Greening: a more complex income support scheme, not yet environmentally effective

(pursuant to Article 287(4), second subparagraph, TFEU)
Audit team

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This report was adopted by Audit Chamber I — headed by ECA Member Phil Wynn Owen — which specialises in sustainable use of natural resources. The audit was led by ECA Member Samo Jereb, supported by Jerneja Vrabic, private office attaché; Robert Markus, principal manager; Michal Machowski, head of task. The audit team consisted of Aris Konstantinidis, Paivi Piki, Carlos Sanchez Rivero, Dainora Venckeviciene and Krzysztof Zalega.

*From left to right:* Aris Konstantinidis, Paivi Piki, Robert Markus, Michal Machowski, Samo Jereb, Dainora Venckeviciene, Jerneja Vrabic.
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Reply of the Commission
GLOSSARY AND ABBREVIATIONS

**CAP:** Common Agricultural Policy. The set of legislation and practices adopted by the European Union to provide a common, unified policy on agriculture. The initial measures were introduced in 1962. Since then, the policy has been adapted and developed and has undergone a number of reforms.

**Cross-compliance:** A system linking most CAP payments to a set of basic standards to ensure the good agricultural and environmental condition of land (GAECs) and certain obligations, known as statutory management requirements (SMRs). SMRs are defined in the respective EU legislation on the environment, climate change, public, animal and plant health, and animal welfare.

**Deadweight effect:** A situation where a subsidised activity or project would have been wholly or partly undertaken without the public aid.

**Direct payments:** Aid granted directly to farmers to provide them a safety net. They mainly take the form of a basic income support, not linked to production. They help to stabilise farmers’ income stemming from sales on the markets, which are subject to volatility. Direct payments are made from the European Agricultural Guarantee Fund, commonly referred to as ‘Pillar I’ of the CAP.

**DG AGRI:** the European Commission’s Directorate-General for Agriculture and Rural Development.

**DG CLIMA:** the European Commission’s Directorate-General for Climate Action.

**DG ENV:** the European Commission’s Directorate-General for Environment.

**EFA:** Ecological Focus Areas. Land on farms dedicated to specific practices or features beneficial for the environment. Under greening, farms generally have to dedicate at least 5 % of their arable land to EFAs.

**ESPG:** Environmentally sensitive permanent grassland. Parcels of permanent grassland, primarily those located inside Natura 2000 areas, designated by Member States because of their importance for biodiversity, in particular for protected grassland species and habitats.
Under greening, such parcels are protected against conversion to other land use or ploughing.

**EU**: the European Union.

**GAEC**: Good Agricultural and Environmental Condition. Collective term for a set of basic standards, applicable under cross compliance, defining good agricultural and environmental condition of land.

**Holding**: a farm, i.e. all the land and animals situated within the territory of the same Member State, managed by a single farmer (who may be natural or legal person, or a group of such persons) and used for agricultural activities.

**JRC**: Joint Research Centre. A Directorate-General of the European Commission.

**Natura 2000**: The largest coherent ecological network of conservation areas in the world, covering 18% of land across the EU and substantial marine areas.

**Pillar I of the CAP**: Part of the Common Agricultural Policy encompassing direct payments to farmers and market measures.

**Pillar II of the CAP**: Part of the Common Agricultural Policy encompassing rural development measures.

**Rural development**: An EU policy, commonly referred to as Pillar II of the CAP, addressing the economic, environmental and social needs of EU rural areas. Rural development payments are made from the European Agricultural Fund for Rural Development, with Member State co-financing.

**SMR**: Statutory Management Requirements. A collective term for a set of obligations defined in the respective EU legislation on the environment, climate change, public, animal and plant health, and animal welfare, and applicable under cross-compliance.
EXECUTIVE SUMMARY

I. Greening (or the green payment) is a new type of direct payment to farmers introduced with the 2013 reform of the Common Agricultural Policy (CAP). It was designed to implement the principle that farmers should be rewarded for the public goods they provide. Through this mechanism greening was meant to enhance the environmental performance of the CAP.

II. This report presents the findings of our audit on greening. Our main audit question was whether greening was capable of enhancing the CAP’s environmental and climate performance, in accordance with the objective set in the EU legislation.

III. In order to reply to that main audit question, we examined:

- intervention logic, existence of clear and sufficiently ambitious targets for greening and the justification for the policy’s budget allocation;
- benefits that greening can be expected to produce for the environment and climate;
- complexity which greening adds to the CAP.

IV. Overall we conclude that greening, as currently implemented, is unlikely to significantly enhance the CAP’s environmental and climate performance.

V. We found that the Commission did not develop a complete intervention logic for the green payment. Nor did it set clear, sufficiently ambitious environmental targets that greening should be expected to achieve. Furthermore, the budget allocation for greening is not justified by the policy’s environmental content. The green payment remains, essentially, an income support scheme.

VI. We also found that greening is unlikely to provide significant benefits for the environment and climate, mainly because of the significant deadweight which affects the policy. In particular, we estimate that greening led to changes in farming practices on only around 5% of all EU farmland.
VII. Finally, we found that the policy’s likely results do not justify the significant complexity which greening adds to the CAP. Part of this complexity results from overlaps between greening and other environmental instruments of the CAP, including standards on good agricultural and environmental condition of land (GAECs). Greening resembles GAECs in that it is also, essentially, a set of basic environmental conditions applicable to income support.

VIII. On the basis of these findings, we make the following recommendations:

- For the next CAP reform, the Commission should 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 up-to-date scientific understanding of the phenomena concerned.

- As preparation for developing its proposal for the next CAP reform, the Commission should review and take stock of the implementation of the current CAP. In building its proposal, the Commission should be guided by the following principles:

  - Farmers should only have access to CAP payments if they meet a set of basic environmental norms encompassing areas covered by the current GAECs and the generalised greening requirements (which are both meant to go beyond the requirements of environmental legislation). Penalties for non-compliance with these combined norms should be sufficient to act as a deterrent. In addition, all such basic norms should be fully incorporated in the environmental baseline for any programmed action regarding agriculture.

  - Specific, local environmental and climate-related needs can be appropriately addressed through stronger programmed action regarding agriculture that is based on the achievement of performance targets and funding reflecting an assessment of the average costs incurred and income foregone in relation to actions and practices going beyond the environmental baseline.

  - When Member States are given options to choose from in their implementation of the CAP, they should be required to demonstrate, prior to implementation, that the options they select are effective and efficient in terms of achieving policy objectives.
INTRODUCTION

1. The European Union (EU) pays direct subsidies to farmers as part of Pillar I\(^1\) of its Common Agricultural Policy (CAP). A key aim of these direct payments is to support farmers’ income. However, the CAP has come under increasing criticism for not doing enough to limit the negative effect that certain farming practices have on the environment and climate\(^2\).

2. The ‘green payment’ or ‘greening’\(^3\) – a new type of direct payment introduced with the 2013 CAP reform – is the most recent attempt to address this issue. It is the only direct payment whose main stated objective is ‘green’, namely to enhance the CAP’s environmental performance\(^4\).

3. In the explanatory memorandum accompanying its legislative proposal\(^5\), the Commission argued that agricultural holdings “will need to be supported in adopting and maintaining farming systems and practices that are particularly favourable to environmental and climate objectives because market prices do not reflect the provision of such public goods”. This emphasis on spending public money on public goods and rewarding farmers for positive externalities (i.e. for having positive impact that would otherwise not be rewarded by the market) also adds legitimacy to the CAP expenditure as a whole.

4. Greening is not an optional scheme. All farmers participating in CAP direct payment schemes (such as the Basic Payment Scheme or the Single Area Payment Scheme) must also

\(^1\) The CAP is divided into two pillars: Pillar I comprises direct payments to farmers and market intervention measures. It is fully funded from the EU budget. Pillar II covers rural development measures, which are co-financed by Member States

\(^2\) Such negative environmental impacts of agriculture include soil depletion and erosion, water pollution, greenhouse gas emissions and biodiversity loss.

\(^3\) The full official name of this new support scheme is ‘payment for agricultural practices beneficial for the climate and for the environment’.


apply for the green payment. However, smaller holdings can benefit from support under greening without having to meet all, or even any, of greening requirements. Greening requirements also do not apply to holdings considered ‘green by definition’: for example, organic farmers benefit from the green payment without having to demonstrate compliance with the three greening practices.

5. The greening requirements encompass three farming practices, all of which are meant to be simple, generalised, non-contractual and annual, and to benefit the environment and climate:

(a) Under crop diversification, farmers with more than 10 hectares of arable land are obliged to grow at least two crops. At least one further (i.e. third) crop must be introduced on farms exceeding 30 hectares of arable land. The share of arable land that farmers may devote to the main crop is limited to 75%. On farms where at least three crops are required, the two main crops taken together must not cover more than 95% of arable land. The main stated aim of crop diversification is to improve soil quality;

(b) Maintenance of permanent grassland combines two separate mechanisms. Member States must:

- monitor (at national or regional level) the proportion of permanent grassland in the total agricultural area covered by CAP direct payments. If the ratio falls by more than 5% from a reference level, then Member States must require farmers to restore permanent grassland previously converted to other land uses;

- designate the areas of grassland which are the most sensitive from an environmental point of view. The conversion and ploughing of such environmentally sensitive permanent grassland (ESPG) is prohibited.

According to EU legislation, permanent grassland is maintained under greening primarily for the purpose of carbon sequestration. The protection of environmentally

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7 Recital 42 of Regulation (EU) No 1307/2013.
sensitive permanent grassland has the primary purpose of protecting areas of valuable biodiversity (in addition to the overall carbon sequestration objective);

(c) Farmers with more than 15 hectares of arable land must devote an equivalent of 5 % of that land to ecological focus areas (EFAs). EU legislation provides for 19 distinct EFA types with which farmers can meet this obligation, including land lying fallow, catch crops, nitrogen-fixing crops and several types of landscape features). However, individual Member States may decide to offer their farmers fewer EFA options. The main objective defined for EFAs is to safeguard and improve biodiversity\(^8\).

6. Apart from greening, the CAP has two other important instruments for pursuing environmental and climate objectives:

(a) Cross-compliance is a mechanism linking most CAP payments to a set of basic standards to ensure the good agricultural and environmental condition of land (GAECs) and certain obligations, known as statutory management requirements (SMRs). SMRs are defined in the respective EU legislation on the environment, climate change, public, animal and plant health, and animal welfare. Farmers who do not meet these standards and requirements risk incurring a penalty reducing all their direct payments, usually by 1 % to 5 %;

(b) Environmental measures under rural development (CAP’s Pillar II) – such as the agri-environment-climate measure – are like the green payment in that they reward farmers for certain practices that benefit the environment and climate. Unlike greening, however, these measures are contractual, based on voluntary commitments by farmers. The premiums paid to farmers reflect the additional costs and income loss resulting from such commitments\(^9\).

\(^8\) Recital 44 of Regulation (EU) No 1307/2013.

7. The Commission sees greening as the middle tier in a three-tier ‘pyramid’ of ‘green’ CAP instruments (see Figure 1). The basic standards and requirements of cross-compliance, covering the broadest group of farmers and the biggest area, form the bottom tier of the pyramid, and the more ambitious environmental commitments under rural development – which are applicable to a smaller group of volunteers and a smaller area – the top. Together, these instruments are meant to have combined and complementary effects.

Figure 1 – Pyramid of CAP environmental instruments


8. The EU spends a considerable amount on the new green payment: 12 billion euro per year, representing 30 % of all CAP direct payments and almost 8 % of the whole EU budget. For farmers (who received their first green payments during the 2016 financial year, for claims submitted in 2015) this translates into an average rate of around 80 euro per hectare per year, with some variation between and – in some cases – within Member States. When greening was introduced, the European Parliament and the Council (the budgetary authorities) shifted these funds from the other direct payments. Therefore, as Figure 2
shows, the overall budget for CAP direct payments has remained relatively stable between 2013 and 2017.

**Figure 2** – The introduction of greening does not change the overall budget for CAP direct payments


9. Greening is under shared management, with the Commission retaining the overall responsibility for the execution of the EU budget but delegating implementation tasks to Member States. These delegated tasks include setting up and operating systems to collect claims from farmers, to carry out administrative and on-the-spot checks, and to calculate and pay out correct aid amounts. For greening, Member States additionally need to set certain key parameters, for example: designating ESPG and selecting EFA types.
AUDIT SCOPE AND APPROACH

10. Our audit covered the design of greening and its first two years of implementation (claim years 2015 and 2016), as well as the coherence between this scheme and the other CAP environmental instruments of the CAP, i.e. cross-compliance and the environmental measures under rural development.

11. Our main objective was to assess whether greening was capable of enhancing the CAP’s environmental and climate performance, in accordance with the objective set in the relevant EU legislation. In order to reply to this main audit question, we examined:

(a) intervention logic, existence of clear and sufficiently ambitious targets for greening and the justification for the policy’s budget allocation;

(b) benefits that greening can be expected to produce for the environment and climate;

(c) complexity which greening adds to the CAP.

12. Our work encompassed:

(a) analysis of information from numerous sources, including legislation, Commission’s guidelines and working documents, exchanges of correspondence and information between the Commission and Member States, data on greening implementation as well as critical literature review;

(b) visits to the relevant Commission directorates-general (DG AGRI, DG CLIMA, DG ENV and the JRC) and EU-level stakeholders (COPA-COGECA and BirdLife);

(c) interviews (through questionnaires and visits or video conferences) with the authorities of five Member States: Greece, Spain (Castile and León), France (Aquitaine and Nord-Pas-de-Calais), the Netherlands and Poland;

(d) focused desk review on the risk of double funding covering ten further Member States: Belgium (Wallonia), the Czech Republic, Germany (Brandenburg), Ireland, Italy (Campania), Lithuania, Austria, Slovenia, Finland and the UK (Wales);
(e) analysis of our own audit results from the 2016 statement of assurance, in particular regarding changes in farming practices attributable to greening.
OBSERVATIONS

Greening lacks a fully developed intervention logic with clearly defined, ambitious targets and its budget is not directly linked to the policy’s delivery of environmental and climate-related objectives

The green payment serves two distinct objectives: enhancing the CAP’s environmental and climate performance and supporting farmers’ income

13. The introduction of greening was an attempt to apply the principle that farmers should be rewarded for the environmental public goods they provide. This new approach is reflected in the objective defined for greening in the relevant EU legislation and mentioned in paragraph 2: to enhance the CAP’s environmental and climate performance.

14. Greening also serves another purpose – it supports farmers’ income. Although this function of greening is not explicitly mentioned in the legislation, it implicitly follows from the classification of greening as a direct payment.

The specific contribution of greening to achieving EU soil, climate and biodiversity targets is not clearly defined

15. The main environmental and climate-related issues addressed by greening – soil quality, carbon sequestration and biodiversity – are covered by broader EU strategies (see Box 1).

Box 1 – EU strategic documents regarding soil, climate and biodiversity

The EU Thematic Strategy for Soil Protection was adopted in 2006\textsuperscript{10}. The strategy identified soil degradation as a serious problem in Europe, and gave examples of the various forms it could take, such as land exposure to water and wind erosion and low organic matter content in soil. The objective of the strategy was to prevent further soil degradation and preserve its functions, as well as to restore degraded soils.

One of the targets of the **EU 2020 climate and energy package**\(^\text{11}\) is a 20 % reduction in greenhouse gas (GHG) emissions on 1990 levels. This includes a commitment to reduce emissions from sectors not covered by the Emission Trading Scheme (including agriculture) by 10 % on 2005 levels. The **EU 2030 climate and energy framework**\(^\text{12}\) set a target of a 40 % reduction in greenhouse gas emissions from 1990 levels is foreseen. By 2050\(^\text{13}\) the EU intends to reduce EU greenhouse gas emissions by between 80 % and 95 % compared to 1990 levels.

The current **EU biodiversity strategy**\(^\text{14}\), adopted in 2011, extends to 2020. Its headline target is “to halt the loss of biodiversity and the degradation of ecosystem services in the EU by 2020, and restore them in so far as feasible, while stepping up the EU contribution to averting global biodiversity loss”. According to the 2015 mid-term review\(^\text{15}\), no significant progress has yet been made towards reaching this target. This follows on from the failed attempt to halt the loss of biodiversity by 2010 under the previous EU Biodiversity Action Plan\(^\text{16}\).

16. It is unclear how greening is expected to contribute to the broader EU targets defined in these strategic documents:

(a) The Commission has not developed a complete intervention logic for greening. Nor did it set specific, measurable targets for the policy\(^\text{17}\). In other words, there are no plans specifying what improvements the EU wants to achieve with greening in terms of biodiversity, soil quality and net carbon emissions from agricultural soils. Setting such specific targets is inherently difficult due to the multitude of factors at play, some of

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\(^\text{12}\) COM(2014) 15 final of 22.01.2014 “A policy framework for climate and energy in the period from 2020 to 2030 (2030 Climate and Energy Framework)”.

\(^\text{13}\) COM(2011) 112 final of 8.3.2011 “A roadmap for moving to a competitive low-carbon economy in 2050”. The European Council and the European Parliament endorsed this approach proposed by the Commission in February 2013 and March 2013 respectively.

\(^\text{14}\) COM(2011) 244 final of 3.5.2011.


\(^\text{17}\) In contrast to rural development expenditure, for which such targets do exist.
which are external (i.e. beyond the control of policy makers) and some of which are poorly understood;

(b) The prerequisite for setting such targets is having a method to measure the phenomena concerned and knowledge of their current status. However, there is only fragmentary knowledge of the baseline situation – i.e. of the quality of agricultural soil, the carbon stock under permanent grassland and the situation as regards biodiversity on farms at the moment when greening was introduced. **Box 2** provides an illustration of these problems.

**Box 2 – Biodiversity and soil: lack of clarity on where we are and where we want to be**

**Biodiversity**

There is a growing realisation that biodiversity on farms is under threat, but little data is available to monitor the situation. Most of the information available on farmland fauna concerns birds, which – due to their position near the top of the food chain – are quickly affected by changes in ecosystems and so can act as a barometer of the health of the environment.\(^{18}\) The Farmland Bird Index (FBI), relying on data supplied by the public, tracks the population trends of a number of bird species using farmland for breeding or nesting. From 1990 to 2014, the FBI declined by 31.5 % (from 100 to 68.5)\(^ {19}\). The FBI has been adopted as one of the impact indicators for the CAP. However, the Commission has not set a target FBI score (or any other target regarding the biodiversity status of farmland fauna) to be achieved with the policy.

A pilot project (LISA\(^ {20}\)) was undertaken in 2014 to determine the biodiversity baseline for farmland flora, based on field data gathered in 39 regions spread across the EU, each with 25 sample plots. The results of the study showed that most arable landscapes had a low nature value. The study was to be repeated in 2016 (which could have provided a first indication of the impact of greening), but was

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\(^{19}\) Eurostat data,

delayed. The Commission has not set any targets for greening (or for the CAP as a whole) regarding the biodiversity status of farmland flora.

**Soil**

Knowledge regarding the organic carbon content in soil and other aspects of soil quality is fragmentary, based partly on sample data (e.g. LUCAS\(^{21}\)) and partly on modelling (e.g. CAPRESE\(^{22}\)). In its 2012 report on the state of soil in Europe\(^{23}\), the European Commission’s Joint Research Centre (JRC) observed that soil-mapping in the Member States is insufficient for current needs and that differences between various national datasets make cross-border analyses difficult. The Commission has not set any quantified targets for greening (or for the CAP as a whole) related to soil quality.

**The initial Commission proposal was more ambitious in environmental terms ...**

17. Greening, in the form initially proposed by the Commission, was a more ambitious, environmentally-focused measure, with stricter requirements and fewer exemptions than the current greening practices. **Figure 3** gives an overview of the significant changes between the concept originally discussed in the 2011 Impact Assessment\(^{24}\) (an extensive study analysing alternative policy options for the 2014-2020 CAP reform), the Commission’s legislative proposal and the legislation ultimately adopted.

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\(^{22}\) Arwyn Jones et al (JRC); CAPRESE-SOIL: CArbon PREservation and SEquestration in agricultural soils, Options and implications for agricultural production, Final report, 2013.


Figure 3 – Lowering of the environmental ambition of greening during the legislative process

Source: ECA, based on the legislation and the European Commission’s 2011 Impact Assessment and legislative proposal.
18. The final outcome of the legislative process contrasts with the Commission’s initial approach, expressed in the following statement in the 2011 Impact Assessment: “For the greening to be effective, it is key not to go for a ‘menu’ approach with a list of measures, offering choice to Member States and/or farmers. Such an approach would very much water down the greening effect, especially if the payment does not match the efforts required by farmers, leading them to choose the measures with which they comply already or the measures with the least cost, thus bringing less environmental benefits. In addition, the more choice offered in Pillar I greening, the more complicated it becomes to ensure coherence with the cross-compliance especially GAEC (risk for having too various baselines between Member States) and subsequently with Pillar II: risk for having double payments. Therefore, an approach to greening with only a few measures which yield significant environmental benefits is to be favoured”. In fact, the risks against which the Commission warned in 2011 have largely materialised (see paragraphs 24, 36 to 37, 47 to 49 and 59 to 68).

... but lacked a clear demonstration of what the proposed greening practices would achieve

19. As mentioned in paragraph 16, the Commission did not define specific, quantified targets for the proposed greening practices. Additionally, the 2011 Impact Assessment presented only a partial demonstration of the effectiveness of the greening practices proposed, focusing primarily on aspects of climate change mitigation:

(a) Regarding maintenance of permanent grassland, the Commission emphasised that carbon sequestration in the soil after arable land is converted to grassland is significantly slower than the carbon loss resulting from converting permanent grassland to arable land. On that basis, the Commission advocated the protection of carbon stock by means of compulsory preservation of existing permanent grassland at farm level rather than for a system based on ratio monitoring at regional or national level;

(b) In relation to the proposed ecological set-aside / EFA measure, apart from discussing its partly positive and partly negative expected impact in terms of climate change
mitigation, the Impact Assessment did not offer a clear demonstration of this measure’s environmental effectiveness, in particular for biodiversity;

(c) Finally, the Impact Assessment presented scientific evidence for the positive effects of crop rotation, especially in terms of increasing soil organic matter, including carbon. However, due to practical considerations, the Commission proposed replacing crop rotation with crop diversification (see paragraph 41).

20. In short, the two EU co-legislators (the European Parliament and the Council) received a proposal for an important reform of CAP direct payments with limited information on what the new measures could be expected to achieve. We share the view, expressed in a paper analysing the legislative process for greening\(^{25}\) that “the lack of a clear description from the Commission early in the process of the environmental benefits to be delivered by greening made it difficult for the Commission and others to clarify the extent to which successive dilutions of the text mattered for the delivery of outcomes”.

21. The subsequent changes, mostly initiated by the two co-legislators, were not accompanied by any scientific justification demonstrating their environmental effectiveness – their main focus was on reducing the effort required from farmers.

However, the budget allocation for greening did not change, because it was based on a political decision and not on the policy’s delivery of environmental and climate-related objectives

22. Earmarking 30% of the total budget for all CAP direct payments to greening was a key element not just of the most recent CAP reform, but also of the 2014-2020 multiannual financial framework. It was in this latter, broader context that this allocation was first put

forward by the Commission in 2011 and subsequently endorsed by the European Council in 2013.

23. This budgetary allocation stayed at the same level – around 12 billion euro per year – throughout the whole legislative process, despite significant changes in the policy’s environmental and climate content, in terms of its requirements (which became less demanding with time) and the extent of various exemptions (which increased). This demonstrates that the decision to allocate 30% of CAP direct payments to greening does not reflect the new instrument’s degree of ambition in relation to the environment and climate. Greening remains, essentially, an income support measure.

24. In particular, we found that the green payment rate (on average, around 80 euro per ha), was not based on the cost to farmers of implementing greening.

(a) This cost was estimated to average around 30 euro per hectare in the 2011 Impact Assessment, based on the more demanding requirements of greening as initially envisaged (see paragraph 17);

(b) According to a JRC study modelling the economic impact of the current greening requirements, 71% of all farmers are not affected by greening at all and incur no compliance costs related to its implementation. Of the 29% who are affected, more than two-thirds incur compliance costs below 25 euro per hectare. For more than 40% - these costs are below 10 euro per hectare. However, around 2% of farmers have costs...

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28 Generally, direct payments to farmers, including greening, are not subject to the logic of compensating costs incurred and income foregone, which applies to rural development payments.

exceeding 100 euro per hectare (these cases often concern farms with small areas, specialising in capital and labour-intensive activities such as vegetable production).

(c) The estimated impact of greening on farmers’ income (calculated as the difference between revenues – comprising produce sales and subsidies – and variable production costs, including the cost of fertilisers, pesticides, seeds and feed) is very limited. In a recent study, the JRC estimated that the introduction of greening actually increased farmers’ income by around 1% (mainly due to the small increase in prices resulting from the limited decrease in production). Preliminary results of the draft report mentioned in sub-paragraph 24(b), estimate the impact of greening on farmers’ income at -1%.

25. The budget for greening is not based on an estimate of the economic value of the expected environmental and climate benefits. The facts below offer some context:

(a) Basing policy design on a valuation of the expected public goods is good practice. The most significant attempt at developing methodologies for valuing ecosystems and biodiversity has been made in the TEEB project;

(b) The EU has previously put a value on certain environmental issues: for example, in the Impact Assessment for the 2006 EU Thematic Strategy for Soil Protection, the cost of decline in organic matter in soil was estimated at between 3.4 and 5.6 billion euro per year (including both on-site and off-site costs);


31 The difference in the income effect of CAP greening between the two studies is due to the differences in the applied models. The first study uses a market model (CAPRI), which takes into account price feedback of greening, while the second study uses a farm model (IFM-CAP), which does not take into account the price effects of policy.

32 TEEB – The Economics of Ecosystems and Biodiversity for National and International Policy Makers – project hosted by the United Nations Environment Programme and supported by the European Commission, as well as several European governments.

Based on its meta-analysis of scientific literature, the JRC estimated the value of EU agricultural landscape at between 134 euro and 201 euro per hectare and the total value of EU agricultural landscape at between 24.5 – 36.6 billion euro per year[^34];

Translating environmental benefits into monetary terms poses considerable difficulties. The task is somewhat easier where environmental benefits can be matched directly with real costs or revenues (e.g. the value of reduced nitrate pollution in water can be estimated based on the cost of treating polluted water). It is more difficult where no such direct matching is possible, as in the case of increased or preserved biodiversity;

However, in the case of greening any economic valuation of the environmental benefits was impossible because, as mentioned in paragraph 16, the expected environmental benefits themselves had not been expressed in terms of quantified targets.

*Greening as currently implemented is unlikely to provide significant benefits for the environment and climate*

Greening has led to very limited change in farming practices ...

Following greening’s first year of implementation, the Commission reported[^35] on the policy’s initial outputs in terms of the farmland and holdings covered. Figure 4 shows that, in 2015, 24 % of EU agricultural holdings were affected by at least one greening obligation. However, these holdings represent as much as 73 % of the EU farmland[^36]. In 2016 the share of farmland belonging to holdings under at least one greening obligation rose to 77 %. The Commission considers this figure as a key result indicator for greening.


[^36]: This difference between the share of holdings and share of farmland results from the fact that most of the exemptions concern smaller holdings, which, although numerous, collectively represent a limited area. Additionally, many of the smallest holdings are entirely outside the CAP system – they do not claim any form of direct aid.
Figure 4 – Greening requirements apply to a minority of EU agricultural holdings, but these holdings cover most of EU farmland

Source: ECA based on European Commission’s data (without France – data not submitted).

27. In Chapter 7 of our 2016 Annual Report we presented the results of our analysis of the effects of greening on land use (in terms of crop diversification and EFAs), following its first year. We based this analysis on a comparison of farming practices in 2014 and 2015 (i.e. the last year before greening was introduced and the first year of its implementation).

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37 Annual report of the Court of Auditors on the implementation of the budget concerning the financial year 2016 (OJ C 322, 28.9.2017).

38 These results are based on a sample of 145 holdings visited in the context of our annual statement of assurance. The assessment was based on the information obtained from aid applications, farm records and interviews with the farmers.
28. **Figure 5** presents the results of this analysis. In the case of both crop diversification and EFAs, we found that for most holdings in our sample (and for most farmland\(^{39}\)), the introduction of greening did not require any change in farming practices. This was either because the holdings concerned already met the greening requirements in 2014 or because they were exempt.

**Figure 5** – Greening requirements for crop diversification and EFAs led to a change in farming practice on around 2% of EU farmland (ECA sample-based estimate)

Source: ECA, based on audit results.

Our results, expressed as shares of holdings in the sample, are not an indicator of the shares of holdings in the overall population of greening beneficiaries. This is because we drew our sample using monetary unit sampling, a methodology designed to produce results which are statistically representative in terms of shares of expenditure, not shares of beneficiaries. However, our results can serve as a reasonable approximation of the situation in terms of shares of land, because direct payments are generally proportional to the area of the holding. Factors distorting the precision of this approximation include variations in aid rate per hectare and varying share of arable land on farms.
29. As noted in our Annual Report, we identified “some positive changes in farming practices following the introduction of the scheme, especially in terms of EFAs”. For those holdings where the introduction of greening did result in a positive change in farming practice, we estimated the share of arable land on which such changes occurred. We found this share was around 15 % for crop diversification and around 4 % for EFAs. Taking into account the holdings on which no change of farming practices was required at all, as well as the fact that arable land makes up around 60 % of all farmland in the EU, this means that around 1 % of EU farmland required more crop diversification, and around 1 % required new EFAs following the introduction of greening.

30. Our estimates are very close to those produced by the JRC. Based on advanced agri-economic modelling, the Commission’s researchers estimate that in total 4.5 % of EU farmland required reallocation (i.e. change of farming practice) due to new greening

40 Paragraph 7.56 of the Annual report of the Court of Auditors on the implementation of the budget concerning the financial year 2016 (OJ C 322, 28.9.2017).

41 For crop diversification, the maximum share of arable land on which farming practice may have had to change was limited to 25 % (where a farmer growing a single crop diversified in 2015 to comply with the 75 % greening ceiling on the main crop). Our result is below 25 % because many of the holdings which had to introduce more crop diversification in the wake of greening grew more than one crop already in 2014.

42 For EFAs, the maximum share of arable land on which farming practice may have had to change was limited to 5 % (where a farmer without any EFAs in 2014 introduced new EFAs on the farm in order to meet the 5 % greening requirement in 2015). Our result is below 5 % because many of the holdings which had to introduce more EFAs in the wake of greening did have some areas qualifying as EFAs already in 2014.

43 In our analysis presented in the annual report 2016 we omitted this last step (i.e. translating shares of arable land into shares of all farmland). In paragraph 7.56 we concluded that “positive changes amounted to 3.5 % of arable land”. This reconciles to the intermediary results presented in Figure 5 (2 % of arable land for crop diversification + 1.5 % of arable land for EFAs = 3.5 %).

requirements, including 1.8 % due to crop diversification, 2.4 % due to EFA and 1.5 % due to permanent grassland\(^4\) (see Figure 6).

**Figure 6 –** Greening led to change in farming practice on around 5 % of EU farmland (JRC model-based estimate)

<table>
<thead>
<tr>
<th>EU farmland</th>
</tr>
</thead>
<tbody>
<tr>
<td>permanent grassland (\approx 34%) of EU farmland</td>
</tr>
<tr>
<td>arable land (\approx 60%) of EU farmland</td>
</tr>
</tbody>
</table>

Change in farming practices attributable to greening:
- permanent grassland (ESPG) \(\approx 1.5\%\) of EU farmland
- arable land (EFA) \(\approx 2.4\%\) of EU farmland
- arable land (crop diversification) \(\approx 1.8\%\) of EU farmland

Overlap between EFA and crop diversification (\(\approx 1.2\%\) of EU farmland)
(nitrogen-fixing crops can count towards both these greening practices)

Source: ECA, based on JRC study results and Eurostat data (Farm Structure Survey 2013).

31. It is important to note that both our estimates and those of the JRC concern the area on which – following the introduction of greening – a change in farming practice occurred. They do not represent the area affected by the positive impact of such changes. EFAs, in

\(^4\) The estimates for individual practices do not add up to the total land reallocated because of greening. This is because certain farming practices can count towards more than one greening requirement. E.g. area under nitrogen fixing crops can count towards the EFA obligation but also towards the crop diversification obligation.
particular, can produce benefits which extend well beyond their boundaries (e.g. a buffer strip with wild flowers may provide a habitat for pollinators, which would then spread over the neighbouring parcels).

32. The estimate that greening resulted in a change in farming practices on only around 5% of EU farmland stands in sharp contrast to the Commission’s key result indicator mentioned in paragraph 26 (see also Figure 4), namely that in 2015 73% of EU agricultural area is subject to greening. (77% in 2016).

33. This difference can be explained by looking at what the Commission’s result indicator measures, which is the share of EU farmland belonging to holdings subject to at least one greening obligation. Hence, even if the greening obligation applied only to a single parcel, irrespective of its size, the area of the whole farm would still be included in the Commission’s indicator. In other words, this indicator measures all land belonging to farms which are not fully exempt from greening (or simply outside the CAP direct payment system). Given the available data on the EU farm structure and the various exemption thresholds applying under greening, the Commission could have estimated the value of this indicator before implementing the policy. As such, this figure is of limited use for monitoring the results achieved with greening. It does not, for example, reflect how widespread greening practices actually are – it would not change, for example, if the EFA requirement were raised from 5% to 7%.

... which illustrates the significant deadweight in the policy’s design

34. The limited scale of change in farming practices brought about by greening is linked to the significant level of deadweight in the green payment.

35. Deadweight resulting from overlaps between greening and cross-compliance is discussed in paragraphs 59 to 61. Given its limited extent (only a few EFA types are

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46 The term ‘deadweight’ describes situations where public money (here: the green payment) is paid to a beneficiary (here: a farmer) for public goods (here: farming practices beneficial for the environment) that would have been provided anyway, even without public support, because they are either part of the beneficiary’s normal activity or required by law (here: cross-compliance).
potentially concerned) and mitigating factors (the requirements under cross-compliance are usually not identical to the requirements under greening), these overlaps can only explain a small part of the deadweight observed.

36. Most of the deadweight in greening is due to the modesty of greening requirements, which generally reflect the normal farming practice. This is particularly the case for crop diversification. As mentioned in paragraph 30, the JRC estimated that – before greening was introduced – only around 1.8 % of all farmland in the EU did not comply with the crop diversification requirements.

37. Regarding EFAs, we found that in Poland, various farming practices and features that were already in place in 2014 would have covered the greening requirement with 30 % to spare. Across the EU as a whole, farmers affected by the 5 % EFA obligation declared double the required EFAs.\(^\text{47}\)

38. Additionally, as mentioned in paragraphs 4 and 26, many holdings are exempt from the greening requirements but still receive the green payment. According to the data Member States reported to the Commission, in 2015, 76 % of EU farms, covering 27 % of all EU farmland were not subject to any greening obligations at all (see Figure 4). These figures include farmers who do not claim their land under CAP direct payments.\(^\text{48}\) Among green payment recipients, a total of 65 %, farming around 16 % of the EU farmland declared for direct payments, were fully exempt from all greening obligations.

39. Some of the exemptions concern the whole set of all greening obligations, while others apply to individual greening practices. More importantly, as shown in Table 1, certain exemptions are targeted at holdings which are ‘green by definition’, i.e. deemed to provide environmental public goods equivalent to greening. The Commission justifies the remaining exemptions by citing the need for simplification and cost-benefit considerations. The farmers

\(^{47}\) Above 9 % in both 2015 and 2016, see also Annex III.

\(^{48}\) Of the 10.6 million EU farms recorded in the Eurostat Farm Structure Survey 2013, around 3.4 million (32 %) do not benefit from CAP direct aids. These farms cover around 19.3 million ha, i.e. 11 % of the total EU agricultural area.
concerned receive public money for greening without being required to provide any related public goods in return.

**Table 1 – Different motives behind greening exemptions**

<table>
<thead>
<tr>
<th>Greening practice concerned</th>
<th>JUSTIFICATION FOR THE EXEMPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>‘green by definition’</td>
<td>simplification / cost-benefit / other</td>
</tr>
<tr>
<td>all</td>
<td>□ organic farms</td>
</tr>
<tr>
<td>□ holdings under small farmers scheme</td>
<td>□ holdings with permanent crops only</td>
</tr>
<tr>
<td>crop diversification</td>
<td>□ holdings with high share of grassland</td>
</tr>
<tr>
<td>EFA</td>
<td>□ holdings with high share of grassland</td>
</tr>
<tr>
<td></td>
<td>□ holdings with natural constraints in countries with high forest share</td>
</tr>
</tbody>
</table>

*Source:* ECA, based on the European Commission’s documents.

**Crop diversification is less beneficial for soil than crop rotation**

40. The greening practice of crop diversification replaced an optional GAEC on crop rotation in force until 2014. There are important differences between the two practices. With crop rotation, farmers change the crops grown on each parcel from one year to another. This limits the depletion of soil nutrients and the spread of pathogens. Despite the requirement for at least two crops on a farm in any given year, crop diversification does not guarantee a similar change in crops on land over time.
41. In the 2011 Impact Assessment, the Commission recognised that “crop diversification may not bring the full environmental benefits of crop rotation”, but found that it fits better with the annual nature of direct payments. There were also concerns about the increased difficulty of checking compliance with crop rotation requirements, especially in the context of parcels changing shape and/or hands.

42. The Commission also recognised that a requirement for leguminous crops under crop diversification could enhance the environmental and climate benefits of the measure. However, this idea was not taken up in the Commission’s proposal due to concerns regarding such a requirement’s compatibility with WTO rules. In the end, leguminous crops were incorporated into greening as one of the EFA types (nitrogen-fixing crops).

**The effect of grassland protection on net emissions from farmland could be enhanced through better targeting**

43. *Figure 7* shows that the ratio of permanent grassland in the EU, currently at around 30%, has not changed much during the last decade. However, the rise – by 1.5 percentage points – between the reference ratio applicable in 2007-2014 (based principally on data from 2005) and the annual ratio for 2016, conceals a loss of more than 3 million ha of permanent grassland declared, representing a decrease of 7.2%.

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49 The World Trade Organisation, of which the EU is a member, deals with rules of trade between nations. These rules prohibit, or limit, public subsidies which distort trade. In agriculture, the subsidies deemed not to distort trade tend to be ‘decoupled’ from production, i.e. not related to a specific crop.
The permanent grassland ratio rose mainly because the decrease in the area of permanent grassland declared – the numerator of the ratio – was slower than the decrease in the denominator of the ratio, i.e. the total farmland declared. The latter fell by 11.7 % (a loss of more than 19 million ha). Additionally, the current definition of permanent grassland is broader than in the past, including as it does grazing land where grasses and other herbaceous forage are not predominant. The figures for the EU as a whole average out significant variations at Member State level (see Annex I).

The designation of permanent grassland as ESPG offers new, parcel-level protection of permanent grassland against conversion. However, this new form of protection is limited in scope: ESPG covers around 16 % of all permanent grassland in the EU (with significant variation between Member States).

Additionally, as shown in Annex II, around 96 % of ESPG is located within Natura 2000 areas, which cover only 18 % of all EU permanent grassland. Given that Natura 2000 areas
were delineated based on biodiversity-related criteria, this concentration of ESPG within these areas is positive for biodiversity. However, from the point of view of preserving carbon stock, which is the main stated objective of the greening practice of maintenance of permanent grassland, the protection of permanent grassland against conversion or ploughing should focus on parcels with a high carbon content already accumulated in the soil, many of which are likely to be located outside Natura 2000 areas. So far, only six Member States have decided to designate ESPG beyond Natura 2000 areas.\(^{50}\)

**The predominance of productive Ecological Focus Areas together with insufficient management requirements reduce the potential benefits of greening for biodiversity**

47. As mentioned in paragraph 9, one of the decisions that Member States have to take regarding the implementation of greening is the choice of EFA types. They can select from a list of 19 different types, including five compatible with agricultural production (see Figure 8). All 28 Member States have included productive EFAs in their selection.

**Figure 8 – Non-productive and productive EFAs**

![Figure 8](image)

*Source: ECA, based on the legislation and European Commission’s Staff Working Document SWD(2017) 121 final.)*

\(^{50}\) Belgium (Flanders), Czech Republic, Italy, Latvia, Luxembourg and United Kingdom (Wales).
48. Greening output indicators reported by Member States (summarised in *Annex III*) show a predominance of ‘productive’ EFAs (mainly nitrogen-fixing crops and catch crops) on farms. In 2015 their share in all EFAs declared by farmers was 54 %, increasing to 58 % the year after. Nitrogen-fixing crops are the most common productive EFA type, followed by catch crops.

49. Two studies from 2016\(^{51}\) indicate that the two main productive EFAs – catch crops and nitrogen-fixing crops – offer no significant biodiversity benefits, but that they can contribute to improving water and soil, including by increasing the levels of soil organic carbon on arable land\(^{52}\).

50. The additional requirements concerning specific management practices, such as restrictions on the use of fertilisers and pesticides, or minimum periods when plant cover must be present on a field, play an important role in determining what impact the various EFAs have on biodiversity. Of the five Member States we examined, only the Netherlands had introduced requirements for management practices (limiting the use of plant protection products for catch crops) which went beyond the minimum required under EU rules. Also the Commission’s recent report on EFAs\(^{53}\) concludes that few Member States have selected options aimed at making the EFA obligation more environmentally effective. The Commission addressed this problem in its recent amendment\(^{54}\) of the secondary legislation, 

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\(^{51}\) Ecological Focus Area choices and their potential impacts on biodiversity by Evelyn Underwood and Graham Tucker, Institute for European Environmental Policy November 2016. and Adding Some Green to the Greening: Improving the EU’s Ecological Focus Areas for Biodiversity and Farmers, Guy Pe’er et al, Conservation letters, a Journal of the Society for Conservation Biology, December 2016.


\(^{54}\) Commission Delegated Regulation (EU) 2017/1155 of 15 February 2017 amending Delegated Regulation (EU) No 639/2014 as regards the control measures relating to the cultivation of hemp, certain provisions on the greening payment, the payment for young farmers in control of a legal person, the calculation of the per unit amount in the framework of voluntary coupled support, the fractions of payment entitlements and certain notification requirements relating to the single area payment scheme and the voluntary coupled support, and amending Annex X to
which introduced a ban on the use of pesticides on productive EFAs. The same amendment introduced also a number of simplification measures (see paragraph 66).

**Member States use the flexibility in greening rules to limit the burden on farmers and themselves, rather than to maximise the expected environmental and climate benefit**

51. Member States are given a significant level of discretion in implementing greening, especially as regards the choice of EFA types and designation of ESPG 55.

52. For the five Member States we examined, the main rationale behind the decisions taken was to limit the burden on farmers and on the authorities. Generally, Member States gave priority to EFA types which were already a common feature of their normal farming practice. Technical difficulties with checking certain EFAs and setting up IT systems for certain EFAs also played a role (see paragraph 67 and Box 5). Maximising the environmental and climate benefits of greening was of secondary importance.

53. Of the five Member States, only two (the Netherlands and Poland) commissioned studies or expert opinions to analyse the environmental and climate impact of various greening implementation options. In both Member States the authorities decided not to follow certain key recommendations, preferring options requiring less effort from farmers (see Table 2)

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55 When deciding on the designation of ESPG, Member States have full discretion regarding permanent grassland outside Natura 2000 areas. In relation to permanent grassland within Natura 2000 areas, they have to take into account the EU objectives concerning the protection of species and habitats.

Table 2 - Selective use by Member States of scientific recommendations on the implementation of greening

<table>
<thead>
<tr>
<th>EFA type</th>
<th>recommended by experts in view of biodiversity benefits?</th>
<th>selected by MS authorities</th>
<th>experts’ advice followed by MS authorities?</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Netherlands</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>field margins</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>fallow land</td>
<td>×</td>
<td>×</td>
<td>✓</td>
</tr>
<tr>
<td>short rotation coppice</td>
<td>×</td>
<td>✓</td>
<td>×</td>
</tr>
<tr>
<td>nitrogen-fixing crops</td>
<td>×</td>
<td>✓</td>
<td>×</td>
</tr>
<tr>
<td>catch crops</td>
<td>×</td>
<td>✓</td>
<td>×</td>
</tr>
<tr>
<td>Poland</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>buffer strips</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>ditches</td>
<td>×</td>
<td>✓</td>
<td>×</td>
</tr>
<tr>
<td>short rotation coppice</td>
<td>×</td>
<td>✓</td>
<td>×</td>
</tr>
</tbody>
</table>

Source: ECA audit results.

54. The Commission supervises how Member States implement greening. This work is described in paragraph 69. However, as illustrated in Box 3, the Commission has very limited powers to push Member States towards a stronger environmental focus in their implementation of greening.

Box 3 – Benefits of nitrogen-fixing crops for biodiversity not demonstrated convincingly

Member States’ EFA type selections do not require approval from the Commission. However, Member States selecting nitrogen-fixing crops are obliged to list all the species they intend to allow and to explain how these crops will benefit biodiversity. This requirement addresses, to a certain
extent, the concerns that the contribution to biodiversity made by nitrogen-fixing crops may be negligible (see paragraph 49).

All five of the Member States we examined allow farmers to meet the EFA obligation with nitrogen-fixing crops. Of these, only France provided the Commission with a specific justification for each of the species selected. The remaining Member States limited their analysis to generic arguments in favour of nitrogen-fixing crops in general.

We found that in such situations, the Commission can – and frequently does – ask for additional, more specific justification, especially for plants whose contribution to biodiversity is particularly doubtful (such as soy). The Commission cannot, however, prevent Member States from selecting species whose value for biodiversity has not been demonstrated.

**Greening has had limited impact on Pillar II environmental measures**

55. One of the positive effects that could have been expected from the introduction of greening was a shift of focus in rural development expenditure towards more ambitious environmental and climate-related actions. We have not found indications of any such positive shift having materialised.

56. In the five Member States we covered, we compared the current operation types (i.e. different packages of commitments to which farmers can subscribe) under the agri-environment-climate measure with the corresponding operation types from the previous programming period (2007-2013). On that basis, we assessed whether the Member States had raised the baseline for the agri-environment-climate measure and whether such a change could be attributed to the introduction of greening.

57. Overall, our analysis showed a strong continuity in the operations under the agri-environment-climate measure. The commitments currently proposed to farmers are frequently identical to those applicable during the 2007-2013 period. We found that the baseline of almost all of the operation types analysed had not been raised during the 2014-2020 period (at least, not in any aspects related to greening). Nor, in most cases, was there any need to do so, because the baseline during the previous period had already exceeded the greening requirements. In other cases, the commitments concerned had nothing in common with the greening practices.
Greening adds complexity to the CAP

Greening overlaps with other CAP environmental instruments but the Commission and Member States mitigate the related risk of deadweight and double funding

58. The pyramid model of the CAP’s three green instruments discussed in paragraph 7 and illustrated in Figure 1, is an idealised representation of the principle that greening should go beyond cross-compliance and form the baseline\(^{56}\) for rural development measures. In reality, this is not always the case and there are significant overlaps between greening and the two other layers of the pyramid, as illustrated by Figure 9.

**Figure 9 – Overlaps between greening and the other CAP environmental instruments**


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\(^{56}\) The term ‘baseline’, in this context, denotes the level of public service (here: a farming practice beneficial for the environment) which is required of a beneficiary (here: a farmer participating in an environmental measure under rural development) without any remuneration. Compensation can only be paid for services (commitments) which go beyond the baseline.
Overlaps between greening and cross-compliance are common but the risk of deadweight is mitigated by differences in detailed requirements.

59. Overlaps between greening and cross-compliance concern certain features or practices which are protected or required under GAECs or SMRs and, at the same time, can be declared to satisfy the EFA requirement. The main EFA types concerned include catch crops, buffer strips and various types of landscape features. As shown in Figure 10, we found such overlaps in four of the five Member States selected.

**Figure 10** – Overlaps between greening and cross-compliance observed in four of the five Member States examined

Source: ECA, based on audit findings for Greece, Spain, France, the Netherlands and Poland.

60. Such overlaps generate deadweight, which in most cases is mitigated by differences between requirements under greening and those under cross-compliance (e.g. for catch crops, greening requires a mix of at least two plants, whereas under GAEC 4 or SMR 1, a single species is normally sufficient).
61. Generally, the Member States examined did not put in place any additional restrictions, procedures or checks to avoid or limit deadweight in the green payment caused by overlaps with cross-compliance requirements. We found one exception: in the Netherlands, catch crops required under SMR1 cannot be declared as EFAs.

Overlaps between greening and rural development (CAP Pillar II) are generally well managed by Member States

62. Overlaps between greening and environmental measures under rural development, such as the agri-environment-climate measure\(^{57}\), can occur when farmers enter into commitments under Pillar II which are similar in nature to the standard greening requirements. Such overlaps are possible because EU law does not require greening obligations to be included in the relevant rural development baseline\(^{58}\). However, EU rules\(^{59}\) oblige Member States to prevent any double funding of greening practices, where necessary by reducing the amounts paid to farmers under rural development. The Commission issued detailed guidance for Member States on how to prevent such double funding (see also paragraph 68).

63. In the 15 Member States covered by our audit (five through audit visits or video-conferences and ten through a focused desk review – see paragraph 12), we examined various operation types (i.e. different packages of commitments) under the agri-environment-climate measure. We found that around one third of the operation types in our sample included commitments overlapping with greening requirements. We also found that Member States were generally aware of these overlaps and designed specific procedures, in some cases fairly complex ones, to rule out the possibility of double funding.

\(^{57}\) The agri-environment-climate measure is not the only rural development measure which can overlap with greening requirements. This risk also concerns three other measures, less significant in financial terms: organic farming, afforestation and Natura 2000 and Water Framework Directive.

\(^{58}\) Article 28(3) of Regulation (EU) No 1305/2013 stipulates that the baseline for the agri-environment-climate measure has to cover the requirements relating to cross-compliance, agricultural activity and the use of fertilisers and plant protection products.

\(^{59}\) Article 28(6) of Regulation (EU) No 1305/2013.
64. **Box 4** provides examples of typical overlaps between commitments under the agri-environment-climate measure and greening practices and various methods employed by the Member States to prevent double funding.

**Box 4 – Various overlaps between commitments under the agri-environment-climate measure and greening practices, and different ways of dealing with the risk of double funding**

In Spain (Castile and León), farmers subscribing to one of the operation types under the agri-environment-climate measure enter into a commitment to plant 15% of the area under contract with alfalfa. Areas under alfalfa, which is a nitrogen-fixing crop, can also be declared as EFAs in Spain. Double funding is averted by means of a restriction, implemented as an automatic cross-check in the IT system, preventing the same area from counting towards both the Pillar II commitment and the EFA obligation.

In France (Aquitaine), certain operation types under the agri-environment-climate measure include a commitment relating to crop diversification. Double funding in relation to the corresponding greening obligation is prevented by the fact that the rural development payment covers only the additional cost of introducing a fourth crop in the crop mix. This means that, in this particular case, the greening requirement for three crops is in fact included in the Pillar II baseline.

The complexity of greening rules entails implementing challenges, which the Commission has partly resolved

65. Farmers criticise greening for the complexity of its rules. In its responses to the public consultation on the experience with the first year of greening implementation, COPA-COGECA – an organisation representing farmers at EU level – rated the rules for implementing all the greening practices as difficult – not just to comply with, but also to understand.

66. In its ‘Review of Greening after one year’ the Commission proposed simplifying and harmonising certain greening requirements, wherever this could be done without lowering the environmental benefits. The document listed potential improvements, such as merging certain similar EFA types (e.g. buffer strips and field margins), relaxing certain constraints.

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regarding management practices and time limits and increasing tolerances as regards the sizes and location of landscape features. The Commission included these simplification measures in its recent amendment of the secondary legislation. The same amendment introduced also a ban on the use of pesticides on productive EFAs (see paragraph 50).

67. Implementing greening was not a straightforward task for the Member States. Firstly, it represented a significant financial and organisational effort. Existing IT systems had to be adapted, in particular the Land Parcel Identification System (LPIS) in Member States opting for EFA types of a permanent nature (i.e. all landscape features – except field margins – but also terraces, hectares of agro-forestry, areas with short rotation coppice and afforested areas). Box 5 illustrates how the burden associated with establishing the EFA layer may affect Member States’ EFA choices.

**Box 5 – The heavy burden associated with establishing the EFA layer**

The Spanish authorities initially intended to include landscape features among their selected EFA types, given the significant environmental benefits they offer. However, they finally decided against this option because of the expected difficulties and delays related to recording all landscape features in the LPIS.

68. Additionally, Member States found some of the greening rules confusing. They questioned the Commission on various aspects of the implementation of the green payment. The Commission posted these questions, together with its replies on a dedicated web platform, accessible to all Member States. Box 6 gives an example of the issues raised. The same platform was used to disseminate other forms of guidance on greening: conclusions from expert group meetings and guideline documents summarising the most important aspects of implementation. The five Member States we covered were generally satisfied with the quality and timeliness of the guidance they received from the Commission.

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Box 6 – Examples of the complexity of greening rules

Certain Member States asked how to assess compliance with crop diversification requirements in cases where only part of a farm is organic. The Commission clarified that in general greening affects only the non-organic part of the farm. This means that the organically farmed arable land does not count towards the area thresholds for crop diversification. However, if the arable land that is not organically farmed exceeds 10 hectares, than the required crops must be grown on that arable land – any organic crops are disregarded for the purposes of crop diversification. Farmers whose farms are only partly organic may also choose to apply the three greening practices on the whole farm.

69. The Commission is responsible for supervising the Member States’ implementation of greening. An important part of this responsibility is regularly checking the various notifications that Member States are required to submit regarding their greening implementation choices and the outputs of greening at farm level. We found that the Commission performed these tasks well. In particular, the Commission systematically identifies and follows up with the relevant Member States on various problems related to the late submission of information or the incorrect application of EU rules. However, as illustrated in paragraph 54 and Box 3, the Commission cannot oblige Member States to favour those greening implementation options which are more beneficial for the environment and climate.

Greening practices resemble GAECs, but involve higher potential penalties for non-compliance

70. Before greening was introduced, the only link between CAP direct payments and EU environmental and climate objectives was cross-compliance. As with greening, cross-compliance is compulsory for farmers benefiting from CAP direct payments. The difference is that there is no reward for meeting cross-compliance obligations. Breaches of cross-compliance can result in penalties reducing all direct payments to the beneficiary (usually by 1 % to 5 %). Under greening, the farmer receives a specific payment for adhering to mandatory practices. Reductions for non-compliance reductions are broadly in line with the non-compliant area as a share of the total farm area under greening obligations, and can be

63 Around 25 % of greening-related notifications are submitted late.
up to 100 % of the payment. Starting in the 2017 claim year, administrative penalties will be applied on top of these reductions, in cases where the initial reduction exceeds 3 %. These penalties will be limited to 20 % of the farmer’s green payment for the 2017 claim year and to 25 % from the 2018 claim year onwards.

71. In practice, greening operates fairly similarly to cross-compliance. The green payment is presented as a form of remuneration for environmental and climate-related public goods provided by farmers. However, the scheme can also be seen as a mechanism penalising failure to comply with a set of basic environmental and climate-related conditions (similar to GAECs) attached to an income support scheme. The only significant difference from cross-compliance is that for greening the penalties for significant infringements would normally be higher.

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64 Detailed rules are contained in Delegated Regulation No 640/2014 of 11 March 2014 supplementing Regulation (EU) No 1306/2013 of the European Parliament and of the Council with regard to the integrated administration and control system and conditions for refusal or withdrawal of payments and administrative penalties applicable to direct payments, rural development support and cross compliance (OJ L 181, 20.6.2014, p. 48).

65 See also our Special Report No 26/2016 ‘Making cross-compliance more effective and achieving simplification remains challenging’ (http://eca.europa.eu).
CONCLUSIONS AND RECOMMENDATIONS

72. Our main audit question in this report was whether greening was capable of enhancing the CAP’s environmental and climate performance, in accordance with the objective set in the EU legislation.

73. Overall we conclude that greening, as currently implemented, is unlikely to significantly enhance the CAP’s environmental and climate performance.

74. In order to reply to that main audit question, we examined:

(a) intervention logic, existence of clear and sufficiently ambitious targets for greening and the justification for the policy’s budget allocation (see paragraphs 13 to 25);

(b) benefits that greening can be expected to produce for the environment and climate (see paragraphs 26 to 57);

(c) complexity which greening adds to the CAP (see paragraphs 58 to 71).

75. Greening serves two distinct objectives. On the one hand it is meant to enhance the CAP’s environmental and climate performance. On the other hand – as a CAP direct payment - it remains an instrument for supporting farmers’ income. Only the first of these objectives is explicitly stated in the legislation (see paragraphs 13 to 14).

76. The green payment lacks a fully developed intervention logic. The Commission has not set specific targets or otherwise specified what greening can be expected to achieve for the environment and climate. Any assessment of the effectiveness of the policy will additionally be affected by the fragmentary knowledge of the baseline situations in particular in terms of biodiversity and the quality of soil, including organic carbon content (see paragraphs 15 to 16).

77. The initial Commission proposal for greening was more ambitious in environmental terms. The subsequent dilution of the policy’s environmental content did not change the level of funding proposed. This was set, from the outset, at 30 % of CAP direct payments. On average, greening subsidies exceed significantly the cost to farmers (including from lost income) of meeting greening requirements. This is because the greening budget was fixed
without a link to the policy’s level of environmental ambition. Greening remains, essentially, an income support scheme (see paragraphs 17 to 25).

78. Greening is unlikely to provide significant benefits for the environment and climate, mainly because of the significant deadweight which affects the policy. This deadweight arises primarily from the fact that greening requirements are generally undemanding and largely reflect normal farming practice. Additionally, due to extensive exemptions most farmers (65%) are able to benefit from the green payment without actually being subject to greening obligations. As a result, greening leads to a positive change in farming practices on only a very limited share of EU farmland. We estimate that farmers created new EFAs and increased crop diversification on only around 3.5% of arable land, i.e. around 2% of all EU farmland. Additionally, according to a JRC study, new greening requirements relating to permanent grassland resulted in a change in farming practices on only 1.5% of EU farmland. Overall, around 5% land farmed in the EU was reallocated due to greening (see paragraphs 26 to 39).

79. We also found that certain design limitations reduced the effectiveness of the three greening practices. Crop diversification could not provide the full environmental benefits of crop rotation. The ESPG designation was based mainly on biodiversity-related criteria and poorly targeted carbon rich permanent grassland outside Natura 2000 areas. Finally, the predominance of productive EFA types, combined with a lack of meaningful requirements on management, limited the positive impact of EFAs on biodiversity. (see paragraphs 40 to 50).

80. Member States have a significant degree of flexibility in implementing greening, especially as regards the choice of EFA types and the designation of ESPG. We found that, in general, they do not use this flexibility to maximise the policy’s environmental and climate benefits. They do not attempt to identify and target specific environmental and climate-related needs with greening practices. Rather, they strive to implement greening in a way which minimises the burden on themselves and their farmers. The Commission has limited power to push Member States towards greening implementation options offering greater environmental benefits (see paragraphs 51 to 54).
81. Greening has had limited impact for the baseline of Pillar II environmental measures, mainly because the commitments proposed to farmers under these measures were above greening requirements even before the green payment was introduced (see paragraphs 55 to 57).

82. Greening adds significant complexity to the CAP which is not justified in view of the results that greening can be expected to produce (see paragraphs 78 to 81). This complexity arises not least because of how greening overlaps with the CAP’s other environmental instruments (cross-compliance and the Pillar II environmental measures), creating the risk of deadweight and double funding. Certain decisions and actions by the Commission and Member States mitigate these risks. The recent amendment of the secondary legislation has addressed certain concerns farmers and Member States have regarding the policy’s complexity. We also found that Commission’s supervision of how Member States implement greening was good (see paragraphs 58 to 69).

83. Greening resembles GAECs in that it is also, essentially, a set of basic environmental conditions applicable to income support. What sets it apart from GAECs is the higher potential penalties for non-compliance (see paragraphs 70 to 71).

Recommendation 1

For the next CAP reform, the Commission should develop a complete intervention logic for the EU environmental and climate-related action regarding agriculture, including specific targets and based on up-to-date scientific understanding of the phenomena concerned.

(a) As part of the intervention logic, the Commission should define needs, inputs, processes, outcomes, results, impacts and the relevant external factors.

(b) The Commission should define specific targets for the CAP’s contribution to the environmental and climate-related objectives of the EU.

(c) In order to make it possible to design an effective policy and subsequently to monitor and evaluate its implementation, the Commission should develop models and data sets regarding biodiversity, soil condition (including soil carbon content) and other relevant environmental and climate-related issues.

Target implementation date: end of 2019.
Recommendation 2

As preparation for developing its proposal for the next CAP reform, the Commission should review and take stock of the implementation of the current CAP. In building this proposal, the Commission should be guided by the following principles:

(a) Farmers should only have access to CAP payments if they meet a set of basic environmental norms:

- These norms should encompass areas covered by the current GAECs and the generalised greening requirements (which are both meant to go beyond the requirements of environmental legislation). This would simplify the system of CAP direct payments by avoiding artificial and confusing distinctions between essentially similar instruments;

- Penalties for non-compliance with these combined norms should be sufficient to act as a deterrent;

- In order to avoid double funding, all such basic norms should be fully incorporated in the environmental baseline for any programmed action regarding agriculture.

(b) Specific, local environmental and climate-related needs can be appropriately addressed through stronger programmed action regarding agriculture that is based on:

- the achievement of performance targets;

- and funding reflecting an assessment of the average costs incurred and income foregone in relation to actions and practices going beyond the environmental baseline.

(c) When Member States are given options to choose from in their implementation of the CAP, they should be required to demonstrate, prior to implementation, that the options they select are effective and efficient in terms of achieving policy objectives.

Target implementation date: end of 2019.
This Report was adopted by Chamber I, headed by Mr Phil WYNN OWEN, Member of the Court of Auditors, in Luxembourg at its meeting of 15 November 2017.

For the Court of Auditors

Klaus-Heiner LEHNE

President
## Evolution of the permanent grassland ratio

| MS | total farmland declared (ha) | permanent grassland area declared (ha) | annual ratio % | total farmland declared (ha) | permanent grassland area declared (ha) | reference ratio % | total farmland declared (ha) | permanent grassland area declared (ha) | reference ratio % |
|----|-----------------------------|--------------------------------------|----------------|-------------------------------|--------------------------------------|----------------|-------------------------------|--------------------------------------|----------------|------|
| BE | 1 314 400                   | 448 987                              | 34.2%          | 1 315 486                     | 443 224                              | 33.7%          | 1 353 009                     | 454 292                              | 33.6%          |
| BG | 3 715 306                   | 430 730                              | 11.6%          | 3 679 813                     | 429 132                              | 11.7%          | 3 844 244                     | 441 710                              | 13.1%          |
| CZ | 3 052 450                   | 568 829                              | 18.6%          | 3 060 035                     | 562 796                              | 18.4%          | 3 499 205                     | 771 052                              | 22.0%          |
| DK | 2 406 971                   | 187 406                              | 7.8%           | 2 432 797                     | 188 410                              | 7.7%           | 2 794 151                     | 218 588                              | 7.8%           |
| DE | 15 837 869                  | 4 225 999                            | 26.7%          | 15 910 715                    | 4 275 141                            | 26.9%          | 17 079 413                    | 5 024 490                            | 29.4%          |
| EE | 780 945                     | 191 413                              | 24.5%          | 808 521                      | 226 379                              | 28.0%          | 862 508                      | 229 640                              | 26.6%          |
| IE | 4 492 546                   | 1 446 476                            | 92.3%          | 4 529 921                     | 1 426 327                            | 91.1%          | 4 759 370                     | 4 306 615                            | 90.9%          |
| EL | 3 474 055                   | 1 133 762                            | 32.1%          | 3 515 292                     | 1 148 530                            | 34.3%          | 4 309 659                     | 1 348 970                            | 31.3%          |
| ES | 19 282 905                  | 5 188 284                            | 26.9%          | 17 924 941                    | 4 738 728                            | 26.4%          | 22 810 689                    | 4 977 008                            | 21.8%          |
| FR | 26 443 752                  | 8 308 807                            | 31.4%          | 26 084 955                    | 8 138 942                            | 31.2%          | 27 191 897                    | 8 065 062                            | 29.7%          |
| HR | 943 389                     | 128 516                              | 13.6%          | 877 953                      | 112 044                              | 12.8%          | 1 021 088                     | 126 663                              | 12.4%          |
| IT | 8 388 012                   | 1 352 638                            | 16.1%          | 8 388 012                    | 1 318 111                            | 15.7%          | 10 268 869                    | 1 949 256                            | 19.0%          |
| CY | 133 987                     | 2 622                                | 2.0%           | 132 259                      | 2 994                                | 2.3%           | 141 133                      | 154                                  | 0.1%           |
| LV | 1 402 663                   | 320 117                              | 22.8%          | 1 396 574                    | 310 985                              | 22.3%          | 1 534 046                     | 371 539                              | 24.2%          |
| LT | 2 683 626                   | 695 377                              | 25.9%          | 2 680 109                    | 577 231                              | 21.5%          | 2 568 706                     | 417 962                              | 16.3%          |
| LU | 116 009                     | 61 497                               | 53.0%          | 118 283                      | 60 716                              | 51.3%          | 122 858                      | 58 939                               | 48.0%          |
| HU | 4 657 441                   | 576 847                              | 12.4%          | 4 649 112                    | 583 495                              | 12.6%          | 5 091 878                     | 134 447                              | 2.6%           |
| NL | 1 703 370                   | 690 270                              | 40.5%          | 1 733 770                    | 704 152                              | 40.6%          | 1 951 645                     | 470 383                              | 24.1%          |
| AT | 2 060 208                   | 904 038                              | 43.9%          | 1 963 729                    | 852 273                              | 43.4%          | 2 887 353                     | 1 458 766                            | 50.5%          |
| PL | 11 893 373                  | 1 849 142                            | 15.5%          | 11 813 509                   | 1 694 509                            | 14.3%          | 14 112 797                    | 2 352 294                            | 16.7%          |
| PT | 2 370 452                   | 893 592                              | 37.7%          | 2 314 906                    | 884 013                              | 38.2%          | 3 357 552                     | 815 454                              | 24.3%          |
| RO | 7 513 658                   | 1 675 808                            | 22.3%          | 7 277 425                    | 1 741 649                            | 21.9%          | 9 411 557                     | 2 093 630                            | 21.6%          |
| SI | 412 748                     | 234 512                              | 56.8%          | 412 748                      | 231 666                              | 56.1%          | 459 554                      | 273 804                              | 59.6%          |
| SE | 1 697 140                   | 390 167                              | 23.0%          | 1 717 260                    | 400 310                              | 23.3%          | 1 854 458                     | 504 402                              | 27.2%          |
| FI | 2 042 392                   | 134 006                              | 6.6%           | 2 076 488                    | 132 482                              | 6.4%           | 2 287 868                     | 16 935                               | 0.7%           |
| SE | 2 522 147                   | 424 332                              | 16.8%          | 2 613 443                    | 374 188                              | 14.3%          | 3 186 163                     | 564 182                              | 17.7%          |
| UK | 13 807 482                  | 8 547 962                            | 61.9%          | 13 939 630                   | 9 037 730                            | 64.8%          | 16 099 487                    | 9 694 376                            | 60.2%          |

**Total EU**

|               | 145 149 497 | 43 691 838 | 30.1% | 143 203 679 | 41 296 146 | 30.2% | 164 381 157 | 47 076 603 | 28.6% |

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1 Latest data from 2015.
2 For England latest data from 2015.

**Source:** ECA, based on the European Commission’s data.
## ANNEX II

Main data regarding the implementation of ESPG in 2016

<table>
<thead>
<tr>
<th>MS</th>
<th>all ESPG (ha)</th>
<th>ESPG designated inside Natura 2000 (ha)</th>
<th>ESPG designated outside Natura 2000 (ha)</th>
<th>all PG (ha)</th>
<th>PG inside Natura 2000 (ha)</th>
<th>PG outside Natura 2000 (ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(as % of all PG)</td>
<td>(as % of all ESPG)</td>
<td>(as % of PG inside N2000)</td>
<td>(as % of all ESPG)</td>
<td>(as % of all ESPG)</td>
<td>(as % of PG outside N2000)</td>
</tr>
<tr>
<td>BE</td>
<td>14 640</td>
<td>3%</td>
<td>11 152</td>
<td>76%</td>
<td>3 488</td>
<td>24%</td>
</tr>
<tr>
<td>BG</td>
<td>425 491</td>
<td>33%</td>
<td>425 491</td>
<td>100%</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>CZ</td>
<td>416 962</td>
<td>43%</td>
<td>138 737</td>
<td>33%</td>
<td>278 225</td>
<td>67%</td>
</tr>
<tr>
<td>DK</td>
<td>9 547</td>
<td>5%</td>
<td>9 547</td>
<td>100%</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>DE</td>
<td>543 674</td>
<td>12%</td>
<td>543 674</td>
<td>100%</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>ET</td>
<td>687</td>
<td>0%</td>
<td>687</td>
<td>100%</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>IE</td>
<td>30 175</td>
<td>1%</td>
<td>30 175</td>
<td>100%</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>EL</td>
<td>458 258</td>
<td>22%</td>
<td>458 258</td>
<td>100%</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>ES</td>
<td>2 492 436</td>
<td>31%</td>
<td>2 492 436</td>
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<td>0%</td>
</tr>
<tr>
<td>HR</td>
<td>76 487</td>
<td>12%</td>
<td>76 487</td>
<td>100%</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>IT</td>
<td>1 267 973</td>
<td>38%</td>
<td>1 050 647</td>
<td>83%</td>
<td>217 326</td>
<td>17%</td>
</tr>
<tr>
<td>CY</td>
<td>740</td>
<td>40%</td>
<td>740</td>
<td>100%</td>
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<td>0%</td>
</tr>
<tr>
<td>LV</td>
<td>9 703</td>
<td>1%</td>
<td>3 762</td>
<td>39%</td>
<td>5 941</td>
<td>61%</td>
</tr>
<tr>
<td>LT</td>
<td>66 313</td>
<td>12%</td>
<td>66 313</td>
<td>100%</td>
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<td>0%</td>
</tr>
<tr>
<td>LU</td>
<td>6 526</td>
<td>10%</td>
<td>3 025</td>
<td>46%</td>
<td>3 501</td>
<td>54%</td>
</tr>
<tr>
<td>HU</td>
<td>460 145</td>
<td>65%</td>
<td>460 145</td>
<td>100%</td>
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<td>0%</td>
</tr>
<tr>
<td>NL</td>
<td>48 984</td>
<td>6%</td>
<td>48 984</td>
<td>100%</td>
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<td>0%</td>
</tr>
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<td>AT</td>
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<td>24 795</td>
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<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>PL</td>
<td>256 825</td>
<td>8%</td>
<td>256 825</td>
<td>100%</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>RO</td>
<td>679 522</td>
<td>15%</td>
<td>679 522</td>
<td>100%</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>SL</td>
<td>20 850</td>
<td>7%</td>
<td>20 850</td>
<td>100%</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>SK</td>
<td>142 239</td>
<td>27%</td>
<td>142 239</td>
<td>100%</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>FI</td>
<td>3 143</td>
<td>10%</td>
<td>3 143</td>
<td>100%</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>SE</td>
<td>49 058</td>
<td>11%</td>
<td>49 058</td>
<td>100%</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>UK</td>
<td>580 112</td>
<td>5%</td>
<td>561 491</td>
<td>97%</td>
<td>18 621</td>
<td>3%</td>
</tr>
<tr>
<td>Total EU*</td>
<td>8 085 285</td>
<td>16%</td>
<td>7 568 183</td>
<td>93%</td>
<td>527 102</td>
<td>7%</td>
</tr>
</tbody>
</table>

* This table does not include France and Portugal, due to lack of complete data, and Malta, which does not have any permanent grassland.

Source: ECA, based on the European Commission’s data.
### ANNEX III

**Main data regarding the implementation of EFAs in 2016**

- **Source:** ECA, based on the European Commission’s data.

#### Table: Main data regarding the implementation of EFAs in 2016

<table>
<thead>
<tr>
<th>MS</th>
<th>Arable land under EFA obligation (ha)</th>
<th>Required EFA: 5% of arable land under EFA obligation (ha)</th>
<th>All EFAs declared (ha)</th>
<th>All productive EFAs (ha)</th>
<th>Non-productive EFAs (ha)</th>
<th>Nitrogen-fixing crops (ha) of which catch crops (ha)</th>
<th>Land lying fallow (ha) of which landscape features (ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BE</td>
<td>706,984</td>
<td>35,349</td>
<td>53,315</td>
<td>1,744</td>
<td>47,438</td>
<td>4,205</td>
<td>1,629</td>
</tr>
<tr>
<td>BG</td>
<td>2,992,629</td>
<td>149,631</td>
<td>210,043</td>
<td>40%</td>
<td>109,760</td>
<td>47,342</td>
<td>1,796</td>
</tr>
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<td>CZ</td>
<td>2,999,918</td>
<td>119,846</td>
<td>178,209</td>
<td>49%</td>
<td>164,840</td>
<td>32,263</td>
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<td>2,106,321</td>
<td>101,156</td>
<td>108,850</td>
<td>3%</td>
<td>77,348</td>
<td>32,564</td>
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<td>DE</td>
<td>10,738,721</td>
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<td>23%</td>
<td>353,623</td>
<td>130,662</td>
<td>18,227</td>
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<td>ET</td>
<td>399,630</td>
<td>19,981</td>
<td>39,807</td>
<td>9%</td>
<td>29,852</td>
<td>9,954</td>
<td>898</td>
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<td>EE</td>
<td>317,777</td>
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<td>146%</td>
<td>15,210</td>
<td>4,401</td>
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<td>EL</td>
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<td>33,649</td>
<td>41,179</td>
<td>23%</td>
<td>39,117</td>
<td>9,580</td>
<td>108</td>
</tr>
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<td>ES</td>
<td>9,337,789</td>
<td>466,889</td>
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<td>221%</td>
<td>496,942</td>
<td>496,942</td>
<td>1,009</td>
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<td>HR</td>
<td>523,344</td>
<td>26,167</td>
<td>55,714</td>
<td>180%</td>
<td>51,466</td>
<td>42,390</td>
<td>17,550</td>
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<td>IT</td>
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<td>167,629</td>
<td>307,295</td>
<td>83%</td>
<td>228,102</td>
<td>227,857</td>
<td>79,758</td>
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<td>CY</td>
<td>618,624</td>
<td>3,093</td>
<td>9,129</td>
<td>195%</td>
<td>2,983</td>
<td>2,983</td>
<td>6,140</td>
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<td>LT</td>
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<td>41,247</td>
<td>81,369</td>
<td>9%</td>
<td>33,743</td>
<td>33,726</td>
<td>47,160</td>
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<tr>
<td>LU</td>
<td>2,103,701</td>
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<td>251,038</td>
<td>139%</td>
<td>188,796</td>
<td>182,463</td>
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<td>LU</td>
<td>47,818</td>
<td>2,391</td>
<td>3,648</td>
<td>53%</td>
<td>2,738</td>
<td>957</td>
<td>930</td>
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<tr>
<td>LU</td>
<td>3,369,371</td>
<td>167,429</td>
<td>295,598</td>
<td>73%</td>
<td>201,077</td>
<td>148,305</td>
<td>93,927</td>
</tr>
<tr>
<td>MT</td>
<td>91,5</td>
<td>5</td>
<td>17</td>
<td>264%</td>
<td>14</td>
<td>14</td>
<td>3</td>
</tr>
<tr>
<td>NL</td>
<td>582,736</td>
<td>29,137</td>
<td>60,378</td>
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<td>190,481</td>
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<td>3,000,206</td>
<td>5,594,727</td>
<td>86%</td>
<td>3,244,004</td>
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* This table does not include France, due to lack of complete data.

Source: ECA, based on the European Commission’s data.
REPLIES OF THE COMMISSION TO THE SPECIAL REPORT OF THE EUROPEAN COURT OF AUDITORS
"GREENING: A MORE COMPLEX INCOME SUPPORT SCHEME, NOT YET ENVIRONMENTALLY EFFECTIVE"

EXECUTIVE SUMMARY

IV. In the view of the Commission greening has the potential to enhance the environmental and climate performance of the CAP compared to the period before its introduction. For instance, the obligation to establish an ecological focus area (EFA) on a percentage of the arable land is new. The protection of permanent grassland at national or regional level has been strengthened by limiting the margin for conversion of these pastures.

Overall, greening applies to holdings representing a large share of the agricultural area (77% in 2016). Besides, the Commission has acknowledged in its reports on greening that there was room for improvement in implementation and a number of regulatory changes have been adopted to both simplify the functioning of the scheme and to enhance its environmental performance. For example, a ban on the use of pesticides on EFAs will apply as from 2018, representing a significant improvement in the environmental performance of greening.

V. Greening is a decoupled income support which rewards farmers for the provision of basic public goods. In this respect greening, that is a standardised payment differs from more targeted and ambitious agri-environmental and climate measures which compensate costs incurred and income foregone compared to the baseline requirements. The greening payment that is standardised for the sake of a simpler administration is not meant to reflect either the costs to farmers or the value of the expected basic environmental and climate benefits. The share of direct payments involved (30% plus possible penalties up to 7.5% of the direct payments) act as an effective deterrent. Thanks to the significant share of direct payments and the mandatory nature of this payment, greening practices are implemented by nearly all farmers subject to greening obligations, ensuring a wide uptake for the practices.

VI. The Commission's understanding of deadweight does not only take into account the changes imposed by greening on farmers practices but also takes into account the preservation of existing practices and areas (e.g. fallow land, protection of hedges, buffer strips, etc.) that are beneficial for the environment and climate. This is all the more so valid that external factors increase the current trend towards production intensification and specialisation. The view of the Commission is that if we also consider this effect of greening, the deadweight mentioned by ECA is more limited. The potential of greening to enhance the environmental performance of the CAP lies also in the area covered by greening obligations where these changes or preservation of existing beneficial practices are to be observed by farmers.

VIII. First bullet: Whilst the Commission accepts Recommendation 1 in substance, it is not in a position at this stage to make specific commitments in relation to legislative proposals for the post 2020 period and for the target implementation date. However work has already started to further develop the intervention logics of environmental and climate-related instruments of the CAP including greening.

Second bullet: The Commission accepts the first sentence of Recommendation 2 and is already reviewing and taking stock of the implementation of the current CAP in view of the Commission's legislative proposals for the post-2020 CAP. In this respect, the Commission has already issued two reports on the implementation of greening in 2016 and 2017.
Whilst the Commission accepts the remainder of Recommendation 2 in substance, it is not in a position at this stage to make specific commitments in relation to legislative proposals for the post 2020 period and for the target implementation date.

OBSERVATIONS

Common Commission reply to paragraph16 a) and b) and Box 2:
The objective of greening is to enhance the environmental performance of the CAP. This is intended to be achieved with three requirements covering the environmental and climate objectives of biodiversity (mainly with EFA), carbon sequestration (mainly with the protection of permanent grassland) and soil (mainly with crop diversification). Obviously greening only aims at contributing to the improvements of the situation regarding these environmental and climate challenges. As regards the measurement of the result of greening toward its objective, a relevant indicator is the area covered by at least one greening obligation and the target is to maximise this area. As ECA underlines, it is inherently difficult to set targets and measure the specific contribution of greening for each environmental and climate challenges due to the multitude of external and internal factors at play.

Box 2 – Biodiversity and soil: lack of clarity on where we are and where we want to be

Soil

The Commission Communication on the "Thematic Strategy for Soil Protection" remains the most comprehensive EU framework addressing various forms of soil degradation. Since 2006 a lot was achieved through the non-legislative pillars including integration of soil protection in EU policies, CAP in particular. In absence of EU legislation on soil (the Soil Framework Directive proposal (COM(2006)231) was withdrawn after 8 years due to a blocking minority in the Council) there are still no specific targets on soil at EU level. Several actions have been taken at EU level, such as setting up an EU Expert Group on Soil Protection, to address the 7th EU Environment Action Programme commitments and to reflect on a potential new initiative on soil at EU level. According to a recently published inventory of soil policy at EU and MS level soil protection is still scattered in many policy instruments.

19. See Commission reply to paragraph 16 a), b) and Box 2 as well as Commission reply to paragraph 20.

(b) Impacts are to be observed over several years and they result from the combined effect of several factors, including the expected impact of EFA among others.

20. While the precise quantification of the environmental benefits expected was not set in the Impact Assessment, the objectives of each greening requirement were defined at the time of adoption by the Commission. The ecological focus area was primarily intended to enhance biodiversity, the protection of permanent grassland primarily aimed at ensuring carbon sequestration, and crop diversification (similarly to crop rotation initially envisaged) aimed at preserving soil quality. For certain practices, the objectives were supported by existing scientific literature, particularly for crop diversification and permanent grassland. The subsequent discussions developed on what greening was intended to achieve, although not in quantified terms.

Common Commission reply to paragraph 23 and 24:

Greening is a decoupled income support which rewards farmers for the provision of environmental and climate public goods. In this respect greening, that is a standardised payment, differs from more targeted and ambitious agri-environmental and climate measures which compensate costs incurred and income foregone compared to the baseline requirements. The greening payment that is standardised for the sake of a simpler administration is not meant to reflect either the costs to farmers or the value of the expected basic environmental and climate benefits. The share of direct payments involved (30% plus possible penalties up to 7.5% of the direct payments) act as an effective deterrent. Thanks to the significant share of direct payments, and the mandatory nature of this payment, greening practices are implemented by nearly all farmers subject to greening obligations, ensuring a wide uptake for the practices.

25. Since greening contributes together with other policy instruments to achieving certain general environmental objectives, such as soil organic matter improvement, landscapes protection or water quality, it would be very difficult to isolate the specific economic value of the expected environmental and climate benefits brought by greening for these general objectives.

(e) See Commission reply to paragraph 16.

**Common Commission reply to paragraphs 29 to 31:**

As far as changes of practices are concerned, the Commission considers that the number of holdings affected is the best indicator of the impact of the introduction of greening. In this respect the Commission notes that greening entailed changes for 13% of holdings as regards crop diversification and 37% of holdings as regards EFAs. The environmental impacts of these changes in terms of areas are difficult to assess since beneficial results are expected not only on the specific share of land where changes occurred but on a wider area. These impacts depend on the beneficial practices undertaken.

See also Commission reply to paragraph 34.

**Common Commission reply to paragraph 32 and 33:**

The Commission considers that the share of the area covered by at least one greening obligation is a relevant indication of the potential of greening to enhance the environmental performance of the CAP. It indeed reflects the area on which all greening requirements apply in complementarity and synergy i.a. with other measures such as GAEC and AECM. The final environmental and climate impact of greening does naturally also depend on the ambition of the requirements applying to these areas (such as raising the ecological focus area from 5% to 7%) but the quantitative aspect, i.e. the area concerned, is key for the final outcome. In 2016, holdings subject to one or more greening obligations covered 77% of the total agricultural area. Other indicators for more specific greening obligations are also used for monitoring greening, for instance the percentage of EFA areas on arable land (based on EFA areas declared by farmers). Such indicators are analysed in detail in all available reports on greening, namely the 2016 Commission Staff Working Document and the 2017 EFA report to the Council and the European Parliament.

In addition, greening obligations do not necessarily have the objective to change farming practices (see Commission reply to paragraph 34).

34. The Commission’s understanding of deadweight does not only take into account the changes imposed by greening on farmers’ practices but also takes into account the preservation of existing

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2 See Figure 5.
beneficial practices and areas, particularly in case where external factors increase the trend to intensify production (e.g. to decrease permanent grassland and fallow land). For instance, for the sake of simplification the requirement for EFA does not necessarily entail creating new features or ecological area on every farm where these already exist at the level required. However greening protects and promotes these features and areas, therefore avoiding their destruction due to intensification. If this was taken into account the deadweight effect stated by ECA would be more limited.

39. Organic farmers considered as "green by definition" provide public goods beyond the public goods provided by greening. Small farmers are exempted from greening obligations on the ground of the need for simplification and cost-benefit consideration. However the area concerned by the Small Farmer Scheme is limited (7% of the area with direct payments).

45. The protection of environmentally sensitive permanent grassland (ESPG) is primarily targeted on Natura 2000, which includes the most valuable areas in relation to biodiversity.

46. While the general objective of the protection of permanent grassland is preserving the carbon stock, the objective of the protection of the specific category of environmentally sensitive permanent grassland (ESPG) is preserving biodiversity and contribute to meet good conservation status of Directive 92/43/EEC Annex I grassland habitats, Annex II species which are dependent from grassland management and bird species protected by Directive 2009/147/EC in Special Protected Area which contain grasslands. There is indeed a strong link with some rules under the Birds and Habitats Directives. Therefore on the basis of the current legislation a better targeting should concern biodiversity in first instance.

48. Nitrogen-fixing crops and catch crops are indeed important EFAs but land lying fallow, which is a non-productive area, is the second most important EFA type with 38% of the EFA area in 2015. Since land lying fallow is beneficial for environment and climate when appropriate management requirements are set, the importance of this type of EFAs is likely to enhance the added value of EFAs.

50. The Commission considers that the last modification of the Delegated Act\(^3\) bringing clarifications of management practices such as the ban of pesticides on productive EFAs or the better specification of the minimum period for the plant cover is a significant step toward enhancement of the biodiversity status of these areas. Therefore on the areas concerned these changes should significantly improve the management requirements for EFAs.

54. The Commission actively supervises Member States implementation of greening and follows up on the incorrect implementation of EU rules. However there are limits to the assessment capabilities of the Commission, which is not in the position to validate in details whether these choices are environmentally relevant in specific national or local situations.

57. Continuity is one of the important features of agri-environment-climate support. Implementing good and results-delivering schemes for longer than one programming period allows fortifying the delivery of the results.

While it can be expected that the introduction of greening may increase the environmental ambition of agri-environment-climate measures, this does not have to materialise in every case. First, greening is not part of the baseline for agri-environment-climate measures. These measures must

avoid paying for actions overlapping with greening (which *de facto* requires raising the level of ambition in order to propose an increased premium) but such non-remunerated actions can still be part of the measure. Second, particularly in the case of commitments concerning crop diversification, the impact of greening can be more easily found as in order to maintain the support such diversification has to be more ambitious than what required by greening.

58. The Commission considers that the risk of overlap between greening and cross-compliance and between greening and environmental measures under rural development are properly dealt with by regulatory rules. In the latter case, the overlaps between greening and agri-environment-climate commitments are not excluded by the legal framework as long as the support for the same practice is provided just once i.e. double funding is avoided.

**Common Commission reply to paragraph 59 and 60:**

The risk of overlap between greening and cross-compliance mentioned by ECA is dealt with by regulatory rules. The features or practices required under cross-compliance in different Member States form instead the baseline for greening practices set at EU level. For instance catch crops with one species are possibly required under cross-compliance but they may count as EFA only if a second species is added in mixture for the catch crop. Both instruments therefore work in synergy, cross-compliance forming the statutory rule and EFA promoting a better environmental impact.

66. The greening review was part of CAP simplification in the context of the Commission’s REFIT exercise for 2016. This responded to the commitment made by the Commission in its declaration of 2 April 2014 to consider after one year experience, administrative burden, impact on the level playing-field and impact on the production potential at EU level. A Commission Staff Working Document was released in June 2016[^4].

On the basis of the review, DG AGRI services developed a set of concrete simplification proposals. They form a balanced package that provides a fine-tuning of current rules, especially for EFAs, to make them easier to understand and implement both by farmers and administrations.

To this end, the Commission tabled a Delegated Act (amending Delegated Regulation (EU) No 639/2014). This text has been adopted by both co-legislators and has been published on 30 June 2017[^5].

Thirteen measures will adjust management conditions and incentivize farmers to declare landscape features and buffer strips. For example:

- Some categories have been merged and associated requirements have been streamlined when certain EFA landscape features and strips are similar to each other. This will avoid confusion and sources of error.
- Some flexibilities have been introduced on the set maximum dimension and on the location of landscape features, this will allow especially a greater coverage of EFA types such as hedges and field margins.
- Some conditions were removed when they are difficult to justify in terms of environmental benefits such as obligations to use nitrogen fixing crops as pure crops.

It should be underlined that the purpose of some amendments is to improve the environmental performance of the policy and to enhance the overall credibility of the 2013 Greening of direct payments.

This includes a minimum duration for some elements such as catch crops and land lying fallow and a general ban on use of plant protection product on cultivated area qualified as EFA. The ban reflects the objective of the payment: the use of pesticides cannot be considered compatible with the preservation and development of biodiversity on what amounts to only 5 per cent of arable land.

67. To support Member States in implementing greening, several simplification measures have been adopted since 2015 in the regulations or the guidelines. Regarding the EFA domain the main changes concerned:

- the simplification of the size criteria for certain elements and of the possibility to use the area (e.g. buffer strips, field margins);
- the fact that type and location can be modified by the farmer to certain degree after the aid-application;
- the possibility that not all potential permanent EFA must be mapped in the EFA layer;
- the flexibility given to distinguish between hedges or wooded strips and trees in line as well as the merging of EFA types;
- the clarification of definitions (gaps in hedges or wooded strips);
- the acceptation of adjacent landscape features located around agricultural parcel.

**Box 5 – The heavy burden associated with establishing the EFA layer**

In 2015, i.e. the first year of implementation of greening, the Commission amended the guidelines on the EFA layer to clarify that all EFAs declared by farmers and that are stable in time have to be mapped in the EFA layer, and not necessarily all potential EFAs.

69. See Commission reply to paragraph 54.

**CONCLUSIONS AND RECOMMENDATIONS**

73. In the view of the Commission greening has the potential to enhance the environmental and climate performance of the CAP compared to the period before its introduction. For instance, the obligation to have an ecological focus area (EFA) on a percentage of the arable land is new. The protection of permanent grassland at national or regional level has been strengthened by limiting the margin for conversion of these pastures. Overall, greening applies to holdings representing a large share of the agricultural area (77% in 2016). Besides, the Commission has acknowledged in its reports on greening that there was room for improvement in implementation and a number of regulatory changes have been adopted to both simplify the functioning of the scheme and to enhance its environmental performance. For example, a ban on the use of pesticides on EFAs will apply as from 2018, representing a significant improvement in the environmental performance of greening.

77. Greening is a decoupled income support which rewards farmers for the provision of environmental and climate public goods. In this respect greening, that is a standardised payment differs from more targeted and ambitious agri-environmental and climate measures which compensate costs incurred and income foregone compared to the baseline requirements. The greening payment that is standardised for the sake of a simpler administration is not meant to reflect either the costs to farmers or the value of the expected basic environmental and climate benefits. The share of direct payments involved (30% plus possible penalties up to 7.5% of the direct
payments) act as an effective deterrent. Thanks to the significant share of direct payments and the mandatory nature of this payment, greening practices are implemented by nearly all farmers subject to greening obligations, ensuring a wide uptake for the practices.

78. The Commission's understanding of deadweight does not only take into account the changes imposed by greening on farmers' practices but also takes into account the preservation of existing practices and areas (e.g. fallow land, protection of hedges, buffer strips, etc.) beneficial for the environment and climate. This is all the more so valid that external factors increase the current trend towards production intensification and specialisation. The view of the Commission is that if we also consider this effect of greening, the deadweight mentioned by ECA is more limited. The potential of greening to enhance the environmental performance of the CAP lies also in the area covered by greening obligations where these changes or preservation of existing beneficial practices are to be observed by farmers.

79. The design of greening measures in the EU legislation is a trade-off between the expected environmental results and the constraints to impose to farmers and national administrations. In this respect crop diversification was preferred to crop rotation because of the management constraints, the ESPG designation makes a link with some Natura 2000 requirements with a biodiversity objective and EFA types include productive elements so as to avoid having a too stringent impact on production potential. After the first year of implementation of greening, the Commission, based on experience gained has initiated the necessary changes to simplify and improve the environmental delivery of greening. This notably includes a ban of pesticides on productive EFA types.

80. See Commission reply to paragraph 54.

Recommendation 1

Whilst the Commission accepts Recommendation 1 in substance, it is not in a position at this stage to make specific commitments in relation to legislative proposals for the post 2020 period and for the target implementation date. However work has already started to further develop the intervention logics of environmental and climate-related instruments of the CAP including greening.

Recommendation 2

The Commission accepts the first sentence of Recommendation 2 and is already reviewing and taking stock of the implementation of the current CAP in view of the Commission's legislative proposals for the post-2020 CAP. In this respect, the Commission has already issued two reports on the implementation of greening in 2016\(^6\) and 2017\(^7\).

Whilst the Commission accepts the remainder of Recommendation 2 in substance, it is not in a position at this stage to make specific commitments in relation to legislative proposals for the post 2020 period and for the target implementation date.

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\(^6\) Commission Staff Working Document on the review of greening after one year (SWD 218 final of 22/06/2016).

\(^7\) Report from the Commission to the European Parliament and the Council on the implementation of the ecological focus area obligation under the green direct payment scheme (SWD(2017) 121 final of 29/03/2017).
<table>
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<td>5.10.2016</td>
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<tr>
<td>Official sending of draft report to Commission (or other auditee)</td>
<td>28.9.2017</td>
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<td>Adoption of the final report after the adversarial procedure</td>
<td>15.11.2017</td>
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<td>Commission’s (or other auditee’s) official replies received in all languages</td>
<td>29.11.2017</td>
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Agriculture, in particular intensive farming, exerts a negative impact on the environment and climate. Greening - a direct payment rewarding farmers for farming practices beneficial for soil quality, carbon sequestration and biodiversity – was introduced in 2015, as a means to enhance the environmental and climate performance of the EU’s Common Agricultural Policy. We found that greening, as currently implemented, is unlikely to meet this objective, mainly due the low level of requirements, which largely reflect the normal farming practice. We estimate that greening has led to a change in farming practice on only around 5% of all EU farmland. We made a number of recommendations on how to design more effective environmental instruments for the Common Agricultural Policy post 2020.