

Climate-friendly design of the EU Common Agricultural Policy

Discussion Paper – Final Version

for:

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and Nuclear Safety (BMU)**



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and Nuclear Safety

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LIST OF ABBREVIATIONS

AECM	Agri-environmental and climate measures
AGRI	Committee on Agriculture and Rural Development
CAP	Common Agricultural Policy
DG AGRI	Directorate-General for Agriculture and Rural Development
DG CLIMA	Directorate-General for Climate Action
DG ENV	Directorate-General for Environment
EAFRD	European Agricultural Fund for Rural Development
EAGF	European Agricultural Guarantee Fund
ECA	European Court of Auditors
EEA	European Environment Agency
ENVI	Committee on Environment, Public Health and Food Safety
EU	European Union
GAEC	Standards for good agricultural and environmental condition of land
GHG	Greenhouse gas
LULUCF	Land use, land use change and forestry
MFF	Multiannual Financial Framework
MS	Member State
NGO	Non-Governmental Organisation
SMR	Statutory Management Requirements

This discussion paper is the third publication in a series of inputs to stimulate discussions on a more climate-friendly design of the post-2020 EU budget:

1. Climate-friendly design of the overall EU budget (September 2018)
2. Enhancing the implementation and monitoring of the 25% climate mainstreaming target of the next EU budget (December 2018)
3. Climate-friendly design of the Common Agricultural Policy (March 2019)

The analyses and recommendations in these papers served as a basis for discussions during workshops of the Expert Network on Climate Finance in the EU.

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The information and views set out in this publication are those of the author(s) and do not necessarily reflect the official opinion of the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety.

1 INTRODUCTION

The European Union committed itself to reducing greenhouse gas (GHG) emissions by at least 40% below 1990 levels by 2030. In addition, the European Commission adopted a strategic long-term vision to reach **climate neutrality by the middle of the century**. This transformation requires investments directed into infrastructure, sectors and projects which enable and support the decarbonisation pathway of the EU. National and regional governments as well as private actors will play a crucial role in providing this investment. However, the **EU budget has an important signaling function** and should therefore lead by example in terms of supporting sustainability and low-carbon development.

To ensure that a minimum amount of the EU public finance is spent on climate action to contribute to meeting these targets and ambitions, the EU Commission has introduced the concept of “**climate mainstreaming**” to the EU budget in 2014. Climate mainstreaming integrates climate action into all spending areas of the EU budget and requires that **at least 20% is spent on climate-relevant measures over the 2014–2020 period**. For the next Multiannual Financial Framework (MFF) 2021–2027, the EU Commission proposes to raise the level of ambition for climate mainstreaming across all EU programmes to **at least 25%** of EU expenditure (European Commission, 2018a).

The **Common Agricultural Policy (CAP)** plays a significant role for the climate-friendly design of the EU budget. On the one hand, the CAP accounts for **half of the climate-relevant expenditure** and 38% of the total EU budget. On the other hand, the agricultural sector is still the **third largest emitter of GHG emissions in Europe**, despite reductions in the past 30 years. In 2016, the sector accounted for around 10% of GHG emissions in the EU (German Environment Agency, 2018).

The agricultural sector is also the main source of methane (CH₄), primarily from enteric fermentation and manure management, as well as nitrous oxide (N₂O), primarily from fertilizer application on soils and manure management, which both have considerably higher global warming potentials than carbon dioxide (CO₂) (methane 25-fold and nitrous oxide 298-fold) (German Environment Agency, 2016). Therefore, the GHG emission profile of the agricultural sector is very specific: only 2% of emissions in CO₂ equivalents originate from carbon dioxide (mainly from liming of acid soils and urea application), while 55% of GHG emissions come from methane and 43% of GHG emissions from nitrous oxide (European Commission, 2018b). Figure 1 depicts the contribution of the agricultural sectors as a whole as well as specific agricultural practices to total GHG emissions for EU Member States (MS) in 2015.

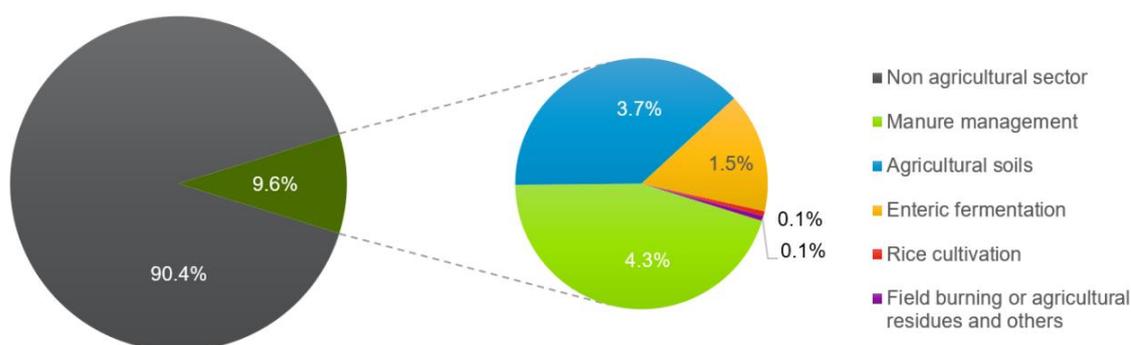


Figure 1: Contribution of agriculture (left) and farming practices (right) to total GHG emissions, EU 28 in 2015

Own illustration based on EEA (Eurostat, 2017).

Agricultural land **also emits substantial amounts of CO₂ as a result of land use changes**, particularly through drainage of peatlands and the conversion of grasslands. Because of methodological difficulties, these emissions are currently not attributed to the agricultural sector but to the “land use, land use change and forestry (LULUCF)” sector and are therefore not included in the aforementioned share. Besides, the agricultural sector is responsible for a major share of ammonia emissions (NH₃), contributing to air pollution in Europe (European Commission, 2017a). The agricultural sector is also **particularly vulnerable to climate change**, e.g. resulting in stagnation of wheat yields in some parts of Europe and additional need for irrigation, placing stress on freshwater resources in certain regions (European Court of Auditors, 2018).

The current CAP (2014–2020) is based on a **two-pillar-system**, which consists of **direct payments to farmers (pillar I)** and the **rural development policy (pillar II)**. The direct payments financed by the **European Agricultural Guarantee Fund (EAGF)** are meant to provide income security for farmers and to offset comparatively high environmental, animal and consumer protection standards from a global perspective. France is by far the biggest recipient of direct payments (almost 18% of direct payments in the period 2015–2020), followed by Germany and Spain (around 12% each) (European Commission, 2013a). On average, these payments account for roughly 40% of farm incomes in the EU (German Federal Ministry of Food and Agriculture, 2015). The second pillar’s main objective is to promote sustainable rural development, which translate into three priorities, i.e. fostering agricultural competitiveness, ensuring sustainable management of natural resources and climate action and achieving a balanced territorial development of rural economies and communities, including job creation (European Parliament, 2018a). Measures under pillar II are financed through the **European Agricultural Fund for Rural Development (EAFRD)** and co-financing from Member States. So-called Agri-environmental and climate measures (AECMs), i.e. farming practices which have beneficial effects on the environment and climate and foster the necessary changes, are part of these measures. Examples of AECMs include conservation tillage, reduced use of chemical inputs or management of habitats.

More than half of the fund’s expenditure is considered to be climate-relevant by the Commission (also see Figure 2), making it the fund with the highest climate expenditure share under the current MFF. The climate share in the EAGF is lower but nonetheless accounts for more than a fifth of the total MFF climate spending in the 2014–2020 period.

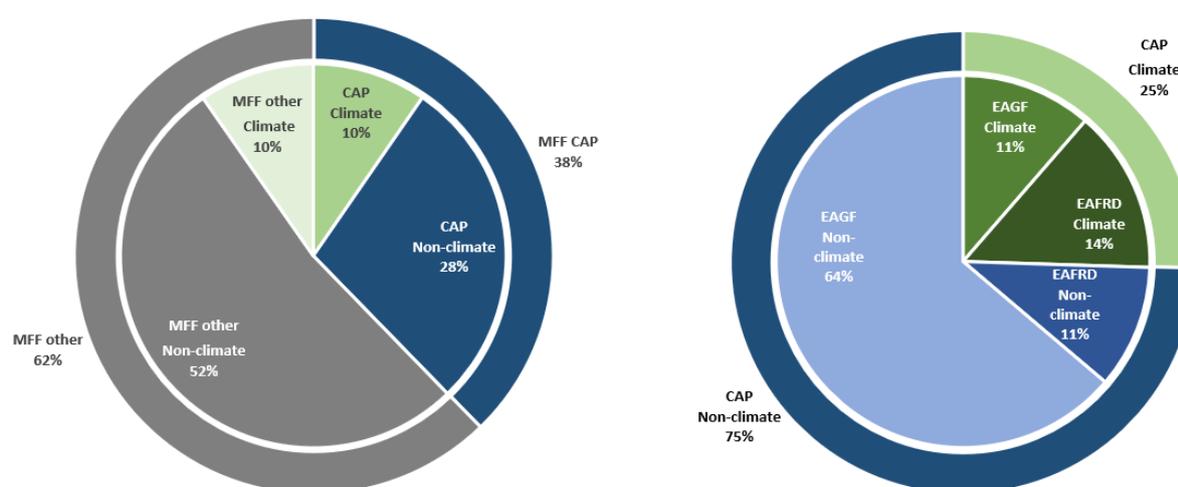


Figure 2: Climate expenditure by policy area/programme under the current MFF

Source: European Commission (2018e)

The CAP was established in 1962 to encourage farmers to produce food by guaranteeing internal prices and incomes. In the following decades, the CAP refocused on quality, safety and affordability of food and on becoming greener, fairer and more efficient. The CAP reform for the current MFF period aimed to increase the agricultural sector’s contribution for the promotion of intelligent, sustainable and inclusive growth. **The core of the reform has been the introduction of so-called “greening” measures in the first pillar**, i.e. an increased alignment of direct payments with environmental and climate goals. Since 2015 farmers receive green direct payments which are tied to their compliance with certain environmentally friendly farming practices and account for 30% of all direct payments.

However, the current system has been criticised by a wide range of actors such as NGOs, researchers and the European Court of Auditors (ECA) for failing to incentivise substantial changes in agricultural practices. In addition, the **climate markers applied to expenditure under pillars I and II are seen to significantly overestimate the CAP’s contribution to climate mainstreaming** (European Court of Auditors, 2016).

During the debate on the State of the Union in 2016, President Juncker announced to modernise and simplify the CAP, also with regard to its contribution to the sustainable development goals. This is particularly relevant since the **Commission’s proposal for the next MFF foresees to earmark more than a quarter of the EU budget to agriculture** (see Table 1).¹ However, the overall CAP budget is foreseen to decrease in comparison to the current MFF, in particular under pillar II.

Table 1: Available funds in the CAP 2014–2020 and post-2020 (in constant 2018 prices)

	EU 28 2014–2020	EU 27 2014–2020	EU 27 2021–2027	% of CAP Total (2021–2027)	EU 27 2014–2020 vs. EU 27 2021–2027
EAGF (pillar I)	€ 309,064	€ 286,143	€ 254,247	78.4%	-11%
EAFRD (pillar II)	€ 102,004	€ 96,712	€ 70,037	21.6%	-28%
CAP Total	€ 411,068	€ 382,855	€ 324,284	100.0%	-15%
Total MFF	€ 1,136,105	€ 1,082,320	€ 1,134,583	–	5%
% CAP in Total MFF	36.2%	35.4%	28.6%	–	–

Source: European Parliament (2018b)

In June 2018, the Commission published a proposal for a regulation establishing rules on CAP Strategic Plans (European Commission, 2018c), which forms the main basis for the future design of the CAP after 2020 together with the proposal for a regulation on the financing, management and monitoring of the CAP (European Commission, 2018d). Against this background, the remainder of this paper discusses the climate-relevant structure of the proposed CAP after 2020, laying down both incentives and barriers for climate action. On this basis, it concludes by proposing policy recommendations for a more climate-friendly design of the CAP post-2020.

¹ Budgets in real terms are compared with the previous budget for the period 2014–2020 (after deduction of expenditure for UK).

2 CLIMATE-RELEVANT STRUCTURES IN THE POST-2020 CAP PROPOSAL

2.1 The greening architecture

Under the Commission proposals for the post-2020 CAP, **the two-pillar structure** of the current CAP is retained. Under pillar I, farmers continue to receive direct payments on an annual basis subject to certain basic rules and environmental standards from the EAGF. Under pillar II, the EAFRD continues to serve as a multiannual and flexible instrument to finance voluntary actions for rural development, including climate-relevant measures (European Parliament, 2018c).

The guiding principle of the post-2020 CAP proposals is to transfer more responsibility to MS and to create more subsidiarity as compared to the current CAP with the help of **a new performance-based delivery model** (Matthews, 2018). While the EU sets the policy's cornerstones such as objectives of the CAP, broad types of interventions, basic requirements (e.g. with regard to environmental standards or indicators), MS have wide-ranging responsibilities in the CAP implementation process, such as deciding on their own set of measures under pillar I and II as well as on the specific design of conditionalities as part of their CAP Strategic Plans subject to approval by the Commission. Annex I provides a more detailed overview of the CAP Strategic Plans' content requirements as currently foreseen by the CAP Strategic Plans regulation.

The starting point for the new greening architecture is the commitment to pursue a **greater level of environmental and climate ambition** (e.g. Article 92 of CAP Strategic Plans regulation proposal). Article 5 of the regulation proposal outlines three general objectives of the CAP post 2020, of which objective (b) aims "to bolster environmental care and climate action and to contribute to the environmental- and climate-related objectives of the Union". Article 6 specifies nine CAP objectives, of which three are environmental- and climate-related, namely: (d) to contribute to climate change mitigation and adaptation, as well as sustainable energy; (e) to foster sustainable development and efficient management of natural resources such as water, soil and air; (f) to contribute to the protection of biodiversity, enhance ecosystem services and preserve habitats and landscapes.

The proposed greening architecture in pillar I consists of a new system of **enhanced conditionality** (Article 11 and 12) as well as new rules on the schemes for the climate and the environment (Article 28), the so-called "**eco-schemes**". For pillar II payments, AECMs continue to exist as a voluntary payment scheme referred to as **environment and climate management commitments** (Article 65). Figure 3 gives a comparative overview of the new and old greening architecture of the CAP.

The new **system of enhanced conditionality** comprises the existing SMRs and GAECs, complemented by the three greening requirements of the current CAP: GAEC 1 *Permanent Grassland*, GAEC 8 *Crop rotation* (currently Crop diversification) and GAEC 9 *Non-productive features or areas* (currently Ecological focus areas and GAEC 7). In addition, new requirements are proposed (e.g. GAEC 2 *Protection of wetland and peatland*) and the SMRs have been extended in the area of the environment, now including requirements arising from the Water Framework Directive and the Directive on the sustainable use of pesticides. In total, the CAP Strategic Plans regulation proposal stipulates 16 SMRs and 10 GAECs that aim to establish minimum requirements with respect to the climate (GAEC 1 to 3), water quality and soil (GAEC 4 to 8) and biodiversity (GAEC 9 to 10).

Table 2 gives a comparative overview of GAECs in the new system of conditionality directly relating to climate change. Annex II gives a comparative overview of all GAECs under the current CAP and the post-2020 CAP. Note that SMRs are not depicted, since neither existing nor future SMRs are directly climate-relevant, but rather refer to water and biodiversity (see Annex III of CAP Strategic Plans regulation proposal).

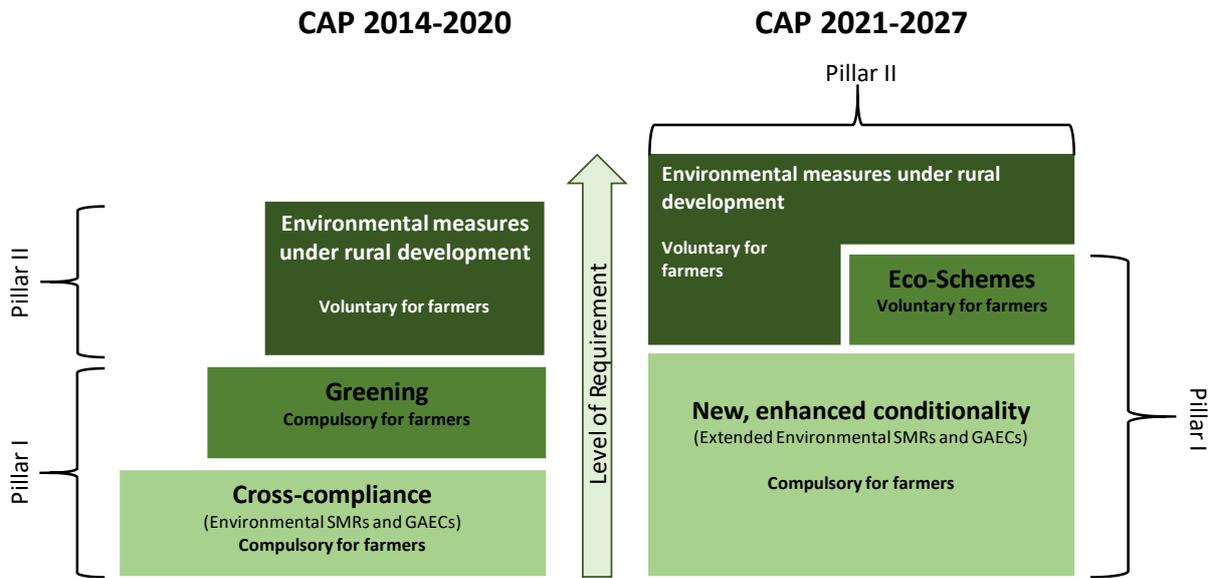


Figure 3: The greening architecture in the current and post-2020 CAP

Own elaboration based on European Parliament (2017)

According to Article 12 of the CAP Strategic Plans regulation proposal, MS are obliged, on national or regional level, to define minimum standards in line with the objectives of these GAEC requirements as set out in Annex III of the regulation for recipients of direct payments (see Table 2 and Annex II), thereby taking into account the specific local circumstances of affected areas (e.g. soil and climatic conditions, land use, farming practices, farm structures). MS may also prescribe standards in addition to those listed in Annex III of the CAP Strategic Plans regulation proposal, provided they are in line with the CAP’s primary objectives mentioned in Article 5.

Table 2: Overview of GAEC requirements (climate change) in the new system of conditionality and in the current CAP

2014–2020 GAEC requirements	Post-2020 GAEC requirements	Comments
Climate Change		
	GAEC 1: Maintenance of permanent grassland based on a ratio of permanent grassland in relation to agricultural area	Currently a greening requirement: obligation to restore permanent grassland, if reduction relative to reference level > 5% Currently climate coefficient of 100%
	GAEC 2: Appropriate protection of wetland and peatland	New GAEC requirement
GAEC 6: Maintenance of soil organic matter level through appropriate practices including ban on burning arable stubble, except for plant health reasons	GAEC 3: Ban on burning arable stubble, except for plant health reasons	Adapted GAEC requirement

Eco-schemes are optional environmental and climate rules that qualify farmers to receive a certain amount of annual area-based direct payments which are to be determined by MS in their Strategic Plans. The implementation of eco-schemes is mandatory for MS and must be financed from the pillar

I budget. The same applies for the preparation of lists of farming practices beneficial for the environment and climate, which form the basis for determining the eligibility for direct payments under the eco-schemes. In any case, direct payments granted through eco-scheme need to be tied to practices that go beyond the relevant conditionality requirements and should be different from obligations, for which payments are granted under pillar II.

Article 65 incorporates the various AECMs available under the current pillar II under the so-called **environment, climate and other management commitments**, which are voluntary for farmers. In principle, interventions under Article 65 of the CAP Strategic Plans regulation are considerably broader than the AECMs of the current CAP and can target any of the nine specific targets set out in Article 6(1). However, at least 30% of total pillar II budget is reserved for interventions addressing the specific environmental and climate-related objectives set out in points (d), (e) and (f) of Article 6(1) according to Article 86(2) of the CAP Strategic Plans regulation proposal. Annex III provides a comparison of eco-schemes (pillar I) and environment & climate management commitments (pillar II).

For the post-2020 CAP, the CAP Strategic Plans regulation proposal also foresees the introduction of a **performance bonus** for MS achievement of environmental and climate targets (Article 123), which replaces the performance reserve in the current period. More specifically, the Commission would hold back 5% of each country's financial allocation for 2027, which would be released as a bonus to MS in 2026 in case the annual performance review demonstrates that the environmental and climate targets set as part of the Strategic Plans process are achieved (i.e. at least 90% of target value in 2025).

Finally, the CAP Strategic Plans regulation proposal stipulates that **40% of overall expenditures under the CAP post-2020 are expected to contribute to climate objectives** (Article 87). Climate markers will continue to attribute the degree of climate relevance to the different expenditure categories. Against this background, Article 87 of the CAP Strategic Plans regulation proposal assigns the following weighting factors to expenditures under the different payments schemes in order to track their contribution to the CAP's overall expenditure target:

- 40% for expenditure related to direct payments (pillar I) under the basic income support for sustainability and the complementary income support as well for natural or other area-specific constraints, i.e. contributing to climate change objectives to a moderate degree.
- 100% for expenditure under the eco-schemes (pillar I), i.e. contributing significantly to climate change objectives.
- 100% for expenditure counting towards the 30% for environmental and climate management commitments (pillar II), i.e. contributing significantly to climate change objectives.

2.2 Incentives for climate action

In principle, the introduction of the new **system of enhanced conditionality** combining the current greening and cross-compliance requirements is a step towards more sustainable and climate-friendly development. Besides the extension of the SMRs by the Water Framework Directive as well as the Directive on the sustainable use of pesticides, the list of GAECs have been specified and extended by new elements (see Table 2 and Annex II). In the context of the climate-friendly design of the post-2020 CAP, the introduction of GAEC 2 on the appropriate protection of wetlands and peatlands is to be welcomed, given their relevance as carbon sinks. An increase in the scope of conditionalities arises from the fact that unlike in the current CAP the new enhanced conditionality generally applies to all farms without exemptions, e.g. including small farms. However, MS may be allowed to define exemptions for certain farmers as part of their Strategic Plans (Matthews, 2018).

Moreover, the **flexibility for MS**, e.g. in the setting of conditionalities and eco-schemes, gives MS a set of instruments to be environmentally ambitious if they choose so, however, without far-reaching regulatory constraints if they do not (see also section 2.3). Devolving more responsibility to MS to decide on which targets to follow and the type of measures to be undertaken may also create

opportunities for a more tailored use of public money, thus potentially delivering better results in terms of climate impact and a more coherent set of interventions (Hart, Baldock, & Tucker, 2018).

The 30% ring-fencing of **pillar II budget for environment and climate management commitments** and excluding payments for areas with natural constraints (included in the current CAP) means that payments for environment-related measures in areas of natural constraints (e.g. mountainous areas) will be on top of the 30% spending requirement for rural development. As such, this can potentially act as an additional incentive to increase spending on these objectives. Moreover, according to Article 90 of the CAP Strategic Plans regulation proposal, MS may transfer up to 15% of the EAGF to the EAFRD and an additional max. 15% of EAGF funds to the EAFRD, provided they are used for the specific environmental and climate-related objectives set out in Article 6(1). In case this option is used by MS, this provision may also create additional impetus for climate action.

2.3 Barriers for climate action

Despite its own calls for a more ambitious CAP in the area of the climate and the environment, the CAP proposals **do not demonstrate a significant increase in its ambition**. While they incorporate instruments to address climate-related goals, MS are largely responsible for choosing the types of intervention they are willing to finance in their CAP Strategic Plans. In a similar vein, the Commission claims that 40% of the total CAP budget post-2020 will contribute towards achieving the EU target of reducing EU GHG emissions by 40% relative to 1990. However, the real **contribution of the CAP to climate-related expenditures remains unclear**, since it would largely depend on which measures MS chose to implement in their CAP Strategic Plans and how ambitious they are.

The specific objectives in Article 6 of the CAP Strategic Plans regulation proposal, including climate and environment targets (d), (e) and (f), are **underspecified and do not provide quantified targets**. For example, the specific target on climate merely sets out to “contribute to climate change mitigation and adaptation, as well as sustainable energy”.

In general, the **continued major reliance on direct payments** as part of the post-2020 CAP architecture can be criticised given that annual per hectare payments are not able to adequately account for many environmental and climate concerns. In particular, they cannot be differentiated by different intervention categories creating specific benefits for the climate and the environment through certain farming practices.

The **overall complexity of the greening architecture remains**. While the greening concept itself would be abolished in the post-2020 CAP, the introduction of eco-schemes would still result in three different environmental/climate instruments, i.e. conditionalities for direct payments (Article 11), eco-schemes financed by the EAGF (Article 28) and environment and climate management commitments financed by the EAFRD (Article 65). This complexity might impede an efficient use of public money for climate benefits. At the same time, given that Article 90 of the CAP Strategic Plans regulation proposal provides for the possibility of a transferal of up to 15% of the EAFRD to the EAGF, this may potentially erode the 30% budget share devoted to AECMs in pillar II.

As part of the new system of **enhanced conditionality**, MS have substantial freedom and flexibility in the concrete design and implementation of their respectively applicable conditionalities as part of their CAP Strategic Plans. Annex III of the CAP Strategic Plans regulation proposal only provides a very general overview of SMRs and GAECs and their objectives as a basis for standards defined on national or regional level. Depending on the level of ambition demonstrated by MS and how strictly the Commission assesses these requirements, standards may well turn out to be relatively weak, thus inhibiting the CAP's overall climate contribution.

Moreover, and despite the new term “**conditionality**” as a successor to cross-compliance and greening, direct payments would not really be conditional on meeting certain basic environmental and climate requirements. Rather, MS would penalise beneficiaries in case of non-compliance with these

requirements (European Court of Auditors, 2018). More specifically, the proposed penalty system for greening requirements now included as part of conditionality is weaker than under the current CAP, thus creating less deterrence for non-compliance.

While MS are obliged to introduce **eco-schemes**, no explicit budget share would have to be earmarked by MS, leaving it at their discretion on how well these schemes are financed. This may well result in available budgets for eco-schemes to be relatively low on average, given the relatively low climate ambition in agriculture demonstrated by many MS in the past. Moreover, these schemes would be voluntary for farmers, thus granting an opt-out from potentially more ambitious requirements promoting climate and/or environmentally friendly farming practices, unlike in the previous greening payments which are mandatory for all farmers receiving direct payments. Given these shortcomings, it seems unlikely that the Commission's proposal for a voluntary eco-scheme would adequately replace the current minimum allocation of 30% of pillar I funds to the greening payment despite the latter's limited impact on farming practices.

The proposed **governance architecture** in its current form seems to be unfit to ensure Member States' climate ambition. In particular, accountability is limited (while subsidiarity is increased) and the possibility to establish an efficient intervention logic is weak. While the CAP Strategic Plans regulation proposal stresses a higher ambition with regard to climate and environment objectives, it remains unclear how exactly the Commission aims to ensure, i.e. to assess and measure, Member States' ambition, given that the latter would be largely determined in the national CAP Strategic Plans.

Weighting expenditures for the basic income support with 40% towards the climate-related expenditure target likely **overestimates the real climate contribution** of pillar I payments. As a result, it potentially inflates the CAP's overall contribution to climate-related targets, given the high share of basic income support expenditures in the total CAP budget (see Table 1). Such overestimation might well lead to lower financial allocations to other climate-relevant policy areas to achieve the proposed MFF-wide 25% climate expenditure target and as a consequence reduce the overall EU spending on climate change mitigation and adaptation.

Only limited impact can be expected from the **financial performance bonus** for environmental and climate targets, as the financial incentive for MS to achieve climate-related objectives is relatively low (European Court of Auditors, 2018)). Moreover, the performance bonus may well act as a perverse incentive, i.e. to avoid missing the target in 2026, MS may be incentivised to set targets as low as possible (Matthews, 2018).

Finally, the **reduced budget for the post-2020 CAP**, in particular for pillar II payments (see Table 1) comes with the risk that the stated higher level of ambition for environmental- and climate-related objective may not be realised due to a lack of funding.

2.4 Responses by EU Co-legislators to the CAP proposal

In general, the European co-legislators agree on the CAP objectives proposed by the European Commission. However, the **European Council** stressed that new performance requirements could result in additional administrative burdens. The **European Parliament**, on the other hand, warned that national Strategic Plans could fail to meet environmental objectives set at EU level. An overview of responses by the European Council, the European Parliament's Committee on Agriculture and Rural Development, the Committee on Development, the Committee on the Environment, Public Health and Food Safety and the Committee on Budgets with regard to the post-2020 CAP proposals by the European Commission in the area of the environment and climate can be found in Annex IV.

3 RECOMMENDATIONS FOR A CLIMATE-FRIENDLY DESIGN OF THE POST-2020 CAP

The following section provides policy recommendations in line with a more climate-friendly design of the post-2020 CAP based on our assessment of incentives and barriers for climate action in the previous sections. Recommendations are structured along three main intervention areas.

3.1 More ambitious and specified climate targets within the CAP

Objectives should be quantified at EU level as well as complemented by relevant legislation and objectives of other EU policies in order to increase their results-orientation and to enable monitoring. To this end, Article 6 of the CAP Strategic Plans regulation proposal could be amended by:

- Including a provision for CAP to contribute to significantly reducing GHG emissions from agriculture in line with the Paris Agreement and Union's climate targets;
- Setting a new EU target, e.g. requiring net-zero GHG emissions for the agricultural sector as a whole until 2050, including setting quantified EU targets for agriculture for methane and nitrous oxide emissions;
- Ensuring that GHG emissions absorbed from land use, land use change or forestry (LU-LUCF) are at least equivalent to the emitted amount (in line with LULUCF regulation of May 2018).

Moreover, established EU climate and energy targets could be included in the description of **how CAP Strategic Plans should be assessed** (e.g. in Article 106 'Approval of the CAP Strategic Plan'). For example, it could be set out that the agricultural sector shall contribute to the Commission's long-term vision for a climate neutral Europe by 2050 and the implicit GHG emissions target in the recently negotiated Clean Energy for all Europeans package, which, if fully implemented, will result in a 45% cut in GHG emissions in 2030 compared to 1990 levels (European Commission, 2018f).

Finally, the **principle of 'no backsliding'** compared to the CAP 2014-2020 articulated in Article 92 of the CAP Strategic Plans regulation proposal should be strengthened. This could be implemented by including the requirement to increase the absolute and/or relative share of financial support for climate and environmental objectives. Given the context of the Paris Agreement, ambition should be scaled up significantly.

3.2 Reform of CAP architecture and governance

In case the **current two-pillar architecture is retained in the post-2020 CAP** as currently proposed, improvements to the foreseen instruments should be made to increase overall climate ambition.

For the **eco-schemes (pillar I)**, setting a mandatory budget share of the national pillar I envelopes and/or earmarking specific funds for climate action could increase the actual contribution of these schemes to climate objectives across countries. At the same time, it could increase the justification of a 100% climate marker for expenditures under these schemes. The budget share for eco-schemes should at least be as high as the current pillar I share for greening measures, i.e. at least 30%. In any case, it should be set at a level that adequately accounts for the high ambition with respect to the CAP's environmental performance. In addition, eco-schemes could be given the flexibility to finance more targeted action-based (e.g. farm-specific payment) or performance-based (e.g. point systems) schemes rather than solely relying on per hectare payments. This would give more weight to the results-based delivery systems aspired by the CAP Strategic Plans regulation proposal.

In the context of the new **system of enhanced conditionality**, climate-related standards should be specified in more detail at Union level and could be extended by additional climate-relevant GAECs (see Annex V). New and enhanced GAECs could account for the largest emission sources in the area of the CAP more adequately (e.g. methane and nitrous oxide from animal husbandry and nitrous oxide from agricultural soil) and better justify a 40% weighting of direct payments. In any case, it should be ensured that climate-relevant conditionalities incorporated from the previous greening system into the new enhanced conditionalities (e.g. GAEC 1 and 9) are specified at least at the same ambition level as under the current CAP.

Given the increased environmental ambition of the CAP Strategic Plans regulation proposal as well as the fact that AECMs (pillar II) have been repeatedly identified as an effective instrument to achieve environmental objectives (Mottershead, et al., 2017), the currently foreseen disproportionate budget cuts for pillar II funding should be reconsidered. To avoid below average availability of MS funds under pillar II, the flexibility to shift funds from pillar II to pillar I should be restricted. Moreover, setting higher minimum budget thresholds for spending on **environmental and climate management commitments (pillar II)** beyond the currently foreseen 30% would support the expressed higher environmental ambition with the required funds. For some areas with a high EU-wide effect, such as the protection of peatlands, a 100% financing by the EU without additional co-funding from MS may be appropriate in order to create additional incentives to implement such programs under pillar II.

A more fundamental (and more ambitious) reform of the CAP would include the **abolishment of the current two-pillar structure**. In line with a new guiding principle, payments to farmers would be generally made fully contingent on the provision of certain public goods (e.g. climate and environment benefits) that are not adequately remunerated by the market, e.g. via the payment of performance-based bonuses or other financial incentives. This would go hand in hand with the abolishment of the direct payment system in its current form.

The overall **governance of the post-2020 CAP** should be designed in a way that targets, conditionalities and measures with climate relevance set out by MS in their Strategic Plans are in fact able to contribute to the specific climate targets outlined in Article 6(1). To increase overall accountability, a move towards performance and more responsibility at MS level also requires more clearly defined approval processes for CAP Strategic Plans and better performance monitoring procedures than currently proposed. Moreover, a stronger sanctioning system is required to ensure compliance with the applicable rules and conditions for the respective payment schemes.

The **approval procedure of CAP Strategic Plans** is the strongest mechanism at the Commission's disposal to ensure targeted and ambitious planning. Given the flexibility granted to MS in setting up their CAP Strategic Plans, the provisions setting out the approval and performance monitoring process of CAP Strategic Plans (Article 106 of the CAP Strategic Plans regulation proposal) should consider the following points:

- It should be specified under which conditions and according to which criteria the Commission can reject national Strategic Plans. In particular, set objectives and targets should be verifiable and consistent with the needs and priorities identified by MS and they must contribute to the achievement of EU objectives and targets.
- Safeguards need to be included so that MS target setting does not fall short of the required climate ambition. This could be done by setting minimum ambition levels for result indicators.
- Allocation of primary responsibility in this process to policy and administration should be determined based on the respective expertise available, in order to create a balanced approach and pool sufficient administrative resources. As such, responsibility for CAP elements mainly addressing environmental and nature-specific objectives should lie with environmental and nature conservation policy and administration (e.g. DG ENV and CLIMA, ENVI Committee), while elements mainly addressing agricultural and income policy objectives should be with agricultural policy and administration (e.g. DG AGRI, AGRI Committee)

- In a similar vein, this process should be accompanied by active and balanced stakeholder consultation, including environmental NGOs. Binding requirements regarding the composition of involved actors in the process as well their respective responsibilities in decision-making, evaluation and monitoring should be clearly laid down in the regulation.
- At the same time, the planned monitoring and sanctioning system provided for in Articles 84 to 86 of the CAP horizontal regulation proposal should lead to an effective enforcement of set conditionalities and rules applicable in the respective payment schemes. Otherwise, MS may e.g. interpret conditionalities set at Union level too lax with the result that the actual climate contribution of direct payments is lower than expected. For example, penalties in case of non-compliance with conditionalities could be set in line with the stricter penalties currently in place under greening so as to increase deterrence. Moreover, minimum monitoring frequencies could be set at EU level.
- In light of little MS experience with the programming of various CAP instruments in one Strategic Plan, investment in capacity building for the drafting, implementation and monitoring of CAP Strategic Plans might be required in some countries to avoid diverging policy implementation between countries, as this may lead to decreasing standards and thus a weakening of the CAP. An increased budget for technical assistance could be incorporated to alleviate some of these risks.

3.3 Climate contribution of CAP expenditures

Rather than applying a 40% climate marker for all direct payments on the basis of standards prescribed as part of the system of conditionality, the contribution could be more reliably estimated by using this weighting factor only for direct payments in areas where such payments lead to actual changes in farming practices that promote climate change mitigation, e.g. protecting wetland and peatland, or where payments are necessary to maintain such farming practices. However, this would require a more complex **case-by-case approach** and would likely lead to higher administrative burden. One approach in this respect would be to require the Commission to carry out scientific studies ex post to determine a realistic contribution of activities funded under the CAP to GHG emissions reductions. On the basis of these studies, a more accurate tracking methodology than the current use of climate markers could be proposed.

An alternative approach to a case-by-case assessment of CAP interventions would be a **more realistic configuration of the attribution of direct payments** to the CAP's climate-related expenditure goal of the post-2020 CAP. In this case, all direct payments outside the eco-schemes would continue to count towards the climate expenditure target, but the actual climate marker would be set at a lower level to better reflect the actual climate contribution of pillar I payments. To account for different levels of ambition in the design of conditionalities on national or regional level and to better reflect the amount of actually climate-relevant GAECs, an additional factor preceding the climate coefficient of 40% could be used. This factor should be set conservatively so as to avoid an overestimation of climate contributions. It could, for instance be set on the basis of the share of climate-relevant GAECs as well as a risk factor to reflect incoherent levels of ambition of national standards. Annex V provides an overview of proposed climate coefficients for each of the GAEC standards. Building on that, a pre-factor could be elaborated according to the share of climate-relevant standards in the total amount of foreseen GAEC minus a risk factor. Alternatively, this pre-factor could be based on the share of farmland with expected change towards more climate-friendly farming practices. Figure 4 depicts this framework for the assessment of the climate contribution of direct payments.

With regards to the attribution of expenditures under the **eco-schemes** to the CAP's climate quota, expenditures should only be weighted with 100% if climate-relevant interventions are in fact a significant part of the national eco-scheme under consideration. This seems necessary, since eco-schemes according to Article 28 of the CAP Strategic Plans regulation proposal may serve climate mitigation

objectives but could in principle only serve one of the specific environment objectives listed in Article 6(1), points (d), (e) and (f) (e.g. only protection of biodiversity).

Share of direct payments		Contribution to climate		Climate coefficient	Climate contribution of direct payments
Eco-schemes (A %)	X	Climate mitigation is primary objective (a %)	X	100%	= A% × a% × 100%
	X	Climate mitigation is significant, but not primary objective (b %)	X	40%	= A% × b% × 40%
	X	Not targeted at climate mitigation (c %)	X	0%	= A% × c% × 0%
Other direct payments (100 – A%)	X	Contribution factor based on i. Share of climate-relevant GAEC or ii. Share of farmland with expected change in farming practices	X	40%	= (100-A)% × pre-factor × 40%

Figure 4: Proposed framework for climate contribution of direct payments

Finally, expenditures as part of **environment and climate management commitments under pillar II** should only be fully attributed to the CAP’s climate expenditure target, i.e. with a 100% climate marker, if the financed intervention mainly contributes to climate mitigation rather than other environmental objectives outlined in Article 6(1) such as the promotion of biodiversity. The identification of climate contributions of pillar II interventions should thus be primarily done on a case-by-case basis in line with the interventions designed at national level, rather than attributing a blanket 100% climate marker to all environment and climate management commitments.

4 SUMMARY OF EXPERT DISCUSSIONS

This section summarises the discussions during the third meeting of the Expert Network on Climate Finance in the EU on “Greening the EU Budget for a Climate-friendly Common Agricultural Policy” held in Brussels on 5 March 2019. The previous chapters of this report have served as a background for the discussions of the expert network group.

Climate mainstreaming

Strategic Plans

Article 106 of the CAP Strategic Plans regulation ensures that plans are checked for ambition by the Commission e.g. with regard to GAECs. The Commission should reject plans that do not show net improvements (e.g. more biomass and/or less animal husbandry). Participants stressed that it remains unclear how the Commission will assess Strategic Plans. There should be clear conditions and criteria to reject plans. In addition, the Commission needs a legislative tool to negotiate Strategic Plans with MS.

Two pillar structure/instrument mix

Participants agreed that there should be a greater focus on sustainability, food security, biodiversity, animal welfare, water etc. through targeted payments rather than direct payments. At the same time, conditionalities for direct payments should be reinforced. New tools should be used to use funds more efficiently under pillar II.

Eco-schemes

There is a risk of a race to the bottom in terms of climate ambition. Ambitious countries can choose to spend a larger share of funds on Eco-schemes rather than basic payments. It was argued that MS should prove that they have truly enhanced conditionalities, if they spend less than 30% under pillar I on Eco-schemes.

Eco-schemes could also help reduce complexity and the number of measures under pillar II. Some participants argued that a decrease in funds for pillar II is not necessarily a disadvantage for climate action. However, it remains unclear how other MS could be incentivised to also raise ambition. In this context, reducing the climate marker for Eco-schemes could send the wrong signal despite an arguably more realistic representation of climate expenditures. In any case it should be ensured that Eco-schemes are at least as ambitious as the current greening measures.

Participants also questioned the climate benefits of Eco-schemes if they would last only for one year because only multiannual commitments would lead to significant outcomes.

Performance bonus

The performance bonus would be based on the existing performance reserve and is a good tool to foster more ambition in theory. However, the council remains skeptical about the proposals.

Rio markers

There are significant overestimations of climate contributions in the current CAP. Some participants proposed to consider net climate impacts. For example, where coupled subsidies lead to emissions

above baseline, a -40% or -100% marker could be applied. However, such impacts are difficult to measure and coupled subsidies only have a small share in the overall CAP budget.

Other participants believed that the climate marker system cannot be changed significantly ahead of the next MFF but stressed that some improvements with regard to consistency have been made in the current proposals. For example, the 100% marker will no longer be applied to areas under natural constraints.

It was argued that Rio markers provide the best available estimates because it is difficult to track CAP climate expenditures on a more granular level, e.g. by differentiating between adaptation and mitigation. Rio markers need to be based on a single methodology that can be consistently applied to all spending areas, including e.g. research or energy. Besides, they build on an internationally recognised methodology.

Some participants argued that there is a risk that outsiders perceive direct payments as payments that are beneficial for the environment which is arguably not the case. On the other hand, it was stressed that the 40% marker for direct payments is applied to reflect that the payments result in a certain level of climate action.

Linking payments to emission reduction results

Some participants argued that the Rio markers and the climate mainstreaming target ultimately do not matter and that emission reduction results are ultimately more relevant. However, estimates for emissions from agriculture are very uncertain, therefore links between spending and emissions are even less clear.

According to one participant, part of the pillar II funding could be used to assess the CAP's real climate contribution and to accurately define climate markers. On the other hand, it was argued that commitments are used to classify climate spending because evaluations take a long time. Since information is only available retrospectively, there is not sufficient time to scale up ambition where needed given the urgency to reduce emissions. In addition, MS do not want additional administrative burdens.

In the longer term, there could be carbon budgets which could be considered in CAP assessments, provided that MS would be willing to be assessed.

CAP climate contribution in the context of the 25% target

If climate expenditures under CAP (40%) were to be reflected more accurately, climate finance in other funds should be scaled up. Without realistic climate targets for CAP, other programmes will not balance out the lack of ambition.

Subsidiarity

Participants identified the tension between subsidiarity and the EU's interest in influencing how a major share of its funds is spent as a key challenge. It was argued that the EU should try to green the CAP funds as much as possible. Subsidiarity requires substantial accountability to reduce the risk of distortions in ambition between MS, as the level of ambition is decided on MS level.

The current CAP

According to one estimate only 0.8% of the second pillar payments were dark green, which stresses the need for more dark green measures. Some participants stressed that there are already good instruments in some MS and that some farmers take significant climate action. Policymakers should

also bear in mind that farming incomes sometimes barely cover the costs for investments in machinery etc.

No backsliding

The principle of “no backsliding” in terms of climate-related objectives is insufficient in the context of the Paris Agreement. It was stressed that all sectors need to drastically reduce emissions and that transport and agriculture are lagging behind in particular.

National spending targets

Some participants proposed that there could be minimum spending targets for climate action (and potentially biodiversity) on country level to avoid reliance on other countries to contribute to the overall targets for CAP. However, the Effort Sharing regulation suggests that ambition could and should differ across MS.

Meat consumption and production

Animal husbandry in the EU is linked to deforestation and corresponding emissions worldwide due to fodder needs. Switching to local supplies can have positive climate impacts. Participants stressed that farmers will not switch to other products if demand for meat persists.

Co-ownership

Participants criticised that climate and environment ministries often get little say during CAP negotiations – especially final decisions – and stressed the need for true co-ownership.

Adaptation

Adaptation should not be neglected in the context of a climate-friendly design of the CAP. Drought control, floods, etc. also pose significant challenges that need to be addressed.

Changing agriculture beyond the CAP

Participants noted that the CAP alone cannot make European agriculture more sustainable. Other measures such as taxes on meat consumption could be considered. In addition, there are other legislative instruments to steer adaptation in the agriculture context.

Long-term vision

There is no real long-term vision for agriculture. Some participants called for an abolishment of the current two pillar structure. The CAP needs to be reinvented and truly focus on sustainability, otherwise the CAP will continue to decrease in size in the light of ever new challenges such as migration, security, or Brexit.

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