

CONSOLE

CONtract Solutions for Effective and lasting delivery of agri-environmental-climate public goods by EU agriculture and forestry

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D5.7: Practice abstract on policy implications on new AECPG contract solutions

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1 Introduction

This deliverable is intended as a short summary reporting policy implication for diffusion of new contract solutions addressed in CONSOLE to a wider audience. It has been developed as part of task 5.4 and is largely a summary of D5.6: Policy implications on new agri-environment-climate public good (AECPG) contract solutions.

Due to the organisation of the project results, rather than one single abstract it was decided to go for five different abstracts: four related to each of the individual contract types investigated and one on the general and cross-cutting issues.

2 Practice abstract: General policy implications for AECPG provision solutions

The studied novel contract solutions have a potential to improve the provision of public goods. But all of them imply some trade-offs compared with traditional flat-rate individual payments based on (estimated) compliance cost. Therefore, it must be first clarified in which environmental, legal and social context the use of each of the four assessed contract solutions adds value.

In terms of design, there is no standard recipe and the contract solutions observed in the case studies (www.console-hub.eu) show a broad range of different solutions, including hybrid solutions. Upscaling and replicability of successful experiences are not straightforward and may imply important adaptations.

The introduction of new contract solutions is associated with a strong learning process which favours a gradual implementation. Past experience helps; however, failure is always very dangerous because it can hinder acceptance of similar contracts for a long time.

For every contract, the payment level remains a key issue for success. Therefore, transparency on costs and benefits and expectations about hidden costs such as transaction costs is important.

Increased feasibility may be expected from new technologies, in particular related to digitalisation, that can improve monitoring and traceability.

Opportunities are expected by the new CAP that explicitly mentions result-based and collective actions, as well as from consumers' growing awareness of environmental and climate issues.

It is suggested to keep on devoting a dedicated budget within the CAP to test and stimulate the development of new contract solutions, e.g. through pilot schemes/projects, that might also involve researchers and be designed as Operational Groups under the EIP Agri.

3 Practice abstract: Policy implications on land tenure-related contract forms for AECPG provision

Land tenure rules are laid down in national law and this leads to variations from member state to member state. As a result, AECPG-related provision attached to land tenure contracts also varies widely depending on local conditions and rules.

Such contracts are of high interest in case of public land or land in the hand of institutional or other non-profit bodies. Other very suitable cases are those of marginal land, where the trade-offs between environmental clauses and productivity may be lower.

In any case long-lasting provision of AECPGs requires coordination with land tenure and this also applies to the next CAP. On the other side, land tenure contracts may be used as long-term follow-up contracts (10- or 20-years) to ensure environmentally friendly use after environmental improvements on land, e.g. through non-productive investments like restoration of water courses or wetlands or afforestation of agricultural land.

The crucial point in designing the contracts is the flexibility of practices connected to a reasonable degree of monitoring. As often the environmental effects may be difficult to check and excessive constraints may discourage participation, it is important that prescriptions are restricted to simple items that are easy to implement and monitor.

In the next programming period, the consideration of land tenure should become more systematic and could be connected for example with explicit policies against land abandonment.

A key aspect in this direction would be to use national strategic plans as an opportunity for well coordinating country land tenure law and CAP rules, as well as defining clear baselines for environmental prescriptions.

4 Practice abstract: Policy implications on results-based contract forms for AECPG provision

Result-based contracts that target environmental performance typically address single AECPGs, often biodiversity and more recently carbon sequestration. They are widely accepted by farmers and stakeholders, but monitoring of results remains challenging. New organisational solutions (e.g. citizen science or farmers' self-monitoring) and technologies using digitalisation can be a valuable support.

A key issue in implementing them is the possibility to allocate the merit of AECPG improvement to a specific farmer. But also setting environmental baselines that must be exceeded to unlock payments, requires sound measurement. At the same time any deliberate deterioration prior contract signature must be prevented. It is

recommended to include force majeure clauses for circumstances beyond the farmer's control.

Strategies to reduce farmers' risk resulting from the freedom in management, e.g. through a fixed payment component, increases the willingness to participate. Accordingly, provision of advice, extension services or information support tools attached to the result-based contract are recommended.

Details regarding calculation of the result-based payment (e.g. comparison with fixed thresholds or among peers, proportionality with results etc.) may entail very different outcomes.

The new CAP highlights the result-orientation of the whole framework and in particular of AECPG related measures, but still the use by member states is rather limited. CAP management and control authorities have to shift from verifying compliance to measuring results.

The use of result-based solutions in private contracts seems easier to be implemented as there are fewer constraints and economic operators are used to thinking in results.

5 Practice abstract: Policy implications on collective contract forms for AECPG provision

Collective contract solutions are suitable when spatial aspects matter in AECPG provision, in particular for landscape or biodiversity issues, water protection or to avoid soil erosion. Their establishment can be bottom up, top down or a combination of both. The degree of formalisation varies considerably affecting costs of establishment and functioning.

Acceptance by farmers is quite low and culturally nuanced across the EU, related to socio-cultural conditions, trust towards institutions or peers, information and knowledge, habit to cooperation.

Transaction costs incurring from coordination efforts impact willingness to engage, hence collective solutions require specific incentives, mostly publicly funded.

Setting up a collective approach requires involvement of a broad range of potential actors (farmers, NGOs, landowners, advisors, administration). Collective institutions or well-established organisations already in place (e.g. cooperatives, farmers' associations, technical associations) are important as well as the presence of intermediaries.

Some degree of flexibility in the choice of measures and their location are important to implement collective actions in a cost-effective way. Pre-payments would encourage farmers if the measure requires investments.

Collective options are mentioned and promoted in the new CAP, concerning both agri-environmental measures and cooperation. A stronger role of the CAP may come from a more specific framework, in particular specifying procedures for the organisation of measures and payments.

Private sector activities can be relevant. Collective implementation offers opportunities for blended finance, combining public and private expenditure.

6 Practice abstract: Policy implications on value chain contracts for AECPG provision

In most cases value chain contracts are purely private (business-to-business), rare cases are stimulated by public sector or civil society.

The main opportunity for implementation is connected to the growing awareness for environmental issues by consumers and companies' Corporate Social Responsibility. However, private ambitions do not usually allow to reach a public optimum, so the role of policies will remain.

Value chain contracts work only for some public goods and not necessarily translate in higher willingness to pay. The interest for the contract also changes with the general economic contingency and proliferation of labels might saturate the cognitive capacity of consumers and impede progress.

Commitments by food industry players and retailers are key. Information for consumers and awareness raising may be a specific complement to the value chain contracts.

Being purely private, there is a great flexibility as regards the content of the contracts. Most instances can be found in relatively short value chains or in combinations with quality aspects, health characteristics and regionality.

On the farmers' side, economic incentives through an appropriate product pricing are important, combined with sales guarantee and other soft factors. Also building and maintaining trust is key.

Public policy may have an important role for example through defining framework conditions. Relevant initiatives are the Unfair Trading Practices Directive, the proposals for a Directive on corporate sustainability due diligence and for a sustainable food labelling framework.

In the context of the CAP, producer organisations and public certification schemes may be a way forward to better connect production requirements with sustainable production.

7 Acknowledgment

