decoupled significant share of support into the single payment scheme (SPS). These reforms have been reflected in a significant change in the total and composition of the OECD Producer Support Estimate (PSE) (OECD, 2021[6]).[5] Over the past 35 years, in particular through the 1990s and 2000s, the PSE as a percentage of gross farm receipts has fallen from 38% (1986-88) to 19% (2018-20), while the share of this support that is potentially most distorting has been reduced from 90% to 21% over this period (**Figure 3**).

4 Glauber, J. et al., *Design principles for agricultural risk management policies*, 2021.
5 OECD, *Agricultural Policy Monitoring and Evaluation 2021*, OECD Publishing, Paris 2021.

Figure 3 - The European Union has significantly reformed its support for agriculture in the decades of the 1990's and 2000's



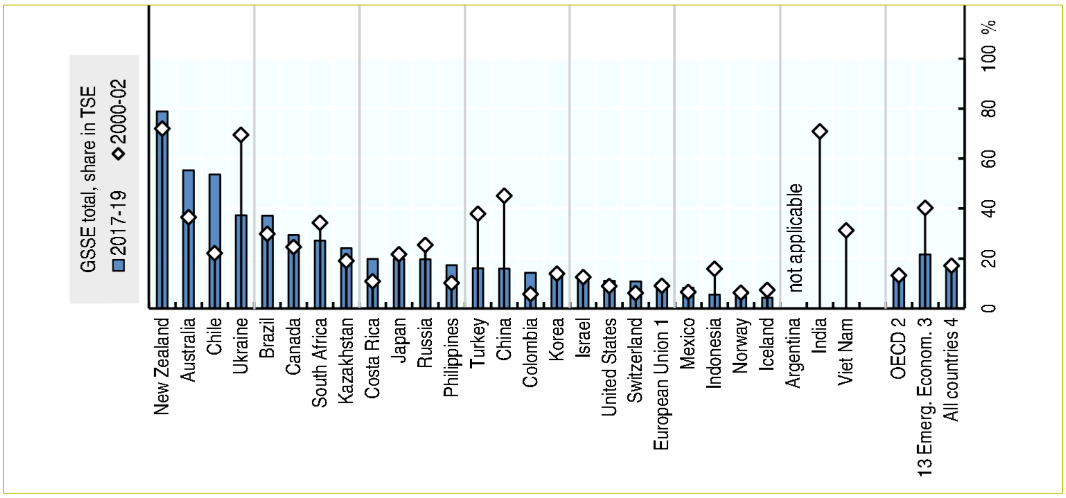
Source: OECD, *Producer and Consumer Support Estimates*, OECD Agriculture statistics (database), 2021

Notes: Level and composition of Producer Support Estimate (PSE) as a percentage of gross farm receipts; A/An/R/I:Area planted/Animal numbers/Receipts/Income. Payments not requiring production include Payments based on non-current A/An/R/I (production not required) and Payment based on non-commodity criteria. Other payments include Payments based on non-current A/An/R/I (production required) and Miscellaneous payments. European Union refers to EU12 for 1986-94, EU15 for 1995-2003, EU25 for 2004-06, EU27 for 2007-13, EU28 for 2014-19, and EU27 and the UK for 2020 .

These reforms have already helped to make farmers more responsive to market signals and shocks, thus, more proactively resilient. Nowadays, the biggest share of support in the EU is made through decoupled payments. These programmes help to smooth the financial impact of shocks but do not create incentives for farmers to invest in reducing their risk exposure, nor to adapt and transform farming practices in response to the changing risk environment. No-regret policies that include investments in resilient infrastructure and innovation are better oriented to improving both productivity and sustainability.

The new CAP and the subsequent National Strategic Plans are an opportunity for some changes that could target innovation to improve productivity and sustainability, while strengthening resilience. However, the EU dedicates only 10% of its Total Support Estimate (TSE) to support general services (GSSE) and public goods that better contribute to these objectives, compared to a global average of 17% and 13% among OECD countries (**Figure 4**). Even if a small share in the EU, most of this general services support is focused on innovation that can contribute to a more resilient sector. A greater effort could be made to re-orient public expenditures on producer support towards investments in these public goods.

Figure 4 - Most of the support in the European Union does not target innovation and public services to the sector



Source: OECD, *Producer and Consumer Support Estimates*, OECD Agriculture statistics (database), 2020

Note: General Services Support Estimate (GSSE) as a share of Total Support Estimate (TSE) 2000-02 and 2017-19

New CAP offers increased potential for European agricultural resilience

Forward-looking policies to enhance the resilience of the sector need strengthened policy processes that consider the risk landscape over the long term, engage a wide range of stakeholders, and account for the trade-offs inherent in different policy options. But they also need a shift in policy content, with increasing incentives to build on-farm resilience and a greater emphasis on providing public goods and services. The two are linked insofar as a process shift towards ex ante preparedness, as opposed to ex post assistance, implies content shift of public spending towards spending on (no-regret) public goods as opposed to private goods (such as disaster payment cheques).

The EU's long-term COVID-19 recovery packages (in the form of the Next Generation EU and the reinforced budget) provide an opportunity to leverage the crisis and build a more resilient agriculture. The new CAP reform provides some room for changes in the right direction. Member States' National Strategic Plans will be able to reallocate resources between the funds for direct payments and sectoral policies (Pillar 1) and the funds for rural development (Pillar 2), and to design eco-schemes that create incentives for adaptation and transformation. Alignment of the new CAP with the European Green Deal and the Farm to Fork strategy provides longer-term opportunities to build a more resilient European agricultural sector.

The new CAP – building on the transition in Europe

Interview with Janusz Wojciechowski, Commissioner for Agriculture

By Derek Meijers and Gaston Moonen

Source: EC

Janusz Wojciechowski

When Janusz Wojciechowski became Commissioner for Agriculture in December 2019, his task, according to his mission letter, was to ensure that 'the agricultural sector continues to deliver on its enduring commitments while supporting it to adapt to changes in climate, demographics and technologies.' A key instrument in achieving this would be the new Common Agricultural Policy (CAP), and it was his responsibility to conclude the then ongoing negotiations with an agreement that, according to his mission letter, had to be 'ambitious in terms of food security and environmental and climate objectives.' When we spoke with the Commissioner for Agriculture in mid-June 2021, the trialogue negotiations were in their final stage – or so he hoped, and now we know his optimism was justified. Optimism prevailed when we interviewed him, as he looked for solutions, building on data that urged him to press for action, not least by the Member States.

Different hats for the sake of better public policy making

In his professional life, Janusz Wojciechowski has seen many sides of public service, having served in the judicial, legislative and executive branches, and also as an external auditor both at Member State and EU level. 'I had the opportunity to work on agricultural policy issues as a Member of Parliament, as a Member of the European Parliament, but also as head of the Supreme Audit Office in Poland and in my position as ECA Member.' He thinks that this experience, in particular as ECA Member auditing the CAP, was an opportunity to gain a wide view on the implementation of the EU's agriculture policy. 'What works well, what mistakes, what kind of errors are there in the implementation, and, of course, the recommendations. The ECA's recommendations are very important for the implementation of agricultural policy in practice.' He underlines this not only applies to ECA recommendations regarding agriculture. 'As Commissioner, I am a member of the College and on many issues considered by the College I use recommendations provided by the ECA, a very good information base. Having been a Member of the ECA is a very helpful experience for my current work as Commissioner.'

Janusz Wojciechowski is not the first ECA Member to become a Member of the European Commission. 'I think Máire Geoghegan-Quinn from Ireland also went from the ECA to the European Commission.' Then, with a smile: 'I am the second person to make such a transfer and maybe the first one who has experience in three EU institutions – Parliament, Court of Auditors and Commission.' He reiterates how useful his ECA experience is. 'Today, when we discussed some issues for the trialogue negotiations on the new CAP, I also used the ECA recommendations to formulate our position. It is really useful for me that I can recall many of the ECA' recommendations. And the position and arguments of the ECA are such that its recommendations are treated very seriously.'

> *It is really useful for me that I can recall many of the ECA' recommendations.*

Monoculture at the cost of sustainability

In his work as an MEP, Janusz Wojciechowski pleaded for the interests of small and medium size farms, and as ECA Member he reported on the position of young farmers. He connects these issues to the Commission's ambitions for a greener, more sustainable agricultural sector. 'We have the problem in European agriculture – the problem of the tendency of concentration of production and upscaling towards bigger and bigger. We can observe this especially in the life-stock sector – the poultry and pig meat sectors, for example. Small and medium size farms are not able to compete with these big, sometimes enormous farms. This development creates many negative consequences for sustainable development. In some regions of Europe production is concentrated, in other regions that same sector is finished, almost gone.'

> *We have the problem in European agriculture – the problem of the tendency of concentration of production and upscaling towards bigger and bigger.*

Speaking about consequences, the Commissioner comes up with some shocking data. 'This development towards monocultures creates many transportation kilometres. According to Eurostat data we transport more than 3 billion tonnes of agri-food products across Europe. The total distance of this transportation is 540 billion tonne-kilometres. These are data from 2017 and show the statistical distance between locations of production and place of consumption.' He explains that the European Commission wants to reduce these distances. 'One of our tools to do so is to pay more attention to small and medium size farms and the local orientation of short supply chains.'

> *...pay more attention to small and medium size farms and the local orientation of short supply chains.*

When discussing what is needed to secure enough food production and have it done in a secure and climate and environmentally friendly way, Janusz Wojciechowski is very clear. 'There appears to be some kind of a myth that for food security, also regarding quantity, we need to intensify production. This is not true if we analyse the statistical data, productivity calculated per hectare.' He refers to Member States that have large scale farms, with farms having an average size of 80 – 90 hectares. 'An example was the UK, which we can take because the data are from before Brexit. These data show that productivity from 1 hectare was less than €2 000. On the other side of the equation is Italy with an average size per farm of 11 hectares. There the productivity was more than €6 000 per hectare. It shows that there is no strict link between how big the farm is and how productive it is. Small farms can also be productive.'

> *...there is no strict link between how big the farm is and how productive it is.*

This is why the Commissioner sees opportunities, particularly through the European Green Deal and the new CAP, for small and medium size family farms. 'What we offer for them is organic farming. When it comes to scale, many small farms are not able to compete with large-scale farming in the conventional sense, often meaning massive production. But if we offer them support for organic farming, for less extensive farming, they have a chance to exist, to be competitive and to be more environmental and climate friendly. And also more animal friendly.' He underlines that the latter is very important to him personally. 'As ECA Member I was responsible for an audit about animal welfare. I think that the improvements in support for animal welfare and better animal welfare standards are especially a chance for small and medium size farms.' He observes that his personal ambition and the Commission's priorities are well aligned in the new CAP proposal. 'To make our Common Agricultural Policy more friendly to small and medium size farms.'

The Commission has launched several measures in the past to stimulate improved environmental conditions, all captured under the term 'greening the CAP.' But Janusz Wojciechowski points out that a lot more is needed. 'The greening was a good instrument as such but not efficient or effective enough. For the future, eco-schemes will be the main instrument to achieve the Green Deal goals in agriculture, under the first pillar. In our discussions in the trialogue it has not yet been decided what percentage of direct payments will be spent on the eco-schemes. There the question is whether it will be 20 %, 25 % or 30 % - something to be decided in these final negotiations.'

An honest broker in the public interest, going beyond agriculture

When discussing the role of the Commission in these trialogues, where the main differences are surfacing between the Parliament and the Council, the Commissioner is clear about his role in this. 'The Commission's role is that of an honest broker.' He explains that the Commission is very active in the negotiation process. 'Many times we proposed… we have been looking for compromise proposals, between the Parliament and the Council. Overall, the Parliament has a more interventionist approach towards the green transition, the Member States a bit less so. But generally I think that the final compromise will allow us to make our CAP more accommodating on the issues I referred to - environment, climate and animal welfare, as well as small and medium sized farmers.'

> “ *...the final compromise will allow us to make our CAP more accommodating...*

He underlines that this is also what the public expects: a more sustainable CAP. 'And really, there is no choice! To go further down the path we have taken in the past – more and more intensive, more and more massive production…this is not a good way either for the resilience of the agriculture system.' He explains that on the one hand big farms, organised as an industry, may say that they are economically effective. 'But on the other side, they are not resilient enough. For example, the diseases; when they are affected by diseases, such as Asian influenza or swine fever, on big farms the scale of the losses is enormous.'

> “ *...big farms, (...) are not resilient enough.*

The Commissioner explains that there is another reason why the Commission wants to stimulate diversification, away from monocultures. 'We also need to ensure food security, in crisis situations. Big farms tend to depend more on computer systems. Of course, such innovation, this technology, is all very important. But there is also an increased risk of cyberattacks. We also need to ensure our food security by means of a system of small farms, which are less dependent on technologies as a whole and are also less vulnerable to large -scale cyberattacks.'

Another policy instruments that could help these small and medium farms is capping the EU support farms can get. The Commissioner points out that capping was included in the initial Commission proposal and is a politically sensitive issue because of different situations across the EU. 'Member States with many large scale farms are under pressure not to have any mandatory capping. The European Council decided that capping would be voluntary for the Member States. But the next instrument related to that is redistributive payments which can play an effective role in transferring more support towards small farmers and reducing a bit the payments for big farmers, thereby reducing the gap. In the end this is a political choice. So it was in the Commission's original proposal.'

For Janusz Wojciechowski capping may come back in the National Strategic Plans to be submitted by the Member States. 'I hope that a majority of them will use capping as a method to achieve a fairer common agriculture policy, creating better possibilities for small farms to exist. Capping and redistributive payments are important instruments for that. Speaking of small farms, I refer to the report I presented when I was ECA Member.

> “ *...creating better possibilities for small farms to exist. Capping and redistributive payments are important instruments for that.*

This report [special report 10/2017] related to young farmers, I think a first one on this topic.' He vividly recalls the numbers presented in the report. 'They were impressive: during one decade after EU enlargement, we lost 4 million small farms. This meant one thousand per day. I remember that when I presented these figures in the ECA's audit chamber responsible for this audit, the European Parliament's committee on agriculture, or in Member States, it was a kind of shock.' The Commissioner considers that this report was very helpful to re-orientate more of the CAP instruments towards small and medium farmers.

National Strategic Plans to be underpinned by solid data

When discussing whether the new CAP can ensure a level playing field within the EU regarding agricultural subsidies, the Commissioner indicates that the National Strategic Plans are crucial in doing so, building on reliable data. 'The differences between the Member States will be a challenge for the reform of the CAP, especially when we approve the National Strategic Plans. It is very important to take into account different starting points. We also mention this in the recommendations we sent to the Member States a few months ago.'

> *The differences between the Member States will be a challenge for the reform of the CAP...*

Regarding data, the Commissioner underlines that the CAP reform is strictly based on the analysis of data. 'For example, in our recommendations to the Member States we analyse in detail the situation in individual Member States. These data are most interesting information. For example, how do you reduce greenhouse gas emissions from agriculture? Agriculture is responsible for 11 % of greenhouse gas emissions. But there are big differences between Member States. The EU average is 2.5 tonnes per hectare, but in some Member States it is 1.5, and there are Member States with more than 10 tonnes.' When asked for an example of the latter, Janusz Wojciechowski mentions the Netherlands. 'This is the Member State with the highest level of emissions, probably because there is a very productive agricultural sector in the Netherlands. You have to realise that it has 1 % of agriculture land and 6 % of EU agriculture production!'

The Commissioner underlines that the Commission will use these data. 'Every discussion about the reform is based on data evidence. For example, if we discuss the redistribution payments. We presented this during the negotiation process: 10 % redistributive payment means in practice 7 % more payment for those farmers with less than 10 hectares and 5 % less payment for farms bigger than 1 000 hectares. We always used the data and, in line with President von der Leyen's promise, we will continue our work based on data evidence. This is an absolutely fundamental practice in the CAP, working on the basis of concrete data is essential.'

> *...an absolutely fundamental practice in the CAP, working on the basis of concrete data is essential.*

He underlines that it not only important to have the data but also to analyse them, also in relation to having a level playing field in the Union. 'For example, take fertilisers. The common opinion is that if we reduce the use of fertilisers in agriculture, the automatic consequence is reduced production. Recently we analysed the data from two Member States – Germany reduced use of fertilisers during the 7-year period 2010 – 2017 from 150 kg/hectare to 125 kg/hectare and at the same time crop production increased by 4 %. Less fertilisers – more production. Maybe a better example – Finland: reduction of fertilisers from 122 kg/hectare to 88 kg/hectare, at the same time the productivity, the gross production, increased by 8 %. These data feed into the argument that there is not a simple linear relation between use of fertilisers and productivity; there are many other factors.'

> *...there is not a simple linear relation between use of fertilisers and productivity...*

Another challenge he finds is to communicate about these findings, reaching the farmers who have to implement the new CAP. 'It is important, but also difficult, to communicate with farmers. Because of the COVID-19 restrictions there was no, and there still is no, possibility of full and direct contact with farmers.' He adds that the Commission also uses social media means to communicate with farmers. 'It is very helpful to present some data and explanations of why we are reforming our agriculture policy, the consequence of these reforms, etc. It is important to convince people, also farmers, of the new ways forward.'

Transparency as a weapon to combat misuse of CAP funds and fraud

Data also means financial data, and besides an efficient agricultural sector, in various dimensions, there are also expectations about compliance when it comes to the rules. Janusz Wojciechowski, also in his capacity as a former ECA Member actively involved in agricultural expenditure, is well aware of this concern. 'The CAP has sometimes been criticised for risks of misuse, fraud, corruption, conflicts of interest. There were and sometimes still are some problems in some Member States, but in general, also according to the ECA's reports, the situation has improved substantially.' He refers to improved management of the CAP and the error rate, which he considers a very important indicator, being reduced from 2.4 % to less than 2 % in 2019. 'So below the material threshold, this is a good tendency.'

Regarding these risks the Commissioner believes that transparency, both at EU level and Member State level, is the best instrument to reduce the risk of misuse and fraud. 'The process of approval of the strategic plans will be fully transparent from the Commission's side and we will also be transparent in our controlling activities; my personal approach will also be that all programmes should be based on transparent criteria.' He underlines that for this the information in these programmes will be essential. 'Criteria on who can be a beneficiary! Generally my idea is also that we need to expand the number of beneficiaries, especially in the second pillar.' Here he also sees a link with small and medium size farms. 'In the past we observed that there were several programmes for which the criteria eliminated small and medium size famers and only a small group of the potential beneficiaries remained who were able to fulfil these criteria.'

> *...all programmes should be based on transparent criteria.*

He expects that this approach will be easier to apply under the second pillar of the CAP. 'Under the second pillar there will be more applicants, we hope, than can be approved and greater discretion about who to provide the funds to.' This will be applied with utmost transparency: 'We have the instruments in the Financial Regulation - Articles 60 and 61 - and they provide legal instruments to prevent the risk of conflicts of interest. We need to pay more attention to this and it will be done.' He considers this to be a question for the agenda during discussions about the National Strategic Plans. 'For me personally this is very important, and also in line with ECA recommendations.'

A delivery model aiming for more synergies

As to the next steps, after the negotiations have been finalised, the Commission will focus on the details of the new delivery model. 'The practical implementation of reform will first be visible in the National Strategic Plans. The legislation is the base, then, of course the strategic plans and also their transparency. For me, as a former auditor, the new delivery model makes a lot of sense. We proposed a model with synergies between the different control systems: the Member States pay agencies, they have certifying bodies, they check the farmers. The European Commission pays the Member States, controls and audits performance by Member States. And the ECA assesses the performance of the European Commission.' He sees this last aspect as crucial, not only from an accountability point of view. 'From the ECA perspective it is sometimes easier to see the problems which are not visible from inside the Commission. But the model of the control system is clear, avoiding the overlap we have seen in the current CAP.'

> *We proposed a model with synergies between the different control systems...*

For the Commissioner the new delivery model should not only improve synergy between the different actors in the CAP but also with other policy areas. 'I personally pay a lot of attention to this issue in each official statement by the Commission. We need to have a common agriculture policy which is not only one policy for agriculture, for the rural areas. We also need to use other funds, all possible funds, especially for the rural areas.' In this context he refers to Article 174 of the Treaty, saying that rural areas should be a priority in cohesion policy, because it is about cohesion policy. 'In practice, there are some problems with the full implementation of this article. We need coherence and synergy between policies, even more important with the Next Generation EU initiative.'

Again the Commissioner comes up with a concrete example: 'We have a very ambitious target to increase organic farming, this is one of the main tasks handed to me in the mission letter from President von der Leyen. The Organic Action Plan is there. Now we are cooperating with the Member States to prepare the organic action plan at the level of the individual Member States. But this requires synergy between policies. Generally, from the CAP funds, we will support development of organic farming from the Next Generation EU funds. This is a good opportunity to expand the processing industry for organic farm products, which is very important for the whole system.' He mentions synergy with the cohesion funds. 'From those funds we can support and organise the market for consumption, so support priorities, for example through public procurement – embedding preference for organic products in the public procurement system.'

Janus Wojciechowski finds these synergies between different funds crucial to achieving the general target, which is the 25 % for organic farming. 'The Next Generation EU will be especially important for linking agriculture to the processing industry. We need to increase processing industries, public demand, consumption of organic food, etc. One of the problems we have in the EU – and now I come back to the topic of small and medium size farms – is the barrier not only to the development but sometimes the mere existence of these farms in relation to the processing industry. The current concentration in the processing industry creates this phenomenon – that the big processing companies are not interested in buying products from small farmers. They need big suppliers. Now the challenge is to support, maybe to re-build local, small processing companies which buy locally from smaller farms.'

> *The Next Generation EU will be especially important for linking agriculture to the processing industry.*

> *...the challenge is to support, maybe to re-build local, small processing companies which buy locally from smaller farms.*

Counting on the ECA's advice

To make the new CAP a success, the Commissioner is also counting on the help and advice of the ECA. 'The ECA has increasingly been focusing on performance. With the new CAP moving more from compliance to performance, there will be plenty of opportunities for the ECA to audit the implementation of the new delivery model. And for the Commission to learn from this.' He underlines that the ECA has a role to play in making the new CAP a success: 'In its role as an independent auditor producing recommendations that are timely and constructive!'

> *...moving more from compliance to performance, there will be plenty of opportunities for the ECA to audit the implementation of the new delivery model.*

He hopes and expects that in the context of the new CAP the ECA will pay greater attention to the Member States' choices when implementing the CAP. 'I see the ECA and also the Commission as allies in preserving the level playing field for agriculture in the EU, and guaranteeing strong common action at EU level to achieve the ambition of the EU Green Deal. 'He points out that one needs to be aware that the new CAP will require some time for learning and adaptation for many actors involved – Commission, Member States, paying agencies, farmers, NGOs, consumers, etc. 'It is important that the ECA takes into account this challenge and helps us in this transition. I think it is the first time that we have such a big reform aimed at making our agricultural system more friendly for the environment , for the climate, for animal welfare, while at the same time also more friendly for farmers. The latter is important because without the farmers we can do nothing.'

> *...It is important that the ECA takes into account this challenge and helps us in this transition.*

Many targets, many challenges, time to move on

Looking forward the Commissioner has high hopes that the negotiations will be finished in time but also shares some concerns. 'We achieved a compromise on the new delivery model and I was happy that the new control system was generally approved by the European Parliament and the Member States. However, an important risk factor I see is the level of ambition in the green architecture.' His concerns relate for instance to the targets of this green architecture. 'Concerns are that the targets in this architecture are too ambitious and that they need to be more realistic. The question is: what is this realistic level – what needs to be done and what can be done? This is the main risk factor.'

The Commissioner for Agriculture is optimistic that the negotiations will soon be closed. 'We are very close to the final agreement. Also because people realise we have no time to discuss about the legal basis for too long. Now we need to start debate about the National Strategic Plans. The entire agricultural policy will be described through each of these single strategic plans for each Member State, which may relate then to what is feasible at regional level. He makes clear that these National Strategic Plans will be the next starting points for discussions, probably also difficult discussions.' I am fully aware of the potential risks in these discussions with the Member States. All the more reason to start this process as quickly as possible, soon after the agreement on the new CAP, starting the next phase towards the EU's transition, also in agriculture.'

> "
> *...these National Strategic Plans will be the next starting points for discussions, probably also difficult discussions.*

‘We need to support our farmers to reach goals for society as a whole’

Interview with Julia Klöckner, German Minister of Food and Agriculture

By Gaston Moonen

Source: Federal Ministry of Food and Agriculture of Germany

Julia Klöckner

With the delivery model envisaged in the new Common Agricultural Policy (CAP), Member States will have a large say in how they want to achieve the objectives laid out in the CAP agreement. All the more important to hear their views on what they think of the post-2020 CAP and how it addresses their particular concerns. Julia Klöckner is Germany’s Federal Minister of Food and Agriculture and was directly involved in the negotiations, leading them during Germany’s Council Presidency in 2020. Below she provides some insights into what the agreement means for farmers in Germany.

A CAP agreement that is well-balanced

After many trilogue discussions the European Parliament, Council and European Commission reached an agreement on the new CAP on 28 June. What is your overall feeling towards the agreement and what is the most important element from the viewpoint of Member States in general and Germany in particular?

Julia Klöckner: It is good and important that the trilogue partners could reach a compromise after long negotiations. We support the package. Now the guidelines need to be implemented, for which we laid the foundation during our German presidency. There will be a change of systems in the CAP. More measures for greater environmental protection and climate change mitigation go hand in hand with economic perspectives for farmers and rural areas.

> *We support the package. Now the guidelines need to be implemented...*

You were leading the discussions during the German Council Presidency. What would you identify as the main topic you made progress on during your Presidency and what will, in the end, be the main gain for German farmers from this CAP agreement?

Julia Klöckner: It was during the German presidency that the Council agreed on a general orientation for the CAP. The German presidency convinced other Member States that we need a mandatory minimum budget for EU-wide obligatory eco-schemes. 25 % of direct payments need to be reserved now. Farmers expect now – and rightly so - to generate income with their measures for environmental protection and climate change mitigation. With the agreement on the CAP, small and medium-sized farms will get more support, as well as young farmers. We also moved forward with our national legislation. That sent important signals for negotiations at European level

"Farmers expect now – and rightly so - to generate income with their measures for environmental protection and climate change mitigation.

You are not only the Minister of Agriculture but also the Minister of Food, which might involve issues such as food safety and diet. What do you think your government can or should do to stimulate such a transition?

Julia Klöckner: If we want to couple productivity and sustainability to a greater degree, we need to provide our farmers with the right means: new technologies, new varieties of plants. Digital applications help to reduce the use of fertilizers and increase plant protection, but we also need more openness towards science to find promising breeding methods to make plants more resistant to pests and climate change. Of course, it must always be compliant with the precautionary principle.

Producing high-quality and regional food

One of the key items of discussion was to what extent CAP payments should be linked to climate and environment-related conditions, and in the end a compromise was reached. There has been some concern that these conditions might not be solid enough, in view of the discretion Member States have through their National Strategic Plans and the voluntary nature of the arrangements. What is your reaction to such concerns and do you see a major 'green' transition happening in farming in Germany once the new CAP is implemented from 2023 onwards?

Julia Klöckner: In Germany, we are setting the course: towards a domestic agriculture sector that is doing even more for environmental protection and climate change mitigation and can survive in competition. To me it is important that our farming families can secure their survival. That is the only option for them to continue producing high-quality and regional food. And this is what society expects them to do. A future-oriented agricultural sector that safeguards livelihoods on the one hand, and climate protection on the other, is not a contradiction. With our legislative package we are redesigning the CAP for the coming years in Germany, a real change of system is in the making. All direct payments, from the first euro onwards, will be linked to requirements for environmental protection and climate change mitigation. That means: there will be no support without performance . Those who are not actively participating in environmental protection and climate change mitigation will get lower direct payments.

"A future-oriented agricultural sector that safeguards livelihoods on the one hand, and climate protection on the other, is not a contradiction.

We are now on a path that will bring about enormous change to agriculture and ask a lot of farmers. We need to follow this path with a sense of proportion. One thing is clear: we need to support our farmers to reach goals for society as a whole.

One of the EU's strengths is its single market. The new CAP seems to be less centralised, with Member States having a large say in the new delivery model through their National Strategic Plans. Do you think this will impact the level playing field we had in the EU regarding agricultural subsidies?

Julia Klöckner: To me it is important that when we raise the requirements and standards for our European farmers it must not lead to competitive disadvantages for them or to relocation of production to third countries. In agricultural trade we therefore need to pay more attention to the different conditions under which food is produced. One thing is clear: our farmers need to remain competitive. Their main task is and will be to provide the population with safe and high-quality food – we all depend on it. Regional products require a farmer nearby who can make a living!

"Regional products require a farmer nearby who can make a living!

Performance at the heart of the new Common Agricultural Policy

By Mihail Dumitru, Deputy-Director General for Agriculture and Rural Development. European Commission

Source: EC

For decades, agriculture has played a pivotal role in the EU's agenda – and it will continue to do so for decades to come. The farming sector needs to face emerging challenges related to food security, rural development, environment and climate. Consequently, expectations have increased when it comes to the performance of agricultural policies, and this is what sets aside the new Common Agricultural Policy (CAP) from the previous ones. Mihail Dumitru, as Deputy-Director General in DG AGRI, European Commission and responsible for direct payments and rural development policies and one of the negotiators of the CAP reform, explains how enhanced performance will be achieved without decreasing effectiveness in protecting the EU budget and ensuring sound financial management.

A new governance to shift from compliance to performance

The Common Agricultural Policy (CAP) needs to sharpen its responses to new challenges and opportunities. A fast-changing global economic context, an urgent need for climate action and better management of natural resources, as well as new demands and higher expectations from society at large, require a different agricultural policy from the one we have today. In the context of the European Green Deal, the CAP must be instrumental in managing the green transition towards a sustainable food system socially, environmentally and economically, and in securing the contribution of the EU to the Sustainable Development Goals. The agreed budget of more than €380 billion for the 2021-2027 period confirms the strategic role that food, farming and rural areas play in today's European agenda.

To deliver on these challenges, the CAP also needs to streamline its governance, modernise its delivery model and shift towards a more performance-oriented policy. The current CAP relies on detailed requirements at EU level, which have increased over time and apply to all beneficiaries. These rules are often very complex and prescriptive, right down to farm level. In the Union's highly diversified farming and climatic environment, however, neither current top-down nor one-size-fits-all approaches are suitable to delivering the desired results and EU added value effectively. To address these challenges, the European co-legislators have agreed on a new and modernised governance for the CAP, based on a new concept: the CAP Strategic Plans.

As of 2023, and for the first time in the history of the CAP, the most significant support instruments (in budgetary terms) implemented in the same territory will be brought under a single programming instrument. This is a key step towards guaranteeing a more consistent approach in the design and implementation of the different CAP instruments, in particular between what are known as the first pillar (direct payments and sectoral support) and the second pillar support schemes (rural development).

Under this new governance, the EU is reducing the level of prescription and moving the focus to achieving objectives and to performance, while Member States bear greater responsibility, being accountable as to whether they achieve the objectives and meet agreed targets (see **Box 1**). At the same time, this new way of working maintains core mandatory requirements, to guarantee that a common ambition is respected across Member States.

Box 1 – The new 'Green architecture' of the CAP in practice

First, set of requirements defined at EU level, common across the Member States:

- a set of basic mandatory good environmental practices to farmers (i.e. obligation to protect wetlands and peatlands, crop rotation, share of land devoted to non-productive features…);
- minimum expenditure to actions benefiting environment and climate (voluntary for farmers):
    1. 25 % of the direct payments (eco-schemes);
    2. 35 % of the EAFRD;
    3. sectorial interventions: 15 % for fruit and vegetables and 5 % for wine;

Second, the Member States will:

- carry-out a SWOT analysis and analyse their specific needs on the environmental and climate, in consistency with the climate and environmental legislation;
- define the specific interventions tailored to the specific problems and propose targets in the draft CAP Strategic plan;

Third, the European Commission will:

- assess the ambition of each CAP Strategic Plan and send observations to the Member States;
- approve the CAP Strategic Plans; and
- monitor performance of CAP Strategic Plans.

Programming approach based on analysis and a common set of objectives and indicators

The legal framework for the new CAP has established a common set of general and specific objectives defined at EU level. The specific objectives, defined in a way that integrate the three dimensions of sustainability, are the entry point for the design of each of the future national CAP Strategic Plans.

A clear strategic approach is embedded in the design of the future CAP Strategic Plans:

- firstly, Member States will assess the needs of their agricultural sector and rural areas against the specific objectives of the CAP, based on a territorial and sectorial SWOT analysis, identifying Strengths, Weaknesses, Opportunities, and Threats. Thus, policy choices defined in the CAP Strategic Plans will be based on evidence. Such analysis will lead to the setting of ambitious targets for the period, using a common set of result indicators;
- secondly, based on this analysis and target setting, they will design and develop the interventions (notably the eligibility criteria and support rates) together with corresponding budget allocations to address their needs and to contribute to specific common objectives.

Subsidiarity in the design of the interventions will make it possible to better take into account national/regional conditions and needs. While maintaining current governance structures – that must continue to ensure effective monitoring and control of the attainment of all targets - the Member States would also have a greater say in designing the compliance and control framework applicable to beneficiaries (including controls and penalties).

To enhance EU added value, ensure ambitious and compliant strategic plans that guarantee the level playing field that will preserve a functioning internal market for agri-food products, the new CAP Strategic Plans will be assessed and approved by the European Commission. This is a key step towards maximising the contribution of the CAP to the EU's priorities, including the European Green Deal.

Monitoring progress, steering policy implementation and assessing performance

A shift towards a more performance-oriented policy requires the establishment of a solid performance framework based on a set of common indicators, which are reliable, comparable and available on time.

The new Performance Monitoring and Evaluation Framework (PMEF) of the CAP improves the previous framework by integrating all the instruments of the CAP under a single common monitoring framework and introducing quantified targets for all result indicators. Furthermore, previous concerns about the quality of the data available have been taken into consideration both in the selection of the indicators and the establishment of the reporting obligations by Member States (i.e. introduction of new legal basis for statistics, certification bodies will ensure the quality of the data before the data is sent to the Commission). In areas where indicators are weak, such as for biodiversity, projects have been launched to improve them.

Based on the experience from the previous programming period and constructive exchanges with Member States and the European Parliament, the monitoring and performance of the new CAP will rely on 38 output indicators, 44 result indicators, 30 impact indicators and 49 context indicators. The targets for each CAP Strategic Plan will be established for the whole programming period at result indicator Level.

Mechanisms to monitor and assess performance will be strengthened, with annual reporting obligations by Member States: every year, the Commission will analyse the reporting on performance, which will include both the output achieved and expenditure as well as progress towards the targets set for the whole period. The assessment of those reports will trigger interaction with Member States with a view to helping them to implement the planned policy in an efficient way. The Commission will play a supporting role by facilitating exchanges on good practice and providing pertinent recommendations to Member States. Furthermore, a full performance review exercise will be carried every second year, which can lead to formal requests to Member States to take action to improve performance and which could potentially entail financial penalties (such as suspension of payments) for the financial years 2024 and 2026.

On top of these exercises, Member States will also be responsible for evaluating their CAP Strategic Plans while the Commission will provide a synthesis of the Member States ex-ante and ex-post evaluations and will carry out additional evaluation activities at EU level. An interim evaluation is planned for 2026, as well as specific reports to assess the contribution of the CAP Strategic Plans to the ambitions of the European Green Deal, as defined in the Farm to Fork Strategy and the Biodiversity Strategy.

Last but not least, the new CAP also provides for a set of core indicators to enable specific annual reporting at EU level in the context of the performance framework for the EU budget under the 2021-2027 Multiannual Financial Framework. The establishment of this set of core indicators will allow for a transparent and effective dialogue on CAP performance between the Commission and the other EU institutions, including the European Court of Auditors.

A new assurance model, which is evolving from compliance at beneficiary level towards performance at MS level

The CAP is implemented in shared management by the EU and the Member States. The existing CAP governance bodies set up in the Member States, notably the accredited paying agencies and certification bodies, have shown their effectiveness in protecting the EU budget and ensuring sound financial management and reasonable assurance.

The new CAP delivery model acknowledges this situation by keeping these governance bodies in place while conferring more flexibility, but also more responsibility, on Member States in deciding and managing the control systems. In this context, EU legislation will provide for a general set of rules for Member States: for example, keeping the Integrated Administrative and Control System (IACS) in place with the Land Parcel Identification System (LPIS) and an Area Monitoring System (AMS) as well as establishing anti-fraud measures and dissuasive penalties. Member States will create the legal arrangements applicable to individual beneficiaries.

In line with the 'budget focused on results' approach, CAP strategic plans will be assessed in relation to their expected performance; payments will be granted on the basis of outputs achieved, in order to reach the pre-established result targets. Thus, the CAP will link the eligibility of EU financing to the actual achievements on the ground, while respecting EU-level governance systems, including accredited paying agencies. In addition, the certification bodies must provide the necessary assurance that the governance structures are in place, the EU rules have been respected at Member State level and the reporting systems are reliable.

The Commission will check that the governance structures set up in the Member States are functioning effectively, will reimburse the payments incurred by the accredited paying agencies and will clear the accounts by assessing that the declared expenditure corresponds to the achieved outputs reported by the Member States. A key novelty in that process will be the annual performance clearance: this new exercise will determine, for each paying agency, the expenditure to be reimbursed to the Member State during the financial year against the outputs achieved during that same period, as per the CAP strategic plan. The annual financial clearance will remain as in the current model, and will solely concern the accuracy, veracity and correctness of the accounts in financial terms.

In line with the Financial Regulation, the single audit approach will be fully applied to the CAP. This means that the Commission will take assurance from the work of the certification bodies where it is considered reliable, based on its audits. The focus of the Commission's audits will be the Member States and their systems, still applying the single audit principle. In addition, based on an assessment of risk, the Commission may check if the Member States have implemented the CAP plans as approved by the Commission. In contrast, it will be a Member State responsibility to check whether the beneficiaries respect the eligibility rules set at national level.

The three elements controlling eligibility under the new CAP - accredited paying agencies, properly functioning governance systems and expenditure linked to outputs - will continue to provide solid assurance on CAP expenditure, as in the current system.

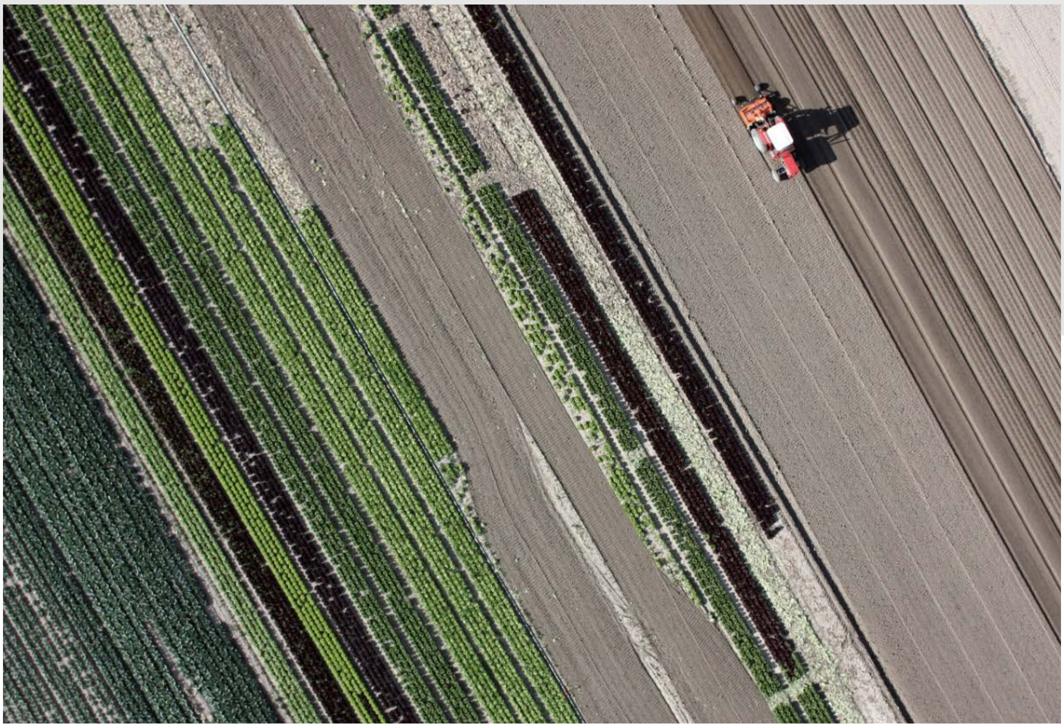
The way forward

After three years of inter-institutional discussions, the legal framework for the new CAP has been agreed between the co-legislators. As the Commission had proposed in 2018 and as amended by co-legislators, the new CAP will be fairer, greener and more flexible. The increasing emphasis placed on performance by the European Parliament, the Council, the European Court of Auditors and the Member States has helped the Commission build a new governance system based on a modern and strong performance framework, which aims to boost the effectiveness of CAP expenditure.

In the next months, Member States need to draft the CAP Strategic Plans and submit them to the Commission at the end of 2021. Then the Commission will assess and approve them before 2023. Afterwards, a new implementation period will start, while certain elements of the current CAP will still run until 2025. This transition period will require important efforts from all actors involved in implementing the new CAP and will require good cooperation among the EU institutions in order to ensure the performance-oriented culture becomes fully integrated in the CAP.

Towards a greener and fairer CAP

By Lukas Visek, cabinet of Executive Vice-President Frans Timmermans at the European Commission



Source: EC AV PORTAL (europa.eu)

Can agriculture get in line with actions to combat climate change? *Source*: European Commission.

The European Green Deal is the biggest EU project to tackle the twin crises of climate change and biodiversity loss. All economic sectors play a role in the transition. Being one of the major drivers of biodiversity loss and contributing 10 % of greenhouse gas emissions, agriculture is a crucial component in the achievement of the targets set out in this Green Deal. In May 2020 the Commission launched its Farm to Fork strategy (F2F) and Biodiversity strategy, including a concrete action plan. Lukas Visek is a member of the cabinet of the Commission's Executive Vice-President responsible for these plans, Frans Timmermans, and he is working in particular on the Farm to Fork strategy and the Greening of the Common Agriculture Policy (CAP). Below he sets out his perspective on the why and the how of realising a transition to sustainable agriculture.

Climate change is pushing us beyond our limits already

300 years ago, several citizens in Salem, Massachusetts, started showing erratic behaviour. Convulsions, delusions, and other unusual physical and mental symptoms. It is believed that these symptoms – witnessed especially in women and young girls – led to the execution of 19 inhabitants during the Salem witch trials, a majority of them female. Several more perished in prison.

Since 1976, historians have been debating the cause of this behaviour, after Linnda Caporael published a paper arguing that it was in fact prompted by ergotism. This is a disease caused by a fungus, *Claviceps purpurea*, which occurs in rye. The fungus contains similar chemicals to LSD, and is known to cause the exact symptoms witnessed.

While we may never know for sure what caused the Salem witch trials, we do know that we have managed to keep the spread of Claviceps purpurea under control. Science and technology have helped protect us, and – with exceptions - avoid outbreaks of ergotism among humans in modern times. And yet, this very fungus is now more prevalent than in recent history, and at higher levels too. This is a direct result of changes in agricultural practices. It is also a result of climate change which has been altering the geographic range as well as the vectors of the spread. Humanity has been slowly but surely pushing the Earth past its limits, and we may have already passed several tipping points.

We are now running out of technological, scientific, and management options and knowledge to keep the spread of this dangerous fungus completely under control. In the face of that reality, the only remaining immediate solution has been put in place: regulate maximum levels for the presence of this fungus in cereals. Which is what the European Commission has done to protect public health as well as the health of animals who are fed with crops in which this fungus lives.

For the time being, these measures will manage to prevent the spread of ergotism. For farmers, however, they add a new constraint. This constraint is not driven by policies, but it is a direct result of climate change and the need to protect human health against the effects of it. The re-emergence of this fungus is one clear example of why we need to support European farmers in adopting more sustainable farming practices and adapting to climate change. And it is also a clear example of how costly climate change can become for farmers, if farming practices do not become more sustainable.

CAP has delivered on quantities but not on quality of production methods

For decades, the Common Agricultural Policy (CAP) has been the key instrument in shaping the EU's agricultural sector, farmers' livelihoods, European landscapes, as well as our diets. When created more than 60 years ago, it aimed to tackle three key things:

- preventing another period of hunger in Europe. While poverty still causes far too many people to go hungry in the European Union, food itself is abundant. The EU has become the biggest exporter (and importer) of food. European food is the hallmark of safety and quality. In fact, food has become so abundant that we, Europeans, throw around 20 % of it away, which is another problem we need to tackle if we are to live within the boundaries set by our planet;
- making food available at affordable prices. Many Europeans have a – justified – impression that food is becoming more and more expensive, but the share of a household's expenditure on food has actually not changed much over the past ten years. In fact, it has gone down, albeit very marginally. About 13 % of European households' expenditure goes on food, with food occupying the third place after housing and transport. What's more, one in five deaths is attributed to unhealthy diets. The European Commission's Farm to Fork Strategy and the 'EU Beats Cancer Plan' try to make the healthy and sustainable choice the easy choice. To date, the easy choice is typically highly processed food, which has both a negative health and environmental impact;
- thirdly, one aim of the CAP was to secure decent incomes and livelihoods for farmers, also with a view to maintaining a decent quality of life in rural areas. This is the area where the CAP has perhaps failed most so far. A failure that is even more remarkable considering the overall global leadership and extremely high competitiveness of the EU food sector.

In the CAP, the present system of direct payments consumes three quarters of the CAP budget. So the main source of blanket income support for farmers accounts for about one quarter of the total EU budget. Most of these payments are now decoupled from production. Unfortunately, they are also to a large extent decoupled from production methods.

In other words, farmers are not motivated or encouraged by these payments to opt for more sustainable methods, they just need to make sure that they do not break the rules. Conversely, farmers' extra efforts to use more environment and climate friendly farming practices receive no recognition in the income support they receive. Many farmers will still do more than is asked but they do so at their own expense.

Eco-schemes – why more land should matter less

Back in 2018, the Commission proposed allocating a part of the direct payments to a new tool called eco-schemes. This is a financial reward for farmers for employing practices which are beneficial for the climate and for the environment. The concept is familiar to farmers and administrations from the CAP's second pillar, in the form of climate and environment commitments where farmers commit to predefined farming protocols and are compensated for any additional cost and income loss stemming from these practices. The huge advantage of eco-schemes is that they will be made available on a large scale to more than 7 million farmers across the EU. The other huge advantage is the budget the eco-schemes will come with. At the time of writing this article, the final outcome of the negotiations on the new common agricultural policy was still to be formally confirmed but, provisionally, Council and the European Parliament have agreed to dedicate about a quarter of the direct payment budget to eco-schemes.

This new tool offers a lot of possibilities to fix things. First of all, it enables a roll out of sustainable practices on a large scale. For example, farmers will have an incentive to dedicate 7 % of the arable land on their farm to biodiversity, with no production and – obviously – with no chemicals (without the eco-scheme incentive, at least 3 % must be non-productive areas). This should (re-)create the natural infrastructure for biodiversity to thrive. As many studies show, having more biodiversity is ultimately beneficial for farmers and their productivity as well, and farmers need to receive the right expert guidance to make the best out of it. Another example is precision farming, whether it takes the form of integrated pest management or specific practices which use pesticides and fertilisers only where and when needed. Again, this saves farmers money on inputs and it is good for biodiversity.

Secondly, eco-schemes partly fix the problem of fairness of direct payments. On average, 80% of direct payments from the CAP go to only 20 % of beneficiaries. It is no secret that these beneficiaries are not always farmers: the system of direct payments is actually linked to land, not to farming. So the more land you own, the more direct payment you receive. Next to being unfair, this system creates all kinds of other problems. Young farmers and any new farmer just starting out, for that matter, struggle to get access to land. While eco-schemes will not fix this entirely, they will help, as it will be possible (and even desirable) to stack up eco-schemes. In other words, farmers will be able to get a multiple reward for the same area for doing different things. This will make the quantity of owned and farmed land matter less, and the quality of farming matter more.

In a similar vein, eco-schemes can also partly fix the old injustice where two neighbouring farmers could receive a completely different direct payment because of some historical records. Eco-schemes will be up for grabs for those who want to do more for the environment and for the climate.

Towards a CAP that rewards taking care of resources instead of merely using them

This new approach, where performance (and ultimately results) will be valued and rewarded, takes the CAP out of its traditional pattern. The European Court of Auditors itself was very clear on this in its recent special report: spending CAP money on climate according to the rules did not mean that these funds actually delivered any added value for climate - or biodiversity, as the ECA reported last year.

The coming shift towards performance is therefore crucial as it is clear that we will also need to produce more food to feed 10 billion people. This cannot be done at the expense of the planet and at the expense of the natural resources farmers need to produce that food. It is fairly obvious that the trends in land degradation, water scarcity and pollinators will hit rock bottom eventually, unless we change our approach dramatically and urgently.

In the end, Europe's farmers have always been so much more than mere beneficiaries of the CAP's income support. This is why they need a CAP that will genuinely reward them for taking care of the environment, mitigating greenhouse gas emissions, and storing carbon. Not only will this improve their incomes, it will also make them more resilient in the face of the climate and biodiversity crises. Humanity and in particular farmers have been defeating diseases and pests since agriculture started. Now we have to make sure we defeat the crises that threaten our very existence. Our food security and our futures depend on it.

Multiple interactions between agriculture and the quality of our lives make the new CAP – and auditing it – more relevant than ever

Interview with Samo Jereb, ECA Member and chair of the ECA audit chamber Sustainable Use of Natural Resources

By Derek Meijers and Gaston Moonen

Samo Jereb in his garden in Slovenia

With expenditure amounting to €59.5 billion, the EU's budget for 'natural resources' represents 37.4 % of the total EU budget, and the Common Agricultural Policy (CAP) accounts for 98 % of this. It may come as no surprise that the ECA's audit work on this budget chapter makes up a substantial part of the ECA's overall publications, both regarding compliance and performance issues. As for the latter, the ECA has published 20 special reports relating to the CAP since 2017. ECA Member Samo Jereb has been responsible for several of these reports and since June 2020 has been chairing the ECA's audit chamber producing them – Chamber I, 'Sustainable Use of Natural Resources'. We interviewed him, before the closure of the negotiations on the post-2020 CAP, on the ECA's work on the CAP, his perspective on the new CAP proposals, and the horizontal dimensions of this policy area, in particular regarding climate and biodiversity issues.

An interest in things green which is not just out of the blue

Soon after he started work as an ECA Member in 2016, Samo Jereb became a Member of the audit chamber for the Sustainable Use of Natural Resources. His interest in 'natural resources' and all that relates to the topic goes back years. 'I like the topics that we are covering in our audit chamber. But not just our audits relating to agriculture. In our chamber we are also responsible for environmental audits, including auditing mitigation and adaptation to climate change'. He explains that somehow the topics he deals with in the audit chamber are a continuation of the work that he was doing at the Court of Auditors of the Republic of Slovenia. 'As Supreme State Auditor I was also responsible for environmental audits, among other topics.'

Also in his personal life, nature belongs to his natural habitat. 'Personally, I enjoy nature, having quite a large, mostly ornamental, garden of my own. I also grow some organic vegetables, fruits and herbs, which I use when cooking. I was also a beekeeper before coming to Luxembourg and, generally, I try to create different types of habitats and conditions for biodiversity around my living space. If you pay attention to nature, you can see wonders happening around you!' His hobby has culminated not only in spending a lot of free time in nature, but also writing about it. Before he came to Luxembourg, Samo Jereb (co)authored two books about gardening, both in Slovenian: one published in 2010 entitled *Beautiful gardens of Slovenia: 26 private ornamental gardens*, and one published in 2009 called *Perennials for all seasons - Successful planting in Slovene gardens*. 'When you dive into nature you start seeing it with different eyes and appreciation.'

This appreciation also comes out in his assessment of agriculture and its overall importance. 'We should always keep in mind that humanity needs enough food that is also of sufficient quality. All other issues - financial, economic, social, etc. - are very important, but if we would experience food or water shortages this can and will initiate migrations and wars. Even with sufficient food but of poor quality, we will suffer consequences in the form of illnesses.' He therefore believes that all of us, perhaps more than ever before, should be concerned about having an agricultural industry that can support our society with good quality food. 'Consequently, we need to make sure that the conditions for farmers will attract enough young people to replace those farmers who are currently approaching retirement, and that they will be ready to embrace new farming technologies.'

> *All other issues - financial, economic, social, etc. - are very important, but if we experience food or water shortages this can and will initiate migrations and wars.*

At the same time Samo Jereb underlines that agriculture cannot be treated as a disconnected part of our lives that only guarantees food. 'There are many interactions between agriculture and quality of our lives. Farming and forestry can provide us with important eco-systemic services that we need for relaxation. Pesticides and nitrates, if not used properly, can pollute drinking water. Residues of pesticides on the fields can be carried by the wind into the air and reduce air quality. Not to mention that Greenhouse Gas Emissions from EU agriculture contribute around 10 % to overall GHG emissions and global warming, etc.'. He points out that these are just a few examples of the very interesting topics which can affect our lives directly and indirectly and are dealt with by his audit chamber. 'Auditing how the European Commission and Member States tackle these issues and how the ECA can contribute through its recommendations is very interesting for me.'

> *There are many interactions between agriculture and the quality of our lives.*

The audit work preceding the drafting of these recommendations has not become easier, due to the COVID-19 pandemic constraints. Traditionally, auditing agricultural programmes included audits on the spot, verifying the condition of fields, of a project's progress, eligibility conditions, etc. But Samo Jereb explains that things were already changing well before the pandemic hit Europe. 'For several years we have been making more use of satellite photos and other sources of evidence and less use of visits on the spot. So we were actually well prepared for the COVID-19 crisis from that point of view'. He points to some further changes made this year. 'For direct payments in agriculture we selected the sample we audited from the transactions that had been examined by the paying agencies – maximising the use we make of their work. But of course, we were still able to use satellite photos and other sources of information.'

Samo Jereb explains that monitoring the development of digital tools is part of the ECA's audit work. 'We have done a performance audit, published as ECA special report 4/2020, on using new imaging technologies to monitor the CAP. We found that the development of this approach is relatively slow and therefore we might only be able to use this approach in our audits in a few years.' He adds that in 2021 the ECA will start an audit on using big data in agriculture, expected to be helpful when assessing agricultural performance in Member States. As for auditing expenditure from the European Agricultural Fund for Rural Development, Samo Jereb has bigger concerns: 'Here digital tools are less well developed and the Commission does not yet collect information in a way that would allow us to use digital audit tools for auditing this part of expenditure.' But, overall, he believes that the ECA is aware of the possible changes in audit that digital tools can bring about and his audit chamber is monitoring the progress the Commission is making in this respect. 'This ties into the work the ECA's Digital Steering Committee is doing, analysing the state of play regarding access to data in the Commission and Member

States for all EU budget headings, and preparing proposals for organisational changes and an action plan for implementing a digital audit approach in our audits.'

Aggregating CAP audit lessons into opinions on the post-2020 CAP

Over the last five years, the ECA has published about 20 special reports relating to agriculture, with a wide variety of topics, ranging from a topic such as the protection of wild pollinators in the EU to ensuring stabilisation of farmers' income. When asked which audits stand out in relation to the current CAP, Samo Jereb explains it is hard to select one or two topics. 'We always try to look ahead, what legislation will be amended and when, so that we can achieve greatest impact with our reports. This is why we have done quite a few audits on funding instruments under the CAP and control mechanisms – such as greening the CAP, basic payment scheme, certification bodies, or the simplified cost option in rural development - before the Commission presented its proposals for next CAP in 2018. We have also done some performance-related audits – such as animal welfare, CAP income stabilisation, food safety, organic food, or renewable energy in rural development. All this allowed us to gain enough understanding of the implementation of CAP 2014-2020 in the sense of what does (not) work as intended and what needs to be improved.'

> *We always try to look ahead, what legislation will be amended...*

All this work enabled his audit chamber, even before the proposals on the new CAP were issued, to prepare a briefing paper – now known as ECA review 2/2018 – to explain what the ECA would expect from the proposals regarding the performance framework of the new CAP. 'And when the proposal was drawn up, together with the basic legislation, we were already able to issue a clear and in-depth opinion – ECA opinion 7/2018 – on the proposal for the new CAP in 2018. I think that the legislators were grateful that we were able to provide them with our assessment of the proposal in time, when the discussion on the CAP started, with comments that could be linked to the audit reports we had issued.' He points out that this was one of the big achievements of his audit chamber, potentially making the biggest impact on agricultural policy making. Then, sighing: 'If the Commission's DG AGRI had made more use of our findings when preparing the proposals... At least the European Parliament paid more attention to our recommendations. And the proposals that did not take our recommendations into account sufficiently were still the subject of extensive discussion in the trialogue negotiations three years later!'

> *...legislators were grateful that we were able to provide them with our assessment of the proposal in time when the discussion on the CAP started...*

Auditing agricultural policies or environmental policies…?

When looking in detail at the topics of the audits on agriculture covered during the last five years, more than half of them relate to environmental measures. Samo Jereb explains that this has more to do with his audit chamber finishing a cycle of audits on agricultural instruments than a structural shift in audit focus. 'In the previous years we focused on instruments under the ongoing CAP, which also allowed us to prepare our opinions in time for the next CAP proposal. Since the new CAP will only start in 2023, with a focus on national plans, there is not much new that we can say about this topic. We covered the majority of CAP instruments. And until there are new ones there is no added value, from a performance point of view, in auditing the same instruments again. The conclusions will be the same. Now is the time for legislators at EU and Member State level to decide whether and how to integrate our recommendations in the new CAP.'

> *... ones there is no added value, from a performance point of view, in auditing the same instruments again.*

He expects that the ECA's activities will zoom in again on the agricultural instruments when the national plans for the new CAP have been adopted. 'Then we will see how the CAP will look in reality and whether other documents that influence the CAP – think about the European Green deal, Farm to Fork strategy, Biodiversity strategy, etc. - were fully taken into account. So the shift of our focus is not so much connected with the result of changes in agriculture in past years. It is more linked to the fact that the effects on the environment - water quality, air quality, biodiversity - of the intensification of farming, on the one hand, and, on the other, of the abandonment of farming in less favourable areas, are more visible to the public.' He underlines that, as in other policy areas, there were more and more warnings from experts that agriculture needed to change. 'Consequently, the focus of the UN, governments, legislators, and also of the ECA, shifted more to questions of how to ensure sustainable agriculture and follow a '*no harm*' approach, and of what kind of impact this would have in other policy areas. For us this was perfect timing, to audit the new schemes coming, in between the various schemes of the past'. In this context, he refers to an audit already proposed for 2022 to look at the support scheme for wine producers.

> *...the effects on the environment - water quality, air quality, biodiversity - of the intensification of farming, on the one hand, and, on the other, of the abandonment of farming in less favourable areas, are more visible to the public.*

Speaking of the audits regarding agriculture and sustainability, the ECA Member explains that the ECA focus was first on climate change adaptation and mitigation, such as climate-related spending, desertification, floods. 'Issues indirectly linked to conditions for agricultural activities. Lately we have focused on environmental topics, such as pesticides and forestry. In recent years we have published several audits on biodiversity on land and in the sea – think about topics such as biodiversity on farmland, pollinators and marine environment'. In this connection, he refers to the Joint Biodiversity Conference the ECA organised in October 2019 under the umbrella of the Working Group on Environmental Auditing of the European Organisation of Supreme Audit Institutions. 'There we brought together experts from several universities and other bodies and auditors from European national audit institutions and the ECA.'[1]

Samo Jereb found the feedback received on the ECA audits relating to biodiversity very encouraging. 'The response of journalists, experts and social media on all our reports on biodiversity showed a huge interest of the public in these topics. The Council and the Commission supported findings of our report on pollinators, including the recommendations regarding the CAP and pesticides.' This makes him hopeful on some movements into a positive direction. 'Also in our discussions with the responsible committees in the European Parliament, we get the positive feedback that our audits are relevant and help them to discuss possible changes of the CAP based on evidence provided through our audit reports.'

> *...our reports on biodiversity showed a huge interest on the part of the public in these topics.*

In the European Parliament, the main interlocutors are the Committee on Agriculture and Rural Development (AGRI) and the Committee on Environment (ENVI). 'This is because many of our reports, particularly during the second half of the previous MFF period, related to environmental issues, which makes the ENVI Committee, besides the AGRI Committee, a natural interlocutor. For our reports relating to concrete agricultural issues, such as farmers' income stabilisation, animal welfare, or the basic payment scheme for farmers, our main discussions take place in the AGRI Committee.

Concrete potential of the new CAP cannot be identified yet

While the new CAP proposal continues the use of direct payments based on the hectares of land owned or used, it leaves quite a lot of discretion to the Member States, also by means of a pre-established financial allocation to specific interventions based on their own needs assessment. When discussing possible effects on the single market, with a view to a level playing field for agriculture in the EU, Samo Jereb thinks it is not possible yet to evaluate whether such a playing field can be ensured or not. 'In general, we can say that a level playing field can be more easily achieved with a single CAP. However, we should not forget that conditions for farming are not the same all over Europe and the differences will become even greater with the effects of climate change. The same goes for farm structures that differ from Member State to Member State.' He can therefore

1 For more details on the ECA's activities in public audit platforms regarding environmental auditing, see: Jereb, Samo; 'The ECA – contributing through different public audit platforms to cooperation on environmental auditing', ECA Journal No 2/2020 on Climate Change & Audit, June 2020.

understand the desire to allow Member States to define their own CAP national plans to improve conditions for farmers that are more connected with their situation. 'To what extent this will provide a level playing field has yet to be seen. Since the Member States would provide their own assessments of their needs for financing and there will not be an EU level assessment of the needs, it is not clear yet how the allocation of funds between Member States will be made.'

Samo Jereb explains that, for the ECA, one major concern is the performance framework of the new CAP proposals. 'Since the proper objectives - results and impacts - of the CAP are not defined and a majority of indicators only provide information on outputs, it will be hard to change from a compliance model to a performance model. This will be the case as long as a fully developed performance framework has not been defined. If payments are to be based on a performance model, taxpayers will expect to be informed about the results and impacts of the policy, not only about outputs such as the number of farmers receiving subsidies or the agricultural area that is covered by CAP measures.'

> *Since the proper objectives - results and impacts - of the CAP are not defined (...) it will be hard to change from a compliance model to a performance model.*

He underlines that Member States and the Commission need to define not only outputs but also results and impacts and ensure proper evaluation of their achievements. 'For us this is a precondition for an effective performance model. It will get harder and harder to justify subsidies for farmers just by providing generalised arguments that such subsidies are good for society as they ensure that farmers can provide eco-systemic services and food, and therefore farmers deserve direct payments'. He indicates that even though these generalised statements are true, in principle, the public would still want to know how much the EU is paying farmers and for what exactly. 'They would want to know not only if sufficient and good quality food is produced, but also if the '*no harm*' principle is respected by farmers and whether farming is using natural resources in a sustainable way. So this performance framework needs to tackle not only the impacts of farming on society, but also on the environment and climate change.'

> *...this performance framework needs to tackle not only the impacts of farming on society, but also on the environment and climate change.*

In relation to this aspect, he remarks that, regarding eligibility criteria, the Commission followed the ECA's recommendation to merge instruments with the same purpose (e.g. cross-compliance and greening) and make the CAP simpler. 'Transforming this instrument into '*conditionality*' would follow our recommendation even further, if it became a real condition for receiving payments. But the conditionality proposed in the new CAP legislation is not really a condition for receiving EU funds, but – as is the case now with cross-compliance – only subject to limited penalties in case of non-compliance.'

Speaking about eligibility criteria, Samo Jereb is more positive about compliance results in the current CAP when it comes to error rates, which for several years now, as identified in the ECA's annual reports, have shown decreasing trends for agriculture: from 2.9 % in 2015 to 1.9 % for 2019 payments. 'The Commission and Member States were successful in reducing the error rate in direct payments. This was possible through simplification of payments and digitalisation of supervisory instruments. Our concerns remain, nevertheless, in connection with expenditure under the European Agricultural Fund for Rural Development.' He explains that in that area the error rate remains well above 2 % and is where the ECA still finds ineligible beneficiaries, projects or expenditure as the main source of errors. 'Including, every year, cases with suspicion of fraud, which we report to the EU's anti-fraud office, OLAF. During the last two years, there has also been a lot of discussion about land grabbing and fraud when claiming direct payments under the CAP. We are currently performing an audit on fraud in the CAP and another on conflict of interest in the CAP and Cohesion to see what the reasons for these cases really are.'

IIn this connection, and aware of the discussions on this topic in the European Parliament, he gives an example: 'If we talk about land grabbing, we need to do an audit to find out how certain actors in agriculture, whether in France or the Czech Republic, got the rights to use this land to apply for subsidies. Just note that if you know that the biggest land owners are the Queen of England and some other big actors in some Member States, then you should not be surprised if some actors, sometimes big companies in Eastern Europe, want to copy them.' The question he thinks might come up is: why is there no capping in the subsidy scheme of the CAP? 'What do you really want to finance, is that big agri-companies or do we want to ensure that small farmers will survive and not abandon their farms? What do we want to finance, that is an important issue.'

> *What do you really want to finance, is that big agri-companies or do we want to ensure that small farmers will survive and not abandon their farms?*

Addressing gaps between ambitions and achievements

An important issue that has emerged from ECA audits on agriculture in relation to climate change, the environment and biodiversity, is that the EU's expenditure on greening the CAP has not yet had the effects that were intended, as the ECA recently pointed out in its special report 16/2021 regarding the CAP and climate. This concern was also reflected in ECA opinion 7/2018 on the new CAP, which said that the proposal did not reflect a clear increase in environmental and climate ambitions. For Samo Jereb, as the ECA Member responsible for the ECA's audit on greening the CAP, published in 2017 (special report 21/2017), this was not a surprise. 'The pressure on agriculture, that agriculture needs to change, to become greener, was there well before. And greening was somehow a reply to this pressure. It needs to be greener but whether this really happened in practice remains rather questionable. This 2017 report on greening the CAP was my first audit as ECA Member. Regarding greening, the farmers did what they were already doing before, so you cannot expect exceptional results if you basically ask them to do the same thing but with a different label.

> *Regarding greening, the farmers did what they were already doing before, so you cannot expect exceptional results if you basically ask them to do the same thing but with a different label.*

He continues by explaining that in the CAP 2014-2020 greening was announced as a game changer which would make a difference to agricultural practices. 'Our report was important in the sense that it showed that in reality farmers, already before the 2014-2020 CAP policy was adopted, were applying practices that were required by greening and therefore no major change occurred. We assessed that farming practices had induced change on no more than 5 % of agricultural land. And that penalties for not respecting greening were not really dissuasive.' As an example, he cites the Integrated Pest Management (IPM) instrument, an instrument that should reduce the use of pesticides. 'Applying the IPM principles is mandatory for users, but Member State compliance checks are rare and we found no good examples of such checks. One reason for the lack of enforcement is that there are no clear criteria as to how users should apply the general principles of IPM, no obligation to keep records of IPM application or how the authorities should assess compliance. CAP rules also require Member States to establish farm advisory systems and provide advice on IPM to all farmers. However, while the IPM principles are mandatory for farmers, they are not included as a condition for CAP payments.'

> *... penalties for not respecting greening were not really dissuasive.*

He points out that the majority of our 2017 recommendations should be implemented under the new CAP, which makes them still very pertinent. 'We assess whether recommendations have been implemented three years after issuing the report, and such an assessment will be published in our 2020 annual report later this year, so I cannot prejudge on that. However, what is clear is that for the final assessment on implementation we would need to wait for the audits of the national strategy plans of the Member States.' He thinks that recommendations from national audit institutions (SAIs) and the ECA will be important for the post 2020 CAP, in respect of the proper design of the performance framework and the role of the national strategies. 'Helping to identify gaps in the frameworks that need to define results and impacts to

> *...for the final assessment on implementation we would need to wait for the audits of the national strategy plans of the Member States.*

be achieved, and based on that, the outputs, inputs and appropriate actions that would allow Member States to achieve set results and impacts. Therefore the role of all SAIs including the ECA is very important.'

Having been the Member responsible for several reports the ECA published on biodiversity in 2020, Samo Jereb can be considered as an expert on biodiversity issues in the EU. He believes that the Commission has missed some opportunities in the new CAP to address biodiversity concerns. 'The Commission published its pollinators initiative in June 2018 – and the new CAP legislative proposal at the same time without taking into account actions envisaged in the pollinators initiative. The actions proposed in this initiative to tackle the main threats to wild pollinators focus on the conservation of habitats, including agricultural and urban habitats, and the reduction of the impact of pesticides and of invasive alien species. Some of the actions were later included in the EU Green Deal or Farm to Fork strategy.

He sees this as an example of a key concern regarding the CAP. 'In principle, the CAP includes several beneficial instruments, but their implementation is weak, due to weak incentives - checks are rare and penalties not dissuasive - or lack of management requirements, such as for the Ecological Focus Areas with catch, cover or nitrogen-fixing crops to provide food for pollinators. But they won't if the crops are cut before they flower, and land lying fallow is beneficial only when sown with wildflowers.' He observes that some standards on Good Agri-Environmental Conditions have great potential in terms of supporting agricultural biodiversity, such as the establishment of buffer strips along watercourses, or minimum soil cover, or the retention of landscape features. 'But the legislative framework gives Member States a high degree of flexibility to define their content. The new CAP will introduce eco-schemes, but again it is a voluntary instrument for which Member States will define the substance by themselves. So only after Member States adopt their National Strategic Plans for the CAP will it be clear if the new CAP provides some benefits for pollinators and biodiversity on farmland.

> *...the CAP includes several beneficial instruments, but their implementation is weak, due to weak incentives (...) or lack of management requirements...*

> *The new CAP will introduce eco-schemes, but again it is a voluntary instrument for which Member States will define the substance by themselves.*

However, overall, the ECA Member acknowledges that the European Green Deal and Farm to Fork proposals are steps in the right direction. 'Whether the ambitious goals from both documents will become part of the new CAP, it will only be possible to assess – sorry to be repetitive – after the national strategy plans have been adopted.' He observes that the CAP proposal from the Commission as such is rather limited on this aspect and allows plenty of room for Member States to decide on the targets at national level and actions that would enable those targets to be reached.' As I said before, this is exactly our main concern, since it is not clear how the Commission will assess whether the ambitions in the national plans are sufficient to reach overall targets at EU level. For this reason, we will focus our future agricultural audits on auditing whether Member States have defined pertinent targets, indicators and actions that can lead to achievement of the targets. Compliance will probably have a less visible role, especially since efforts to reduce the error rate in the direct payments have been successful.

> *...we will focus our future agricultural audits on auditing whether Member States have defined pertinent targets, indicators and actions...*

Horizontal perspective remains crucial for the ECA's future work on the new CAP

For the near future, Samo Jereb explains that the palette of audit topics from his audit chamber will be very diverse. 'We have just published our report on CAP and climate and in the short term we will publish reports on CAP and water projects, the polluter pays principle, forestry and one on the LEADER programme. We are starting audits on sustainable soils, sustainable fishing and climate mainstreaming. And, as I indicated before, we are also auditing fraud in CAP expenditure and conflict of interest in CAP and

Cohesion. So you can see that besides questions of compliance we are doing several audits where we intend to audit the impacts of the CAP on the environment and biodiversity, and whether farming and fishing practices follow sustainable principles designed to avoid depletion of resources for future generations.'

...we intend to audit the impacts of the CAP on the environment and biodiversity...

Here he refers to the increasing importance of Sustainable Development Goals as aspects to consider when preparing the ECA's annual work programme and selecting audit ideas. 'Sometimes we can hear opinions that all these issues are just obstructing farmers and we should mainly focus on the economic situation and viability of farmers. But as is the case regarding climate change - by which farmers are the first to be negatively affected due to extreme weather - water quality and soil depletion will also affect farmers first, with lack of water for irrigation or calls for more fertilisers and pesticides to produce food, leading to more costs to produce food. But also leading to more pollution and potentially lower quality food. Fortunately, more and more farmers are aware of the need to farm more sustainably.'

These concerns will undoubtedly have an impact on the audits related to agriculture which the ECA will select. 'It is too early to predict the concrete topics we are going to audit in 2022, since our 2022 work programme is still under preparation. However, climate change, the environment and natural resources are explicit elements of our strategic goal 2 in the 2021-2025 ECA Strategy. With the European Green deal and the requirement that the Recovery and Resilience Plans include 37 % of spending related to green transition, these topics will remain high on our agenda.' Another aspect that, according to Samo Jereb, will certainly be on the ECA's work programme relates to the National Strategic Plans for the CAP. 'These plans will show how the CAP will look after 2022. One of the important audit questions that cannot be avoided will be the comprehensiveness of the performance framework, with an assessment of defined outputs, results and impacts with SMART criteria and alignment with the Farm to Fork strategy, the Green Deal and climate mainstreaming of expenditure. I am looking forward to seeing how they can all be reconciled!

... climate change, the environment and natural resources are explicit elements of our strategic goal 2 in the 2021-2025 ECA Strategy.

ECA audits of the CAP highlight issues that tie into the recent agreement on the future of the CAP

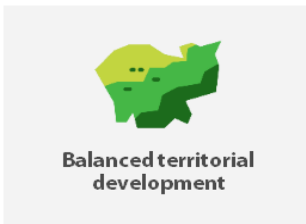
By Joanna Kokot, Sustainable Use of Natural Resources Directorate

Source: European Commission

The European Commission's proposal for a new Common Agricultural Policy (CAP), launched in 2018, does not come out of the blue, but builds on experience of previous CAPs. This only makes the conclusions and recommendations made by the ECA even more relevant. Joanna Kokot, assistant to the director in the ECA's directorate responsible for auditing the CAP, has taken a closer look at the key conclusions and recommendations of selected ECA reports on the CAP (since 2017) and links them to the recent agreement on the future CAP. In her analysis, she includes both the results of the ECA's statement of assurance work and performance audit recommendations. Details regarding the ECA's opinions on the post-2020 CAP are presented in an article on page 57.

Progress on the CAP objectives that we assess

Launched in 1962, the CAP has undergone six major reforms, including the most recent one. The previous, in 2013, was aimed at strengthening the competitiveness of the agricultural sector, promoting sustainable farming and innovation, supporting jobs and growth in rural areas and moving financial assistance towards the productive use of land. It also set new objectives for the CAP:[1]



1 See Article 110(2) of Regulation (EU) No 1306/2013 of the European Parliament and of the Council of 17 December 2013 *on the financing, management and monitoring of the common agricultural policy and repealing Council Regulations (EEC) No 352/78, (EC) No 165/94, (EC) No 2799/98, (EC) No 814/2000, (EC) No 1290/2005 and (EC) No 485/2008*, OJ L 347, 20.12.2013, p. 549–607.

Economic - ensuring food security by means of stable agricultural production, increasing competitiveness and the distribution of value across the food chain.

Environmental - sustainable use of natural resources and the fight against climate change.

Territorial - ensuring economic and social vitality in rural areas.

Our compliance and performance audits on the 2014 -2020 CAP examined whether it achieved these objectives while ensuring value for EU money.

Since the European Commission published its legislative proposal for the post-2020 CAP in June 2018, important developments have occurred, including the European Green Deal (EGD) and the Farm to Fork and Biodiversity Strategies aimed at reducing the use and risk of pesticides, fertilisers and antibiotics. These strategies go beyond the new CAP proposal and its 'no backsliding' principle. This principle contains the idea of obliging Member States to demonstrate, in their CAP strategic plans, how they will achieve a greater level of ambition than at present in terms of environment and climate objectives. This ambition also requires that the enhanced conditionality and ring-fencing requirements for rural development, among other elements, are preserved. The Green Deal speaks about the examination of Member States' CAP strategic plans with reference to the Deal's objectives.

Table 1 below lists ECA performance reports on the CAP published since 2017 and ongoing performance audits carried out under the 2020 and 2021+ work programme.

Table 1 – ECA performance reports on the CAP published since 2017 and ongoing performance audits

Task	SR	Publication
Food waste	34/2016	Jan-17
Certification Bodies	07/2017	May-17
Young farmers	10/2017	Jun-17
Rural Development Programming	16/2017	Nov-17
Greening	21/2017	Dec-17
Renewable energy for Rural Development	05/2018	Mar-18
Basic Payments Scheme	10/2018	Mar-18
New options for financing Rural Development	11/2018	Apr-18
Animal welfare	21/2018	Nov-18
Combating desertification	33/2018	Dec-18
Chemical hazards in food	02/2019	Jan-19
Organic products	04/2019	Mar-19
Farmer's income stabilisation	23/2019	Dec-19
New imaging technologies	04/2020	Jan-20
Plant protection products	05/2020	Feb-20
Biodiversity in Farmland	13/2020	Jun-20
Pollinators	15/2020	Jul-20
Milk and dairy production	11/2021	Jun-21
CAP and climate	16/2021	Jun-21
Making Polluter Pay		Jul-21
CAP and water projects		Q3 2021
Forestry		Q3 2021
LEADER		Q3 2021
Durability of rural infrastructure		Q3 2021
CAP & anti-fraud measures		Q4 2021
Use of data in DG AGRI evaluations		Q2 2022
Conflict of Interest		Q2 2022
Climate mainstreaming		Q2 2022
Sustainable Soil		2022
COVID & food security		2022

CAP assurance and delivery model

The Treaty[2] requires the ECA to give a statement of assurance on the legality and regularity of underlying transactions. For the 2019 statement of assurance on the MFF budget heading 'Natural Resources' (most of which is CAP expenditure) we examined 251 transactions in 20 Member States and selected systems which concerned DG AGRI's procedures for calculating its estimated error rates for CAP spending, and the Commission's anti-fraud policies and procedures in this context (see Table 2).

2 Article 287(1) of the Treaty on the Functioning of the European Union (TFEU), OJ C 326, 26.10.2012.

Table 2 – Results of transaction testing financial years 2018 and 2019

Table 2 – Results of transaction testing financial years 2018 and 2019

	2019	2018
SIZE AND STRUCTURE OF THE SAMPLE		
Total transactions:	**251**	251
ESTIMATED IMPACT OF QUANTIFIABLE ERRORS		
Estimated level of error	**1,9 %**	**2,4 %**

For the financial year 2019, we issued two separate annual reports: an annual report on the implementation of the EU budget and an annual report on performance. For the latter we looked at results achieved by EU spending programmes under the EU budget, based on performance information from the Commission and other sources, including its own recent audit and review work.

In ECA special report 07/2017 on 'the Certification Bodies' new role on CAP expenditure', we concluded that at the time the new role of national audit bodies in checking the legality and regularity of spending under the CAP[3] was a positive step. However, the framework set up by the Commission had design weaknesses. We made recommendations for improvement, to be included in the Commission guidelines, for example on the way the Certification Bodies carry out their risks assessment and calculate error rates.

In ECA special report 11/2018 on new options for financing rural development projects, we said that the system was simpler but not focused on results. The Commission replied to one of our recommendations that, for the post-2020 period, it was reflecting on ways to base Member State reimbursement on policy delivery.

In our annual reports, and last year in the ECA's annual report on performance, we have continuously advocated that CAP accountability and, therefore, appropriate mechanisms and tools to measure CAP results are essential. As regards post-2020 CAP proposals, we said in our Opinion 7/2018 that the proposals were likely to lead to a weakened accountability framework due to the limitations of the proposed performance mode. We went on to signal that, based on the proposals, the Commission would receive neither control statistics from paying agencies, nor assurance on payments to individual farmers from certification bodies, and the proposal would make it harder to apply a single audit approach,[4] notably because of the reduced role for certification bodies (see also page 62).

As regards CAP monitoring, one of our key observations in ECA special report 4/2020 on using new imaging technologies to monitor the CAP was that the Commission did not require Member States to use new technologies to directly monitor the environmental and climate impact of agriculture post-2020. We recommended that the Commission should provide support and incentives to Member States to make better use of new technologies for monitoring environmental and climate requirements.

3 Since 2015, Member States' Certification Bodies have been required to provide an opinion on the legality and regularity of the expenditure for which reimbursement has been requested from the Commission.

4 In the context of the European Union budget, the term '*single audit*' refers to a system of internal control and audit which is based on the idea that each level of control builds on the preceding one. '*Single audit*' aims to prevent the duplication of control work and reducing the overall cost of control and audit activities at the level of the Member States and the Commission. It also aims to decrease the administrative burden on auditees. The Commission (which holds ultimate responsibility for the implementation of the EU budget) is at the top of the '*single audit*' pyramid. See also ECA opinion 2/2004 on single audit.

In the CAP negotiations, further consideration is being given to the role of EU-wide eligibility criteria and CAP monitoring. In our 2019 annual report, we identified Arachne, a comprehensive database and a set of risk indicators – the Commission's Risk Scoring Tool - as an IT tool that could help paying agencies in Member States to identify projects, beneficiaries and contractors at risk of fraud, conflict of interest and irregularities, for further assessment. One of our key observations was that most paying agencies made little use of the Arachne tool to identify potential risks. We recommended that the Commission should update its analysis of CAP fraud risks more frequently, perform an analysis of Member States' fraud prevention measures, and disseminate best practices in the use of the Arachne tool to further encourage its use by paying agencies.

Development of Arachne and the Area Monitoring System (AMS) could benefit the efficiency of management and monitoring processes and should have been given attention in the CAP negotiations. CAP negotiations could also focus on the issue of payments to non-genuine farmers acquiring agricultural land. In our Opinion 1/2020 on the Commission's proposed transitional regulation for the CAP we stated that the Commission and the legislators could use the transitional period to assess whether the requirements for the definitions of 'genuine farmer', 'eligible hectare' and minimum 'agricultural activity' in the post-2020 CAP proposals needed to be revised to address this risk, including by clarifying the meaning of 'land at the farmer's disposal,' without disproportionately increasing the administrative burden for farmers.

Targeting direct payments and social conditionality

Direct payments have been one of the main EU support instruments for the agricultural sector. Most direct payments from the EU budget are based on the number of hectares farmed, regardless of production. Targeting direct payments relates to the idea of better linking the payments to farmers to specific CAP objectives, e.g. the fulfilment of environmental objectives, or better adjusting income support to the needs of different farms or areas. Better targeting of direct payments at the need for income support includes improving the definition of who should be considered an 'active farmer'.

In our ECA special report 10/2018 on the Basic Payment Scheme for farmers and our opinion on the post-2020 CAP we concluded that the Commission should know more about who benefits from the CAP. We recommended, for the next programming period after 2020, that the Commission analyse the factors impacting income for all groups of farmers, their income support needs and the value of the public goods that farmers provide. We further said that the proposed income support measures for farmers should be linked, from the outset, to appropriate operational objectives and baselines against which their performance could be compared.

Farmers should be encouraged to prepare better for a crisis. In ECA special report 23/2019 on farmers' income stabilisation we recommended that, in the context of climate change, public support should favour prevention/adaptation measures, encouraging farmers to boost their preparedness and their resilience. We went on to say that the Commission should link EU support to agricultural practices that reduce risk exposure (such as crop rotation) and mitigate damage (such as the use of more resistant crops). See page 67 for further details regarding this report.

CAP negations included discussions on social conditionality (i.e. determining who the agricultural community is, including definitions of active farmer/genuine farmer). The negotiations were marked by differences in the approach to how crop rotation and crop diversification issues are dealt with and to deciding on the share of arable land required for landscape features.

Addressing environmental concerns: CAP and the European Green Deal

Agriculture and climate change are closely interlinked and data show that Green House Gas (GHG) emissions caused by agriculture account for 15 % of all EU GHG emissions. Consequently, CAP-related activities need to address the EU targets set for climate action, ranging from reduction of GHG emissions to biodiversity objectives. One of the aims of the European Green Deal is to examine the Member States' draft CAP strategic plans with reference to the Green Deal's objectives. Many references to these objectives are present in the Commission's Farm to Fork strategy, which is aimed at reducing the use and risk of pesticides, fertilisers and antibiotics. Thirteen out of the 20 ECA reports on the CAP published since 2017 (see Table 1) address environmental and climate-related issues.

In ECA special report 21/2017 we signalled that agriculture, in particular intensive farming, exerts a negative impact on the environment and climate. We further said that greening was a more complex income support scheme, and not yet environmentally effective, mainly due the low level of requirements, which largely reflected normal farming practices. We estimated that greening had led to a change in farming practice on only around 5 % of all EU farmland. A recommendation we made to the Commission in relation to the CAP post-2020 was to develop a complete intervention logic for the CAP's contribution to the environmental and climate-related objectives of the EU, including specific targets and based on an up-to-date scientific understanding of the phenomena concerned.

In ECA special report 5/2018 on renewable energy for sustainable rural development we said that using more energy from renewable sources is crucial to reducing the EU's greenhouse gas emissions (now a key objective of the EGD) and that renewable energy could play an important role as a driver of sustainable development in rural areas. In this audit, we checked whether European Agricultural Fund for Rural Development (EAFRD) support for renewable energy actually facilitated renewable energy deployment and sustainable rural development. We concluded that the potential synergies between renewable energy policy and sustainable rural development remained mostly unrealised. We recommended, among other things, that the Commission, together with the co-legislators, should design the future policy framework for bioenergy in a way that would provide for better safeguards against the unsustainable sourcing of biomass for energy and that the Commission should specify the purpose and role of EAFRD support for investments in renewable energy.

In 2019, we published three audit reports relevant to the new Farm to Fork strategy announcements on:

- food safety (ECA special report 2/2019), concluding that as regards the chemical hazards in our food, EU food safety policy protects us but faces challenges;
- organic food (ECA special report 4/2019), stating that the control system for organic products had improved, but some concerns remained; and
- antimicrobial resistance (AMR) (ECA special report 21/2019), noting progress in addressing AMR in the animal sector, but sounding an alert that this health threat remains an issue for the EU.
- In 2020, we published a series of reports on the CAP & biodiversity and the environment:
- using new imaging technologies to monitor the CAP (ECA special report 4/2020), in which a key finding was that the Commission did not require Member States to use new technologies to directly monitor the environmental and climate impact of agriculture post-2020;
- EU action on pesticides (ECA special report 5/2020) that concluded that there had been limited progress in measuring and reducing the risks associated with the use of pesticides;

- biodiversity on farmland (ECA special report 13/2020), signalling that declining farmland biodiversity is a major threat and the CAP contribution has not halted the decline; and
- wild pollinators (ECA special report 15/2020), concluding the Pollinators Initiative had had little effect on halting the decline of wild pollinators.

In 2021, we have published two reports on:

- CAP impact on climate change and GHG emissions (ECA special report 16/2021). In this report, we said that the €100 billion of CAP funds attributed during 2014-2020 to climate action had had little impact on agricultural emissions, which have not changed significantly since 2010; and
- the 'polluter pays' principle (ECA special report 12/2021), concluding that overall, this principle was reflected and applied to varying degrees in the different EU environmental policies, and its coverage and application was incomplete.

Overall, as regards the green architecture of the future CAP and integration of the European Green Deal's ambitions and targets in it, we said that the CAP plans should be greener and rigorously performance-based. The CAP negotiations included a discussion of the share of expenditure targeted at environmental measures that varies between 20 % and 30 %, and consideration of a learning period for farmers, which they need to adjust to and adopt new eco-schemes.

Future CAP

The result of the CAP negotiations will determine the future course of the EU's agricultural policy, including how the CAP will contribute towards the achievement of the targets of the European Green Deal. Realisation of the objectives of the European Green Deal will rely, as far as agricultural policies are concerned, to a substantial degree on the design of the new CAP strategic plans by the Member States, including the performance of the proposed measures.

As the ECA has indicated in its 2021+ work programme, the ECA is currently working on the following topics to be published in 2021 and 2022. Publications planned for 2021 are on:

- forestry: assessing whether EU support for forestry made an effective contribution to biodiversity protection and climate change mitigation and adaptation.
- CAP and water projects: verifying whether the EU's support through the Common Agriculture Policy for water projects (notably irrigation) has brought not only benefits to farmers, but has also supported sustainable water management (see also page 77).
- LEADER, the EU's initiative to support rural development projects: assessing whether the LEADER delivery method is cost-effective and whether the Commission and Member States have tackled the shortcomings previously identified.
- durability of rural development infrastructure investments: assessing whether infrastructure investments receiving support from the European Agricultural Fund for Rural Development provide long-term economic and social benefits to the rural community.
- fraud and the CAP: examining the Commission and Member States' policies and procedures to fight fraud in CAP payments.

For 2022, publications are planned regarding:

- DG AGRI big data: assessing the Commission's use of IT solutions and data analytics to support the management and control of the Common Agricultural Policy.

- conflict of interest: examining whether the Commission and the Member States have put in place effective policies and procedures to address the conflict of interest issues in CAP and Cohesion payments.
- climate mainstreaming: assessing whether the Commission's reporting on climate spending is relevant and reliable and whether the Commission fulfilled its commitment to spend at least 20 % of the EU budget on climate action in the 2014-2020 MFF. CAP expenditure is part of this climate spending.
- sustainable soils: assessing whether CAP support for farmers made an effective contribution to soil protection and preventing pollution from nitrates.
- food security during the COVID-19 pandemic (see also below).

The ECA has already published various audits in relation to the COVID-19 pandemic, and the ECA's work in relation to the post-2020 CAP reform takes into account the impact of the COVID-19 pandemic. We are about to start an audit on COVID-19 and food security (under the 2021+ work programme) with publication of a report planned in 2022. The aim of this audit is to assess CAP measures introduced to support farmers and secure food supply chains during the COVID-19 pandemic.

In the current ECA strategy, one of the three main goals is to focus our performance audits on the areas and topics where we can add most value. The fact that the post-2020 CAP negotiation process tackled a number of issues that we have been highlighting in our reports confirms the relevance of our work in the field of EU agricultural policy. In our reports, we have warned of the environmental risks of the CAP and offered guidance to EU policy makers on how to address them. In our Opinion 7/2018, we also identified environmental and climate-change related actions as the most challenging future CAP issue. The same topic was surfacing in the CAP discussions as the key negotiation point.

An auditor's take on ECA's work on the post-2020 CAP

By Liia Laanes and Charlotta Törneling, 'Sustainable Use of Natural Resources' Directorate

In June 2018, the Commission published its proposals for the post-2020 Common Agricultural Policy (CAP) – aimed at a greener and more results-based CAP. What did the ECA say about these and how did we go about it? In this article, Charlotta Törneling, head of task for opinion 7/2018 on the post-2020 CAP proposals, and Liia Laanes, head of task for opinion 1/2020 on the transitional regulation, reflect on the process and give their take on working on a review paper and opinions related to the post-2020 CAP. This provides some insights into how such work is done within the ECA.

Using the review paper as a starting point

Our work on the post-2020 CAP started at the end of 2017, when the Commission published a Communication on the future of food and farming, outlining its vision for the post-2020 CAP. The ECA decided to respond to that with a briefing paper – now also known as ECA review 2/2018 – to which both authors of this article contributed.

Deciding how to go about this task was a creative process, starting with a brainstorming meeting to identify key requirements for a successful result-oriented policy and criteria for assessing it. This resulted in a set of criteria structured around the ECA programme logic model, developed to establish and assess relationships between socio-economic needs to be addressed by the policy or intervention and its objectives, inputs, processes, outputs and outcomes. We shared these criteria with staff of the European Commission's Directorate General for Agriculture and Rural Development (DG AGRI) and met with them on several occasions, mainly through videoconferences, to discuss the different topics covered by their Communication. As the CAP is a broad policy and the Communication touched upon a wide range of topics, we also organised videoconferences with other Commission DGs (DG CLIMA, DG ENV, DG REGIO and DG SANTE) to obtain a better understanding of the areas for which they were responsible.

Our work for the review paper consisted of two main parts: a documentary review and consultation. We reviewed around 70 different reports, research papers, position papers and policy papers from the ECA, other EU institutions, various think tanks and academics. The aim of this work was to scrutinise the assumptions the Communication was based on. The internal consultation with our colleagues in our directorate took place via four focus group meetings, dedicated to each of the three CAP objectives and horizontal issues. We also consulted the cabinets of our audit chamber, and, to complete our review, external experts.

We structured our review of the Communication around the programme logic model and the established criteria. The review paper was published only one day after the ECA approved it, through its audit chamber responsible for sustainable use of natural resources, which is quite unusual and meant that our colleagues in other parts of the organisation had had to make significant efforts to make this happen. The aim was to publish it well in advance of the Commission's legislative proposal for the CAP reform and the Multiannual Financial Framework (MFF) package. Based on a survey, a majority of respondents assessed the usefulness of our review as high or very high.

An extensive documentary review can be time-consuming, but if it is well documented the work can often be re-used for other tasks. We found the documentary review completed for the review paper useful for the subsequent opinion on the CAP post-2020 proposals, but also two years later when preparing chapter 4 of our report on the performance of the EU budget.

An ambitious task within a short timeframe

Knowing that the Commission's post-2020 CAP proposals were in the pipeline, we started planning the work for an ECA opinion as soon as the review paper was published. To haveg been involved in that publication was very helpful, not only for planning the task but also because of the review work already carried out.

We decided to deviate from the standard structure and base the opinion on the criteria identified in the review paper. The opinion is thus structured around assessing CAP (i) needs; (ii) objectives; (iii) inputs; (iv) processes; (v) linking CAP inputs, outputs, results and impacts; and (vi) assessing CAP accountability.

When the Commission published the eagerly awaited CAP proposals on 1 June 2018, we knew the task was ambitious, not only because of the sheer length of the proposals and the variety of topics covered by the CAP, but we were asked to publish the opinion within a short timeframe – around five months after the proposals were published.

The Commission's main post-2020 CAP legislative package consisted of three proposals: one amending regulation of the common organisation of the markets, one regulation on the rules for the CAP strategic plans and one on financing, management and monitoring. After having gathered an overview of the content of the different proposals, we went on to identify which sections and parts of the proposals fitted under each of the criteria and got down to work. At this stage, we also realised that we more or less had to read every single word of the proposals…

How we formed our opinion

For each relevant section, we compared the proposal to our previous recommendations and key points identified in other papers and studies. To ensure we did not miss any critical topics and to make the best use of our in-house competence, we carried out an extensive consultation with ECA colleagues. We arranged targeted consultations with colleagues identified as having particularly relevant knowledge or experience of certain topics, but also a general consultation organised as focus groups open to all interested colleagues, particularly those in our audit chamber. The themes of the focus group meetings were structured around the three general CAP objectives and the new delivery model: a smart and resilient agricultural sector (including direct payments); environmental care and climate action; rural areas; the new delivery model – simplification, performance, governance and assurance.

At the time, our colleagues in the 'Investment for Cohesion, Growth and Inclusion' Directorate were working on an opinion on the Common Provisions Regulation (CPR). Although the proposal removed the European Agricultural Fund for Rural Development

(EAFRD) from the CPR, some links remained, so we mapped the provisions that were still relevant to the CAP and consulted our colleagues in the other directorate on these matters. We also communicated across audit chambers to ensure the consistency of the opinions.

Given the legal nature of the proposals, we consulted our legal service: on the proposals as a whole, on specific subjects, and on the draft opinion. Before the ECA college adopted the opinion, we carried out an ECA-wide consultation. Once we had an advanced draft, our Reporting Member, João Figueiredo, circulated it to all ECA Members and we took all comments and suggestions into consideration when finalising the document.

Throughout the period when we were carrying out our work on the opinion, we consulted the Commission on several occasions. In the early stages, we set up videoconferences to discuss individual topics with the relevant DG AGRI staff. Once the structure of the opinion began to take shape, we arranged wider consultations. In practice, we shared a list of key topics – later the draft opinion – and discussed the main elements in videoconferences with the Commission. In mid-September, a roundtable took place with ECA Members of the 'Sustainable Use of Natural Resources' audit chamber and the DG AGRI Director-General at the time. The key topics discussed, and addressed in our opinion, were farmers' income and food security, the environmental ambition, the '*performance based*' model and the proposed redefinition of EU eligibility, including potential consequences for our future audit approach.

Old wine in a new bottle?

Rather soon, we found that there were many similarities between the proposed post-2020 CAP and the one currently in place. It struck us that although some of the changes initially sounded '*revolutionary*', at the end of the day we had the impression that, after all, not that much had changed. This, of course, needs to be considered against the long and complex history of the CAP, perhaps one cannot expect it to change fundamentally overnight...

However, the Commission had proposed a few significant changes, mainly relating to the delivery model. One novelty is the introduction of a CAP strategic plan per Member State, covering all CAP expenditure. This means that the Member States would need to justify all types of payments – not only rural development, as is currently the case. The proposal also included an attempt to move towards a performance-based system and to redefine eligibility of spending.

As mentioned above, our opinion 7/2018 on the post-2020 CAP proposals is structured around criteria based on the intervention logic. For example, when assessing whether the CAP '*needs*' were based on solid evidence, we did not find the data published on farmers' income convincing, one of the reasons being that it does not take into account the disposable income position of farm households, including income from non-agricultural sources. Member States do not need to compile reliable and comparable statistics on disposable farm income. The European Parliament's Budgetary Control Committee (CONT) included an amendment relating to this in its opinion for the European Parliament's Committee on Agriculture and Rural Development (AGRI), the responsible committee, for the first reading in 2019, but subsequent agreements indicate that this will not appear in the final act.

Another criterion concerned whether funds (inputs) were allocated based on a needs assessment and expected results. The responsibility for this would lie with Member States, as would the level of environmental ambition actually included in the CAP strategic plans. We found the proposed 30 % EAFRD allocation to environment and climate could be an incentive for such measures, but noted that Member States would not need to earmark any money to the financed eco-schemes of the European Agricultural Guarantee Fund (EAGF). Against this backdrop, it is interesting that the co-legislators have considered options for a requirement to spend at least 25 % of direct payments on eco-schemes in their discussions.

Less encouraging was the noise around leaving capping decisions to the Member States – the Commission proposed mandatory capping of payments to individual farmers, which the ECA had recommended in 2011 (see ECA special report 5/2011) as one way to ensure a more balanced distribution of direct payments. This topic has surfaced before and reminds us of an ECA opinion decades ago (see ECA opinion 10/1998).

When looking at the CAP processes, meaning putting the CAP into practice, a positive element of the proposal was that the CAP strategic plans could facilitate consistency between various CAP schemes. However, based on previous publications, we also criticised the complexity of having several parallel environmental and climate instruments with similar objectives.

The intended move towards a performance-based system increases the importance of clear objectives, quantified targets and useful robust performance indicators. The Commission re-interpreted the CAP objectives set out in Article 39 of the Treaty with the aim of fitting them to the current context but, as we stated in the opinion, did not clearly define the nine '*specific objectives*', which are neither specific nor translated into quantified targets. We analysed the proposed performance framework and included detailed comments on the indicators in an Annex to the opinion.

Our opinion gathered a fair amount of attention in the press, some headlines more extravagant than others. Our Reporting Member, João Figueiredo, was invited to present it at the AGRI committee. Commissioner Phil Hogan was also present and the event triggered a rather interesting and lively debate.

Bridging the gap for farmers while waiting for political agreement

When it became clear that the legislators would not manage to adopt the legislative package for the post-2020 CAP before the old programmes expired, the Commission, on 31 October 2019, proposed a regulation on transitional provisions. It was time to take up the pen (all right, laptop) for another opinion. This task was a rather quick one: the team started working on the opinion in January and finished drafting it 1.5 months later. The background knowledge acquired during the opinion on the post-2020 CAP proposals was beneficial, as we already knew broadly what the new CAP might look like and what might be the most important aspects to link the old and new policy.

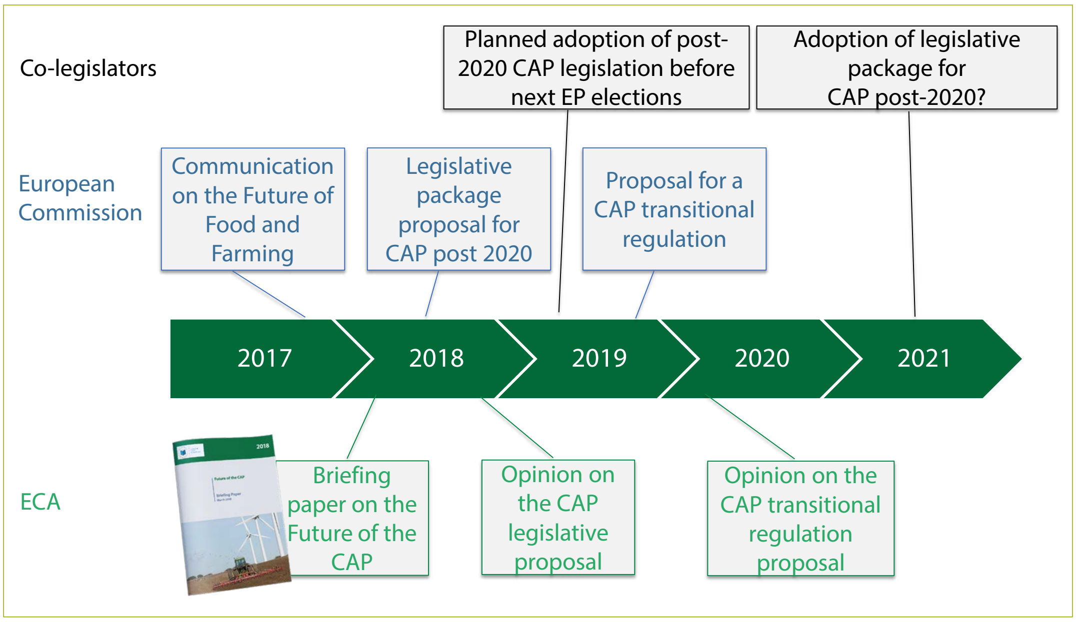
We decided to focus on two aspects: the completeness (whether the transitional provisions cover all the necessary provisions in the current legislation to ensure the continuity of the CAP) and the consistency (whether the provisions are consistent with the current regulations) of the proposal. The proposal for the regulation itself was short, but it contained technical provisions and the team consulted colleagues in the 'Sustainable Use of Natural Resources' Directorate, who had experience with particular aspects, such as, for example, payment entitlements.

One headache for the team was that, in addition to the negotiations on post-2020 CAP taking longer than anticipated, negotiations on the MFF 2021-2027 were also dragging out. The Commission proposal contained an allocation for the 2021 CAP funding based on the not yet agreed MFF. The possibility that the transitional regulation could be adopted before the MFF created a potential legal dilemma on which we consulted our legal service. We were not the only ones with that question: the European Parliament also discussed the uncertainty, but the problem solved itself when the MFF was agreed and adopted before the transitional regulation. The opinion was published on 13 March 2020, the day when most of us started to work from home due to the pandemic.

Three years later – still no results delivered

Adopting a (re)new(ed) EU legislative framework might be a lengthy process, and the new CAP is no exception to that (see **Figure 1**).

Figure 1 – Key steps in the process of the post-2020 CAP



Following the Commission's proposal, one '*super trilogue*' after another did not appear to deliver results. Hopes were high for the May 2021 Agriculture and Fisheries Council, which aimed to reach an agreement on all three CAP regulations. Discussions included topics such as social conditionality, targeting of payments and the green architecture, but did not lead to any conclusions. Three years after the Commission published its proposals, nobody knew when the proposals would become law (or when any results would be delivered)…

However, at the end of June 2021, just before finalising this article, the key institutions geared up for yet another '*super trilogue*' and this time they finally managed to reach an agreement. Although some fine-tuning of technical details remain, it now looks as if the three CAP regulations will be approved very soon. Member States have until the end of this year to submit their national CAP strategic plans to the Commission and as we pointed out in our opinion, how different the future CAP will actually be will depend a lot on Member State choices. Having analysed the initial legislative proposals, it will be interesting to see how the post-2020 CAP will be put into practice from 2023 onward. The future will tell how much fairer, greener and more performance-based the CAP will actually be – perhaps it will be full of surprises…

EU measures to stabilise farmers' incomes – a contribution to increasing farmers' resilience

By Céline Ollier, Sustainable Use of Natural Resources Directorate

The COVID-19 pandemic has had an impact on many sectors in society and agriculture has not been an exception, with changes in food demand and changes and disruptions for supply chains. For farmers this comes on top of other risks, related to climate change, with exacerbating effects on their incomes. How resilient are farmers to such risks? The Common Agricultural Policy includes several instruments to support risk management by farmers and to respond to crises. The ECA has reviewed a number of these instruments aimed at increasing farmers' resilience, culminating in ECA special report 23/2019 on farmers' income stabilisation. Céline Ollier, senior auditor and head of task for that audit, looks back at the report, putting it in the present timeframe of the pandemic and the new CAP.

A broad audit, which takes in a hot topic; farmers' resilience

With the COVID-19 crisis, the concept of resilience became more important and relevant for everyone, including for farmers. For the purpose of our audit work regarding the Common Agricultural Policy (CAP), we understand resilience as the capacity of farmers to recover quickly from a bad event impacting their farming activities. But how do you recover quickly? Either via the capacity to bounce back after this event without changing your habits (robustness) or because you are already prepared for/have adapted to this event.

The Organisation for Economic Co-operation and Development (OECD) has been working for several years on the topic of farmers' resilience. In May 2021, the OECD, in the context of their preparations for their Global Forum on Agriculture, contacted the ECA to find out about our assessment of the instruments the CAP offers to stabilise farmers' income and their contribution to increasing farmers' resilience. We published special report 23/2019: *Farmers' income stabilisation: comprehensive set of tools, but low uptake of instruments and overcompensation need to be tackled* in December 2019, a few months before the COVID-19 pandemic hit Europe. I had the honour to present some of our findings at this virtual OECD event.

It was very encouraging to see that OECD work on this topic, especially their study *Design principles for agricultural risk management policies*, shares similar views to the recommendations in our special report 23/2019 on how to improve risk management policy tools. Participating in this event broadened my view of the different agricultural policies that exist. They have the same concerns and the same willingness to develop farmers' resilience.

Our audit was a review of the different tools – and their complementarity – offered to EU farmers to stabilise their income and contribute to increasing their resilience. It was a complex but very exciting audit and it was a pleasure to lead it as head of task, since I learned a lot. In preparation of our contribution to the 2021 OECD Global Forum, I went through our report again. At the time of writing, it was really a challenge to manage to keep the report short and easy to read. Reading the report again more than one year after its finalisation, I realised that we managed to write about some complex issues in an accessible style.

When it comes to income, two main risks are inherent in the agricultural sector:

- production losses, for example resulting from climate events or plant and animal diseases; and
- price volatility.

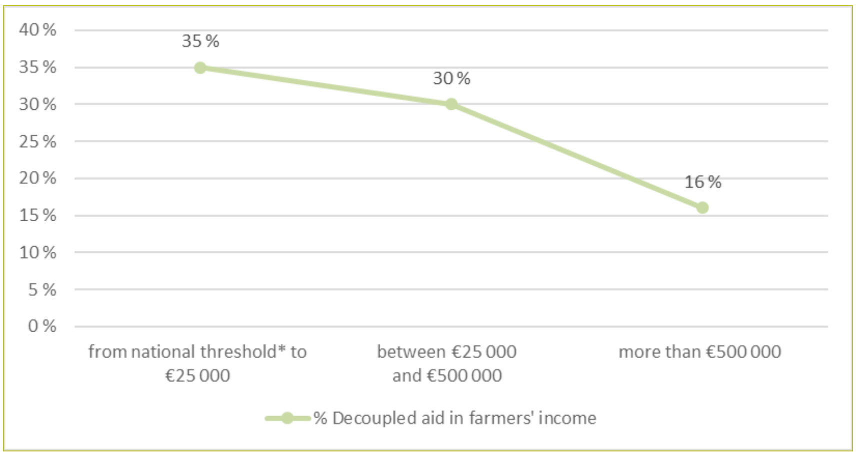
Farmers need to develop their resilience to address those risks, which are increasing, due to climate change and greater price volatility.

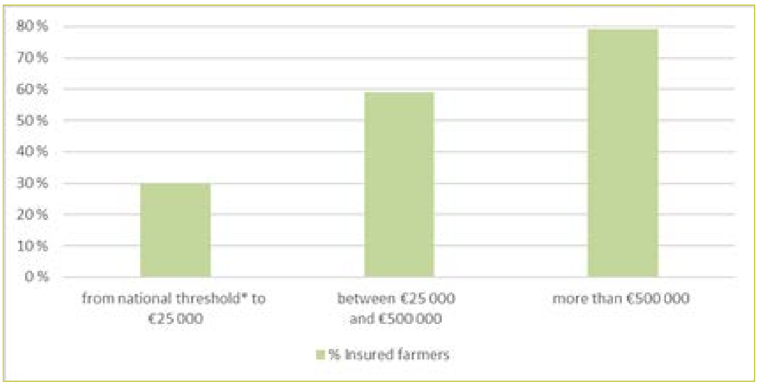
Important role of direct payments and their potential

To address those risks, we found that the CAP offers a comprehensive range of instruments to increase farmers' resilience. Even though direct payments are not a risk management tool as such, they play an important role. Direct payments - in 2017 amounting to €41 billion - form a stable element in farmers' incomes that reduce income variation. They act as a buffer, allowing farmers to cope with falling prices or lower production – 89 % of the direct payments are not linked to production. In 2017, 6.4 million farmers benefited from these direct payments.

During our audit, we identified a negative correlation between the share of direct payments in agricultural income and the use of insurance (see **Figure 1**). The higher the share of direct payments in agricultural income, the lower the tendency to take out an insurance. The farmers we interviewed corroborated this finding. As direct payments offer a buffer to absorb production losses, the need to take out insurance is reduced as the risk could be borne at farm level.

Figure 1 - Share of decoupled aid in the income of EU farmers and % of insured farmers by farm economic size





Source: Farm Accountancy Data Network (FADN) data for 2016

*In 2015, this minimum varied between Member States from €2 000/year to €25 000/year.

Note: Farm economic size is represented by the average annual marketed production expressed in euros. Farmers' income is represented by the Farm Net Value Added. The FADN farm population is 4.7 million farms of which 2.9 million (63 %) have an annual marketed production of less than €25 000, 1.7 million (35 %) have between €25 000 and €500 000 and 0.1 million (2 %) are above €500 000. 2.1 million farms receiving direct payments are too small by economic size to be included in the FADN population.

Crop rotation, use of adapted/more resistant crops and savings were the three most frequent preventive measures considered by the farmers we interviewed. Currently, through the CAP's greening payment, direct payments to larger farmers include a crop diversification requirement. In the new CAP proposal, we think that stricter obligations for good agricultural and environmental conditions (including crop rotation) could be a powerful instrument with which to boost farmers' resilience and improve the environmental impact of the CAP.

EU support for insurance: low and uneven uptake

The EU supports different types of risk management tools but mainly concentrates on support for insurance costs. Insurance has a positive impact on income stability. However, compensation received following a climatic event for which farmers are insured may affect their behaviour. Insured farmers may have less incentive to apply a more resilient business system (moral hazard).

We concluded that the added value of EU support for insurance was less clear as the uptake was low and uneven. EU support for insurance is focused on the wine sector, where the risk of deadweight[1] exists and the support paid towards the insurance premium can be quite high. The higher the insured capital, the higher the premium and the higher the level of public support.

Due to limitations in our audit rights, we could not review how the insurance premiums were calculated exactly. When up to 70 % is being subsidised, I believe that the calculations for an insurance premium should be more transparent. From the discussions during the 2021 OECD Global Forum for Agriculture, I was pleased to learn that this concern was also shared by experts across the Atlantic.

Criteria to trigger exceptional measures are unclear and implementation can be costly

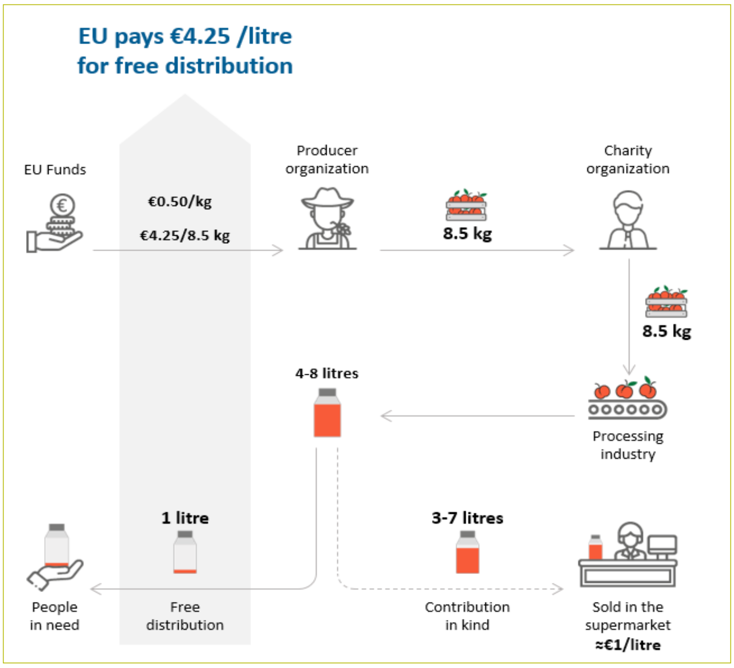
Following the Russian ban on agricultural products in 2014, including from the EU, the EU triggered exceptional measures to support producers of fruit and vegetables. We found that no specific criteria were used to consider the use of these measures. These measures lasted four years and served to address underlying problems of structural surpluses for some fruits.

1 Deadweight occurs when funding is provided to support a beneficiary who would have made the same choice without this aid. In such cases, the outcome cannot be attributed to the policy, and the aid paid to the beneficiary has had no impact. Consequently, the share of expenditure which generates deadweight is – by definition – ineffective.

We analysed one of the transactions audited by the ECA in the framework of its regular compliance work. We focused on performance aspects of this transaction, which was completely in line with the applicable regulation. The EU supported the withdrawal of products by means of free distribution, which means that the EU pays to withdraw products from the market. Those products are given free to people in need. Under free distribution, it was allowed to process peaches and nectarines into juice and then to distribute the juice to people in need. However, to cover processing costs, juice processors retained most of the processed product, in accordance with EU rules.

We estimated that the quantities of peaches and nectarines kept by the juice processors in Greece and Spain represented a cost to the EU budget of €34 billion. Free distribution's effectiveness and efficiency were compromised, as 62 % of costs concerned this contribution in kind, allowing products to return to the juice market, and only 38 % was spent on giving people in need free juice and fresh fruit. In the end, most of the withdrawn products were put back on the market as juice, while only a fraction reached people in need (see **Figure 2**). Furthermore, the cost borne by the EU per litre of juice destined for consumption by people in need was up to €4.25 per litre - around four times the cost of a litre of juice in a supermarket.

Figure 2 - Circuit of withdrawn peaches and nectarines processed for free juice distribution in Greece



Recommendations not all accepted by the Commission but supported by experts

Our review of EU farmers' income support instruments showed that the EU has a comprehensive set of tools to increase farmers' resilience, including direct payments. However, issues such as the low uptake of insurance, the absence of criteria for the use of exceptional measures and cases of overcompensation needed to be tackled. Against the backdrop of the legislative proposals for the future CAP, which seek to increase the focus on risk management, we recommended that the European Commission:

- encourage farmers to better prepare for crises;
- better design and monitor its support for insurance;
- clarify the criteria for triggering and ending exceptional measures; and
- adjust compensation for withdrawal operations.

The Commission accepted several of these recommendations but not all. One of the main disagreements was the idea of setting criteria for considering the use of exceptional measures. On the one hand, the Commission's position of leaving some room to trigger exceptional measures is understandable, pleading for a case-by-case approach. On the other hand, if we want to have complementary tools one has to know the boundaries between them in advance.

Participating in the 2021 OECD Global forum for Agriculture made me realise that some of our recommendations, such as setting criteria in advance, were shared by several agricultural policy experts and were already being applied in some countries. This gives me great hope that this recommendation, not yet taken on board by the Commission but shared by some other stakeholders, will feed into future discussions on that topic at Commission level. Our audit work done two years ago is still relevant, also for the post-2020 CAP horizon.

Did the 2014-2020 CAP reduce Greenhouse Gas Emissions from agriculture?

By Jindrich Dolezal, Sustainable Use of Natural Resources Directorate

Source::franckreporter//Getty Images

Livestock is one of agriculture's main sources of emissions

The subtitle of the ECA's most recent special report on agriculture and climate, published on 21 June 2021, leaves no room for misunderstanding its main finding: 'Half of EU climate spending but farm emissions are not decreasing'. According to this ECA audit report the current Common Agricultural Policy (CAP) does not incentivise the use of effective climate-friendly practices. Lessons learnt from the past are no guarantee for the future…but they can help. Jindrich Dolezal, senior auditor and head of task for the audit underlying ECA special report 16/2021, provides some insights into the report, its context and the challenges the audit team faced when undertaking this assessment.

Greenhouse gas emissions from agriculture and their reporting

Using the life-cycle approach, food production is responsible for 26 % of global greenhouse gas emissions, and farming is responsible for most of these emissions. In accordance with the Intergovernmental Panel on Climate Change (IPCC) guidelines, Member States report greenhouse gases that were emitted on their territory. This annual reporting is known as a 'greenhouse gas inventory.' It does not measure the real emissions but estimates the quantity by using activity data linked to sources of emissions (e.g. animal types and numbers) with relevant emission factors.

Box 1 – Main conclusions and recommendations of ECA special report 16/2021

The main message of ECA's special report 16/2021: *Common Agricultural Policy and climate: Half of EU climate spending but farm emission are not decreasing* is that EU agricultural spending has not made farming more climate-friendly.

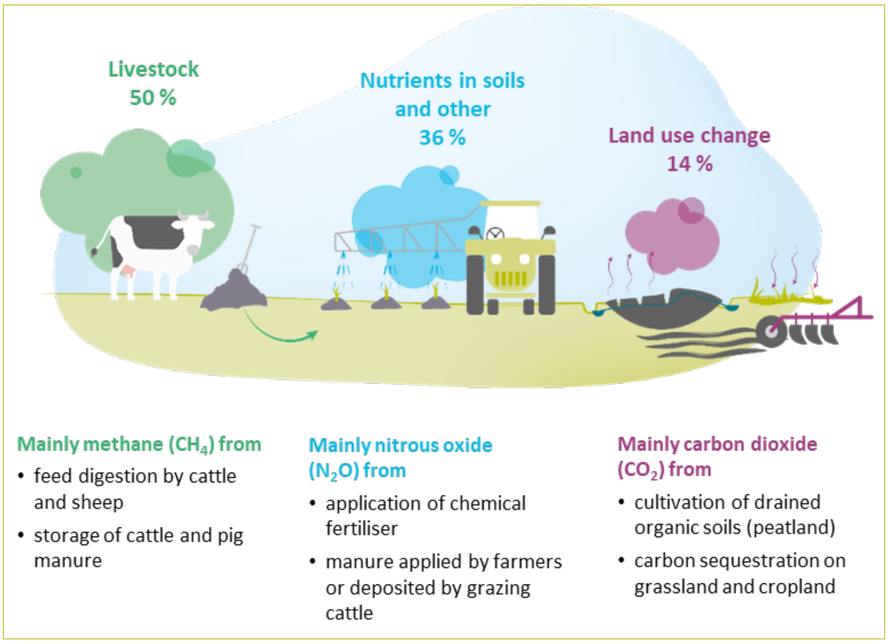
During the 2014-2020 period, the Commission attributed over a quarter of the CAP's budget to mitigating and adapting to climate change. The ECA found that the €100 billion of CAP funds attributed to climate action had little impact on emissions, which have not changed significantly since 2010. The CAP mostly finances measures with only low potential for mitigating climate change, and does not provide incentives for farmers to apply effective climate mitigation measures. The CAP does not seek to limit or reduce livestock numbers (50 % of agriculture emissions) and supports farmers who cultivate drained peatlands (20 % of emissions).

The ECA recommends that the Commission should:

- take action to ensure that the CAP reduces emissions from agriculture;
- take steps to reduce emissions from cultivated drained organic soils; and
- report regularly on the contribution of the CAP to climate mitigation.

Figure 1 shows three main greenhouse gases which agriculture emits, their main sources in the EU, as well as their proportion of total agriculture emissions, which represent 13 % of total EU greenhouse gas emissions.

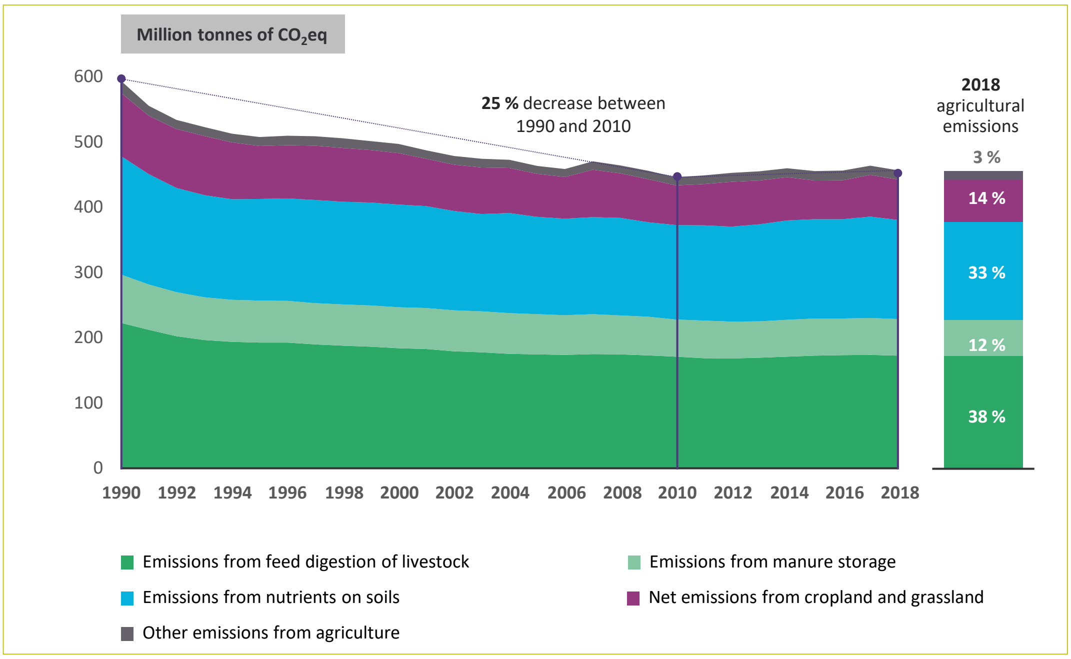
Figure 1 – Key sources of greenhouse gas emissions (in CO_2eq)



Source: ECA based on the EU-27 greenhouse gas inventories in 2018 (EEA greenhouse gas data viewer, European Environment Agency (EEA)).

Figure 2 shows that greenhouse gas emissions from agriculture have been stable since 2010. They decreased by 25 % between 1990 and 2010, mainly due to a decline in the use of fertilisers and in the number of livestock, with the largest fall between 1990 and 1994.

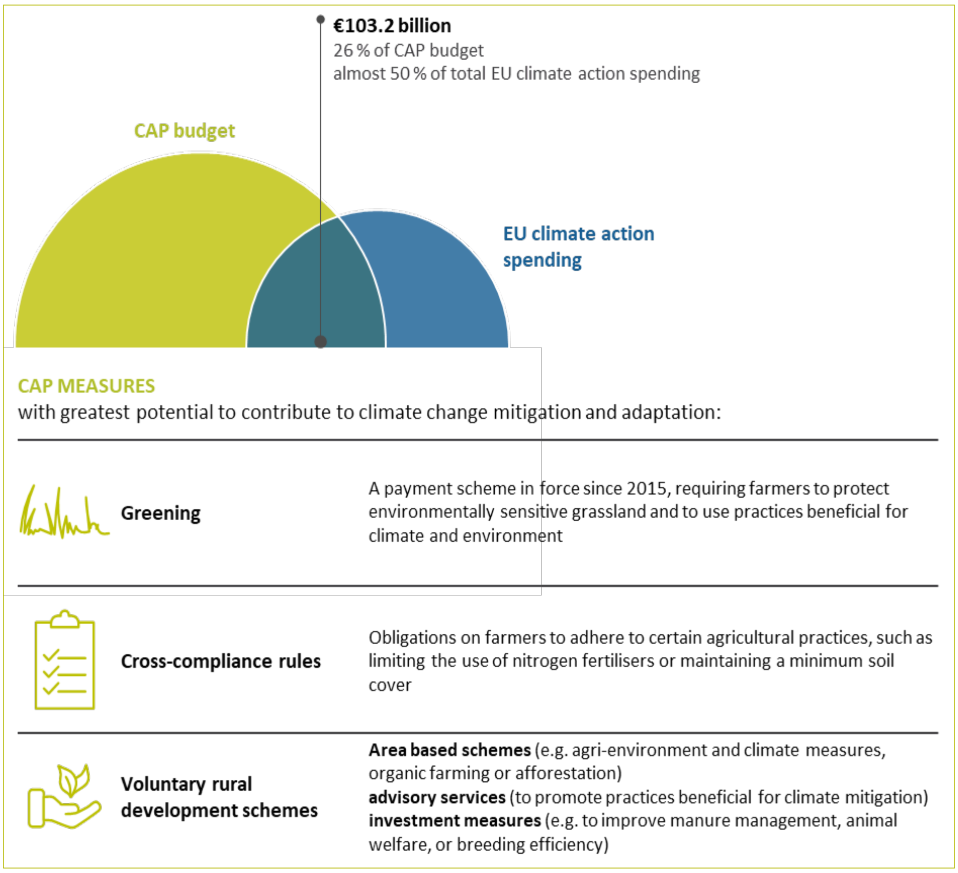
Figure 2 – EU-27 greenhouse gas net emissions from agriculture since 1990



Why audit the contribution of the 2014-2020 CAP measures to climate mitigation?

Since 2014, climate action has been one of the objectives against which the European Commission evaluates the performance of the Common Agricultural Policy. With climate mainstreaming, the Commission estimated that it would allocate €103.2 billion (€45.5 billion for direct payments and €57.7 billion for rural development measures) to climate action in agriculture during the 2014-2020 period. **Figure 3** illustrates some key CAP measures used for this.

Figure 3 – Key CAP measures used for climate action according to the Commission,



2014-2020

As the EU's ambition to fight climate change has been growing over the years and the CAP funds earmarked for climate action represented over a quarter of the 2014-2020 CAP budget, the ECA decided to include an audit on the CAP contribution to climate change in its 2020 annual work programme. The aim was to provide recommendations that could help the Commission in reviewing Member States' CAP strategic plans. During our audit we faced many challenges, which we were able to overcome, thanks to the dedication of the team members. What lessons have we drawn for our next audits?

How to scope the audit?

Initially, our audit topic included both climate mitigation (reducing man-made greenhouse gas emissions and removing greenhouse gases from the atmosphere) and adaptation (adjusting to current or expected climate change and its effects). As it would not be feasible to present the impact in both areas in one report, we decided to exclude adaptation from the audit scope. We also took into account the fact that the ECA has already addressed adaptation in several recent (see for example ECA special report 33/18 on desertification and ECA special report 25/2018 on the Floods Directive) and ongoing audits, such as one on forestry and one on sustainable soils.

Another challenge was to decide which emissions caused by agriculture to include in our audit scope. We focused on the main sources of agricultural emissions, and we left out emissions from fuel, which have also been partly addressed in our previous reports (see for example ECA special report 05/2018 on renewable energy for sustainable rural development). We also excluded emissions from the production of fertilisers from our audit scope, as these do not occur at farm level and are not addressed by the CAP. This helped us to focus our work.

What about COVID-19 restrictions?

The COVID-19 crisis certainly had an impact on our audit work. We initially planned an information visit to Luxembourg to familiarise ourselves with the arrangements in a Member State so we could better design our audit approach. The visit was postponed twice and ultimately cancelled. We were about to submit our audit plan to the hierarchy when we were sent home, initially for just two weeks. One and half years later, we are still mainly working from home, so we have had to adjust. Our initial planning included visits to Member States; these had to be replaced with videoconferences. This increased the time needed to complete our work at Member State level.

We also experienced delays in receiving the information we requested. We lost the possibility to verify any data from the underlying databases, so we tried to find other data sources to corroborate information supplied by the Member States' authorities. We also had no opportunity to visit farms to actually see effective mitigation measures, which would also have been useful to really understand at first hand the obstacles farmers face in applying mitigation practices. Lastly, not being able to carry out any visits also meant we had no photos for our report, but, instead, many drawings.

How did we overcome the knowledge gap?

Reporting greenhouse gas emissions from agriculture as well as understanding the mitigation practices applied are rather technical tasks, and, with the exception of one member of our core team, we had limited knowledge of the subject. In addition to our usual reading of the studies available, and interviews with Commission staff, representatives of national authorities and NGOs, we also interviewed experts in the area. We also decided to contract an external expert to help us to design a questionnaire, which we then sent to all EU Member States. Our expert also helped us in our final assessment of the climate mitigation measures and provided comments on our emerging findings and our draft report. We found this arrangement extremely useful and we only regretted that we had not asked her to contribute as early as the planning phase of our audit.

I also attended an 'outside' course in relation to the audit topic The ECA is increasingly keen to offer its staff training courses linked to the audited area.

How to measure the outcome/effects of CAP climate mitigation measures?

Our traditional audits examine in detail a sample of EU-funded projects in several Member States, allowing us to obtain direct evidence on their implementation as well as how they contribute to the objectives of the given policy. This approach, however, was not suitable for our audit. First, greenhouse gas emissions are not measured, but estimated using activity data and emission factors - who wants to measure directly a cow's burps? In the Member States, it is not usually the authorities administrating CAP funds that are responsible for compiling the greenhouse gas inventories reports, but a different body. Second, a manageable representative sample of farms would be difficult to draw, given the variety of farm types and possible climate mitigation measures funded across the EU. Third, with no visits possible due to COVID-19, we would not have been able to clarify our data requests to farmers, and we would have had no chance to verify the information provided to us.

Consequently, we decided to request aggregated data from Member States on the uptake of climate mitigation practices. Wherever possible, we corroborated the information received with other publicly available data, such as data from Eurostat and Commission databases for direct payment schemes and for rural development support.

What are the pros and cons of auditing 27 Member States?

Our traditional approach before the COVID-19 outbreak was to select four to six Member States according to various criteria, and organise on-the-spot visits to meet the authorities and stakeholders responsible, as well as some selected EU beneficiaries. Recently, our audits have also used surveys to obtain views or some information from all EU countries. Anyhow, our reports are usually written around the findings from these four to six selected Member States. This means that for some of our potential readers our report might be not so relevant, as it does not contain anything about their country and we cannot extrapolate the results for the whole of the EU. With our audit, we decided to include all 27 Member States, auditing three in greater detail (Ireland, Finland and France) and dealing with the rest through a questionnaire, which took longer to prepare than expected. The questionnaire also became longer than we initially expected, as it covered our full audit scope, which resulted in Member States' replies also being more extensive.

As you can imagine, for Member States with just one paying agency administering CAP funds we were able to review the reply within three weeks. But this scenario was a nightmare for Member States with many paying agencies, such as Germany, Spain and Italy. We also faced linguistic problems, as our team was unable to cover all EU languages.

To further complicate our lives, we provided feedback in the form of a short clearing letter to each Member State, since they had so much effort into providing their replies. This is not always done in the case of survey responses. We started drafting the clearing letters in September, but in November we realised that this was not feasible. Sending six clearing letters is demanding, but we were about to send 27 of them. After we had agreed the key messages and structure of the report, we stopped sending these letters (14 letters were sent to 13 Member States in the end). Instead, we only cleared with the Member States those issues that were mentioned in our report. This was again a challenging task and possible only due to the personal dedication of the team. We dispatched 27 letters within three days, with translations sent one week later.

What are the key lessons we can draw for our future work?

During this audit, I learned many new things about climate, reporting greenhouse gas emissions from agriculture, its main sources and the climate action supported through the CAP. Although our report was approved later than planned, we worked hard to minimise the delay while maintaining a very good working atmosphere within the team. We were also lucky, as the post-2020 CAP discussions dragged on, so we could publish our report on 21 June 2021, before the final decision on the post-2020 CAP had been taken by the co-legislators.

In summary, some key lessons we took away from this audit are:

- organise information visit/videoconference with national authorities during the planning phase of the audit to help with scoping the audit and designing audit programmes and questionnaires;
- focus the audit as much as possible, and as early as possible, knowing that the report should not become excessively long. We cannot set out all our observations in the report, so try to focus on key issues and adjust the procedures for evidence collection accordingly;
- get training to increase subject knowledge, and/or involve an expert early on in the audit, who – potentially – can follow the different stages of the audit;
- be realistic in planning report deadlines, especially if many countries/entities are involved; and
- if you want to include all/many Member States, audit a sample of them first and reduce the audit scope of the remaining population based on the key findings identified in the sample.

Our report was not available to the Commission for preparation of the post-2020 CAP proposal but we managed to publish it before the co-legislators agreed the final deal on the future CAP. We believe that our report could influence the drafting and reviewing of the CAP strategic plans, as we clearly recommend that the future CAP should provide strong incentives for effective climate mitigation measures to be applied by farmers in order to reduce emissions from agriculture. We also recommend increasing the transparency of the CAP climate measures by asking the Commission to report annually on the CAP effects on greenhouse gas emissions from agriculture.

Using water in agriculture: can we do it more sustainably?

By Els Brems, Sustainable Use of Natural Resources Directorate

Source: aon168/GettyImages

Drip irrigation of Green Cos

With the summer approaching, news items on water scarcity and low groundwater levels may soon start popping up. Possibly, we will be asked to stop washing our cars or filling swimming pools with tap water. Dry summers are no longer the exclusive trademark of southern Europe, but are occurring in more and more EU Member States. Agriculture is vital for life, but it needs water, often in substantial amounts, and the EU's agricultural policy has an impact on how farmers manage water. The EU also has a cross-cutting water policy that sets out important principles on sustainable water use. In September 2021, the ECA will publish a special report on sustainable water use in agriculture. Els Brems, head of task for this audit, explains why we audited this topic, how the EU can have an impact on water use in agriculture and what the audit is about.

Water quantity versus quality

Climate change is causing more frequent droughts and is making fresh water more scarce. Consequently, sustainable water use has become even more important. Agriculture has an impact on the quality and quantity of water available. Farmers may decide to irrigate their crops in order to secure or increase yields, but also to improve product quality. They may abstract water from rivers, streams or lakes (surface water) or from underground aquifers (ground water). One fourth of the water abstracted in the EU is used for agriculture - mainly for irrigation. They can also use the rainwater they collect in basins during wet periods or reuse treated wastewater.

Agriculture causes pollution of water through leakage of pesticides and excess fertilisers. This is a long-standing problem and we are still far from having clean water in all freshwater bodies in the EU. However, as we have covered water quality quite extensively in our past audits[1], in the most recent ECA audit related to water, to be published in September 2021, we focus on the impact of agriculture on the quantity of water available, the *quantitative status* of water, as it is known in scientific and government documents: how do we make sure there is enough water for all uses - agriculture, industry, households, natural ecosystems?

1 ECA special report 04/2014: *Integration of EU water policy objectives with the CAP: a partial success*; ECA special report 23/2015: *Water quality in the Danube river basin: progress in implementing the water framework directive but still some way to go*; ECA special report 03/2016: *Combating eutrophication in the Baltic Sea: further and more effective action needed*.

What does the EU do?

You may wonder how the EU can influence water use in agriculture. First of all, the EU has a *cross-sectoral water policy*, spelled out in the Water Framework Directive (WFD). The Directive includes targets for good quantitative status of water bodies. Member States should also set up an incentive water pricing policy and control water abstraction. The policy applies to all sectors, thus also to agriculture as one of the main users of water.

Secondly, and more specifically, through the Common Agricultural Policy (CAP), farmers can receive EU income support and subsidies for certain types of investments, such as irrigation systems or rainwater reservoirs. These can have a positive or negative impact on water use. For example, rainwater reservoirs allow farmers to collect surplus water in periods with abundant rainfall for use in the dry season, thereby reducing the water they need to abstract from ground or surface water. Modernisation of existing irrigation systems can increase irrigation efficiency, thereby reducing the amount of water abstracted. But new irrigation systems on fields that were not irrigated before can increase the total water abstracted in the area.

Farmers can also receive money for certain agricultural practices that have a positive impact on water retention on the fields. For example, when farmers apply mulching, strip cropping along contour lines, or when they create hedges and grass strips, this has several benefits. The rainwater stays on the field longer, it has more time to infiltrate slowly into the soil thereby reducing erosion of fertile topsoil and increasing soil moisture, which is beneficial for crop growth during periods with less rain.


Irrigation through sprinkler system


Mulching

Hedges and tree rows between the fields

The EU aims to support effective and impactful types of actions, also from the viewpoint of sustainable water use, and give the right incentives to farmers to achieve this. This raises several questions:

- Should the EU fund irrigation systems in areas that were never irrigated before?
- Should EU funding be limited to improvements to already existing irrigation systems - making them more efficient?
- Should the EU focus more on financing green infrastructure and measures that improve the water retention capacity of our soils?
- Can EU income support play a role in making farmers more compliant with obligations arising from the WFD?
- Does the EU stimulate investments or agricultural practices that have a negative effect on the quantitative status of our water bodies, such as drainage?
- Does the EU provide sufficient funding for investments in wastewater reuse for irrigation?

The post-2020 CAP has the potential to place greater focus on a number of these considerations. For example, the European Commission proposed:

- explicitly linking WFD requirements concerning water abstraction to CAP payments; and
- stopping the financing of investments in irrigation that are not consistent with the achievement of the WFD objectives, and limiting investments that expand the irrigated area to include areas where water bodies are at least in good status.

The European Parliament proposed including paludiculture - farming and forestry on wet soils, predominantly peatlands - as an eligible agricultural activity for CAP income support.

Assessing sustainable water use

We carried out our audit between April and December 2020 and covered 11 Member States/regions. In our initial audit plan, we had intended to visit some Member States/regions to actually check a set of EU-funded projects. However, in March 2020, we turned that plan into a Corona-proof desk-review audit without on-the-spot visits, but including more Member States/regions. The publication of our report is scheduled for September 2021.

We look at the WFD and how its principles of sustainable water use are applied in agriculture. For example, does the water price in Member States provide an incentive for agricultural users to use water efficiently? Or, do Member States apply water abstraction controls on farmers?

We also look at the CAP to see if it takes into account the WFD principles of sustainable water use. Is the EU promoting sustainable water use practices through its different funding mechanisms - direct payments, rural development support, market measures? Or does it finance, directly or indirectly, practices that stimulate depletion of our water resources in water-stressed areas?

There is only so much an audit can cover…

While a coverage of 11 Member States/regions is a lot when you have to actually do the audit work, it is also very little compared to the size of the European Union and the *diversity* of approaches that exist in the Member States and regions to implementing water policies. It is striking to see the variety of water pricing policies, water abstraction authorisation systems or ways of checking cross compliance requirements. So our audit shows different examples of how Member States are organised, but it cannot be exhaustive.

Just as our assessment cannot cover the whole European Union, it cannot cover all the initial audit questions either. This may sometimes be a bit frustrating. The reasons can be multiple, but often the *data* are just not available, or it would be far too time-consuming to obtain them. For this audit, it would have been interesting to know for how many hectares of agricultural land the EU actually paid for infrastructure that expanded the irrigated area. Data may also be *relatively old*. For example, the latest official data available on the status of water bodies were reported to the Commission in 2018 but refer to the situation in 2016 or 2017, so the impact of recent summer droughts is not yet reflected in those data.

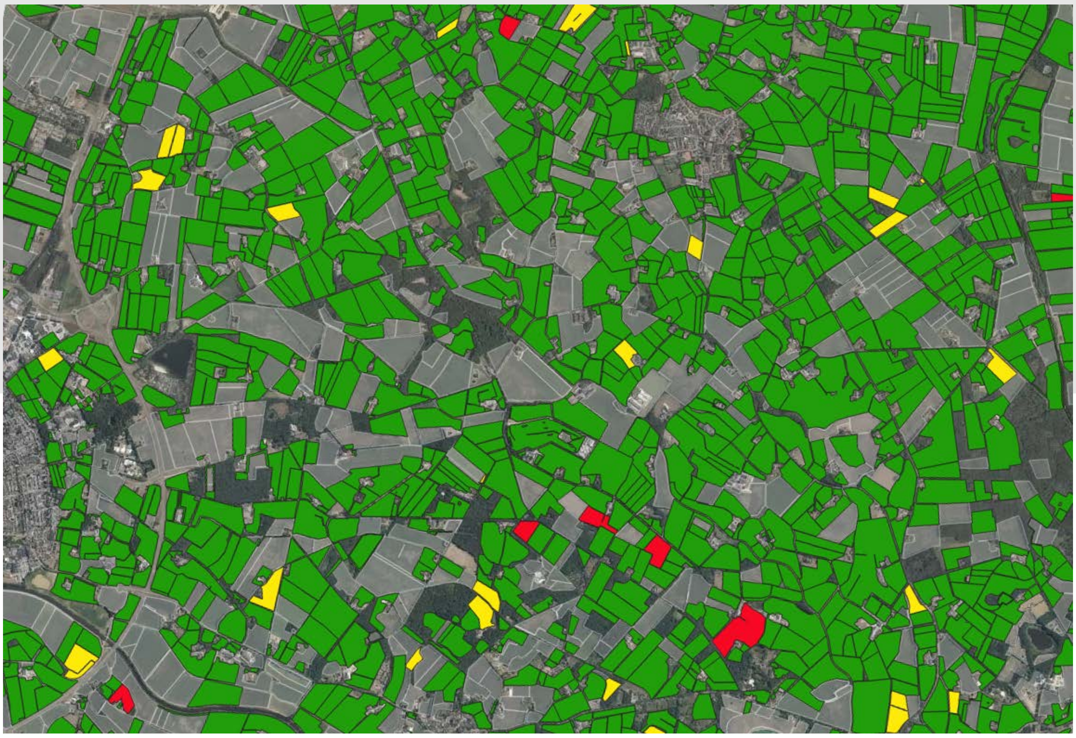
An audit needs to be manageable, and therefore we focus on only a part of a sometimes complex topic. Water use is, for example, intrinsically linked to climate change and water quality, but it is impossible to tackle these topics properly in one and the same audit. That is why we are publishing several audit reports on related topics and why I hope we will keep auditing other aspects of water policy in the future, such as water pollution by nitrates.

Sometimes, reading for an audit enables you to discover interesting things, although not always directly relevant to the audit work. One of my interesting reads during this audit, for example, was about *tree-ring analysis,* which shows that the sequence of recent European summer droughts since 2015 is unprecedented during the past two millennia. That is probably caused by anthropogenic warming and associated changes in the position of the summer jet stream.[2] I can recommend such a dive into aquatic trails!

2 See for example: https://www.cam.ac.uk/stories/europeandrought and https://www.valerietrouet.com/tree-story.html.

Monitoring CAP beneficiaries – the eye from the sky

By Greta Kapustaite, Sustainable Use of Natural Resources Directorate



Source: EC/JRC

Parcel assessed as non-compliant | Insufficient information further processing needed | Parcel assessed as compliant | Parcel not under monitoring

Possible outcomes of parcels' assessment using satellite images

Digitalisation plays a major role in the lives and work of many Europeans, and agriculture is no exception. Applications range from research into new genome techniques to monitoring crop development from the sky by means of satellite images, for example. The latter is also very relevant to the ECA in making its audits efficient, faster, and less burdensome. The COVID-19 pandemic has only accelerated this development. Greta Kapustaite, auditor, together with other members of her directorate's team for the Statement of Assurance, works on a daily basis with new technologies for monitoring the Common Agricultural Policy. In doing so, she is in frequent contact with specialists from the European Commission's Joint Research Centre (JRC).[1] Below she provides some insights what is possible with the new techniques provided by the eye from the sky.

Linking geospatial information to agricultural parcels

Since the 1992 CAP reform, the main building block of the management and control systems for EU payments to farmers is the integrated administration and control system (IACS). Today, the Land Parcel Identification System (LPIS) and the Geospatial Aid Application (GSAA) are core control elements of the Member States paying agencies' IACS for area-based aid schemes.

Member States use a computerised geographic agricultural land parcels information system - LPIS, which records the maximum eligible areas under the various EU aid schemes for direct payments and rural development. LPIS is mainly based on aerial photographs and satellite images, and allows the farmer to locate and quantify area-aid applications in a way that the paying agencies can cross-check and verify that they only pay for eligible agricultural land and only once for a given area. In addition to LPIS, the

1 The author thanks Wim Devos and Philippe Loudjani, experts from the Joint Research Centre, for their input and expertise for this article and the images provided.

years from 2015 to 2018 marked the gradual introduction of the GSAA. It allows farmers to submit detailed aid applications and payment claims with the explicit geo-location of their declared agricultural parcels. This has helped the paying agencies to enhance checks on aid applications, by linking geospatial information to individual agricultural parcels.

LPIS is subject to regular updates and was introduced as a response to findings of the annual on-the-spot inspections of a sample of around five percent of farmers; i.e. as a tool to prevent non-compliance and to support farmers. Under the on-the-spot-checking regime, a farmer is in theory only liable to be checked once in 20 years and 95% of the farmers receive little feedback on their application. Furthermore, the very term 'on-the-spot-check' implies a snapshot inspection (a single observation), but covering a year's worth of aid. The introduction of the payment for agricultural practices beneficial for the climate and environment (greening) required checks on agricultural activities - crops cultivated, maintenance of permanent grassland, ploughing, etc. – which are not feasible in a single visit. This is where the new approaches to monitoring come into play (see ECA's special report 04/2020 on the use of new imaging technologies to monitor the CAP).

Satellite images have been available to substitute for physical field inspections since 1992, through an alternative approach called 'controls with remote sensing,' whereby inspectors check compliance with eligibility conditions on-screen at the paying agency. Even though this approach is less costly than classical field inspections, it still necessitates human intervention to interpret satellite images and use computer-assisted photo-interpretation, and may also require field visits in cases of doubt.

From sampling to whole population checking

The Sentinel 1 and 2 satellites, launched under the EU's *Copernicus* programme, offered a game changer in designing CAP controls. Since June 2015, Sentinels 1 and 2 have been providing free and frequent high-resolution images of agricultural areas. Automated processing of Sentinel time series data during the growing season makes it possible to identify crops and observe mechanical agricultural practices (e.g. mowing, ploughing) on all the individual land parcels retrieved from LPIS and GSAA. The identification of crops is often based on the distinctive vegetative cycle of each crop canopy (e.g. by looking at a 'vegetation index') and the tell-tale mechanical practices are detected by 'markers.'[2] As of May 2018, Member States' paying agencies can use such automated analysis on the whole population of aid recipients, rather than checking samples of farmers. This new approach is called checks by monitoring (CbM).

Box 1 – Copernicus Sentinels 1 and 2

The **Sentinel-1** (1A and 1B) satellites provide an all-weather, day-and-night supply of images of the Earth's surface. Their main applications, among others, include monitoring land-use change and agriculture. Sentinel-1 satellites send out microwave signals to the Earth and measure the signal that bounces back, which is not impaired by the presence of clouds.

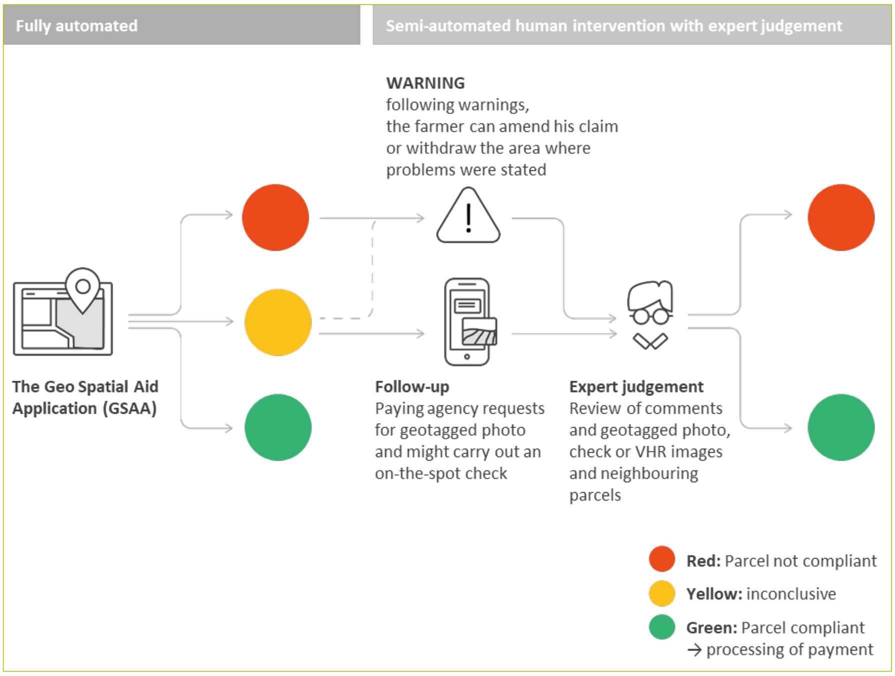
The **Sentinel-2** (2A and 2B) satellites provide high-resolution optical imagery by measuring the visible infrared light reflected from the Earth. The main objectives of the Sentinel-2 mission include monitoring vegetation, soil and coastal areas.

The CbM technology is full developed: the current data archive has covered the whole of Europe, twice-weekly, in optical and weather-independent radar bands, over the last five years and thus offers unprecedented research potential for detecting and measuring agricultural activities and processes. This continuity means that several agricultural activities which were 'impractical to verify' have become 'unlikely to miss' (e.g. stubble burning, crop rotation, persistence of grassland or cover crops). The image archive and IACS data allow much shorter timeframes to develop and validate new methods. The EU has launched several initiatives to tap into this potential, although a final solution for archiving this Sentinel data is still pending.

2 An objective observation of behaviour of the land as depicted in Sentinels signals (JRC technical report, DS/CDP/2018/18).

CbM target the analysis of available Sentinel data on the information provided by farmers in their aid applications. The system searches for those markers evidencing the declared crops and agricultural activity on the parcels, but also compares any observed marker with an alternative growth pattern or activity and with its peer parcels. The parcels are then assigned a 'traffic light' (or coloured flag) and may require further investigation. The results of checks by monitoring can be used to warn farmers of potential non-compliance with the payment scheme rules at any time during the growing season (see **Figure 1**).

Figure 1 – General concept of Checks by Monitoring



Source: ECA simplified, based on JRC documents

CbM is a substitute for on-the-spot-checks – the system performs automated checks on the beneficiaries. CbM's main contribution to the reduction of the administrative burden for the paying agencies lies in both the automatic nature of the processing and the possibility to avoid penalty procedures, as farmers can modify their applications after a warning. The monitoring system can in the long run also decrease the administrative burden for the farmer (e. g. claimless application for aid). Through its comprehensive territorial coverage without sampling, CbM also avoids risk management and guarantees fairness. However, to achieve these benefits, paying agencies have to make the necessary substantial investments to adapt their management and control systems.

Using CbM is voluntary, but Member States opting for it need to have the necessary procedures for regular and systematic observation, tracking and assessment in place and apply them for the whole scheme, although phasing in is possible. By 2024, the Commission intends to have 50% of the area of the main direct aid schemes (basic payments and single area payments) subject to checks by monitoring. In 2019, five paying agencies (in Belgium, Denmark, Italy, Malta and Spain) used checks by monitoring for some of their schemes. In 2020, these were joined by another eight paying agencies in Belgium, Germany, Latvia, Portugal and Ireland.

The provisional quality assurance setup aims to offer both reliable reporting and self-assessment instruments for the paying agencies. These developments will sharpen the fuzzy boundary between what is 'monitorable' by Sentinel and what could never be 'monitorable.' This could be used by Member States to define the measures of their CAP strategic plans to fall on the 'monitorable' side and develop better targeted agri-environment and climate measures (e. g. mowing of parcels according to vegetation status and not putting strict dates) to reap greater benefits from the CbM investments during the next programming period.

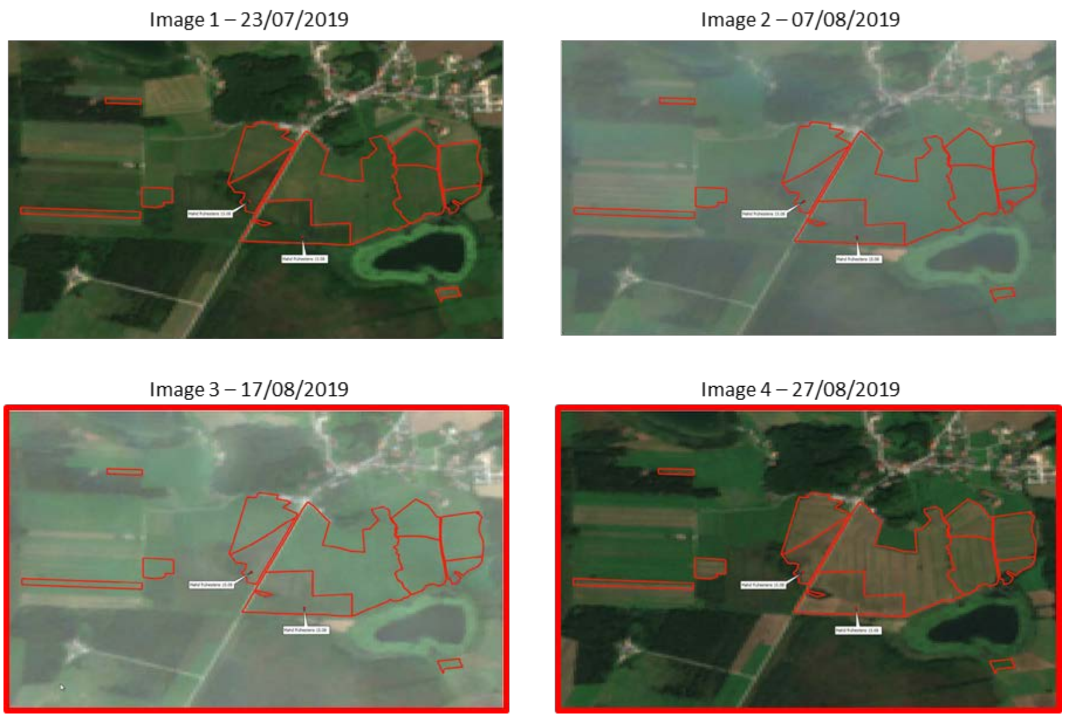
Sentinel imagery providing data for ECA's audits

The training and support provided by the Joint Research Centre (JRC) has given us a good understanding of CbM and enabled us to work with Sentinel data. During our 2020 Statement of Assurance (SoA) work preparing the ECA's annual reports for 2020, we reviewed two paying agencies' use of CbM, focusing on the voluntary coupled support scheme for tomato farmers in Malta and the basic payment scheme in Belgium (Flanders). As Member States using CbM perform a quality assessment on a sample of parcels to verify the functioning of the system, we looked into the results of this exercise for a sample of 30 randomly selected parcels in each case. Thanks to good cooperation and detailed explanations provided by the paying agencies, this review has considerably improved our understanding of the markers, the interpretation of the results, and the follow-up actions taken for inconclusive parcels.

As part of our review, we selected three parcels for each country and used their coordinates to perform a Sentinel analysis. The purpose of this exercise was to see whether Copernicus Sentinel 2 Explorer analysis can confirm the paying agencies' observations. Assessing the temporal overview and the normalised difference vegetation index (NDVI) of the three parcels, we were able to confirm the conclusions reached by the paying agencies.

We also often use Sentinel data in our daily SoA work to verify the beneficiary's commitments and obligations. For example, we audited a payment for an agri-environmental commitment in Austria, where the farmer was allowed to mow the grassland only after 15 August. Based on the Sentinel images provided by the Austrian authorities, we could conclude that the beneficiary was compliant (see ***Figure 2***). Previously, without this technology, in such cases we were unable to obtain reliable evidence to verify compliance with the rules in the previous year.

Figure 2 - Sentinel images used for compliance verification



Source: Agrarmarkt Austria (AMA), Austrian paying agency

Lessons learned from the CbM review exercise

Our review exercise has shown us that the application of CbM offers a number of opportunities, as well as challenges. Some of the advantages of this new approach to monitoring are:

- the results of CbM can be used to warn farmers of potential non-compliance with the payment scheme rules, allowing them to amend their claims before they are finalised and thus prevent incorrect claims, undue payments and sanctions;
- as images are available throughout the year, the monitoring system removes the control/audit obstacles, by disconnecting the checks from the administrative timeline. This enables Member States to design better impact-oriented measures and to ensure an equal workload for the inspectors;
- CbM outcomes are also used to flag potentially ineligible areas. Once the LPIS is updated, Member States could then address undue payments and, where appropriate, take retroactive recovery;
- potential reduction in the number of field visits, with no need for complex sampling procedures and more focus on inconclusive and non-compliant cases;
- Member States have to carry out a quality assessment on their CbM (ensuring continuous improvement of the system), which, once fully implemented, should also provide an estimated financial impact of the identified weaknesses; and
- CbM allows all farmers to be better informed and to become more aware of the management of their application.

On the other hand, a number of elements could have implications for the ECA's work:

- we need to further investigate how and whether the results of quality assessment of CbM can be used for SoA purposes;.
- it remains unclear whether and how potentially ineligible areas already flagged for the next LPIS update can be counted as area over-declaration and taken into account for our error calculation ; and
- currently our SoA work is based on a limited number of transactions. It remains to be seen whether Sentinels will enable us to check on compliance for areas of larger populations and whether we will be able to verify payments for the whole population using artificial intelligence, data mining, or other tools.

The future CAP

With the ongoing reform and the new delivery model, the future CAP should be based on performance rather than compliance. An adaptation of the current SoA approach (focusing on legality and regularity with calculation of an error rate for incorrect payments) might therefore be envisaged, putting more focus on performance-related aspects and wider application of Sentinel and other tools.

As the ECA has indicated in its opinion 7/2018 regarding the new CAP proposals (see paragraph 91), the CAP's shift from compliance to performance may entail a weakening of the accountability framework. However, the legal proposals did introduce a Sentinel-based Area Monitoring System (AMS) to support the Member States in providing information on output and result indicators, underpinned by independent, external observations on what physically happened on the land.

Given that CbM and AMS rely on the same source data, it is likely that the CbM technology for beneficiary checks will be easily adapted to serve the yearly reporting to the Commission of outputs and results indicators. In that scenario, the investments of those adopting CbM will pay off and provide a valid control option at no extra cost. However, if paying agencies opt to continue with on-the-spot-checks or control with remote sensing, they will have to set up and operate these independently. As a result, AMS might not provide information on financial aspects of the outputs and results. In such a scenario, the necessary financial information (currently collected via the on-the-spot-check), will have to be collected via a separate procedure.

CbM – potential game changer in monitoring

CbM can replace many on-the-spot-checks and is suitable to support the new CAP delivery model. However, one should not forget that LPIS was developed as a prevention mechanism, and that the GSAA was developed to address the shortcomings of LPIS. Accountability was based on the random sample of the on-the-spot checks carried out by Member States. However, these conditions and drivers of development will no longer remain valid if on-the-spot-checks disappear.

With the CbM/AMS technology maturing in combination with other new technologies, the big challenge is to consider how IACS and all IACS components must develop, enabling performance, reducing the administrative control burden while maintaining the current high level of assurance. There is a risk that, especially in the initial phase of the new CAP, new agri-environmental and climate requirements on farmers will raise error rates. In that context, CbM could truly be a game changer.

Director's Cut

Auditors adding value by looking at the overall impact of the CAP, new or old

Interview with Peter Welch, ECA Director

By Gaston Moonen

Peter Welch

The new Common Agricultural Policy will introduce changes, both for farmers receiving EU funds and those managing the process of the flow of EU resources. With an abundance of high level goals - reflected in both the new CAP and related strategies such as the European Green Deal - the new CAP will also imply changes for auditors, at whatever level they work. Peter Welch is the Director of 'Sustainable Use of Natural Resources,' the ECA audit directorate covering agriculture, climate and environment, health, consumer affairs and fisheries. In the interview below, he reflects on how ECA audits may have influenced the new CAP's design and contents, its potential effects on ECA audits, and how it ties into other EU programmes.

Assessing wider impact, beyond programme level

When it comes to ECA reports on agriculture, they most often get quite some interest. A recent example is the ECA special report 16/2021 on the Common Agricultural Policy and climate. 'As it should be!' says Peter Welch, as Director co-responsible for its contents. 'I feel that this is one of the biggest reports I have ever been involved in. We say in this report that a €100 billion that the Commission counts as spent for climate spending through agriculture, has had very little impact in the sense that the emissions through agriculture have not decreased.'

> *...€100 billion that the Commission counts as spent for climate spending through agriculture, has had very little impact in the sense that the emissions through agriculture have not decreased.*

Regarding the timing of the report, in view of the new Common Agricultural Policy just having been agreed upon, Peter believes the impact will be there. 'The impact surely is going to be that all the people in the agricultural community, those making agricultural policies will be grappling with the issue. And hopefully they will ask themselves whether this is all they are going to show in seven years from now, at the end of the 2021-2027 Multiannual Financial Framework (MFF). 'Is the ECA going to say the same thing when its next report on this issue will appear?' He expects changes to relate much more to the behaviour on this issue, a trickle down effect in policy making. 'There is much more to come related to agriculture and emissions: the CAP National Strategic Plans need to be examined, the eco-schemes need to be set up, the way money is spent under the new instruments needs to be determined. So there are lots of ways in which our report could have an impact. And it will.'

When comparing the ECA findings on this topic with the findings of the European Commission's DG AGRI's report on this issue, published a few years ago, the DG AGRI report comes out a bit more positive, but not a lot. Peter is not worried about possible discrepancies. 'One of the things we have to bear in mind is that we are an independent organisation, coming in and doing our work on an objective basis. The second thing is that we did not ask ourselves: what is the impact of specific schemes aimed to reduce greenhouse gas emissions. No, we asked ourselves what is the overall impact of the CAP.' He points out that if you focus on those things which are meant to make a difference positively, you will find things that make a positive difference. 'But if you look at the whole range of issues, like we did, you will also see that there are other measures that change behaviour the wrong way, which offsets or even has a bigger impact then those actions meant to have a positive impact.' In this respect he thinks it can be important not to get so much involved in the individual schemes. 'Because you can lose sight of the overall impact of the CAP. I think the team on that audit did a good job of considering all the significant issues.'

The outcome is perhaps the more surprising considering that for some years now the European Commission, in particular through its DG Climate Action (CLIMA) made efforts of mainstreaming climate into EU policies in general, requiring for the 20214-2020 Multiannual Financial Framework (MFF) period programmes in all policy areas to consider climate priorities in their design, implementation and evaluation phases. This approach has been extended for the current MFF.[1] But not all EU funded programmes in agriculture align with this approach yet. Peter: 'For some of the drivers for GHG from agriculture, such as life stock numbers, nitrate inputs - which come in terms of inputs from agriculture - and the impact on land use, you can see that there are really trade offs, some quite negative. I think we did the job that you would hope that external auditors do in standing back and evaluating the whole range of things going on.'

> *... we did the job that you would hope that external auditors do in standing back and evaluating the whole range of things going on.*

Availability of data is key

Having this overall perspective is an important selection criteria for what to audit, but there are more when selecting topics for performance audits. 'We are looking for reports where we think we can make a difference and where there is an opportunity to put together information that other people have not put together. Where there is significant public interest and frequently where we can do something new or different in terms of methodology.' Peter gives a few examples: 'About a year ago we published a report relating to the use of satellite images to monitor CAP spending. At the moment we are working at a report looking at the possibilities of big data. We try to expand the use of modern techniques and approaches.' He points out that this is unrelated to the constraints relating to the COVID-19 pandemic. 'We would do this anyway. We were in fact in a relatively good position when COVID-19 happened that we had many tasks, which we started doing things in different ways. There have been many inconveniences due to the lockdown but basically lots of audit tasks could go ahead using these approaches.'

> *...We are looking for reports (...) here is an opportunity to put together information that other people have not put together.*

1 See for example the article of Mauro Pettriccione, DG CLIMA, in the ECA Journal 2/2020 Climate Change & Audit.

An important aspect that enabled his directorate to do so is that a lot of information is actually available. 'That is one of the things which makes agriculture such an interesting area to audit: there is lots of ways for getting information and there are no questions about EU competences. This is not a policy area "peripheral" to the responsibilities of the EUor to our audit mandate. Agriculture is right in the middle.'

> *...which makes agriculture such an interesting area to audit: there is lots of ways for getting information and there are no questions about EU competences.*

Peter explains that for getting information on what is happening in agriculture one does not all depend on writing letters to get information and making visits on the spot. He gives an example: 'We are doing an audit on soil management at the moment. Satellite based information can tell you quite a lot on where soil erosion is a problem around Europe. So one of our objectives is to use these satellite data as well as we can. And another objective is to point other people to using these data.' Peter thinks that with the new CAP, with a more decentralised implementation policy per Member State, the use of data will only increase. 'It might not necessarily become easier to get them, but I think they will become more important.'

EU delivery models for CAP and NGEU seem to align

Regarding the impact of the new CAP for the work of the ECA's work on agriculture, climate, biodiversity and other related issues, Peter thinks it is too early to tell. 'We still have to see what the balances of the changes will be. In the negotiations, different bodies have been pushing into different directions. So there has been a move to distance the Commission on what happens at the level of the individual beneficiaries. But this still seems to be about the quantity of funds that has been spent rather than the impact on the ground. At the same time some of the people involved in the negotiations wanted to create new conditionalities, new rules at the level of farmers.' He expects that it will take time to work out what this means in practice, also for the ECA's audit work in this policy area.

> *...there has been a move to distance the Commission on what happens at the level of the individual beneficiaries.*

A major element of the new CAP - at least it has been presented like this - appears to be the eco-schemes, to become a substantial part of CAP spending, albeit on a voluntary basis. For Peter it recalls the agri-environmental schemes which have been there for some time now. He observes that there is not one single approach to look at agri-environmental schemes. 'They are varied in terms of the conditions that they put on the people who receive the funds. So you would need to tailor your assessments of them to that.'

Besides the new CAP, Peter thinks that the work of his directorate will also be very much affected by the Next Generation EU (NGEU) instruments. 'In the NGEU there is a lot of money for digitalisation and a lot of money for climate change. 37% of the money is meant to be for climate change, which is one of our responsibilities, so it is going to have a significant impact on the work for our directorate. There is also a lot of money for rural development. When I look at the rules for these NGEU instruments it looks as if they build upon what the Commission has been trying to do in terms of the delivery model for the new CAP. Many similarities with the things we have already been looking at.'

> *... When I look at the rules for these NGEU instruments it looks as if they build upon what the Commission has been trying to do in terms of the delivery model for the new CAP.*

Peter thinks it will be interesting to see what this means in practice. 'First in terms of the accountability relationship between Member States and the Commission and therefore Parliament, and in terms of the mechanism. And second, in terms of the money that will be spent. I already have seen that some of the plans foresee spending the money in ways that it will be a very rich area for audit.'

He sees a common denominator in the delivery models foreseen for several policy areas. 'The CAP National Strategic Plans build on rural development programmes that we had in previous periods. And the EU is rolling that out to a bigger range of things. So they are bigger than the rural development programmes since in principle they cover several parts of the CAP and not only rural development spending. The coordination with the extra money from the NGEU, the new instruments, is going to be interesting. I expect that there are going to be some challenges involved in that.'

A CAP monitoring framework that needs clear benchmarks

As historically the CAP may have grown throughout the years, Peter believes that in an EU single market there is a role for a European policy framework for agriculture. 'If you would abolish the current CAP, you would need a new one. Every developed nation on the planet subsidizes agriculture in some way. If you imagine an EU with Member States subsidising agriculture in their own way, that would for sure cause a problem for the single market for agricultural goods. If you want to have a single market there is a case to have a policy framework that at least sets limits to which extent you can subsidize farmers.'

> *If you want to have a single market there is a case to have a policy framework that at least sets limits to which extent you can subsidize farmers.*

At the same time, he calls for caution: 'There is a danger of European institutional bias – having an agricultural policy as such means that it is a very interesting area for us to audit. But that should not be the criteria that everything should be done at EU level. There are many issues about the way decisions are made in agriculture and about the way the financing is done. This could definitely be improved.' He comes with a simple example, underlining the interaction he can imagine with other policy areas. 'At the moment funding decisions on agriculture are essentially isolated from decisions on spending on other priorities. Farmers do not have to fight for their budget with nurses. So one could imagine also different ways in which the framework could be improved.'

Peter believes setting some key benchmarks will be important to measure such improvements. 'You have to set a monitoring framework in which you are measuring what we looked at in the last few years. Think about issues such as: what is the state of biodiversity. Or what is the state of carbon emissions from agriculture. You need those to set yourself benchmarks.' He refers to the several initiatives the current Commission has launched to make farming a more virtuous activity, such as the European Green Deal, the Farm to Fork Strategy, the Biodiversity Strategy. 'Bear in mind that when the Commission proposed the new CAP they put farmers' income as the number one issue! So there has been a change, but there is also the feeling there is a lot to be done in the sense that Farm to Fork is not there yet. I think there are lots of challenges ahead.'

> *You have to set a monitoring framework in which you are measuring what we looked at in the last few years.*

As to the criticism that the new CAP remains quantity driven, Peter has some reservations. 'The new CAP is not really about large quantities of productions. And I do not think it should be, that is something of some decades ago. For a long time it has not been, in most areas, about subsidising at all costs.' However, he sees tendencies that quantities become a more important factor than before. 'Quantity of land is definitely a big driver, and in fact that will become more of a driver. For many farmers quantity of land is going to be more significant for their income. And for some it will become less significant.'

> *Quantity of land is definitely a big driver, and in fact that will become more of a driver.*

He observes that, given that the new CAP that was first announced as being about income of farmers, it has moved away from that. 'Given that quite a lot of the debate of the approval of this package has been about who are the people who should receive money and up to what level should they receive money. I think one of the issues for the future is to have a clear review of who the beneficiaries of CAP are. So the discussions about active farmers. In that context the European Parliament has been very interested in finding out who the biggest recipients of the EU funds are.'

> *... one of the issues for the future is to have a clear review of who the beneficiaries of CAP are.*

Peter explains that an important element in this discussion is the question who actually gets the CAP money. 'Is it landlords or people who are really using the land? That is one of the areas where there needs to be much more clarity. And as ECA we can play a role and we have done so before.' He refers to special report 23/2019 the ECA published on farmers' income stabilisation and special report 10/2018 relating to basic payment schemes for farmers.' There we asked some questions about who the farmers were. This fed into our opinion on the new CAP in 2018, where we considered who the actual beneficiaries of CAP funds are and what the distributional impact of CAP spending is. This will become more of an issue in the future.'

National Strategic Plans in the audit realm

Farmers' income will be one of the issues for which the National Strategic Plans will be crucial. With the presentation of these plans it will become clear how much the Member States will align with the CAP objectives at EU level. Peter foresees that these plans will become an important audit subject for the ECA. 'I expect that we will be considering National Strategic Plans in all sorts of things that we do in the future. We could have an audit task which looks at them en bloc. We can also look at issues in strategic plans within different audits. I have an open mind on that.'

> *...we will be considering National Strategic Plans in all sorts of things that we do in the future.*

Overall, Peter is rather optimistic on the different issues the new CAP offers from an audit perspective. 'For example on the new ways EU funds is going to be delivered, right across the board. For agriculture we are going to have to think about what happens at programme level and what this means in terms of the definition of who can receive funds and under what conditions. We will have to think carefully about this before we decide how we do our audits in the next period. This is not an easy judgement to make since it also relates to eligibility, so legality and regularity issues.'

Goal congruency as part of the audit scope

One source of inspiration for ECA audits in recent years have been climate and biodiversity issues. A choice Peter is happy to elaborate on. 'I am very proud of the work regarding biodiversity and climate change. Or regarding water and the CAP. Given the policy debate and the urgency of the action on climate change, I expect this to continue.' However, he believes it is important to cover topics relating to the economic impact of the new CAP. 'If we want to have a balanced portfolio of audit reports, we will also need audits which look into this. These aspects are also a big concern of the European Parliament. For the coming period, the Parliament highlighted their interest in the common market organisations covering things like wine, olive oil - some of these things for which there are very specific regimes.' He observes that those are things that the ECA has not covered in its audits for some years. 'Over the next year we need to look into those areas and probably also with a specific awareness of what we have been doing on the climate change and biodiversity issues, but also having a good look at the impact.' Another issue he mentions are the levels of capping: 'Who is an eligible beneficiary. When things around the new CAP become clearer it may be valuable to do things on the distributional impact of the CAP spending.'

What Peter observes to be a key, yet difficult issue to tackle when auditing the new CAP is goal congruency, something he also referred to, albeit in different terms, when earlier speaking about CAP spending and climate. 'Goal congruency is always the difficult issue with the CAP and also with other areas of spending. Policies have multiple objectives and the question is: are all the things we do contributing to the objectives we have? Are some of them working in favour or are some of them working against the objectives? He projects this aspect also to the ECA's own work. 'For us, as ECA as a whole, there is the challenge to make sure that we are saying consistent things between our audit on legality and regularity and our audits on performance issues.' He finds that, covering different policy areas, as his directorate does, helps to look across the alley and strive for consistency.

> *...the question is: are all the things we do contributing to the objectives we have?*

Demystify what is happening

When asked which ECA report has had a big impact for the contents of the post-2020 CAP proposals, Peter is silent for a moment. 'Perhaps it is too soon to tell yet. But I think our Greening the CAP report of 2017 has had quite an impact on what the Commission has done. Several challenges in the CAP might have been approached differently if we had not written the report in the way we did . Yes, that one definitely has had an impact. I cannot tell you when people in DG AGRI decided in which way to go, but that report had an impact.'

> *Several challenges in the CAP might have been approached differently if we had not written the report [on greening the CAP] in the way we did.*

This leads him to the observation that the policy cycle in the EU can be slow. 'When I arrived in this directorate in 2017 virtually the first conversation I had with my counterparts in DG AGRI was about the upcoming reform on the CAP and the way they wanted to keep in touch with us on what they were proposing. Four years later, we just have an agreement on what is going to happen.' He expects that it might take another year and a half before that becomes the regime for farmers. 'And then there may be another delay towards implementation. So it will be towards seven years about DG AGRI thinking about what to do and something happening. So our findings that had an impact on the legal framework of the CAP are probably in those reports that we have published already some years ago.'

Peter concludes that the new CAP will pose a big challenge, also for auditors. 'The really important thing we can do as audit institution is to demystify. Is to tell it like it is, clear about what is happening. If we can gather all the information, including the information that is not captured by the official monitoring system, but which is relevant, the better we get on doing that, the better our impact will be on public policy.'

> *'The really important thing we can do as audit institution is to demystify.*

Assessing Slovenia's monitoring of the effectiveness of rural development projects

By Erika Rupnik and Maša Železnik, Court of Audit of the Republic of Slovenia

Source: SimonSkafar/Getty Images

Vineyards, trees and houses on hills at sunrise with fog, Jeruzalem, Slovenske Gorice, Prlekija, Styria, Slovenia

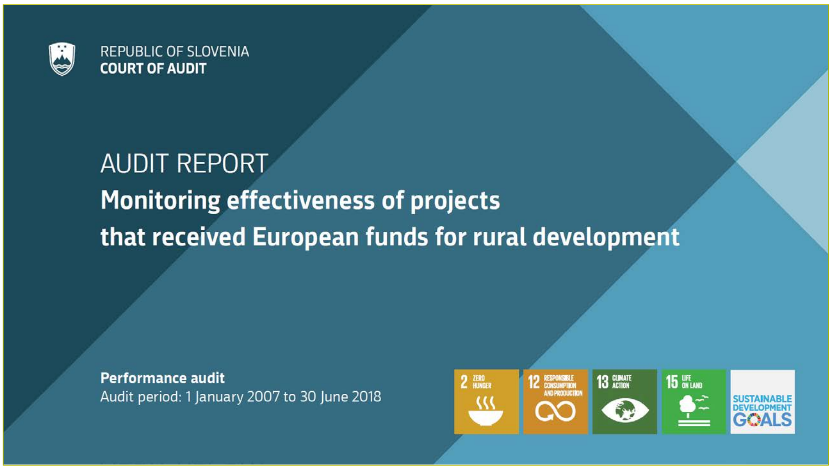
While the EU's overall agricultural policy is set at EU level, Member States are responsible for the implementation of the Common Agricultural Policy (CAP), based on what is known as the 'shared management' mode. The latter also includes a number of activities by Member States' authorities to monitor CAP programmes. Consequently, a Member State's external audit institution can assess the effectiveness of its government's monitoring of such a CAP programme. The Court of Audit of the Republic of Slovenia (CARS) has done this. Below, Erika Rupnik and Maša Železnik, principal auditors at CARS, share some key findings of the audit, with some pertinent conclusions regarding monitoring criteria, data quality and effectiveness at project level.

What and how we audited

In 2019, the Court of Audit of the Republic of Slovenia (CARS) audited the efficiency of Slovenia's monitoring of the effectiveness of rural development projects that had received European funds. Our assessment covered the period from 1 January 2007 to 30 June 2018 and was our second audit covering solely the field of rural development. The first audit undertaken by CARS in this area assessed the effectiveness of the responsible ministry in achieving the objectives of rural development policy in the period 2003-2008.[1] Our second audit focused on the basic implementing levels, i.e. monitoring the effectiveness of individual projects that had received European funds.

In our recent audit we covered the Rural Development Programme of the Republic of Slovenia for the period 2007-2013 (hereinafter referred to as RDP 2007-2013) and the Rural Development Programme of the Republic of Slovenia for the period 2014-2020 (hereinafter referred to as RDP 2014-2020). The RDP 2007-2013 was completed at the end of the audit period and this programme supported more than 54 000 agricultural holdings from all Slovenian municipalities. The RDP 2014-2020 covers 14 measures and technical assistance contributing to five EU priorities in the field of rural development and closely linked priority areas.

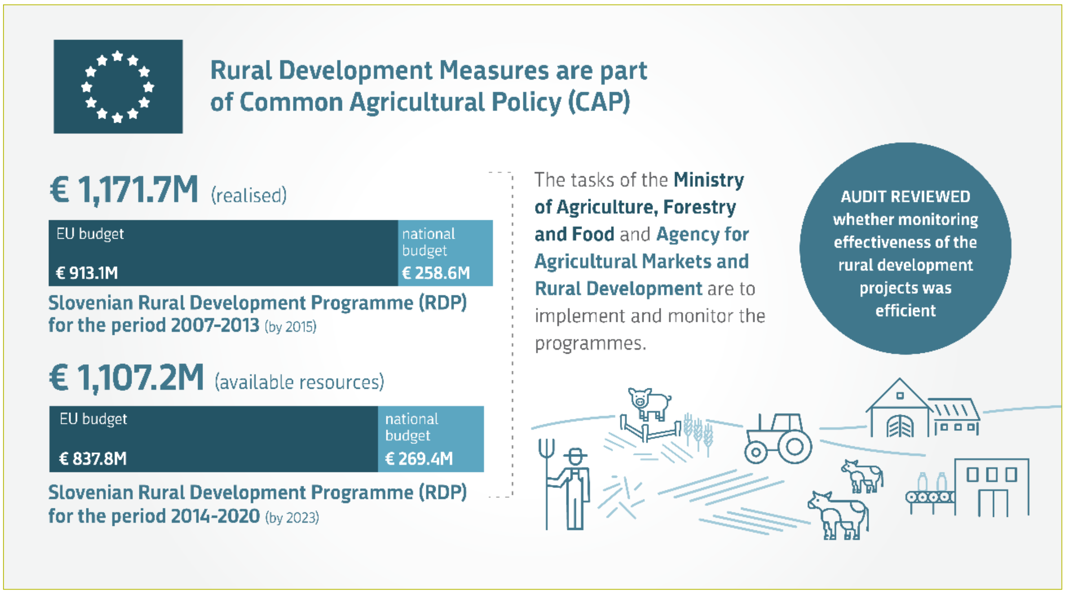
1 Available in the Slovenian language at: [https://www.rs-rs.si/revizije-in-revidiranje/arhiv-revizij/revizija/uspesnost-politike-razvoja-podezelja-v-republiki-sloveniji-258/#tabs-333].



Source: CARS

Our auditees were the Ministry of Agriculture, Forestry and Food (hereinafter referred to as *the ministry*), which was responsible for the effectiveness, efficiency and regularity of the management and implementation of rural development programmes, and the Agency of the Republic of Slovenia for Agricultural Markets and Rural Development (hereinafter referred to as *the agency*). The latter was handed a number of tasks in the field of implementing and monitoring rural development programmes.

Figure 1 - Financing rural development measures



Source: CARS

In our audit we reviewed:

- whether it was defined what had to be monitored in order to assess the effectiveness of projects;
- how the ministry and the agency collected data and reviewed the quality of the data; and
- whether they actually monitored the effectiveness of individual projects.

We based our audit findings on a review of documentation, interviews and a review of a sample of applications and projects. Our review included projects that had an investment character, as well as a sample of beneficiaries that received funds related to compensatory allowances and agri-environmental support[2] from both programming

2 The purpose of agri-environmental support and compensatory allowances is to promote above-standard sustainable agricultural practices (conservation of biodiversity and landscape, protection of waters and soil from negative impacts of farming and mitigating climate change and adaptation of farming to climate change) and to conserve and further use farmlands in areas with natural or other specific limitations. Such support is compensation for the loss of income due to reduced production.

periods. In one case, we checked performance of ex-post controls at the recipient of funds level. Throughout the audit we focused on individual projects and not on other levels of regional development programmes.

Quality monitoring starts at the beginning

When reviewing whether it was defined what needed to be monitored in order to assess the effectiveness of projects, we found that the ministry used indicators to monitor the implementation and assess the effectiveness of the support from the rural development programmes, which were adopted by the European Union under the Common Monitoring and Evaluation Framework. The ministry included some additional indicators in the RDP 2014-2020 that are comparable methodologically to indicators defined and approved by the European Commission.

Indicators defined by the European regulations have some potential weaknesses. Due to their obligatory application, this weaknesses are transferred to the national rural development programmes. For example, the context indicators lack a defined target value. Total public expenditure was defined as an output indicator, although, in our view, it does not show whether and to what extent the content-related objectives are achieved, but rather how much funding was paid to the beneficiaries.

At project level, we reviewed whether objectives were defined for individual projects, whether the indicators pertaining to them were identified and whether there was a contextual link between the objectives and indicators and the objectives and purposes of the measures. The applications for agri-environmental support and compensatory allowances had to include the size of the area where the activities would be carried out, or specification of the number of livestock units. Those values represented the objectives, indicators and obligations that had to be fulfilled in a certain period of time - from the receipt of the first compensatory allowance, or from the time of beginning the agri-environmental measure. The agency assessed whether the applicants fulfilled their obligations on the basis of those values and by applying several administrative controls and on-the-spot reviews.

Under the investment measures, when submitting applications in response to the public calls through which grants for investment projects are awarded, the beneficiaries had to present their data on physical and economic objectives and indicators that were to be achieved when the investment was completed. The beneficiaries presented and explained the planned investments with different levels of detail but in line with the demands of the public calls. They had to present data relating to the situation before the investment and the situation they planned to achieve using the investment, but for all measures or public calls under RDP 2007-2013 there was no clear definition of which period of time the data for the situation after the investment referred to. This is clearer and defined in more detail in the implementation of RDP 2014-2020. We also established that some of the indicators required were such, that their values planned on completion of the investment would, in practice, be impossible for the beneficiary to achieve.

We also found cases where the planned values of economic indicators[3] – that were presented by the beneficiary in the application for the public call – represented a criterion for the selection of projects. In our opinion such a project selection criterion was not appropriate, since it was based on a beneficiary's predictions. Higher predictions reflected in a higher score in the project assessment and therefore in a higher chance for beneficiary to get the funding. The audit showed that, as far as their content was concerned, the projects were related to the objectives of the measures.

Collecting and verifying data – concerns regarding completeness and quality

The data the beneficiaries had to communicate to the agency and the ministry were mostly necessary for the calculation of the indicators needed for reporting to the European Commission. However, beneficiaries also reported more detailed data. Under the investment measures the beneficiaries had to present the objectives achieved and

3 For example, increase in gross value added

the values of the indicators achieved during the implementation of the investment, upon completion of the investment and, as a general rule, also 5 years after its completion. In the case of agri-environmental support and compensatory allowances, reporting was carried out by submitting an annual application for entitlement to the allowance. The ministry included the specifications regarding reporting in the legal basis and in the decisions on granting funds. However, we assessed most of these provisions and found them to be too imprecisely defined for the beneficiaries to have any clarity about what their obligations were, when the obligations would be incurred and their duration, the required period of reporting, and what the consequences would be if obligations were not met.

Since 2013, the beneficiaries have reported to the agency by inputting data into its information system, called 'application e-kmetija' (e-farm). The application includes all the beneficiaries' data from the submission of the application onwards. Although gathering and keeping audit evidence solely by accessing the e-kmetija application presented a considerable challenge in performing the audit, such an approach has proved efficient. In addition, it enabled us to reduce the burden on the auditees and also saved a considerable amount of paper during audit implementation.

As to the data submitted by the beneficiaries after the investment was completed, we could only verify those for the projects within the programming period 2007-2013. These data turned out to be incomplete, not up-to-date, and incorrect in several cases examined (see **Box 1**). Because the provisions regarding reporting differed and were unclear, there were also differences in the manner of communicating data – some beneficiaries submitted more reports and some less. The ministry and the agency did not examine the data on the achievement of the indicators the beneficiaries presented in their reports. However, irregularities in data and data unavailability affect assessments of the implementation of the individual measures (see also **Figure 2**).

Box 1: Examples of findings regarding data quality

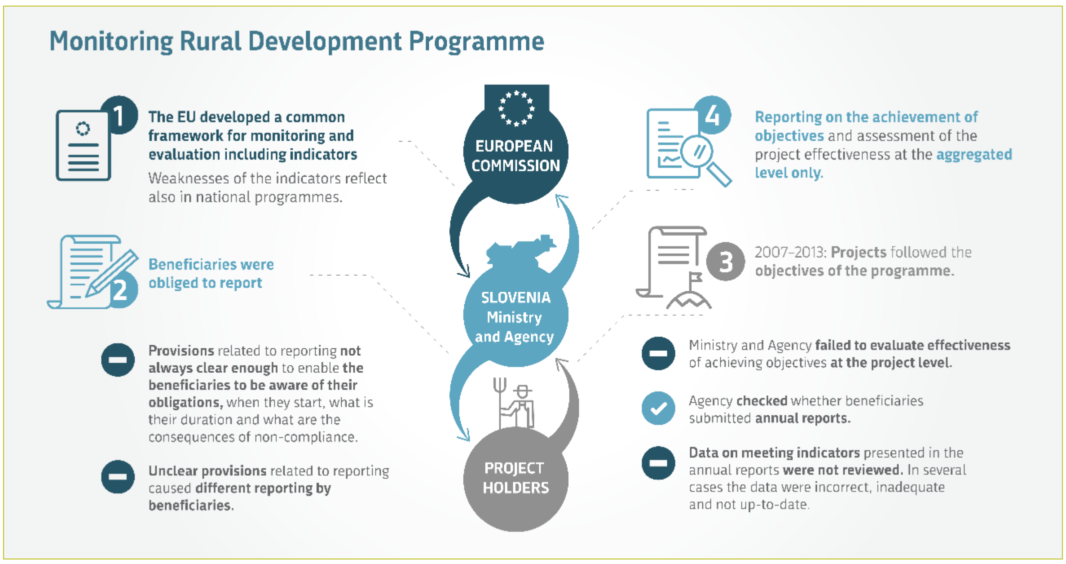
A beneficiary received funds for constructing a winery and providing accommodation rooms at a tourist farm. For each year, under the item 'net revenue from non-agricultural activity', the beneficiary recorded the value 0 (zero), yet the beneficiary recorded several overnight stays every year as part of carrying out tourist activities and thus obtaining revenues.

It was recorded that the beneficiary submitted a report, but the data on the achievement of indicators were not entered in the e-kmetija application.

The beneficiary failed to provide the data for the respective indicator in the application, though the beneficiary did report on that indicator. It was therefore not possible to assess the effectiveness of the achievement of the related target values.

When implementing RDP 2014-2020, the ministry and the agency had already adopted certain measures to improve the quality of the data required for monitoring the implementation of individual projects and the rural development programme.

Figure 2 – Some key audit findings regarding monitoring the Rural Development Programme



Source: CARS

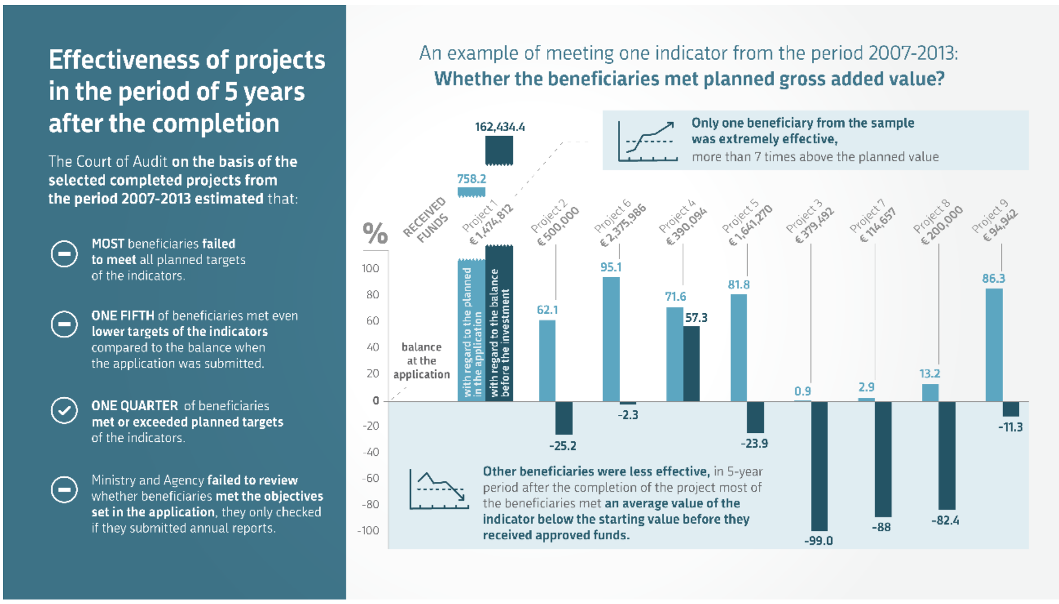
Monitoring effectiveness of completed projects is weak

Monitoring effectiveness of individual projects could only be examined for the projects under RDP 2007-2013, since the projects under RDP 2014-2020 were still being implemented during the audit. We found that the agency, in the case of investments under RDP 2007-2013, examined whether the funds were used for the designated purposes. However, neither the agency nor the ministry assessed the effectiveness of the achievement of objectives at project level.

In the cases reviewed we also established that it was not possible to fully assess the effectiveness of investments *upon their completion*. The reasons were: not all the necessary data were available, and some data did not reflect the effectiveness of the investment, since the actual effects of such an investment may only be visible later or may refer to the overall operations of the beneficiary and not just to those modifications in the operations brought about by the investment.

Neither within five years of completion of the projects, nor after that period, did the ministry and the agency, save in exceptional cases as part of ex-post controls, assess the effectiveness of individual projects. They only checked, if the beneficiaries had submitted all the required annual reports after they received the final payment. Regarding the projects examined under RDP 2007-2013, our audit showed that in the period covered by the audit the majority of beneficiaries did not meet the target indicator values set in the application. There was only one case where we assessed that the beneficiary was highly effective in achieving its objective. In the example of the selected indicator 'gross value added' it was established that in the majority of cases examined the average value of this indicator in the five-year period following the completion of the projects was considerably lower than the value of this indicator upon submission of the application in response to the public call.

Figure 3 – Effectiveness of completed projects examined



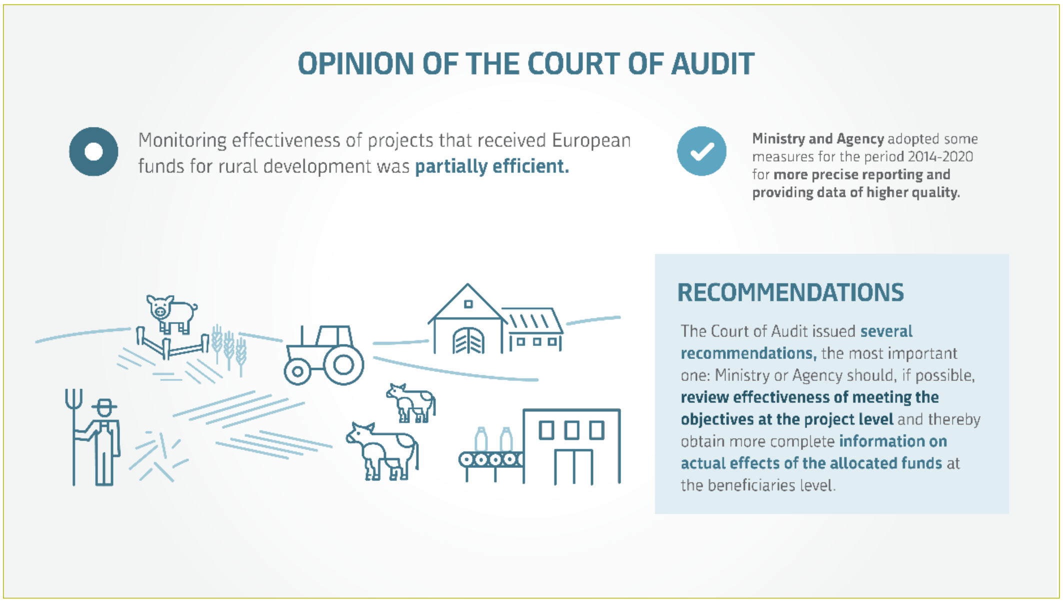
Source: CARS

Within the ex-post evaluation of RDP 2007-2013, for five measures the ministry conducted inspections to examine whether the beneficiaries were still performing their activities after the expiry of the five-year period following the final payment of allowances. The inspections showed that the majority of beneficiaries were continuing their operations. The actual effectiveness of operations was assessed only in the case of one measure. We proposed several recommendations to the auditees to improve their operations.

Towards more tailor-made monitoring

Figure 4 – Key recommendations of the Court of Audit

The key recommendation of CARS is reflected in **Figure 4**. For further info, see the infographics of the report in English, and the full audit report (available only in Slovenian).



Source: CARS

During performance of the audit we gained the impression that assessing the actual contribution of incentives for rural development was mostly based on the indicators developed at EU level, and that the level of the actual or real contribution of financial incentives - especially in relation to individual agricultural holdings - cannot only be assessed on the basis of aggregated data. We therefore think it is useful to encourage Member States' authorities to define more specifically what is to be monitored and what information is relevant to them, thereby also determining appropriate monitoring indicators. This aim iss to support CAP programmes geared toat a Member State's needs with more tailor-made monitoring tools to assess the actual effectiveness of programmes in which substantial amounts of resources from both EU and the Member State are involved.

The conservation of valuable natural habitats in national parks in Poland under the CAP

By Marzanna Lipińska and Franciszek Witkowski, Supreme Audit Office of Poland, Department of Agriculture & Rural Development

Agriculture land in a national park in Poland. *Source*: Supreme Audit Office of Poland

EU funds for the Common Agricultural Policy (CAP) are used for greening agricultural activities throughout the EU. But where would this be more important than in natural habitat areas already receiving special protection, such as national parks? Marzanna Lipińska and Franciszek Witkowski work in the Department of Agriculture and Rural Development at the Supreme Audit Office of Poland (NIK). They explain a number of issues about which the NIK recently published reports, and where improvements can get more out of CAP funds when spent on agriculture in national parks in Poland, both when it comes to compliance and performance aspects.

Maintaining valuable natural habitats in national parks as part of the CAP

The aim of the Polish 2014-2020 Rural Development Programme (RDP) is to promote the sustainable management of natural resources, and the agri-environment-climate measure is intended to help rationalise natural resource use and reduce the negative impact of agriculture on the environment. The implementation of 2014-2020 RDP measures on agricultural land in national parks with valuable natural habitats, resulting from centuries of agricultural use, requires that environmentally sound practices need to be applied that are conducive to the maintenance and development of protected plant and animal species.

The way in which these areas are used is determined by the legislation issued by the Minister for the Environment, as well as by Polish and EU legislation on agri-environment-climate commitments under the CAP. On 26 May 2021, the NIK published its audit No P/20/044 *Management of State Treasury agricultural land in national park areas, and the grant of CAP payments in respect of national- and landscape-park areas*. In our audit, we revealed that this management was not always sound. The audit results allowed us to draw up proposals to submit to the relevant public administration bodies, including proposals on the EU financial and programming perspective for 2021-2027.

In our audit, we verified how the agricultural land of the State Treasury was managed in seven national parks from 2015 to 2020 (first half). Land of this type covered nearly 22 000 hectares at that time. Biebrza National Park had the biggest area (10 200 hectares), and Drawa National Park had the smallest (400 hectares). The agricultural land in national parks, nearly all of which belongs to the State Treasury, is excluded from standard agricultural management, and its maintenance involves the protection of ecosystems and valuable habitats. Most frequently, it is leased under an agreement which defines how it may be used, what protective measures should be taken and what is not allowed. In 2015-2019, lease rents represented stable revenue for the audited parks. They came to (including penalties and interest) nearly PLN 48 million (about €10.6 million[1]).

Under the 2014-2020 RDP, the agri-environment-climate measure for agricultural areas in national parks mainly targets package 4 for '*Valuable habitats and endangered bird species in Natura 2000 areas*'. One such valuable habitat is single-cut meadows, which have been mown just once a year for centuries, resulting in specific plant communities that are rich in rare plant species, and provide feeding and nesting sites for many bird species. Such meadows are one of the habitats most at risk of disappearing as a result of land no longer being used for agriculture.

Example of a valuable habitat (meadow) created in Biebrza National Park following centuries of agricultural use.

Cessation of mowing results in degradation of the habitat, which turns into scrubland and then forest.

Source: Supreme Audit Office of Poland

Publication of how payment rates are calculated is necessary

Lessees of agricultural land in national parks may seek support from the Agency for Restructuring and Modernisation of Agriculture (ARMA), Poland's accredited Paying Agency, which grants subsidies as part of the joint agricultural policy. Where local farmers sign agreements with parks, thanks to leasing they may not only claim subsidies but also graze cattle or sheep on the national park area and harvest hay.

Between 2015 and 2019, ARMA paid financial support to beneficiaries – farmers and land lessees among others – and national parks totalling PLN 412 458 800 (about €91.3 million) in respect of 56 100 hectares of land located in national park areas. This included direct payments of PLN 256 507 200 (about €56.8 million), agri-environment-climate payments of PLN 112 305 900 (about €24.9 million) and less favoured areas (LFA) payments of PLN 43 645 700 (about €9.7 million). The average amount paid per hectare was PLN 1 470 (about €325), of which agri-environment-climate payments accounted for 27.2 %.

1 Exchange rate of PLN 4.5171 for €1.

The agri-environment-climate payment rates were laid down in the agri-environment-climate regulation by the Minister of Agriculture and Rural Development (Managing Authority for the 2014-2020 RDP). The rates were calculated in accordance with the provisions of EU law, and the work for this was carried out by the Institute of Agricultural and Food Economics – National Research Institute. The opportunity cost method was applied, and the cost calculations were made by comparing the revenue potentially achievable under standard production conditions with the income generated by environmentally beneficial practices.

The promotional material and information on agri-environment-climate rates that were posted on the Ministry of Agriculture and Rural Development's website did not contain any information on how the rates were calculated. As we specified in our report, making the detailed calculation of payment rates public may help farmers enter into agri-environment-climate commitments, and encourage them to continue such activities. The NIK issued a recommendation to this effect to the Managing Authority for the 2014-2020 RDP.

Information exchange can be improved

In Poland, agricultural land located in national-park areas is subject to the rules on protective measures that are laid down by the Minister for the Environment, and the directors of national parks are responsible for monitoring compliance with those rules. Similar requirements relating to protective measures are set out in the 2014-2020 RDP. The people using such land are mainly tenants, who are also beneficiaries of CAP payments. They are therefore subject to compliance checks by both ARMA (which grants subsidies) and the national park administrations (which lease agricultural land).

We found cooperation between ARMA and national park administrations to be inadequate when it came to exchanging information on the subsidies granted, on the one hand, and the agricultural land leased, on the other. We therefore recommended that effective cooperation should be established in this area, as this might help reduce undue payments for agricultural land under the agri-environment-climate measure.

Pirating of land – non- contractual use is decreasing

One of the problems with agricultural land in national parks owned by the State Treasury was its non-contractual use and the unlawful receipt of CAP payments. For example, it turned out that beneficiaries had applied for subsidies for about 800 plots of land covering the total of 2 800 hectares used, without the agreement of Biebrza National Park. In 2017, the park director filed four reports of suspected criminal activity with the prosecutor's office concerning the misuse of subsidies.

These practices cost public funds. For example, we identified entities in the Warta River Mouth National Park for which there was no agreement, and which were subsidised by the Agency to the tune of over PLN 15 million (about €3.3 million) in 2015-2019. Both a change in the legislation in 2020 and the obligation imposed on payment applicants to declare possession of legal title to land owned by the State Treasury (including land owned by national parks) have helped to reduce the non-contractual use of land, and have already produced positive results: there has been a decrease in identifiable areas of land used in the absence of a contract.

Tense social relations between national park administrations and local farmers

Our audit covered, among other things, a conflict lasting several years between national park administrations, and local farmers with small and medium-sized farms. The farmers had been protesting because national park directors had been conducting open tenders for the lease of land areas of several hundred hectares, for which the farmers in question had been unable to apply. The tender procedures had also required them to lodge a large guarantee to obtain the relevant CAP payments. This hampered the possibility for small farm owners to obtain big plots. It should be noted that the lessees of the large land areas had mainly been operators providing professional mechanical mowing services, who also had specialist equipment.

In our audit, we established that the administrations of six audited national parks breached provisions of the ordinance on tenders and the Environment Protection Act when selecting lessees in 2015–2020. Our audit revealed that six of seven national parks had no information about the type of business activity run by land tenants. The parks' directors explained that the reason was the absence of a relevant requirement in the ordinance concerning tenders.

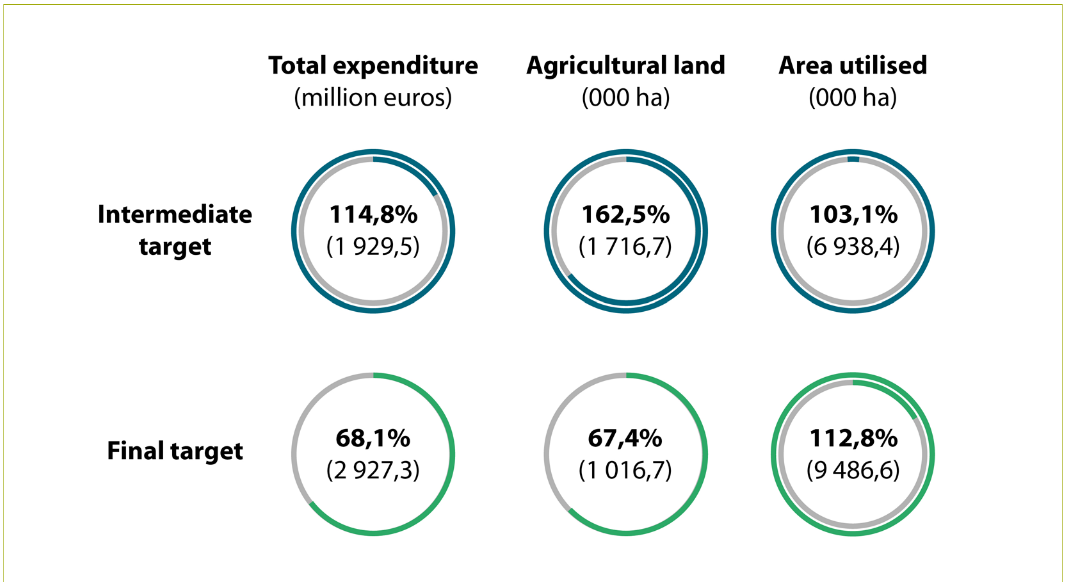
In 2019, work was undertaken to amend the Nature Conservation Act, which included the introduction of restricted tendering for the lease of agricultural land. According to information obtained from the Ministry of Climate and the Environment, the NIK's request to continue work on amending the Nature Conservation Act has been taken into account in legislative work.

Why we define performance indicators

The performance indicators set for the agri-environment-climate measure under the 2014-2020 RDP relate to the amount of public expenditure and the land area supported, and are inadequate, as we established in our audit, as they fail to show the measure's impact on the natural environment. They also have no direct link with the objective of the agri-environment-climate measure, i.e. the promotion of agricultural practices contributing to the protection of soil, water, the climate, valuable natural habitats and endangered bird species, endangered plant genetic resources, and livestock.

The implementation status of the individual indicators defined for Priority 4, including the agri-environment-climate measure, exceeded the milestones set in the 2014-2020 RDP at the end of 2018. The implementation status of these indicators (see **Figure 1**) did not signal any risk of not meeting the targets to be achieved by the end of 2023.

Figure 1 - Implementation status of the indicators for Priority 4 of the 2014-2020 RDP



Source: NIK study based on data from the Ministry of Agriculture and Rural Development

Natural habitat preservation is to benefit from better compliance checks and performance indicators

In the NIK's view, making CAP payments for national- and landscape-park areas contributes to maintaining and preserving valuable natural habitats created by centuries of agricultural use. However, management of these payments for such preservation can be improved. Tenants were selected against the law, principles of fair competition, transparency and consistency of the tender procedure were violated, the best tender result was not ensured. We found those irregularities in six out of seven audited national parks. As for the tender in Biebrza National Park in 2018, the NIK filed a report of possible criminal activity to the prosecutor's office which started an investigation.

In the NIK's view, performance indicators adopted for RDP measures should not merely provide information on the outputs obtained by implementing the programme measures, but also justify the reasons for expenditure of the funds. The NIK shares the ECA's view set out in ECA special report 13/2020: *Biodiversity on grassland – CAP contribution has not halted the decline* as regards the need for indicators to assess the impact of CAP programmes on biodiversity.

In view of the EU's next programming and financial perspective for 2021-2027, the NIK has asked the Minister of Agriculture and Rural Development to define indicators for measuring the environmental impact of implementing RDPs in national- and landscape-park areas. Such indicators are needed to help to evaluate the environmental effects achieved thanks to the subsidies provided for this purpose.

The principle of sustainable agricultural development linked to the protection of valuable habitats also calls for the commitment of public funds under the CAP. Efficient use of these funds is maintained by setting clear objectives (performance indicators) and pursuing stable, economically viable agriculture that does not pose a threat to the natural environment.

New CAP reflects core EP ambitions to be more redistributive, greener and socially just

Interview with Norbert Lins, MEP and Chair of the EP Committee on Agriculture and Rural Development

By Derek Meijers and Gaston Moonen

Source: EP

MEP Norbert Lins at work in the European Parliament

On 25 June 2021, there was finally a green light for a post-2020 Common Agricultural Policy (CAP) to become more performance oriented, greener and fairer. The agreement was preceded by numerous discussion rounds between the European Parliament, the Council and the European Commission, based on the Commission's proposals initially launched in 2018. From the European Parliament's side a key representative throughout the negotiations was Norbert Lins, Member of the European Parliament (MEP) and Chair of the EP Committee on Agriculture and Rural Development (AGRI), a key committee for the ECA when it comes to the various reports the ECA has published relating to the CAP. We interviewed him regarding his experiences, views, and expectations for the next steps towards implementing the new CAP.

Reaching a compromise that can be defended

Norbert Lins, MEP and Chair of the European Parliament's Committee on Agriculture and Rural Development – is clearly relieved when we speak with him, just a few days after the numerous trialogue discussions between the European Parliament, the Council and the Commission finally culminated in an agreement on the new Common Agricultural Policy, the CAP. Not only because there is a deal but also because the lengthy negotiations led to a better deal. 'I am more satisfied than disappointed. In the end, the agreement we reached is a compromise and you cannot be 100 % satisfied with a compromise. But when I look into several elements of the agreement I see that the Parliament's mandate is very much reflected in that.' For him some key issues stand out here. 'For example, when you look at the eco-schemes, or when you look at the social dimension or at the redistribution scheme – a mandatory one, which was missing for decades - these are really elements where I can say "This is a success for the European Parliament!"'

... the Parliament's mandate is very much reflected (...) This is a success for the European Parliament!

Regarding this last element, Norbert Lins has underlined several times in public that more CAP funds need to go to '*active farmers,*' people really occupied in farming. 'We defined active farmers as part of the agreement as well. The Council was not in favour of having a definition at European level of an *active farmer* and they were not in favour of having a definition of *genuine* farmers.' He considers this to be another success for the European Parliament. 'We managed to get this 10 % mandatory redistribution scheme in. There are possibilities for the Member States to derogate, but they are very limited, because it is up to the European Commission to approve derogation for Member States. Which should mean in practice that the derogation element is really very limited.' He points out that substantial sums of money are involved for redistribution. 'When you look at the budget for the first pillar for the 2023-2027 period, about €20 billion will be redistributed from large-scale farms to small-scale farms.' He specifies that it is not 100 % in line with what the European Parliament wanted, since the Parliament asked for 12 % redistribution. 'But when you compare it with the Council position, that's nothing! This means that we were able to manage 10 %. I would really call it a success.'

Eco-schemes will be crucial for more 'greening'

While the redistribution element may be new, for the AGRI Chair the main new element in the new CAP is the eco-scheme, which he identifies as the main challenge to implementing the new CAP. 'We strengthened the agri-environmental measures in the second pillar of the CAP – rural development. And we strengthened the animal welfare element in the second pillar. This will require investments from the farmers. But the eco-schemes instrument is a voluntary new element and this means that Member States have to incentivise farmers in such a way that they are willing to book these eco-schemes when they are asking for support in the first pillar, the direct payments.' Norbert Lins explains that this is really something new because there had been a lot of discussions about introducing obligations and that they would be stricter than before, referring to the conditionality elements relating to non-productive features – so-called Good Agricultural and Environmental Conditions (GAEC) standards. 'These non-productive conditions are really there, they have to be fulfilled by the farmers. That may not be easy for them, but you have a clear standard and you have to fulfil it to receive the full amount of direct payments.'

> *We strengthened the agri-environmental measures (...) we strengthened the animal welfare element...*

He points out that for the eco-schemes it will be more complicated since Member States will have to incentivise the farmers. 'When you look into the budget – if I calculated it right – there are more or less €15 billion in it for the 2023–2027 period with this 25 % minimum budget.' These eco-schemes come into play in addition to the '*conditionalities*' of the current CAP, and are aimed at better promoting sustainable practices, with compensation for farmers. 'Farmers can expand the conditionalities as well, when they book the eco-schemes. Member States first have to calculate what is needed to incentivise its farmers. Farmers themselves also have to calculate if it makes sense from an economical point of view to book this eco-scheme or not.' He gives an example of a farmer booking an eco-scheme such as an extensive scheme on grassland. 'On the one hand, in the end, with the eco-schemes he will earn some money from the Member State or the European Union. But on the other hand – he will lose some money from the market. This has to be taken into consideration by the farmer.'

The Chair of the AGRI Committee expects that the eco-schemes will also be taken into consideration by his committee. 'Very much so. We think that there has to be a '*menu*' at European level for these eco-schemes. In the agreement, we have what is more or less an indicative list of the eco-schemes at European level presented by the Commission. But there are no mandatory elements in it, it is up to the Member State to fill in the menu. And it is up to the Commission when they approve the strategic plans of the Member State – and consequently approve or disapprove the eco-schemes proposed by the Member State.' Norbert Lins thinks this will be a rather important subject of discussion in his committee, because in the end it will become clear that one Member State will have other, potentially greener eco-schemes than the other one.

> *... there has to be a 'menu' at European level for these eco-schemes.*

'This touches on the question of competitiveness for the farmer. And also on actually how green the eco-schemes proposed by a Member State are. I am sure this will lead us to a lot of discussion in the future.'

Member States' performance orientation may need to be harmonised

Eco-schemes are one of the elements relating to a more performance oriented post-2020 CAP, showing performance differences between Member States. The MEP points out that an important step will be the strategic plans proposed by the Member States. 'This will be approved or changed by the European Commission. We as MEPs will see that there may be many differences between the Member States when it comes to the detailed measures which are on the table for the farmers. I expect that we will call for changes, which in practice means a call for harmonisation at European level.'

> *...we will call for changes, (...) a call for harmonisation at European level.*

However, it is clear for him that in agricultural policy you cannot go for '*one size fits all*.' 'You have different climate conditions, topographical differences, different geographical issues between the Member States. At the same time, I think it would be better to have more harmonisation at European level. But in the end it is up to the Commission to guarantee a certain harmonised level when it comes, for example, to eco-schemes.' He believes the Commission has the mandate to do so vis-à-vis the Member States. 'I am optimistic on that but in the end it is something that needs to be proved in practice. We will know that better when we have another review in one year. Then we will be more or less at the end of the approval process of the strategic plans. Then you can look at the detail and see where there are derogations relating to these redistribution schemes, just as when you have a look at the eco-schemes and the detailed measures which were approved by the Commission.'

With the performance orientation, some people fear this will be at the expense of compliance with the rules relating to the new CAP, with increased risks of fraud and corruption when it comes to conflicts of interests in agro-industry in Member States, a topic also recently discussed in the European Parliament. Regarding compliance issues in the new CAP Norbert Lins is optimistic. 'When we look into the new CAP, for us it is clear that the transparency of fund allocation has now improved, because we required the mandatory introduction of reporting by Member States to identify groups which would benefit from CAP payments. We have to see how this element will be implemented in the Member States and we have to observe and check this in the future. This is another element of the agreement where we, the Parliament, succeeded in the negotiation process.'

> *...the transparency of fund allocation has now improved...*

Horizontal dimensions of agriculture stimulating discussions across the aisle

While the AGRI Committee has an important say in agricultural policy, Norbert Lins makes clear it is not the only EP committee taking positions in this area. 'The AGRI Committee in the Parliament is a very stable one, it is a very united one and its composition has not changed that much since I became a member of this committee in 2014.' He points out that there is a common goal in his committee. 'The majority are most often of the opinion that we have to support farmers - especially family farmers - and the rural communities in the European Union. At the same time we see that during the last years there has been a call for more rebalancing of the three pillars of sustainability: the economic, the social and ecological - or if you want - environmental one. Now we are talking more about the ecological one.'

> *The majority are most often of the opinion that we have to support farmers...*

The Chair of the AGRI Committee explains that, with this change in focus, there were also more discussions, sometimes also controversial ones, with the Parliament's Committee on the Environment (ENVI). 'Some elements which are in the competence of the ENVI are very much in the interest of the farmers. When I talk about pesticides, when I talk about fertilisers – all these elements are in the competence of the ENVI Committee. But, for example, we had a decision on how we deal with the '*Farm to Fork strategy*'. The ENVI and the AGRI Committee agreed to do this on an equal footing. I think this was a good sign to the public.' For him it is clear that there have been and will be several controversial discussions between these two committees but that there is also an effort to formulate consensus or compromise between the different interests. 'This is in order to be able to get more acceptance from society, from society's perspective on agricultural and related sectors.'

Norbert Lins feels that topics such as agriculture and its relation to climate are not necessarily dividing or politicising the discussions on these issues in the European Parliament in the sense that certain parties will capture these issues as more particularly their issues, leading to a certain polarisation. 'I do not think that the major groups in the Parliament are disagreeing with the need to protect our climate and the environment, or to ensure food security. It is more a question of what is the right way, how we can get there. There you see differences between the political groups. For example, it is clear the '*Greens*' are asking for more organic farming while another major group have more the question of food security in mind. But in general, except perhaps for parties on the far right who are criticising the climate discussion as a whole, the major groups in Parliament have constructive discussions on these major issues.'

> *...our climate and the environment, or to ensure food security. It is more a question of what is the right way, how we can get there.*

Another committee with which his AGRI Committee works a lot is the Parliament's Committee on Petitions (PETI). 'Because many petitions come from the agriculture sector. Let me give you an example – on wolves. Petitions are always sent to the PETI Committee, but often our committee receives them for information and reaction. Every month we receive several petitions on wolves, so we work a lot with the PETI Committee on these petitions.' Other committees the AGRI Committee cooperates a lot with are the Budget Committee and the Budgetary Control Committee (CONT). 'The agricultural sector is a major beneficiary from the EU budget. Regarding the CONT Committee, for example, when an ECA Member presents the ECA's latest assessment on the common agriculture policy, this will be a joint meeting between the CONT and AGRI Committees. For example, when ECA Member Viorel Ștefan presents the ECA special report 16/2021 on the CAP and climate, which has just been published.'

With the Member States receiving a more important role in designing the new CAP in their own countries, national parliaments will also get a larger say, starting with the National Strategic Plans. As MEP, Norbert Lins is in contact with his colleagues in the Bundestag, the national parliament. In his capacity as Chair of the AGRI Committee he was in contact with committees of agriculture in the national parliaments in all Member States. 'We then discussed, for example, elements which should be in the strategic plans. So there is contact and national parliamentarians indeed have their role to play. But the main step is now up to the governments in the Member States, designing these strategic plans.'

Sustainability has different dimensions

While environment and climate are important elements of sustainability, for Norbert Lins economic viability is still a key factor in agricultural undertakings. 'For farmers to make a living, the issue of price is often still the crucial factor. Of course, there are differences according to Member State here. For example, if I look at my own country, Germany, or several of its neighbouring countries, I see that people are more willing to pay more for food, their percentage is increasing.' He estimates it is still low, but at the same time growing. 'But I do not see this tendency in the southern Member States of the EU nor in most East European Member States. There we have different tendencies in the EU, which is really a challenge for European agriculture policy.'

> *For farmers to make a living, the issue of price is often still the crucial factor.*

While tendencies may be different in individual Member States, the effects of climate change may easily cross borders, with devastating effects for farmers even in the short term. Norbert Lins: 'It is clear that farmers are among the first victims of climate change. They know this to be the case and that they have to change the way they produce food, our food. For consumers this means that we have to change the way we consume food.' He underlines that there is a lot of discussion on the direction of these changes. 'What is the right way? In my view, we have to include in the discussion all the possible technological elements, such as digitalisation, new genome techniques. There we are in the middle of a political discussion. For this part, I belong to the group of MEPs who are in favour of being more open when it comes to new genome techniques, because I see this as part of a solution, but not the only one.' He sees technology as part of the solution when it comes to the question of how to fulfil the '*Farm to Fork strategy*' and the related reduction targets. 'Using digitalisation techniques which can help, for example, to reduce pesticides or to reduce fertilisers.'

> “ *...farmers are among the first victims of climate change .*

For Norbert Lins another element of sustainability, from a social perspective, is the wider added value of the CAP, including direct payments to farmers, of which the benefits go well beyond farmers' direct interests. 'I am thinking of the conditionality elements I mentioned earlier, which not only contribute to a farmer's income if you take a closer look at their details. Such payments, including basic income support, are also another important element in the discussion of how rural areas can be part of European well-being, its wealth, in many ways, or how to decrease the differences between urban and rural areas and avoid depopulation of the latter.' However, he underlines that his committee is keen to subsidise other elements more akin to the second pillar, i.e. rural development. 'There we are back to eco-schemes. You know – we were in favour of a minimum allocation, for eco-schemes, of 30 % of the CAP budget going to agriculture and the environment, to animal welfare issues, etc.'

Building on best practice assessments

Regarding the new delivery model for the new CAP, the Chair of the AGRI Committee is hopeful. 'For a number of elements there is more flexibility in comparison with the current CAP. This means there is room for simplification for the Member States, for decreasing administrative burdens. On the one hand the risk could be that, in the end, we will have an increasing trend in error rates.' He remarks that on the other hand they have introduced this performance-based system with the new CAP. 'This will hopefully enable the ECA, for example, to see if these measures are performing well or not. So the new delivery model gives more flexibilities to the Member States, but this result-based, performance-based system is an element where you can better control the outcome than today – one of the elements which has to be checked by the ECA.'

> “ *...this performance-based system with the new CAP. (...) will hopefully enable the ECA, for example, to see if these measures are performing well or not.*

As possible sources to find out how the new CAP will work out in practice, Norbert Lins identifies reports by the ECA, but also reports from the Commission's Joint Research Centre and the European Parliamentary Research Service. 'Several elements of the current CAP are there in the new CAP, although somehow changed, some more than others. But it is more or less the evolution of the current system. However, with the eco-schemes you have a new element in the CAP which can lead to many differences between the Member States. It would certainly be very useful for us in the AGRI Committee if the ECA could take a closer look at that.'

> “ *...the eco-schemes (...) can lead to many differences between the Member States. It would certainly be very useful (...) if the ECA could take a closer look at that.*

The new CAP: more powers to Member States for tailor made solutions will mean greater accountability needsfor national parliaments

Interview with Luis Capoulas Santos, Chair of the European Affairs Committee of the Parliament of Portugal

By Gaston Moonen

Luís Capoulas Santos, Chair of the Committee on European Affairs, during the passing of testimony from the Portuguese Presidency of the Council of the European Union to the Slovenian Presidency, in its Parliamentary Dimension.
Photo by Margarida Macedo Basto, 2021 © Arquivo Fotográfico da Assembleia da República, PT-AHF/GAR/R5229/i2.

The new Common Agricultural Policy will entail many changes for Member States, starting with the drafting of the National Strategic Plans they have to submit to the European Commission, not to mention implementing those plans. Consequently, national parliaments may be more involved, possibly amending the national plans and monitoring their implementation. Luis Capoulas Santos is currently a Member of Parliament in Portugal and Chair of its European Affairs Committee. For many years he has been working on agricultural policies, during his time as Secretary of State, Minister of Agriculture, and MEP (rapporteur on the CAP). With Portugal holding the Council Presidency during the final CAP negotiations, he followed the discussions with even more interest. In this interview, he reflects on the new CAP and what it means for Portugal, its farmers, and for parliamentarians.

What is the role is of your committee on a topic such as the new CAP, and in relation to the discussions you have on these proposals with other committees in your parliament, with the Portuguese government, and possibly with other institutions?

Luis Capoulas Santos: In the Portuguese Parliament, the more detailed aspects of sectoral policies are discussed in the respective specialised committees, in this case, the Committee on Agriculture and the Sea. Over the three and a half years of negotiations, this committee has often met with the government, the social partners, and also with parliamentary committees from other Member States, Members of the European Parliament, and the Commissioner for Agriculture.

The European Affairs Committee has also followed the issue by delivering opinions in the context of scrutiny of the European initiatives of the various European institutions.

You have been working with agricultural policies all your professional life, for example, as Minister of Agriculture, as an MEP. In the latter function, you were rapporteur of the EP on the reforms of the CAP in 2008 and 2013. What do you consider to be the key difference compared to previous CAP reforms and what do you think will be the key issue for implementation?

Luis Capoulas Santos: As regards its essential objectives, I share the opinion of the European Court of Auditors that the new CAP proposal is not very different from the present CAP, even if it is recognised that the new proposal is more ambitious as regards environmental and social issues. The greatest difficulties are always found in transposing theoretical statements into concrete measures which are simple, effective, and easy to monitor. The diversity and breadth of the European geographical area makes the exercise even more difficult.

> *The greatest difficulties are always found in transposing theoretical statements into concrete measures...*

To a certain extent, this explains the 'leap' taken in terms of giving the Member States greater powers. This obviously has both positive and negative aspects, which only a future assessment can help us to understand. Granting more powers to the Member States will make it possible to tailor measures more closely to the specific situations in each territory, but it also introduces a serious risk of distorting competition.

> *Granting more powers to the Member States will make it possible to tailor measures more closely to the specific situations...*

The Member States will have a more prominent role in the programming of the new CAP by means of National Strategic Plans. What do you think will be the key challenge for Member States regarding these plans and where and how do you think your committee can play a role in these plans?

Luis Capoulas Santos: The increased powers of national administrations imply greater accountability for Member States and the need to strengthen their instruments of control, evaluation and monitoring for their respective Strategic Plans. National parliaments, and the Portuguese one in particular, will be responsible for assessing the implementation of the National Strategic Plan, in the exercise of their constitutional competence, to monitor and supervise the activity of the government and hold regular consultations with the sector's social partners.

What do you think will be the key benefits of the new CAP agreement for Portugal? And what do you consider to be the key risk for Portuguese farmers?

Luis Capoulas Santos: The benefits for Portugal lie precisely in the greater possibility to adapt policy measures to regional specificities, which are very diverse. Despite being a small country, its differences between geographical and climatic conditions, as well as its history, have led to a great variety of agricultural structures and production methods, causing major distortions in the level of support granted when the measures are centralised and homogeneous.

The most notable negative aspect is the fact that the new approved CAP model upholds major injustices between Member States in the distribution of support, which could only be corrected through effective external convergence. Another negative aspect is the voluntary nature of some measures, which, if they are not applied at EU level, will inevitably generate distortions of competition, and *capping* of aid is the most eloquent example.

> *...the new approved CAP model upholds major injustices between Member States in the distribution of support, which could only be corrected through with effective external convergence.*

Speaking of capping of aid: in the past, in your role as MEP rapporteur on the CAP, you criticised the European Commission for not giving enough consideration to small farmers. In the current proposals, there is the aspect of social conditionality, also as applied to "active" *farmers, but no proposals for capping aid at the expense of large agricultural holdings. What are your views on that, and do you see the current proposals, including those on direct payments on the one hand, and crop diversification and initiatives such as the EU Organic Action Plan on the other, as support for smaller farmer holdings?*

Luis Capoulas Santos: Yes, it is true, I have always argued for a CAP that is smaller farmer-friendly, fairer and more equitable at national and EU level. The previous CAP already provided for the possibility of increasing the first 50 hectares and allocating a percentage of the national budget to small farmers. It now goes a little further, but still falls far short of what is desirable. The Member States will, however, be given the option of readjusting the support to their types of farming.

Unfortunately, no progress has been made on capping, in practice. The fact that the measure remains voluntary deprives it of any effectiveness, since the Member States applying it will place their largest farmers, who are as a rule the most competitive, in a situation of unfair competition on the internal market.

> *Unfortunately, no progress has been made on capping, in practice.*

The new rules for access to direct payments, which include more agri-environmental conditions, including eco-schemes, and other measures with greater impact, such as crop rotation or new prospects for organic farming, are certainly a further contribution to a 'greener' and more small-farmer-friendly agriculture.

> *The new rules (...) are certainly a further contribution to a 'greener' and more small-farmer-friendly agriculture.*

In your view has the prolongation of the discussions on the new CAP affected Portugal's agendaas President of the Council, and what is a possible path to smoothen and accelerate such negotiations for future EU topics, ranging from NGEU discussions to the application of the rule of law?

Luis Capoulas Santos: A compromise, in terms of agricultural policy, is always very difficult to achieve in the European Union. Before the Lisbon Treaty, it was said that if, one day, there were a co-decision procedure on agriculture, an agreement on the CAP would never be possible. Fortunately, subsequent events have disproved this fear, but the difficulties have not been removed.

In the case of the current negotiation, other factors introduced further difficulties, such as the election of a new European Parliament and the start of the new European Commission, Brexit, the discussion of the Multiannual Financial Framework, the response to the COVID-19 pandemic and the Next Generation EU. However, this did not prevent an agreement from being reached in the last days of the Portuguese Presidency, even though the delays in the process meant that application of the new CAP would only start from 2023. The problems arising from doubts about hypothetical breaches of the rule of law, with the proceedings now taking place in the European Union's own courts, have also contributed to these delays.

It is very difficult, without amending the Treaties, to speed up the current procedures. However, I hope that the Conference on the Future of Europe can also contribute to speeding up the decision-making process in the European Union.

> *...I hope that the Conference on the Future of Europe can also contribute to speeding up the decision-making process in the European Union.*

One of the cornerstones of the EU's internal market is the creation of a level playing field, and preventing, for example, state aid from undermining such a playing field. In your view, does the new CAP respond to the internal market conditions we have seen before and does the Commission have the proper tools, regarding new CAP programmes, to guarantee such a playing field, in agriculture too?

Luis Capoulas Santos: A level playing field must be considered a basic principle of the internal market, which has to be guaranteed, particularly with regard to state aid. As far as I am aware, competence in this matter has been transferred from DG AGRI to DG

Competition, which I interpret as a political signal that the European Commission intends to pay special attention to this issue.

On 21 June 2021, the ECA published special report 16/21 on the current CAP and its effects on climate. The ECA concluded that the €100 billion of CAP funds attributed to climate action has had little or no impact on emissions. The climate component is a key objective of the current European Commission. It was also the main topic of the controversy between the Council and the EP in the trilogue discussions. Do you expect that the climate components of the new CAP will significantly improve the climate action 'punch' from farmers, and what do you think are the main challenges to making it work?

Luis Capoulas Santos: I fully appreciate special report 16/21 and congratulate the European Court of Auditors on its effort to try to assess the specific impact of the ecological component of the current CAP, particularly with regard to emissions reduction.

Admitting that such conclusions may apply to the emissions, it certainly does not apply to the positive effects on the environment, such as reduced water consumption, reduced use of pesticides and agrochemicals, countering erosion, protecting biodiversity, reducing fossil energy consumption or carbon sequestration. The fact that the new CAP now provides for performance criteria will certainly allow new indicators to be defined and existing ones fine-tuned, so that in the mid-term review, a new and more objective assessment can be made and any corrections deemed necessary can be introduced.

The ECA has published several opinions on the post 2020 CAP proposals, for example opinion 7/2018. With the new CAP in force, and in your role as Chair of the European Affairs Committee, what would you like external auditors, in particular the Tribunal de Contas and the ECA, to focus on when auditing the implementation of the new CAP to help you in your work as a parliamentarian?

Luis Capoulas Santos: The role of the Portuguese and European Court of Auditors is fundamental. Their publications and decisions are closely followed by the Portuguese Parliament and, I can assure you from personal experience, by the government. I believe, however, that drawing conclusions at European level can sometimes distort reality, given the profound differences between the various Member States in terms of the extensive or intensive nature of their farming and the percentage of their territory devoted to it.

> *... drawing conclusions at European level can sometimes distort reality, given the profound differences between the various Member States...*

We are still far from solving the difficult equation that we have long been facing: how to reconcile the CAP's objectives of increasing productivity, increasing the agricultural population's income, guaranteeing food security and supply at reasonable prices and, at the same time, ensuring greater environmental and climate ambition in a context of fierce competition on the internal and international markets.

It is in the context of the results obtained at the difficult balancing point between these variables that auditors carry out their mission, which means that, in order to be carried out with impartiality and equidistance, and to remain immune to opposing pressures, it requires great technical preparation and a strong sense of ethics.

Financing gap in the EU's agricultural sector and potential for financial instruments to address financing needs

By Mario Guido, European Investment Bank

Source: EIB

The new agreement on the Common Agricultural Policy (CAP) means that for the 2021-2027 period over €270 billion of the EU budget will be used in support of the agricultural sector. Financial instruments can play an important role in facilitating farmers' access to lending. Mario Guido works as Financial Instruments Advisor at the European Investment Bank and for this article, he builds on the fi-compass study on financial needs in the agriculture and agri-food sectors in 24 EU Member States, published in November 2020. He zooms in on farmers' financing needs and how financial instruments can be used by Member States to address these needs.

Main results from the fi-compass study

The proposals on the Common Agricultural Policy for the 2021-2027 period aim to foster a sustainable and competitive agricultural sector that can contribute significantly to the European Green Deal, by securing a fair deal and a stable economic future for farmers, setting higher ambitions for environmental and climate action, and safeguarding agriculture's position at the heart of Europe's society. Financial instruments, a tool that is now well established and that will continue to be available under the future CAP, can play an important role in this context.

Fi-compass is a platform for advisory services on financial instruments under the European Structural and Investment Funds. Fi-compass is provided by the European Commission in partnership with the European Investment Bank. More information about fi-compass is available at fi-compass.eu.

Source: European Investment Bank

The recent fi-compass study on the financing needs of the agriculture and agri-food sectors in 24 Member States[1] highlights the potential to use resources of the European Agricultural Fund for Rural Development (EAFRD) to meet the financing gap and is a good starting point for any Member State willing to set up a new financial instrument in the 2021-2027 period.

Farmers and finance

Compared to SMEs in other economic sectors, agricultural enterprises are less likely to apply for bank finance, and they face more difficulties in accessing finance when they do apply. Around 14.1 % of farmers' applications were rejected by the lender, and 2.4 % of the loan offers were refused by the potential borrower, against respectively 5 % and 1 % for SMEs in other economic sectors.[2] In addition to the farmers who were rejected by financial institutions when applying for credit, about 10 % of farmers in need of financing refrain from approaching banks for fear of rejection, compared to 5 % of SMEs from other economic sectors.

The general characteristics of the sector with low and fluctuating profit margins and cash flow, combined with the risks intrinsic to agriculture production – related to animal diseases, climate and weather-related fluctuations, and market crises – lead banks to be more hesitant in providing financing to farmers. In addition, insufficient levels of financial literacy, knowledge, and confidence of agriculture producers, as well as lack of accountancy and business records among small-sized farms also limit the access to finance. Some farmers also refrain from approaching banks due to a lack of trust in the banking system, mostly due to unattractive loan conditions, fear of rejection or previous negative experience in negotiating with banks.

CAP support alleviates farmers' access to finance

Support from the CAP – both direct payments as well as investment and start-up support under rural development – contribute to improving the situation by facilitating farmers' access to lending, both short and medium-term, as the support stabilises their cash flow and improves their loan repayment capacity. This has been widely confirmed by the surveyed bank institutions and organisations who use this kind of support as a guarantee against financing. In addition, 11 Member States currently have at least one EAFRD funded financial instrument, either operational or about to be launched, stimulating the investments undertaken by the agriculture sector by alleviating some of the unfavourable lending conditions on the market.

Hampering factors surface…

The concentration of lending to the agriculture sector may hamper the supply of financing, as in 14 Member States[3] the lending to the agricultural sector is concentrated on a very limited number of intermediaries, or dominated by a single intermediary, leaving the latter with strong market power that allows them to dictate loan conditions. In fact, the agricultural sector often faces higher interest rates than other economic sectors. In addition, half of the farmers applying for long-term loans must provide a guarantee. The guarantee level required by banks is often higher for the agriculture sector than for other economic sectors, no matter the viability of the project. In this context, small-sized farms and young farmers are particularly disfavoured. The study also found that lack of agriculture specific expertise in banks further limits the supply of finance to the sector, a trend observed for several Member States.[4]

1 Cyprus, Luxembourg and Malta have not been covered under the study.

2 Data from fi-compass survey (Survey on 7 600 EU agricultural enterprises carried out by fi-compass in the period April-June 2018) and SAFE (https://www.ecb.europa.eu/stats/ecb_surveys/safe/html/index.en.html). Disclaimer for the reader: consider that the two sources are based on methodologies that may differ.

3 CZ, EL, FR, AT, HU, FI, LV, SK, NL, IE, LT, BG, SI, EE.

4 EE, IT, SI, BG, SE, PT, IE, HR, RO.

…yet credit provision to the sector are increasing

Even so, the credit provided to the agriculture sector by financial intermediaries is increasing in the 24 countries analysed, and the increase in lending to the agricultural sector has outpaced the increase in lending to the overall economy for several countries. In several Member States, the increasing uptake of agriculture investment loans is strongly related to the increasing level of investment support from the EAFRD, as well as to the availability of various financial instruments in some of them.[5] At the same time, in some countries,[6] the farming sector has also gained attractiveness, particularly for commercial banks, leading to a positive overall credit development over the last years.

Vital prerequisites for access to finance

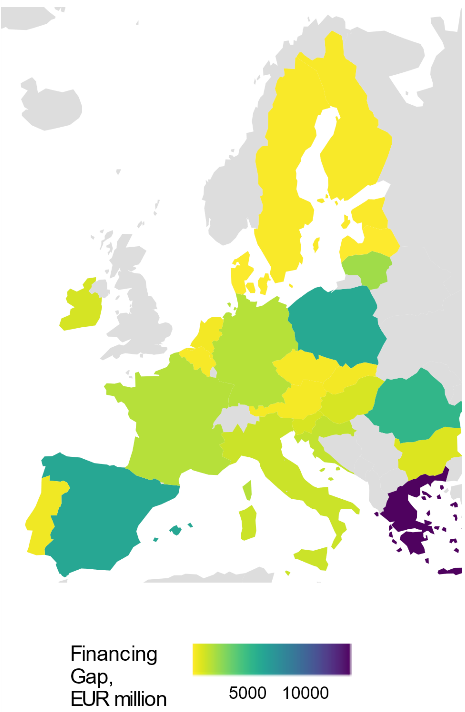
The study has shown that access to collateral, previous experience from managing a farm, and a track record with banks/credit history are vital prerequisites for accessing financing. However, these are often not the characteristics of new businesses or small-sized farms, who therefore face greater constraints in accessing finance.

Financing gap shows substantial differences per Member State

The estimated financing gap for the EU agricultural sector is between €19.8 and €46.6 billion for the 24 analysed Member States (see **Figure 1**). This gap represents financing sought by economically viable enterprises that is not granted.[7] Small-sized farms, young farmers, new entrants, and innovative investments find it harder to access financing.

Greece, Spain and Poland register the highest financing gaps in absolute volumes. The upper bound of the gap for Greece was estimated to €14.3 billion, followed by Spain (€6.4 billion), Poland (€6.2 billion), and Romania (€5.3 billion).

Figure 1 - Financing gap in the agriculture sector by Member State in 2017, upper and lower bound, in € million



	Lower Bound	Upper Bound
Austria	144.6	245.5
Belgium	137.4	193.6
Bulgaria	289.0	863.0
Croatia	820.3	1 422.6
Czech Republic	95.4	216.9
Denmark	75.6	79.5
Estonia	28.2	117.2
Finland	47.2	162.0
France	1 326.4	1 746.5
Germany	512.4	1 719.9
Greece	4 490.2	14 298.6
Hungary	247.9	992.2
Ireland	822.5	1 039.1
Italy	110.0	1 270.6
Latvia	17.4	31.8
Lithuania	962.4	2 223.5
The Netherlands	72.9	302.7
Poland	2 999.8	6 230.0
Portugal	95.2	382.5
Romania	2 254.7	5 275.8
Slovakia	139.8	315.9
Slovenia	951.7	951.7
Spain	3 027.1	6 356.7
Sweden	118.5	148.1

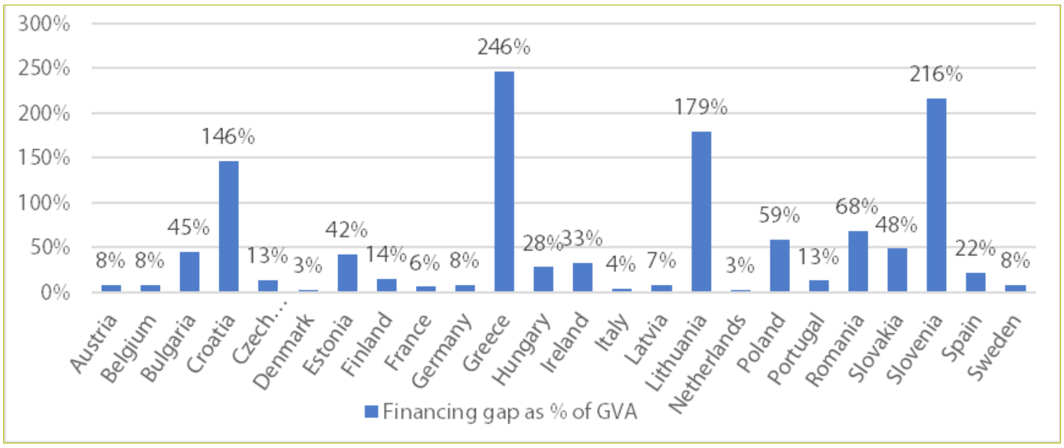
Notes: Figures in € millions, upper bound used in the map.

Source: Calculations based on the fi-compass EU-wide farm survey, initially published by the European Commission/EIB in *fi-compass*, 2019, Survey on financial needs and access to finance of EU agricultural enterprises.

5 IE, ES, DE, CZ, RO, PL, AT, HU, BG, LT, SK, PT, FI.
6 ES, PT, LT.
7 For a detailed description of the methodology used to estimate the financing gap: *fi-compass*, 2020, Financial needs in the agriculture and agri-food sectors in the European Union, Annex A.2.

At the same time Slovenia, Lithuania and Croatia may have a higher share of farms that experiences problems in accessing finance. In fact, when comparing the estimated financing gap to the Gross Value Added (GVA) generated by the agricultural sector in the respective Member State, the relative difficulties for the farming sector in accessing finance are more evident. Greece still stands out, demonstrating the highest gap in relation to GVA, followed by Slovenia, Lithuania, and Croatia, where the financing gaps exceed the generated GVA. According to this comparison, farmers in Denmark and the Netherlands experience the least problems in accessing finance (see **Figure 2**).

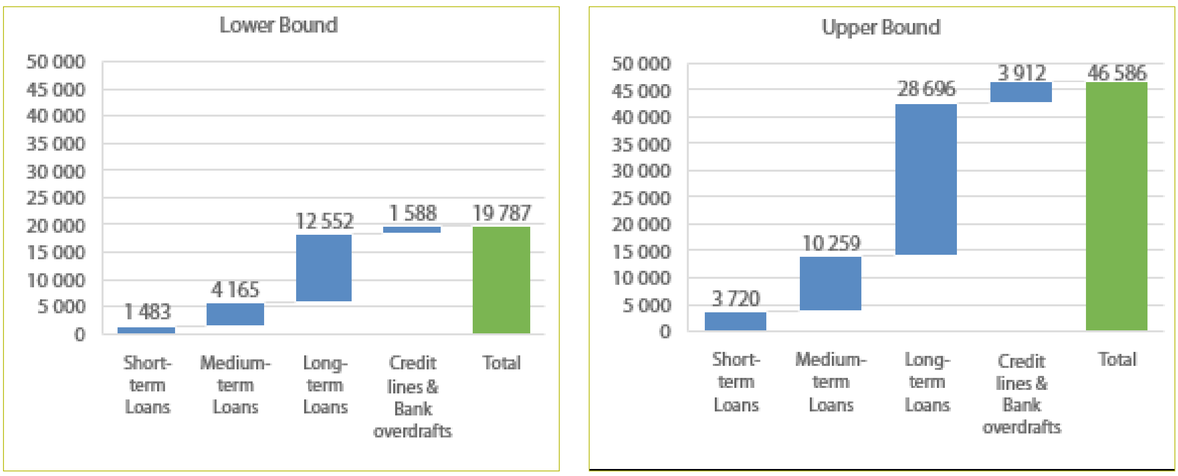
Figure 2 - Financing gap (upper bound) as % of GVA



Source: Eurostat, calculations based on the fi-compass survey

Almost two thirds of the gap is attributed to the lack of long-term loans.[8] The longer the maturity of a loan, the higher the risk associated with it (see **Figure 3**). It is therefore logical that access to long-term loans is the biggest worry to EU farmers.

Figure 3 - Financing gap by financial product to the agriculture sector in 2017, in million



Source: calculations based on the fi-compass survey published by European Commission/EIB

8 The *fi-compass* survey defined short-term loans: <18 months, medium-term loans: 18 months – 5 years, long-term loans: >5 years maturity.

Support in accessing finance pivotal to meet societal expectations

The Farm to Fork and Biodiversity strategies, as essential parts of the EU Green Deal, aim at stimulating the sustainability of the EU agricultural sector through a number of regulatory measures and will require farmers to undertake substantial investments in the near future. At the same time, obtaining financing for investments related to climate change adaptation poses particular difficulties for farmers, as it is sometimes difficult to prove that these investments will render higher profit margins, making banks hesitant to lend for this purpose. Thus, additional support in accessing finance provided by financial institutions is pivotal to enable the farming sector to meet societal expectations.

In addition, the ongoing COVID-19 health crisis is expected to put even further strains on the investment capacity of the sector. The study data do not reflect the impact of the COVID-19 crisis on farmers' access to finance. Nevertheless, it is reasonable to assume that the findings of the study, notably the size of the gap and the reasons for the existence of a gap may be further exacerbated by the ongoing crisis.

The collaboration between the private and the public sector to facilitate farmers' access to finance could be further strengthened with financial instruments, to make it possible for economically viable farms to undertake investments that are currently on hold. In particular, the study provides the following recommendations to managing authorities of the EAFRD:

- for the vast majority of the 24 Member States analysed, it has been recommended to the national authorities to set-aside further resources from the Rural Development Programme in the upcoming programming period to support credit guarantee instruments to facilitate access to finance for farmers;
- in some Member States, depending on the specific market conditions, the use of loan funds with a risk-sharing structure has been recommended to increase access to credit through the provision of risk protection and liquidity to the banks as well as a higher interest rate reduction for the final recipients.
- for Member States with a high share of small-sized and micro holdings or where a high share of farmers relying on finance from informal sources (i.e. family or friends), financial instruments for micro-credit have also been suggested;
- in several Member States, managing authorities have been recommended to undertake further efforts to strengthen farmers' financial literacy, aimed to increase their bankability. Also, providing training to financial institutions on the particularities of the agriculture sector has been recommended, aiming at facilitating their credit assessment of the sector; and finally
- all managing authorities have been invited to carefully evaluate the possibilities offered by the new legal framework (e.g. easier combination of financial instruments and grant support) to design dedicated support packages for the most affected target groups.

Meeting young farmers' ambitions: a condition for the success of the new CAP

By Diana Lenzi, European Council of Young Farmers (CEJA)


Source: CEJA

Picking apples in an orchard in Slovenia

The Conseil Européen des Jeunes Agriculteurs (CEJA) is the EU's main interest group for young farmers and has considerable interest in a CAP that will help them realise their ambitions in agriculture. CEJA presents itself as a forum for dialogue between Europe's next generation of farmers and key decision-makers. Diana Lenzi is a young farmer from Tuscany, where she manages her family's winery since 2008. Recently elected as the new president of CEJA, she presents some of the key perspectives of her organisation on the new CAP, which, in her view, is crucial for generational renewal and farming practices that are economically, socially and environmentally sustainable for both producers and consumers of agricultural products.

Young farmers are key to addressing the new CAP's objectives

Generational renewal in agriculture has been on the EU political agenda for over two decades. As farm demographics continue their steady decline, never has the need for young farmers been so pressing. With the new Common Agriculture Policy (CAP), Member States will be at the forefront of determining whether common objectives can be achieved in the future through their *National Strategic Plans*. Without young farmers, who will be able to tap into the climate mitigation potential of agriculture and deliver on climate neutrality by 2050? How will the EU even realise its commitments to negative emissions after 2050? Without generational renewal in agriculture, who will build production strategies enabling resilient and sustainable food systems? Most importantly, how will the EU ensure rural areas are not left behind in the whole process? These are only a few question marks, but they illustrate with great accuracy the vital importance of attracting and sustaining young farmers in the future CAP.

Generational renewal: a cross-cutting objective…

The objective of generational renewal in agriculture is not a novelty of the CAP post-2020. Back in 2000, the European Court of Auditors called on the European Commission to include the situation of young farmers in its legislative actions. Only 7.4 % of farm managers were below the age of 35 years and today they represent around 5.6 %. While decreasing demographic trends are not limited to agriculture only, the unique role of the farming sector in feeding the population, acting against climate change and maintaining activity in rural areas make them a worrying development. In light of all the challenges ahead, it appears clear that the CAP is at a turning point. Thus, far from being a specific social and societal objective, generational renewal appears instead as the cornerstone of our ambition for the future.

At a time when the enabling of resilient and sustainable food systems is so central, with the United Nations Food Systems Summit approaching (26-28 July 2021), the lessons learned from the COVID-19 pandemic and the publication last year of the Commission's Farm to Fork Strategy, generational renewal remains a vital consideration that is too often overlooked. Food systems in which producers are driven away from the fields, stables and orchards are not resilient or sustainable. Without young people who are able to live from their vocation for farming, it is ultimately the diversity and the strengths of EU food systems that will be undermined.

Climate adaptation and mitigation is another challenge that will require a workforce and fresh energy. In its Green Deal, the EU has made ambitious commitments to become the first climate-neutral continent by 2050. Targets have been aligned, as a consequence, but their achievement will in practice also depend on farmers' ability to contribute to them. Management of natural resources, landscape arrangements to prevent the effects of adverse climate events, carbon sequestration and other sustainable practices are essential levers of action when translated both into regulatory and market-based solutions. But they will require young farmers, women and men, to be implementable in the decades to come.

The EU has put forward the objective of leaving no one behind. It is a crucial commitment to live up to when it comes to rural areas. In this perspective, agriculture remains a critical factor. Its capacity to boost growth, create added value and ultimately employment must be preserved. It is quite legitimate for new generations to defend decent living and working standards in their rural territories. Young farmers are at the forefront of such a movement.

…confronting the harsh reality of setting-up farming activities

Despite the importance of having young people setting up in agriculture, there are still many hindrances. To fully implement all CAP objectives on the farm, young farmers' needs must be fully addressed in future National Strategic Plans. As foreseen in CAP Strategic Plans, three aspects will need to be covered by Member States:[1]

- access to land ownership, land mobility and land restructuring;
- access to credit and investment; and
- access to knowledge and skills.

Access to land ownership remains a primary concern for young European farmers. Agricultural land has been under increasing pressure, resulting in higher competition and prices and urban sprawl. Land concentration, in our opinion partly due to the hectare-based nature of direct payments under the CAP, makes it increasingly complex to access land ownership. Land leasing contracts are not always as stable, undermining young farmers' long-term environmental action. Land is also characterised by a low degree of mobility and transfer, illustrated by the phenomenon of land retention among pensioners or by the difficulty for retiring farmers to connect with young farmers willing to take over the farm.

1 As formulated in the different chapters, Member States have to include these aspects in the Strategic Plans required under the new CAP, for example in relation specifically to Objective 7 on generational renewal.

Farm income and investment capacity are a central issue to all farming activities and especially to young farmers. Agriculture is a highly capital-intensive sector, and starters need to make critical investments in the first years whether or not they are on a family farm. Yet, when applying for a loan, young farmers are two to three times more likely to have their application rejected by the bank compared with other age categories, due to the perceived risks, the lack of appropriate fixed assets as collateral, or inadequate business plans.[2]

The sector is also characterised by increased exposure to risks – economic, environmental or sanitary – and a structural asymmetry of information on market developments and price building, making earning a decent and stable income a challenge. When confronted with unforeseen risks, young farmers do not always have capital available to guarantee cash flow and provide them with an adequate buffer. Risk management instruments and strategies are lacking on farms, and Member States do not necessarily align the subsidised tools (i.e. insurance, mutualisation funds and the income stabilisation tool) they have at their disposal in the rural development pillar of the CAP to facilitate uptake.

Source: CEJA

Two generations at work, Austria

Last but not least, knowledge is power, and agriculture is no exception. Anyone who has ever spent some time on a farm knows that the sector demands a wide diversity of skills. Life-long and peer-to-peer learning are powerful tools, but information about educational and training opportunities is not always straightforward or accessible. Furthermore, training is time-consuming, and it is not always possible for farmers to get away from their farms for several days, particularly when they do not have employees or family to help out.

Recipe for successful strategic planning

To implement successful generational renewal strategies, Member States will need to shift the approach with the aim of not only attracting young farmers but also sustaining their activities in the long run. They will need to grub up some of their most deeply rooted conceptions, including the simplistic idea that boosting new technologies will drive more young people towards agriculture. Most importantly, it will be essential to look at the aspirations of new generations starting up in farming: work-life balance, more attention given to safety and mental health, reduced urban-rural gap, and adequate infrastructure in rural areas, to name just a few.

When it comes to instruments, the principle that should prevail is 'the broader, the better.' On top of the complementary income support and installation aid, which should be ensured throughout the entire programming period, many instruments exist under the rural development pillar to tackle very central issues. Investment support, in the form of grants and financial instruments, is instrumental in facilitating credit access. Cooperation measures, which favour intergenerational instruments, will positively affect land mobility – as has been the case in Ireland with the land mobility service. Risk management instruments and knowledge exchange and transfer schemes will produce positive outcomes for building resilient business plans and boosting environmental performance.

2 Fi-compass, April 2019, Survey on the financing needs of agricultural enterprises.


Source: CEJA
Young beekeepers in Bulgaria

For environmental and climate-related objectives, the same principle must apply. Member States must be encouraged to promote a diversity of sustainable agriculture practices, including, among others, organic farming, agroforestry, agroecology, precision farming and conservation agriculture. A broad diversity of on-farm solutions exists, adapted to specific pedoclimatic and socioeconomic conditions, to unlock the full potential of agriculture for climate adaptation and mitigation. To encourage such diversity, young farmers are looking forward to implementing eco-schemes and agri-environmental measures, which are perceived as enabling a wide range of opportunities on the farm.

Finally, national policies matter too. Through their strategic plans, Member States will be held accountable for the results of EU funding and their capacity to align coherent national policies. Young farmers' instruments require further effort on that front. Land ownership access and mobility, for example, must be accompanied at the national level by land planning, taxation and succession policies favouring new generations. Outside the realms of the CAP, Member States must promote and align regulatory tools to ensure a fairer income for farmers and allow for a better spread of margins along the agri-food supply chain. The first objective of young farmers is to be rewarded by the market for the products and public goods they produce. Ethical and transparent commercial relations and a better organisation of sectors are key to achieving such an objective.

Young farmers are indispensable for a sustainable Europe

The new CAP offers the opportunity to fast-forward the objective of generational renewal and ultimately answer the many challenges ahead for EU agriculture. Rather than treating the objective of attracting and sustaining young farmers as a separate one, it is essential to understand the cross-cutting potential it has. Achieving the higher economic, social and environmental sustainability of agriculture by 2050 is highly dependent on the capacity of new generations to overcome obstacles and live from their vocation for farming. Vocations for agriculture have not disappeared. They have changed with the times, but they still have the same objectives: making a decent living out of producing safe and healthy food for consumers, while preserving the natural resources borrowed from future generations. As policymakers try to envision the future of our food systems through an unprecedented farm to fork strategy, young farmers have figured out the transformative role they can play in the whole process. When the future of agriculture is set out in the CAP's Strategic Plans, we cannot afford to leave young farmers behind.

Biodiversity and CAP reform - the more things change, the more they remain the same

By Harriet Bradley and Ariel Brunner, BirdLife Europe and Central Asia

Source: Johny Goerend

Intensive agriculture, still funded by the CAP, is the main reason behind the massive wildlife declines in the EU

Climate change and biodiversity loss are twin crises. The need to address them together is confirmed by many scientific reports on the two issues. This is also reflected in the European Commission's European Green Deal, with one of its core elements being its Biodiversity Strategy. In Europe, dramatic declines have occurred in insect and bird populations, especially for species traditionally associated with agricultural landscapes. Ariel Brunner is the Senior Head of Policy, and Harriet Bradley is a Senior Agriculture and Land Use Policy Officer at BirdLife Europe. Below they assess what the new Common Agricultural Policy actually offers – or fails to offer—in the way of reversing the downwards trend in biodiversity.

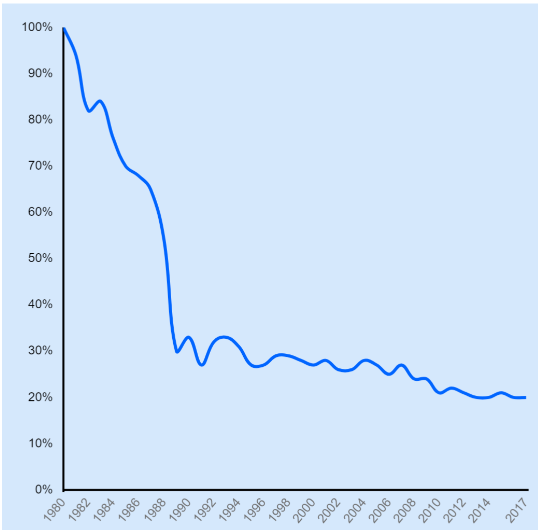
The ecological emergency

Nature is under significant stress in Europe. Once common farmland birds are not so common any more: they have declined by 57 % across Europe since 1980. This is not the case for other types of bird species, like those relying on forest habitats, whose populations are relatively stable. This is part of a global crisis, with a 68 % average loss of birds, amphibians, reptiles and mammals since 1970. The UN's scientific panel on biodiversity (IPBES) warns that a million species are at risk of extinction. Further, the most recent IPCC-IPBES assessment confirms that the biodiversity and climate crises are intertwined, and their causes and solutions must be understood, and addressed, together.

Source: Roula Trigou

The European Turtle dove, a once common farmland bird, has declined by 80% decline since 1980, and has now been classified as 'vulnerable' according to the IUCN Red List

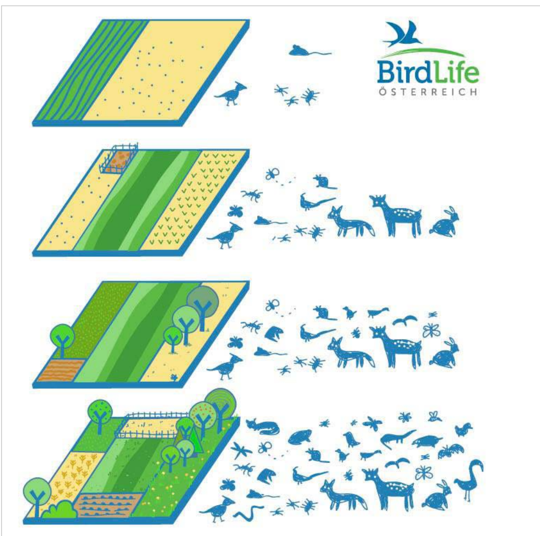
Figure 1 – Population decline of the Streptopelia turtur (European Turtle-dove)



Source: EBCC/BirdLife/RSPB/CSO

Population index (%) 1980 - 2017, Europe

The fact that the declines are concentrated in agriculture shows that it is changes to agricultural practices which are at the source. The European Environment Agency's 2020 State of Nature report shows that the main pressure for most habitats and species in the EU is agriculture. This is happening due to a variety of changes in land use and methods of farming: through conversion of habitat (like grasslands to arable), or intensification of management: removal of habitat for nature like landscape features, heavy use of inputs and machinery, overgrazing (grasslands), drainage (peatlands), and high levels of nitrogen deposition. Indeed, there are various ongoing infringement cases against EU countries on agriculture due to violations of environmental laws.



Source: BirdLife Austria

Landscape simplification leads declines in both species abundance and diversity

There is therefore a need to act urgently on the biodiversity and climate crises, which in many cases can, and should, be pursued as joint goals, such as restoring landscape features, reducing fertilisers, reducing herd sizes, and restoring carbon sinks like peatlands. But there is also a need to act for agriculture's own sake; we cannot keep destroying biodiversity, soils and climate and expect to be able to continue producing enough food. There is a rapidly emerging scientific consensus on the need to shift to agroecological practices. While on many issues there are lively debates, there is a very robust scientific case for some basic interventions, including maintaining at least 10 % of landscape features, practicing crop rotation and soil conservation, reducing nutrients loads and pesticides use.

We are in an emergency – are EU leaders fetching the fire engines?

The European Green Deal—through the Biodiversity and Farm to Fork strategies—calls for significant changes to bring agriculture back inside safe planetary boundaries and to address the current unsustainable agriculture model, aligning with the scientific evidence on the need to, *inter alia,* move away from pesticides and fertilisers and restore landscape features for biodiversity.[1] It leaves however a very big gap on the consumption side, containing a food waste reduction target but no policies to encourage a shift to healthier and less destructive diets. This is despite the fact that all credible studies point to the need to significantly reduce animal farming if we are to be able to farm in a biodiversity friendly way, free up land for nature restoration and reduce agricultural greenhouse gas emissions, whilst still producing sufficient and healthy (or healthier!) food. For example, the EAT-Lancet Report pointed to the need to shift to predominantly plant-based diets to bring food systems within planetary boundaries and deliver healthy diets.

On the other hand, in practice farmers' behaviour is shaped to a large extent by the EU's Common Agricultural Policy (CAP), one of the world's largest subsidies system, accounting for 32 % of the EU budget until 2027. The current CAP has been repeatedly failed to deliver for biodiversity.

The Commission claims that 75 % of the EU's spending on biodiversity is delivered through the CAP, but this claim is based on spurious accounting, see for example ECA special report 13/2020 on farmland biodiversity. Most of the money goes to income support payments, linked to no robust environmental conditions, and those few conditions that are imposed are poorly enforced (see for example ECA special report 26/2016 on cross compliance. There is also harmful spending on direct production support (coupled payments, mostly promoting livestock production) and investments that can further intensification, like irrigation expansion, drainage, or acquisition of new machinery—almost invariably bigger, more powerful and hence more conducive to intensification.

On the other hand, about 7 % of the CAP funding goes to agri-environment measures included in the so-called 'Pillar II' (rural development). Where these are well designed and implemented, they have been shown to boost biodiversity. The problem is that many agri-environmental measures are of poor quality and designed to maximise farmer coverage rather than deliver actual impact. Therefore, for the CAP as a whole, the few well designed and targeted biodiversity measures are overshadowed by the far greater amount going to either business as usual or harmful subsidies

Fuel to the fire

The recently agreed deal on the new CAP running to 2027 looks to be another broadly business as usual (non) reform. Instead of fetching the engines it will pour fuel on the fire. The Commission made very weak reform proposals in 2018, essentially centred around a massive transfer of discretional decision making to the Member States, justified as moving to a 'performance based CAP.' The performance framework seems to be rather an empty shell, and has been further weakened in the co-decision: Member States will not be held to account on real impacts on biodiversity, such as further declines in the farmland bird index. Rather, if they manage to roll out biodiversity schemes across enough area they will meet the requirements, even if these schemes are ineffective or even fake. For example, in Cyprus the CAP currently funds a 'biodiversity' scheme for banana plantations, which mainly requires leaving cut leaves post-harvest on the ground in banana plantations, and has no restrictions on chemical inputs, based on the unfounded claim that this helps a bird called the black francolin.

There is very little to compensate for the lack of a true performance framework—the minimum requirements for getting subsidies are very low, there is no increased spending for effective environmental schemes, and there is still ample room for perverse spending. These are a few key developments:

1 For the Biodiversity Strategy see: https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1590574123338&uri=CELEX:52020DC0380

- the basic conditionality attached to income support has been baptised 'enhanced conditionality,' but it remains extremely weak. Arable farms over 10 hectares will need to have at least 3 % of non-productive area. Whilst in some very intensive arable areas this could make a marginal improvement, the scientific evidence shows that a minimum of 10 % of on-farm space for nature is needed for populations of wildlife to start recovering. Other conditionality standards remain weak, not requiring crop rotation, lacking protection of peatlands and species-rich grasslands, and no quantified requirements to cut pesticide use;[2]
- the so-called 'greening' which was supposed to deliver significant impact but failed to do so (see for example ECA special report 21/2017 on greening in agriculture) has been moved into conditionality but with similar exemptions and fake options, like the ability to grow catch crops in areas for biodiversity, or crop diversification instead of crop rotation;
- Pillar I (direct payments) environmental spending is rebranded as 'ecoschemes.' Its share in the Pillar I budget is reduced from 30 to 25 % but its quality is in no way improved. Requirements are very vague, allowing Member States to propose weak schemes that change little on the ground. In fact, some ecoschemes are likely to end up actually doing harm to biodiversity as support to livestock production can be paid per animal, thus incentivising the intensive livestock operations that are by far the most harmful to both biodiversity and the climate;
- in Pillar 2, no substantial changes have been brought in to weed out fake or ineffective schemes. Minimum spending on the environment has nominally increased to 35 % but is extended to animal welfare, and there is no guaranteed spending on biodiversity nor any strict and enforceable link to EU environmental legislation or tools implementing it, such as the Natura2000 Priority Action Frameworks. As with the ecoschemes, 'environmental' schemes can make payments per animal; and
- harmful subsidies continue: support tied to production (coupled support) is increased from 10 % in the current CAP, to 13 % (plus 2 % for protein crops). Safeguards voted by the European Parliament to make this a production-limiting scheme were dropped in the final deal. It will, however, have to be checked against the Water Framework Directive. Similarly, there are few safeguards on investments, which will not have to undergo an environmental impact assessment, as the European Parliament dropped their amendment requiring this.

Déjà vu – leave it to the Member States

Of course, increased 'flexibility' *could* be used by Member states to improve performance, target funding to conservation measures and support an agroecological transition. It is however highly unlikely that they will do this out of choice. Agriculture Ministers have fought very hard to remove any possibility for the European Commission to contest their choices or hold them accountable for poor real-world environmental outcomes. It is hard to imagine that they will not use the loopholes they have argued so hard for.

This is confirmed by our preliminary analysis of national CAP Strategic Plans. Those that have been made available to the public are overwhelmingly aiming at maintaining business as usual with high levels of perverse subsidies and minimalistic investment in conservation schemes (see **Box 1**). Public opinion pressure for change is mounting across Europe, but agriculture ministries are typically reacting by stonewalling public participation and reinforcing the structural power capture by powerful farm interests. In many European countries corruption, cronyism and conflict of interest further compounds the problem. On the other hand, national environmental authorities must be 'effectively' involved in the design of CAP plans, which if properly implemented could help to improve them .

2 See the analysis by BirdLife and other NGOs at https://www.birdlife.org/europe-and-central-asia/10-tests-green-deal-compatible-farming-policy

Box 1 – Germany's Draft National CAP strategic plan

Germany has already outlined the overall CAP framework, even before the EU Regulation is in place. Whilst the specifics have yet to be elaborated, an analysis commissioned by BirdLife's German partner, NABU, concluded that it is insufficient to address biodiversity declines in Germany:

- insufficient mandatory space for nature on farms: 3 % of arable land (no catch crops);
- ringfencing: 25 % for ecoschemes. However, the planned ecoschemes are not sufficient to achieve significant positive impacts on biodiversity. For example, the ecoscheme on crop rotation with leguminous crops does not limit the use of pesticides;
- a progressive shift of funds from Pillar I to Pillar II, 15% by 2026. However, this is not bound to environmental spending in Pillar II, so it can go into supporting harmful investments or other Pillar II payments; and
- on pesticides, there is nothing mandatory. There is just one ecoscheme on no use of pesticides on arable land and permanent crops. It is likely that other ecoschemes will not include ambitious rules on pesticide use.

On the other hand, a vital opportunity is still available in the CAP Strategic Plan approval process. The new CAP gives the Commission hardly any legal tool for refusing plans and top DG AGRI officials have already gone on record saying that plans approval will be little more than a formality. But nothing would prevent the Commission from seriously scrutinising the plans against the objectives or the EU Green Deal and publicly exposing Member States' choices, opening the possibility for domestic public opinion to weigh in. As to spending that clearly contradicts EU law, the Commission should have full powers to block it, something that DG AGRI has virtually never done on biodiversity, or indeed on wider environmental grounds. Finally, a very simple immediate transparency measure the Commission should take is to publish the draft plans submitted by the Member States, in order to allow public debate before Commission approval.

A lost opportunity… but other avenues for change exist

As things stand, this CAP reform looks like another huge missed opportunity. One that will lead to wastage of billions of euros and take us further down the road toward ecological collapse. There will still be however other opportunities to implement the European Green Deal targets outside the CAP, and these must be pursued already. Top priorities should be enforcement of environmental legislation in agriculture, new and/or revised legislation on pesticides, upcoming legislation on sustainable food systems and on avoided deforestation, proper treatment of agriculture emissions in the follow up to the Climate Law and a science-based approach to the EU financial taxonomy.

EU strategic autonomy - what role for agriculture and… for audit?

By Derek Meijers


Source: eclipse_images/Getty Images

The sky is the limit?

Plenty of articles have been published recently on the fascinating topic of strategic autonomy. Everyone seems to be convinced the concept is an important one for the EU. Plus, it has a nice ring to it. The European Commission has selected it as the theme of its 2021 Strategic Foresight Report, to be published later this year. Autonomy is also associated with self-sufficiency, with being your own boss, two aspects that will sound quite familiar to farmers, people living from and on the land. What does strategic autonomy actually mean, why is it relevant to the EU, and should auditors be concerned about it as well? Derek Meijers tries to find out, especially considering the ECA's strategy and the links between policy areas that are often mentioned in the debate on strategic autonomy..

Strategic Autonomy

The catchphrase 'strategic autonomy' is often used in the geopolitical context and the area of foreign relations. It can be seen in the light of a renewed sense of self-confidence and revisited self-understanding of the European Union (EU). A sort of 'take-back-control' attitude of their own, if you like, and one that enables the EU to promote and protect European interests, values and standards around the world.

At EU level, EU leaders are becoming increasingly aware of the divide-and-rule strategies of the block's global competitors, as well as convinced of the Union's own power and influence. Take the impact certain EU regulations have on non-EU corporations such as big tech companies from the United States, for example, or the leverage the internal market's economic importance has on working conditions and product safety measures in third countries. In that respect the EU is a regulatory powerhouse.

In addition, recent crises have forced the EU to take action to defend the interests of its citizens in a – more or less – self-assured manner. And rightly so, as there is a clear need for the EU to take responsibility for its own future and become more assertive vis-à-vis other global players, such as China and the US.

One interesting aspect mentioned in a number of sources,[1] is that the concept of strategic autonomy is not so much linked to independence in the sense of liberty, but rather to independence in the sense of self-reliance, for example the trust and confidence to rely on one's own legal basis and capabilities. This is a perspective that also offers clear handles to get to grips with the ECA's own understanding of what autonomy means to our institution.

Strategic autonomy and the EU institutions

So what could this mean at an EU institutional level, and more specifically that of the ECA? Plenty of articles have been written about strategic autonomy in the context of EU politics, and the European Parliament,[2] Council,[3]and European Commission often discuss the issue in the context of EU policy areas such as international trade, security and defence, but also general foreign policy. These institutions seem to agree that strategic autonomy can enable the EU to take a firmer stance and act more autonomously and assertively.

In short, a strategically autonomous EU is aware of its own strengths and power, and willing to wield these on the chessboard of international politics to achieve its objectives. However, the external perspective of foreign trade, security and defence is only one aspect and many other policy areas could be discussed in the same context, such as health policy, where significant vulnerabilities in the EU's preparedness and self-reliance, and a dependency on third-country producers of health care products have become apparent.

Strategic autonomy and agriculture

Food safety and food security are two other areas where the need for a powerful, self-reliant and confident EU is obvious. Here, again, the COVID-19 crisis teaches valuable lessons. Everyone remembers the images of empty supermarkets as shoppers hoarded non-perishable foodstuffs and items such as toilet paper and hand soap, with supply lines stretched to their max and farmers and food producers unable to keep up with demand, themselves also facing difficulties in receiving their own supplies due to lockdowns and shortages in raw products and materials.

In this context, in an interesting own-initiative opinion on this topic, the European Economic and Social Committee (EESC) argues that 'the EU should safeguard its capacity to set high sustainability and climate standards.' Moreover, it 'recognises the importance and value of rules-based trade operating on a level playing field and the potential for all future EU trade deals to incorporate the Green Deal Farm to Fork and Biodiversity strategies as global standards on sustainability.' Thus, it is clear that the key EU institutions link the debate on the Union's strategic autonomy to a varied range of EU policies.

The Common Agricultural Policy (CAP) was created in 1962 and is the longest-serving EU policy to date. One of the initial reasons for discussing the set-up of a common agricultural policy was food autonomy: the security of food supply to prevent the food shortages experienced during the Second World War and the first years after it. A major instrument to promote food production was market support, which was phased out in the nineties in favour of directing the main share of funding towards producer support through direct payments to farmers.

When looking at the Commission's communications about the strategic goals of the renewed Common Agricultural Policy (CAP), one does not need to have too lively an imagination to see these have a clear impact on the EU's strategic autonomy as well:

1 See also: European Parliamentary Research Service, *Briefing, The EU strategic autonomy debate*, 30 March 2021.

2 See, for example Suzana Anghel, Beatrix Immenkamp, Elena Lazarou, Jerôme Leon Saulnier, Alex Benjamin Wilson, *On the path to 'strategic autonomy' - The EU in an evolving geopolitical environment*, European Parliamentary Research Service, September 2020, PE 652.096.

3 See, for example: Analysis and Research Team (ART), General Secretariat of the Council of the European Union, Issues Paper, *Strategic autonomy, strategic choices*, , 5 February 2021.

- securing a fair deal and a stable economic future for farmers;
- setting higher ambitions for environmental and climate action; and
- safeguarding agriculture's position at the heart of Europe's society.

Thinking about more extreme scenarios, the impact of the CAP on climate change, on the fertility of arable land, on reversing erosion, means the EU will be less dependent on neighbouring regions for its food supply.

As put forward by in the Netherlands' government's contribution to the Commission's Public Consultation on the European Union's Action Plan, *Towards a Zero Pollution Ambition for air, water and soil*, closing material cycles can contribute to the autonomy of the Union, such as recovery of struvite from urine in livestock farming and from wastewater. This can improve strategic autonomy with regard to phosphate extraction outside the EU, while at the same time substantially reducing emissions of heavy metals, especially cadmium, to agricultural land.

Strategic autonomy and supreme audit institutions

Whilst the EU's strategic autonomy is debated across the board, opposite expectations exist about what it should mean, especially for the work of public auditors. Should a supreme audit institution (SAI) worry about strategic autonomy?

When thinking about strategic autonomy in the context of the ECA, a couple of issues spring to mind. For example our strategic goals. When conceiving our 2021-2025 ECA Strategy, the ECA considered many different internal and external views.[4] The ECA has advanced rather clear and ambitious ideas about its own role and position. Nevertheless, we are a realistic institution, which brings us to the question of whether we can recognise a sense of strategic autonomy in our strategy and our strategic goals in particular?

When reading our strategy, I think we can. Already the paragraph about our strategic context shows that we are very aware of the main challenges the EU and the ECA have to face in the coming years. Then, in Goal 1, 'Improving accountability, transparency and audit arrangements across all types of EU action,' we refer to our Treaty mandate, from which we further develop the idea that any action we will undertake in the next five years will be firmly rooted in that legal basis. Furthermore, Goal 1 shows self-awareness, as it recognises that our stakeholders and broader environment might interpret our mandate differently, but that we will advocate and promote our own interpretation that we should audit all EU institutions and bodies set up by the Treaties, but also all intergovernmental structures. The ECA will have to prove it is indeed capable of influencing its environment, compelling its stakeholders to recognise its audit rights, also regarding intergovernmental structures, as well as influencing its peers by shaping international audit norms and practices.

Auditing strategic autonomy?

EU's new objective of fostering and promoting strategic autonomy also entails new audit challenges. Naturally, the ECA role will be to scrutinise this process and check the actual work (and funding) behind the political declarations. Clearly, it is a political objective, so the ECA will need to reflect thoroughly how to asses effectiveness of the underlying actions in a balanced way in line with its role as an external auditor, given that the results depend on many, also external, factors. In addition, the ECA should check whether strategic autonomy is not being implemented at the cost of other priorities, such as climate change mitigation and sustainable growth. For audits relating to strategic autonomy, see **Box 1**.

4 For more background information about the conception of the 2021-25 ECA Strategy, see ECA Journal 1/2021 Strategy development in a rapidly changing world https://www.eca.europa.eu/en/Pages/NewsItem.aspx?nid=15333

Box 1 – ECA audits looking into the strategic autonomy of the EU (as a whole or of its institutions)

The ECA has published several audits on topics that are connected with the EU's strategic autonomy and the concept of anticipatory government. Many of these cover issues in the area of foreign policy, trade, relations with third countries and security.

In addition, audits of innovative policies could also be seen as touching upon the issue of strategic autonomy, as the EU's investments in research and innovation are part of its strategy to be less dependent on/more independent of China and the US, for example, when it comes to technology..

Examples of recent audits, reviews and other publications are:

review 03/2020: *The EU's response to China's state-driven investment strategy*

review 9/2019: *European Defence*

special report 07/2021 *EU space programmes Galileo and Copernicus: services launched, but the uptake needs a further boost*

- special report 17/2020 *Trade defence instruments: system for protecting EU businesses from dumped and subsidised imports functions well*
- special report No 24/2020 *The Commission's EU merger control and antitrust proceedings: a need to scale up market oversight*

Examples of upcoming audit work:

audit preview *Implementing secure 5G networks in the EU and its Member States*

audit preview *Protecting intellectual property rights in the EU*

New ECA Members

Being an ECA ambassador for transparency and accountability

Interview with Marek Opioła, ECA Member since 1 February 2020

By Gaston Moonen

Marek Opioła

With his predecessor having been appointed as Commissioner, Marek Opiola was appointed to the ECA and started his activities as ECA Member on 1 February 2021, mostly in a 'virtual' remote working environment. The new ECA Member is keen to feed his knowledge and experience, be it in politics or audit, into the ECA's work, also in new policy areas, such as defence programmes, or when auditing the Next Generation EU (NGEU), which he considers a game changer in the EU funding universe.

From political science to politics to audit

You started your career in the military, as a civilian, and studied simultaneously at university, graduating in political science. You moved into politics at a young age already, subsequently becoming a Member of Parliament at the age of 29. What motivated you to go into the military and move into politics in 2002 and later, in 2005, to become an MP?

Marek Opiola: This is an interesting and rather personal question. My grandfather, who held important positions in parliament and the government in the past, introduced me to the twists and turns of the functioning of the state and the processes involved and showed me the importance of public service. Studying political science was therefore a natural choice for me. My direct involvement in politics was a continuation of my studies, allowing the practical use of the knowledge acquired. After a few years, despite my young age, both my education and experience were found useful in the Sejm – the Lower Chamber of the Polish Parliament. As far as the family perspective is concerned, it was a kind of return to the roots and a tribute to the activities of my grandfather. From a personal perspective, it was an opportunity to put into practice the broad knowledge that graduates of political science studies possess. My dad, on the other hand, followed a military career and instilled this interest in me, hence this short but important episode in my life. While dedicating these last 15 years to public service, issues linked with budget implementation have always been at the heart of my work, first as a Member of Parliament, then as Vice-President of the Polish Supreme Audit Office and now as ECA Member.

"... issues linked with budget implementation have always been at the heart of my work...

In many budget processes, the adoption of a new budget is preceded by long political discussions. The discussions on how the budget has been implemented, so drawing up the account on budget implementation, are a lot shorter in many countries. How do you think, as a former MP, more attention can be created for budget implementation and what is in your view the key issue for parliamentarians when looking at budget implementation?

Marek Opiola: I may surprise you, because I have a different experience. Although political discussions often focus on setting policy objectives and what the budget should be used for, in my previous work I was always mindful of the Parliament`s role in assessing the implementation of the budget. This is actually also a key issue from the auditors' point of view. In fact, I believe that the formulation and implementation processes are interdependent and are two sides of the same coin. You cannot really implement a poorly formulated budget effectively, can you?

"... the formulation and implementation processes are interdependent and are two sides of the same coin. You cannot really effectively implement a poorly formulated budget...

During my work on the Special Forces' Committee of the Sejm, from the very beginning we concentrated on the practical part, i.e. discussing budget execution based on the specific work of institutions responsible for the internal and external security of the state. That was the most important part of the forces' work, and the parliament had the opportunity to verify tasks vs objectives achieved during the budget year. When looking at budget implementation, I would say for parliamentarians this is a good financial reporting system allowing them to receive timely and reliable information to monitor and intervene if necessary and also to better plan for the future.

You have supervised many audits as Vice-President of the NIK, the Polish Supreme Audit Office. What do you consider a key finding of one of the more recent audits you supervised and which got a lot attention by policy makers in Poland, and triggered change?

Marek Opiola: Due to the way the NIK is organised, as Vice-President I had the pleasure of overseeing audits in various areas. I think it was especially interesting to work on topics such as protecting schools from internal and external threats or research and development activities for the army. In my work at the NIK, I focused on audits linked with security and defence. There were numerous important audits in this area, which are classified as secret and, unfortunately, I cannot talk about the details.

There was also an interesting audit I supervised on the optimisation of electricity costs in public finance sector entities. It was relevant from both the sound financial management and environmental point of view. We found that spending on electricity in the public domain was often not in line with the principle of economy and we calculated the amount of potential savings. Following the audit, the NIK formulated recommendations with a view to simplifying and harmonising the existing laws on the termination and computation of tariffs and electricity settlement methods. It is worth mentioning that the NIK launched the information campaign about potential electricity savings among public finance sector entities. In order to promote good practice examples, the NIK developed and published the guidelines *Savings in Expenditure on Electricity Distribution Services* on its website.

You were Vice-President of the NIK when the COVID-19 pandemic struck. How did the pandemic affect your audit work and that of the NIK and do you expect that it will result in some permanent changes in the way public auditors will work in the future?

Marek Opiola: I agree that the last year was exceptional. All institutions, not just the NIK, had to change their ways of functioning overnight and rapidly put solutions in place to ensure uninterrupted operation and the fulfilment of constitutional obligations. The IT systems put in place and the enormous commitment of the staff made the immediate switch to remote working possible. I would add that this happened during a particularly

hectic period for the NIK, as spring and early summer is the high season every year for work on the annual analysis of the execution of the state budget and the monetary policy assumptions. Experience has shown that in some - though not all - cases we were able to limit the need for visits on the spot. However, sometimes that went hand-in-hand with delays or increased workload for the audit teams.
The experience gained over the past year will change the ways in which auditors and audit institutions operate. I hope that we will witness the progressive digitalisation of the audit process, which will result in the development of IT systems and platforms for information exchange. However, we should be mindful that sometimes being on the spot and seeing the reality on the ground is essential, so I am convinced we will keep doing that.

> *“... The experience gained over the past year will change the ways in which auditors and audit institutions operate.*

Working towards the same objectives but in different environments

Your candidacy as ECA Member had a long appointment procedure. During your hearing, you referred to trust as a key element for your mandate as an MP and institutional cooperation in general. How do you intend to establish this relationship of trust with the EP in general and the Budgetary Control Committee in particular?

Marek Opiola: Trust building relies on mutual understanding and a belief in the competence, reliability and goodwill of collaborative partners. My motivation is to work at the ECA and perform my duties with commitment. I am therefore optimistic about the future relationship with the European Parliament and the Budgetary Control Committee, especially taking into account the forthcoming presentation of chapter 9 of the ECA's upcoming annual report regarding the Multiannual Financial Framework's (MFF) heading '*Administration*,' for which I am the Reporting Member. This year we have also had a closer look at the purchases of the protective equipment for staff by some of the institutions. The results will be published in chapter 9 of our 2020 annual report. Another interesting product for the EP will be the '*Resilience of EU institutions and bodies*' audit for which I am the Reporting Member. There we will assess the response of the EU institutions to the COVID-19 crisis and the measures put in place to maintain business continuity. The ECA has already published a series of COVID-19-related tasks, but they are rather focused on the policy initiatives. With this task, we are focusing on the administrative side of the reaction to the COVID-19 pandemic – to see how the EU institutions remained resilient and fulfilled their respective mandates.

Those topics respond in a spirit of cooperation and mutual interest to the demands of our stakeholders. I consider them to be very important areas, as the EU institutions and bodies should be subject to a high level of transparency and scrutiny to assure citizens that the money spent by these institutions is money well spent. Because, in the end, both we and the European Parliament have the same objective there.

> *“EU institutions and bodies should be subject to a high level of transparency and scrutiny...*

What do you consider a major similarity and a major difference between working in audit at the ECA and with the NIK?

Marek Opiola: The functions of the Vice-President of the NIK and ECA Member are quite different and involve responsibilities that are not quite comparable. Both institutions have different structures, procedures, audit methodology, and therefore the nature of work differs. The NIK conducts yearly over 100 audits. Each audit is supervised by the President of the NIK or one of its three Vice-Presidents. During my year and a half at the NIK I supervised over 80 audits in different domains, which allowed me to have more of a bird's eye view on the work of the institution. Now, working at the ECA, I am currently the Reporting Member for two tasks. This is a great opportunity to go much more into detail in the audit process, learn about the specificities of the ECA's audit approach and methodology. This allows a much more close-up look, so to speak.

I am still deepening my knowledge of the ECA and fortunately I have extremely helpful colleagues in the audit chamber I am in, in the directorate and the very good team I have in my cabinet who introduced me to the nuances of the ECA's functioning. I appreciate one particular similarity between the NIK and the ECA: that they both very much rely on the principle of collegiality, manifested at different levels. Be it that the audit reports are prepared by teams of auditors, or that at the ECA we have a college of Members and audit chambers, whereas the NIK has its Council, with broad powers of decision, such as adopting the annual work plan or its key input into the discharge procedure. All in all, I think that diverse perspectives always help to come up with good solutions.

"...diverse perspectives always help to come up with good solutions.

You have experience both in the Polish Sejm as in the NIK. How do you see the relationship between supreme audit institutions - SAIs - and parliaments in general - where does an auditor's work stop and a parliamentarian's work start? How do you think cooperation between the EP and the ECA can be improved further?

Marek Opiola: Relationships between SAIs and parliaments are very close, as I consider parliaments to be the main stakeholders of SAIs, their main 'clients' and recipients of their work. The SAI's role is to help governing institutions to be more effective and accountable and to deliver information and analysis, which can later be used by the parliamentarians in making informed choices for shaping policies. I feel privileged, having had the chance to work on both sides. As for the relations between the EP and the ECA, a regular exchange of information and experience is beneficial. I very much support the practice of searching for inspiration for the ECA work programme from the EP. We should also take due care to publish our products at the moment when they are most useful, for example when the new legislative proposals are being debated. Perhaps a path worth exploring would be to intensify the dialogue with the EP's special committees. Overall, I have the impression that cooperation between the EP and the ECA is very good. Our attention could be targeted more at deepening the relations with the Council. ECA Members can play an important role here, being, so to speak, ECA ambassadors to their respective Member States and bringing our work to their attention.

"...deepening the relations with the Council. ECA Members can play an important role here, being, so to speak, ECA ambassadors to their respective Member States...

Besides cooperation with the European Parliament and national parliaments, I think it is important to pursue cooperation with other audit and control institutions. I welcome the exchange of experience, including with the Polish NIK, not only at the highest level, but above all at the operational level between the auditors. In future, I could imagine organising dedicated workshops on sectoral topics and the audit process, with the participation of ECA directors and heads of tasks. I believe it would be of great benefit to all concerned.

As an MP, you were involved in many budget processes, often also related to national defence issues. In what way are these processes for such issues different from normal budget drafting, and how does that impact accountability concerns?

Marek Opiola: The defence and security budgetary process is not fundamentally different from the others. The only difference, which I have mentioned earlier, is that it takes place behind closed doors. When drafting the budget, the committee that I had the pleasure of chairing, focused on the tasks planned for the next financial year. When adopting and analysing its implementation, we checked the effects of these plans. From experience I know that defence projects are complex and sometimes difficult to implement.

With the new MFF, EU spending in the defence and security area should rise to more than €5 billion per year through programmes such as the European Defence Industrial Development Programme (EDIDP) and the European Defence Fund (EDF). Where do you see opportunities for the ECA to contribute to these programmes, and what do you see as the main challenges for the ECA here?

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Marek Opiola: Peace is never a given once and for all and the security of the EU should be one of the Union's most important tasks. This is particularly true in the context of a pandemic and the crisis it caused. Auditing defence is different, not so much regarding audit procedures, but mostly in relation to the sensitivity of some audits. Practice in the Member States shows that audit reports on defence are sometimes restricted if the national interest may be jeopardised. We will need arrangements and procedures concerning access to and processing of information of a secret nature and on reporting. Auditing defence also requires specific expertise that we may need to acquire, to ensure we have adequate resources. We will need to incorporate these considerations into our work.

> “ *...Auditing defence is different, not so much regarding audit procedures, but mostly in relation to the sensitivity of some audits.*

The inclusion of and increase in EU funding for defence in the MFF creates a commitment for the ECA to examine the legality and regularity of this type of spending. It also offers an opportunity to build up competence and provide important recommendations on the EU's progress in meeting the objective of strengthening its strategic autonomy in the area of defence. In 2019, the ECA prepared a very interesting analytical review, *European Defence*, showing the state of EU defence cooperation at the time and the key risk factors of defence initiatives. Further products in that area could help to strengthen the visibility of our activities.

Being an ECA ambassador to Member States

Citizens see public audit institutions as a strong ally for transparency and want to rely on them, counting on the independence and impartiality of auditors. You have indicated that you see transparency as one of the two features that you find of particular significance in a sound financial management culture in a public service. How do you think the ECA, and you as an ECA Member in particular, can further contribute to such transparency, beyond what is being done now?

Marek Opiola: The ECA has an important role to play in ensuring EU actions are transparent and the EU is accountable, thereby contributing to citizens' trust in the EU. I believe that my role is to inform the public about our activities and act as an ambassador of our institution to my Member State. I am convinced of the importance of promoting our work at governmental and parliamentary level as well as improving communication with citizens. Communicating the results of our audits in a clear and reader-friendly way also helps to bring the readers closer to the EU.

> “ *...my role is to inform the public about our activities and act as an ambassador of our institution in my Member State.*

A transparent and open information policy on the ECA's activities and its cooperation with its European stakeholders will certainly increase citizens' knowledge and confidence in the careful scrutiny of every euro. To that end, I have already started a series of meetings with the key stakeholders in Poland, including the President, Speakers of the Sejm and the Senate and the Minister for EU Affairs. I intend to continue this at the parliamentary level and, if there is sufficient interest, also at the local and civic level.

Another important element is that the ECA's reports often aggregate information and findings at EU level and offer limited insights into the situation of individual Member States. At the same time, stakeholders are particularly interested in such a country-specific assessment and benchmarking against other Member States. Here I see a role for me as the ECA Member. I will seek to extract and present to our stakeholders the information and findings directly relevant to Poland.

> “ *...I will seek to extract and present to our stakeholders the information and findings directly relevant to Poland.*

You are finishing the mandate of your predecessor. What are the challenges of taking over a mandate at half-time, and what do you hope to achieve in your time at the ECA?

Marek Opiola: I am taking over the mandate rather towards the end than at half time, a bit over a year before it ends. I was assigned immediately to the financing and administering the Union audit chamber, where I started with specific tasks, so I was able to start work quickly. Nevertheless, a big challenge for me is the shortage of time. But, looking on the bright side of it, it definitely motivated me a lot to learn fast and efficiently to take on my new responsibilities. Another challenge was taking up duties in the middle of a pandemic. Let`s bear in mind that in February 2021 travel restrictions were imposed all around so I had to telework from day one. Surely meeting new colleagues face to face instead of virtually is much better and helps to integrate, but I have to say that due to the IT and organisational support I received, it all went smoothly.

At the ECA, it is not only about audits. I find it to be a place full of valuable initiatives. I am following with great interest the ECA's work on equal opportunities, also for people with disabilities. I intend to be actively involved in this topic, both with regard to our current staff and to potential candidates who see their future in our institution. I believe there are well qualified people out there whose experience would be of significant added value for an institution like ours.

> “*At the ECA, it is not only about audits. I find it to be a place full of valuable initiatives.*

If I were to stay at the ECA – which I certainly hope to - I would like to address defence and security issues in the coming years, both topics close to my heart. My goal here is to do my job the best way I can and also to bring our work, our findings, closer to stakeholders in my home country. I think by raising awareness of our findings and recommendations we can help to improve things and make a difference.

Being clear on what EU funds does… and what the ECA can deliver

Building also on your experience when the pandemic hit NIK activities in Poland, in which way do you think an audit institution can add most value to addressing the COVID-19 crisis and its economic aftermath?

Marek Opiola*:* The COVID-19 crisis was – and still is – a magnifying glass for vulnerabilities in our societies, economic dependences and shortcomings in the functioning of the institutions. There is room for assessment and reflection on how these issues should be addressed in future policies. SAIs could examine whether the public authorities did their homework, i.e. assessed the impact of the COVID-19 pandemic, proposed adequate measures to increase resilience and reduce vulnerability in the future and mobilised the necessary funds. On the other hand, the EU and the Member States deployed a number of instruments and a lot of funds within a very short timeframe to cushion the immediate effect of the pandemic on people and economies and to help recovery from the crisis. SAIs should examine if these funds were spent for the intended purposes and according to the rules.

Earlier this year the ECA adopted its 2021-2025 strategy. In this new strategy, the third goal is to provide strong audit assurance in a challenging and changing environment. On the latter, the ECA will have to audit the new Next Generation EU – the NGEU - and the implementing tool of the Recovery and Resilience Facility. What do you think will be the big issue to be tackled there and the main challenge for the ECA in order to provide added value as external auditor, both at EU level and at Member State level?

Marek Opiola: In many aspects, the NGEU is a game changer in the EU funding universe. It is the biggest recovery instrument in the recent history of the EU, set up in an extremely short timeframe, financed by debt and applying a completely new and, in principle, performance-based form of delivery. While the NGEU is a welcome instrument to help the EU recover from the COVID-19 crisis, its management and control arrangements are not without risks. The discussions both within the ECA and with its stakeholders show that the level of expectation is very high, regarding the effectiveness of the NGEU, but also concerning the role of the ECA in maintaining scrutiny.

> “*the NGEU is a game changer in the EU funding universe.*

We will need to adapt our audit approach and working methods to the logic of the NGEU. This is challenging, as we will have to strike a balance between the acknowledged need to respond swiftly to the crisis and the need to maintain scrutiny over the use of public funds and protect taxpayers' money. I think it is important to communicate clearly to the public on what we can deliver. There is a long road ahead of us but in this short period at the ECA, I have met many competent and committed colleagues. This makes me confident that we will succeed.

Bringing the ECA's work to the stakeholders in Poland

By Kinga Wiśniewska-Danek, cabinet of Marek Opiola, ECA Member

Source: Igor Smirnow, Chancellery of the President of the Republic of Poland

Andrzej Duda, President of the Republic of Poland, (left) meets Marek Opiola, ECA Member (right).

An important, if not essential, part of the whole ECA audit process is bringing findings to the attention of those who can act upon recommendations provided by the ECA. This is why Marek Opioła, ECA Member since February 2021, has started a series of meetings with key stakeholders in Poland with a view to further improving future cooperation and to discuss the results of the work of the ECA. Below Kinga Wiśniewska-Danek, head of cabinet of Marek Opiola, provides further details on the meetings held and meetings planned.

Discussing the broad scope of the ECA's work, including the NGEU

Source: Andrzej Hrechorowicz, Chancellery of the Sejm

Marek Opiola (left) meeting Elżbieta Witek, Speaker of the Sejm.

Bearing in mind the importance of raising awareness of the ECA's work and products in the Member States, Marek Opioła decided to hold a series of meetings in Poland. On 9 June 2021, he held two meetings – one with Andrzej Duda, the President of the Republic of Poland, and one with Konrad Szymański, the Polish Minister for European Affairs. Marek Opioła gave presentations on the ECA's strategy and governance. Additionally, he presented the ECA's work, with a focus on the annual report 2019. Discussions also included an exchange of views on the challenges raised by the Next Generation EU (NGEU) recovery instrument. Regarding the latter, the discussion partners were interested in what the ECA would audit and how the ECA would carry out this new task, particularly in respect of the Recovery and Resilience Facility. President Duda, as well as Minister Szymański, showed great interest in the ECA's activities and expressed their appreciation for our work. Further exchanges with them are to be expected in future.

Since good contacts with national parliaments are important, Marek Opioła's series of meetings also includes presentations at parliamentary level. On 22 June 2021, he met Elżbieta Witek, Speaker of the Sejm (Lower Chamber of the Polish Parliament). Subsequently, on 7 July, he met Tomasz Grodzki, Speaker of the Senate. During the respective discussions Marek Opiola underlined the ECA's role in providing advice to policy-makers and legislators and provided details of the ECA's current work and of audits planned for the near future. Both Speakers showed great interest in cooperating actively and agreed on upcoming presentations to parliamentary committees of both Chambers.

Marek Opiola (left) meeting Tomasz Grodzki, Speaker of the Senate. Source: Marta Marchlewska, Chancellery of the Senate

Future meetings already scheduled

The next meeting in this series will be a presentation to the European Affairs Committee in the Sejm, planned for 21 July 2021. This Committee is a main interlocutor of the ECA in the Polish parliament, as it deals with matters relating to Membership of the European Union. The aim will be to give a political signal of the importance of better financial management in the EU and also to contribute to greater recognition of the ECA`s work by the Council.

The next series of meetings is planned for this autumn, after the publication of the ECA's Annual Report 2020.

RESPECT in the workplace – ECA addressing a key corporate value

By Ibolya Rajka, Human Resources Directorate

At a time when many people are still working at home in remote conditions from their office and their colleagues, issues such as inclusiveness, transparent communication, attention to individual issues, team spirit, etc. become even more important. They are all elements that are part of a culture of respect. The ECA chose the month of June 2021 as a month to pay extra attention to the issue of respect, including organising webinars with Paul Marciano, a reputed academic expert in this area. Below, Ibolya Rajka, project manager in the Human Resources Directorate, identifies some key elements related to the actions undertaken, zooming in on the RESPEC™ model as presented by Paul Marciano in his webinar to ECA staff on 10 June 2021.

Awareness campaign about respect

Throughout the month of June the ECA' s Human Resources Directorate, with the support of other ECA services (translation, corporate communication, IT) rolled out an awareness-raising campaign on the topic of respect, called 'It's all about respect!' This initiative was born as a (creative!) combination of two aims, each illustrating a different perspective for this word.

On one hand, respect was presented from the perspective of a moral value, a pattern of behaviour, and a pillar of the ECA's corporate culture. The aim of the campaign was to further strengthen and underline the importance of enjoying a *respectful workplace*, whether physical or virtual, as being the only environment possible and needed for employees to flourish, to give their best and to contribute to the success of the organisation.

On the other hand, RESPECT™ was presented as an HR model, developed by Paul Marciano, that puts *employee engagement* at the heart of all HR policies, and that was promoted by the ECA as the basis of its recently-adopted 2021-2025 strategic development plan for its people, following the overall 2021-2025 ECA Strategy adopted earlier this year. The ECA had the pleasure of hosting two presentations (webinars) given by the author of the model himself, one targeting senior managers and one targeting staff.

The RESPECT™ model of Paul Marciano

Paul Marciano is a leading authority on employee engagement and respectful workplaces. He earned his PhD in clinical psychology from Yale University, where he specialised in behaviour modification and motivation. He has served on the faculties of Davidson College and Princeton University, where he has taught courses on leadership, industrial-organisational psychology, survey development, research methods and statistics. Paul Marciano is the author of several bestselling books, including *Carrots and Sticks Don't Work: Build a Culture of Employee Engagement with the Principles of RESPECT*, and *SUPERTEAMS: Using the Principles of RESPECT to Unleash Explosive Business Performance.*

The RESPECT™ model he designed aims to create an organisational culture that fosters employee engagement through the following drivers:

- **R**ecognition (of the staff's work and performance), by acknowledging their efforts and contributions;
- **E**mpowerment, by providing staff with the training, resources and opportunities they need in order to be successful;
- **S**upportive feedback, by providing ongoing, constructive, encouraging, thoughtful and sincere feedback, whether positive or negative/corrective in nature;
- **P**artnering, by building collaborative working relationships with staff;
- **E**xpectations, by setting clear objectives and making sure that staff have sufficient tools, training and resources to meet them;
- **C**onsideration, by giving careful thought to staff members and their ideas, through words, decisions and actions; and
- **T**rust, by doing the right thing, by providing autonomy and decision-making authority, by being transparent.

The campaign included not only Paul Marciano's presentations, but also various articles, a workshop on the art of listening, daily respect tips, and also (on a much lighter note) a crossword puzzle and a riddle on the topic running through the whole campaign. The campaign had the support of the ECA's President and Secretary-General and was widely followed by ECA staff.

Tribunal de Contas of Portugal and the ECA organise a joint conference on EU issues in Lisbon on 21-22 June 2021

By Gaston Moonen

Source:: MicroStockHub/Getty Images

On the occasion of the Portuguese Presidency of the EU the Tribunal de Contas of Portugal and the ECA organised a conference on European funds – management control and accountability, in Lisbon on 21 and 22 June 2021, the first of such meetings since the start of the COVID-19 pandemic in early 2020. Delegations of the two supreme audit institutions met with high level representatives of Portugal. Below an overview of the topics discussed by the different participants.

High level delegations finally met in person

Since the start of the COVID-19 pandemic in early 2020, many meetings in person have been cancelled and the number of virtual meetings, including many multilateral ones, has soared. Business continuity was preserved, albeit with a different character. With vaccination rates increasing, the Tribunal de Contas of Portugal and the ECA decided to organise a meeting in person on the occasion of the Portuguese Ppresidency of the EU to discuss many of the topics relating to both the crisis relief instruments established during the past year and the EU's strategic goals for the long term, such as those for climate and digitalisation.

Several Members of the Tribunal de Contas participated: José F.F. Tavares, President, Helena Abreu Lopes, José Santos Quelhas, Members. The ECA delegation was headed by Klaus-Heiner Lehne, ECA President; ECA Members participating were Ivana Maletić, Eva Lindström, Rimantas Šadžius and Samo Jereb. One ECA Member who was meant to participate and had a key role in the preparation of the meetings, was João Figueiredo. Due to his illness, he could not attend and on 29 June we received the very sad news that he had passed away. Our sympathies are with his wife, family and friends. João Figueiredo will be greatly missed.

Main issues discussed

The conference was organised in several sessions: various sessions with policy-decision makers from both EU institutions and Portuguese institutions. One session was reserved for discussions between the delegations of two supreme audit institutions (SAIs).

The conference was opened by the two SAI presidents and Antonio Costa, Prime- Minister of Portugal. Eduardo Ferro Rodrigues, President of the Assembly of the Portuguese Republic, spoke at the end of the sessions. Discussions concentrated on the following topics:

- priorities and challenges underlying the Multiannual Financial Framewrok and the Recovery and Resilience Plan. Key speakers were Elisa Ferreira, European Commissioner, and Nelson de Souza, Minister for Planning of Portugal;
- European funding and the climate transition. Key speakers were Julia Seixas of the Department of environmental Sciences and Engineering of Nova university, and Samo Jereb, ECA Member;
- Digital Future. Key speakers on this topic were Borges de Castro, Associate Director of the European Policy Centre of the European Commission, Eva Lindström, ECA Member, Nuno Mangas, President of the Management Authority of COMPETE, and Alexandre Nilo Fonseca, President of ACEPI, Digital Economy Association. In the afternoon a session took place between the delegations of the Tribunal de Contas and the ECA. The focus of the exchange was on:
    - discussing audit work recently conducted or underway. On this topic, ECA Members presented work on biodiversity in ECA audits, the ECA opinion on the Recovery and Resilience Fund and ongoing work on the National Recovery and Resilience Plans. Members of the Tribunal de Contas presented planned audits relating to the environment and the National Recovery and Resilience Plan, the audit of the Resolution Mechanism and work done in relation to the Network 2020;
    - strategies for the upcoming years, focusing on the multi-annual strategies the two audit institutions had developed and, from the ECA, specific information on financial and economic governance issues.

The second part of the conference, on 22 June, focused on the sustainability of public finances, and management and control of European Funds in the new EU Multiannual Financial Framework (MFF) and the Portuguese Recovery and Resilience Fund. The main exchanges were on:

- effects of the COVID-19 crisis, the sustainability of public finances and European financing. Presentations were given by João Leão, Minister of State and Finance of Portugal, Filipe Neto Brandão, President of the Parliamentary Budget and Finance Committee, Ana Furtado, Member of the Tribunal de Contas of Portugal, and Clara Raposo, president of the Lisbon School of Economics and Management;
- MFF 2071-2027 and the Recovery and Resilience Facility/Recovery and Resilience Plan: governance and control models. Key speakers were Nuno Manuel Oliveira Dos Santos, President of the Agency for the Development and Cohesion, Antonio Manuel Ferreira dos Santos, Inspector General of Finances, and Rimantas Sadzius, ECA Member;
- External control and risks in the management of European Funds. Key speakers were Ivana Maletić, ECA Member, and Helena Abreu Lopes, Member of the Tribunal de Contas.

The session was closed by Marcelo Rebelo de Sousa, President of the Republic of Portugal.

In the afternoon representatives of the ECA and the Tribunal de Contas participated in a joint hearing of the European Affairs Committee (EAC), chaired by Member of Parliament Luis Capoulas Santos (see also page 108), and the Budget and Finance Committee (BFC), chaired by Member of Parliament Filipe Neto Brandão). ECA President Lehne and Tribunal de Contas President Tavares giving introductions, followed by presentations by Rimantas Šadžius on EU financial and economic governance issues, Samo Jereb on climate transition and European funding, and Ivana Maletić on the ECA's work regarding the MFF 2021-2027 and the Recovery and Resilience Facility.

The event was highly successful, as was the ECA's cooperation with the Portuguese Presidency. Our representation at and participation in rotating presidency events is a testament to the significant impact ECA products have on the European stage. During the Portuguese Presidency, cooperation between the ECA and the Council was strengthened. For the first time the ECA participated in the informal EU Environmental Council meeting where the ECA's work on climate change and biodiversity was presented. The ECA also had an informative discussion on the Recovery and Resilience Facility with the Permanent Representatives to the EU.

Once again, we would like to thank the Tribunal de Contas for their organisation and the cabinet of João Figueiredo. Without them and without the intensive work of the late João Figueiredo this event would not have happened .

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ECA publications in May 2021

Audit preview

Published on 04/05/2021

Auditors look into the quality of EU statistics

The European Court of Auditors (ECA) is currently looking into the quality of EU statistics that cover a wide range of aspects of society and economy. Specifically, the audit will examine the role of the European Commission in providing high-quality statistics to the EU and its Member States.

Click here for our report

2020 Annual Activity Report

Published on 06/05/2021

EU auditors' activity in 2020: a shift in work and missions

2020 was a year like no other, marked by particularly difficult and sometimes destabilising moments. But these moment never proved to be entirely insuperable. The European Court of Auditors (ECA) coped very well with all the challenges, as shown in its activity report, which is published today.

Click here for our report

Review N° 04/2021

Published on 20/05/2021

EU e-waste targets difficult to achieve

Collectively, EU Member States collect and recover more discarded electrical and electronic equipment than most of the world. But the EU risks missing its more ambitious e-waste collection targets. A review by the European Court of Auditors (ECA) points out a number of challenges, for instance the need to ensure and check compliance with the existing rules, and with the problem of breaches and criminal activities, such as illegal shipments to countries outside the EU.

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ECA publications in May/June 2021

Special report N° 10/2021

Published on 26/05/2021

Gender mainstreaming in the EU budget: time to turn words into action

The EU has a long-standing commitment to gender equality. But too little has been done to mainstream gender: in other words, to systematically and actively promote gender equality in policy-making and in spending the EU budget. Necessary prerequisites are still missing, according to a report published today by the European Court of Auditors.

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Special report N° 09/2021

Published on 03/06/2021

EU needs to step up its efforts to tame disinformation

Disinformation is a serious and increasing problem across the EU. In 2018, the EU issued an action plan to combat disinformation. This plan was relevant at the time it was first drawn up, but it is incomplete. Its implementation is broadly on track, but it is still being outpaced by emerging threats. This is the conclusion of a special report published by the European Court of Auditors (ECA). The auditors found that more coordination is needed at EU level, and that Member States need to step up their involvement, for instance in the rapid alert system. There is also a need to improve the monitoring and accountability of online platforms, and to include disinformation in a coherent EU media-literacy strategy, a strategy which is currently lacking.

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Special report N° 08/2021

Published on 07/06/2021

Frontex's support for EU's external borders management not sufficiently effective

The EU's border agency Frontex has not been sufficiently effective in helping Member States and Schengen associated countries in managing the EU's external frontiers, according to a special report published by the European Court of Auditors (ECA). Frontex's support is not adequate to combat illegal immigration and cross-border crime, say the auditors. As well as concluding that Frontex has not fully implemented the mandate it received in 2016, the auditors also cast doubt on its capacity to effectively implement the new operational role that has been assigned to it.

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ECA publications in June 2021

Special report N° 16/2021

Published on 21/06/2021

EU agricultural spending has not made farming more climate-friendly

EU agricultural funding destined for climate action has not contributed to reducing greenhouse gas emissions from farming, according to a special report from the European Court of Auditors (ECA). Although over a quarter of all 2014-2020 EU agricultural spending – more than €100 billion – was earmarked for climate change, greenhouse gas emissions from agriculture have not decreased since 2010. This is because most measures supported by the Common Agricultural Policy (CAP) have a low climate-mitigation potential, and the CAP does not incentivise the use of effective climate-friendly practices.

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Special report N° 11/2021

Published on 24/06/2021

EU help for milk producers after Russian import ban not targeted well enough

The European Union took broad measures to support farmers during the 2014-2016 milk market disturbances. Its reaction to Russia's ban on dairy products was swift. However, actual producers' needs were not sufficiently assessed and aid granted not enough targeted, according to a report by the European Court of Auditors (ECA). The EU has endeavoured to apply the experience it gained in the 2014-2016 disturbances to improve its management of potential future crises in the milk sector.

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Special report N° 13/2021

Published on 28/06/2021

The EU needs a stronger and more coherent oversight framework for combating money laundering

Even though the value of suspicious transactions within Europe is estimated to be in the hundreds of billions of euros, the EU has a fragmented approach to preventing and countering money laundering and terrorist financing. Although the relevant EU bodies have a policy-making and coordinating role and limited direct powers, efforts are largely managed at national level. A special report from the European Court of Auditors (ECA) concludes that EU-level action to combat money laundering and terrorist financing has weaknesses, and that the EU's oversight framework is fragmented and poorly coordinated and thus fails to ensure a coherent approach and a level playing field.

Click here for our report

ECA publications in June /July 2021

Special report N° 15/2021

Published on 29/06/2021

Unhappy landings: EU air passenger rights fall by the wayside during the pandemic

Air passengers' rights have not been safeguarded in the EU during the COVID-19 pandemic, according to a report published by the European Court of Auditors (ECA). Airlines are legally required to give passengers their money back if they cancel flights. But many airlines forced their customers to accept vouchers, instead, a practice which is unlawful. The EU auditors also point out that airlines and package-tour operators received billions of euros of state aid, aid which was provided without being conditional on passengers being reimbursed.

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Special report N° 14/2021

Published on 01/07/2021

EU funding for cross-border regions needs better focus

The European Territorial Cooperation programme (Interreg) is a long-standing instrument of EU cohesion policy aimed at encouraging economic growth in border areas. According to a report from the European Court of Auditors (ECA), the cooperation programmes financed through Interreg had clear strategies for tackling existing cross-border challenges. However, several weaknesses in the implementation of the Interreg programmes and in their monitoring limited the potential to unlock the capacity of the adjacent regions they covered.

Click here for our report

Special report N° 12/2021

Published on 05/07/2021

European taxpayers too often have to pay instead of polluters

The polluter pays principle requires that polluters should bear the costs of their pollution. But this is not always the case in the EU, as reported today by the European Court of Auditors (ECA). While the principle is generally reflected in the EU's environmental policies, its coverage remains incomplete and it is applied unevenly across sectors and Member States. As a result, public money – instead of polluters' – is sometimes used to fund clean-up actions, the auditors point out.

Click here for our report

NEXT EDITION

Public audit and emergency situations

Any European citizen who has lived through the past two decades has seen multiple crises, either far away or nearby. From geopolitical tensions and horrifying terrorist attacks to crumbling financial markets and banking systems, to migratory crises, to the frightening outbreaks of highly contagious diseases such as Ebola or COVID-19, leading to pandemics and bringing economies, every-day-life and even health services to a grinding halt.

All these crises have had a far-reaching and long-lasting impact on global communities and changed lives fundamentally – in negative, but sometimes also in positive ways. The main questions most people would like to see answered remain the same, regardless of which crisis they are currently living in: 'Will we get through it? At which cost? Who will help us? What will be the long-term consequences? And what are our governments doing to ensure our society and its institutions are well-equipped and capable of dealing with the next crisis?

Source: BeholdingEye/Getty Images

The most recent crisis, the pandemic, with its economic and social impacts, has affected almost every individual on the planet and a great variety of sectors. Yet, health crises are not the only emergency situations the EU is dealing with, and measures taken to combat crisis vary from humanitarian and disaster response aid, EU-wide monitoring and early warning systems, financial support mechanisms rapidly set up, to business continuity plans. These are examples of where a swift, coordinated, centralised and unified approach can literally mean the difference between life and death. The other side of such decisive action, however, is that often there is not enough time for a proper assessment of the finances that support crisis-related action, nor to follow the proper accountability cycle in which parliaments have the time to assess and agree on the proposed measures. Thus, time pressure can lead to mistakes in procurement, overly hasty decisions leading to the loss, or unnecessary or wrongful spending, of public funds, or even fraud.

Public audit institutions are well placed to make constructive assessments, of preparatory measures, or after the initial emergency has been dealt with. With their audit work, they draw valuable conclusions and lessons for future crisis management. Our next Journal will cover various aspects of assessing national, international and EU-level crisis response measures and looks at how public auditors try to contribute to improving the preparation for and the handling of emergency situations, both in real time and after the emergency crisis has been dealt with.

EDITION
HIGHLIGHTS

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