

# **The Common Agricultural Policy: Prospects for a Sustainable Farming System**

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## Abstract

Agricultural policy is a central factor in determining land management regimes on common land. Since accession to the then EEC in 1973 the UK has been subject to the Common Agricultural Policy (CAP). While synonymous with environmental degradation and over production, since the 1980s the CAP has been gradually reformed with environmental conservation and rural development measures forming an increasingly better resourced 'second pillar'. Based on documentary analysis this paper examines the likely direction of future reform and its consequences for the rural environment. It briefly reviews the history of agricultural policy before focusing on the 2008 CAP 'Health Check' and future prospects for the development of a sustainable farming system.

## Introduction

Agricultural policy is a central factor in determining land management regimes on common land. As common land is also farmed land the policy framework governing food production has historically been highly influential in determining how land is used. In many respects this is a symbiotic relationship, the characteristic environment of the common relying on the maintenance of certain agricultural practices. But the relationship can also be a problematic one if economic incentives promote the destruction of key landscape features and habitats. Throughout the post war era the policy aim of maximising food production has been widely viewed as having a predominantly detrimental environmental impact on the landscapes of the United Kingdom. While the impact of this so called 'productivism' on the upland commons has not been as marked as in the lowlands (Short and Winter, 1999) the policies of successive British governments and, since UK accession to the EEC in 1973 Directorate General for Agriculture, has profoundly shaped the way in which common land is managed.

Throughout its history the CAP has been the subject of critique by a wide coalition of groups and individuals with an interest in the future of the uplands (MacEwen and Sinclair, 1983; Shoard, 1987). Key to understanding this critique of the CAP is the

word 'common'. The objectives of the CAP, written into the 1957 EEC Treaty<sup>1</sup> have been pursued across an ever expanding European territory. The CAP has been highly effective in terms of achieving abundant food supply and the system of paying farmers per head of livestock<sup>2</sup> has, arguably perhaps, sustained the economic viability of hill farms. However, the environmental consequences of the CAP have been highly problematic especially in areas of high landscape and conservation value. The focus on the objectives of securing food supply and maintaining rural incomes made it an unwieldy instrument in spaces such as commons which have myriad economic, social and environmental functions.

In more recent years the CAP has undergone fundamental reform. How fundamental this reform process has been is a difficult and controversial question. This is because while the gradual dismantling of the system of paying farmers according to how much they produce, so-called 'decoupling', has received a lot of attention elements of the CAP system still involve market intervention and indirect production subsidy. Furthermore, while the CAP has also evolved to recognise the importance of Europe's rural areas for conservation and recreation many claim that the monies available are still insufficient to address the level of demand. Finally, while elements of the CAP have now evolved into more flexible programmes that allow for substantial degrees of national and even regional discretion the CAP remains synonymous with bureaucratic inflexibility and complex and extensive rules and regulations.

The aim of this paper is focus on this ongoing evolution of the CAP and the consequences for the upland environment in which most common land lies (Short, 2008). The paper is based on documentary analysis of recent European Commission papers on reform of the CAP together with commentaries from expert researchers and the responses of the public and voluntary conservation bodies to recent consultations. The author has also drawn on past research on the CAP undertaken for various research projects since 1999 (Ward and Thompson, 2001; Thompson and Ward, 2005; Talbot *et al.*, 2008). The paper examines the 'direction of travel' of CAP reform; it does not attempt to explain every detail of past or current reforms. It aims to give an overview of some of the likely consequences for the uplands and hence the prospects of the development of a sustainable farming system on the commons.

### Reforming the CAP

The easiest and commonest way of conceptualising the CAP is as two pillars. Pillar one encompasses the market interventions and direct payment elements while pillar two includes support for rural development and agri-environment payments. The

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<sup>1</sup> The Treaty states that the CAP has five objectives: a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour; b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture; c) to stabilise markets; d) to assure the availability of supplies; e) to ensure that supplies reach consumers at reasonable prices (Nugent, 1995, p.368)

<sup>2</sup> In the UK there had been a system of headage payments since the 1940s. This became integrated into the CAP in 1975 with the introduction of the Hill Livestock Compensatory Allowance for farmers operating in difficult geographical circumstances (Winter *et al.*, 1998)

current reform process is characterised by two major shifts. The first is the transfer of resources from pillar one to pillar two. The second is a change in the nature of support available through pillar one to make it less trade distorting so that agriculture is increasingly exposed to world market conditions. In order to understand the nature and significance of these ongoing shifts it is necessary to understand something of why these changes are happening. This section therefore first examines the political imperatives that are driving reform before outlining the main features of the reform process since the 1990s.

### *Imperatives for Reform*

Since the mid 1990s the CAP has been a constant and controversial item on the European political agenda. Debate has focused around three lines of critique: protectionism; negative consequences and cost. All three have played a part in mobilising the Commission to initiate reform and all three have influenced the nature of that reform.

The first critique centres on the argument that the CAP upheld a system of protectionism. Pressure to address this gained particular momentum as the opening of the 1986 – 1994 ‘Uruguay Round’ which brought agriculture into international trade negotiations. The influence of the global trade talks has continued to be an important influence on CAP reform right up to the present (Potter, 2006; 2007). It provides a powerful incentive for the removal of production and export subsidies and was crucial to the move to decoupling. The collapse of Doha means that the precise future influence of the WTO process is uncertain (see Potter, 2007). However, even without full agreement the world trade negotiations look set to continue to be highly influential in defining the nature of reform and in ensuring that certain trade distorting measures and policies must ultimately be discontinued.

Critique two centres on the negative consequences of the CAP. Evidence of the environmental and socio-economic problems that agriculture policy was creating has galvanised a coalition of environment and amenity groups from across the EU. As Dwyer (2007, p.26) argues during the 1990s and early 2000s the CAP was the primary concern of many conservation groups such was the severity of its impacts on the environment. This pressure by organised and well resourced groups able to mobilise considerable research capacities to back up their case was also very important in shaping the architecture of the CAP particularly in the invention of the second pillar.

Critique three is a relative late comer but is gaining in significance in terms of its impacts on the CAP. This critique centres on the cost of the CAP to European tax payers and the pressure to use the EU budget for other areas of public spending. This pressure for reform needs to be understood in the context of the key ideas and debates that are shaping European politics more generally. The emergence of the so called ‘competitiveness agenda’ in the wake of the Lisbon summit of 2000 has had a profound influence on debates on the utilisation of EU funds. The integration of Lisbon agenda into all areas of European policy making including agriculture (European Commission, undated) is significant in signalling the political influence of an alternative vision of the purpose of European integration. In the past the dominant purpose of European policy has been to promote cohesion and to lessen spatial

inequalities. In recent years the competitiveness agenda has been understood as forming an alternative vision based on the imperative to improve the Union's economic performance. Key politicians notably Tony Blair and Gordon Brown have stressed the Union's role in promoting economic growth to create a knowledge based economy capable of competing with America and Asia. In this context there is pressure to lessen the budgetary burdens of the CAP in order to redistribute money to support the growth of a knowledge based economy and to be ideologically consistent with the anti-subsidy rhetoric of the neo-liberal politics which the competitiveness agenda is closely associated with. In a UK Treasury/Defra document of 2005 entitled 'A Vision for the Common Agricultural Policy' the UK Government signals a strong desire to lobby for stringent cuts to the CAP budget in order to lessen its burden on European tax payers and free resources to respond to the challenges of globalisation.

The CAP reform process has been, and continues to be, driven by a wide range of interests seeking to promote diverse policy agendas. In many respects the contemporary CAP is a marriage of convenience between the liberalisation ambitions of the anti-protectionists and to a lesser extent the budget cutters and environmental groups concerned to address the CAP's negative consequences. So far the marriage has been broadly successful as while the transfer of funds from pillar one to pillar two has been resisted by the still powerful farming lobbies it has allowed the Commission to formulate policies which comply with the liberalisation agenda while still keeping the money in the CAP. In the remainder of this section the recent history of the reform process is briefly analysed in order to set the context for explaining the most recent proposals and their possible effects.

#### *Some Recent History*

Reform of the CAP has a long and detailed history. In order to ensure brevity this paper starts with the 1992 reforms. These reforms marked a substantial attempt to address the problems of overproduction that were still readily apparent despite changes to the commodity support system in the 1980s. Through drastically reducing support prices and the introduction of set-aside the aim was to bring production levels down and begin to expose farming to market forces. But, in order to maintain farm income farmers were given a series of compensatory payments awarded on the basis of past production and farm size. The 1992 reforms also saw the introduction of a range of pillar two schemes including the expansion of the then embryonic agri-environment schemes (Nugent, 1995, p.371). In the uplands the main impact of the 1992 reforms was the introduction of producer quotas on the headage payments for beef and sheep, the subsequent introduction of the Countryside Stewardship Scheme (and its equivalents in Wales and Scotland) and the introduction of measures to facilitate and encourage lower stocking densities (Winter *et al.*, 1998, p.278/9).

The next stage of the reform process continued in the same vein as 1992. At the Cork conference of November 1996 Franz Fischler then Agriculture Commissioner promoted an ambitious reform agenda which centred on transforming the CAP into a rural development policy capable of meeting the multiple development needs of rural territories. The Cork Declaration reflected the desire to both continue the process of dismantling production subsidies at a time of growing pressure from the WTO and to address the environment and rural development problems associated with the old style CAP. Alongside further pillar one reforms the Cork Declaration culminated in the

1999 publication of the Rural Development Regulation (1257/99). The RDR contained a menu of measures most of which had been established prior to 1999 but for the first time were brought together in a multi-annual programme which formed a coherent alternative model for the CAP (Dwyer *et al.*, 2007).

The second pillar was now a firmly established part of the CAP with RDR forming a common European legislative framework which Member States used to draw up rural development programmes for the 2000 to 2006 period. In practical terms in the UK uplands the 2000 – 2006 period saw a major expansion in the use of the voluntary agri-environment agreements first introduced in the 1980s together with the growth of smaller socio-economic schemes that focused on small businesses (such as the Rural Enterprise Scheme) and specific geographical areas (LEADER+). Figure one shows the share of spending for each measure under the England Rural Development Programme 2000 - 2006. This is based on a budget of £2.8 billion.

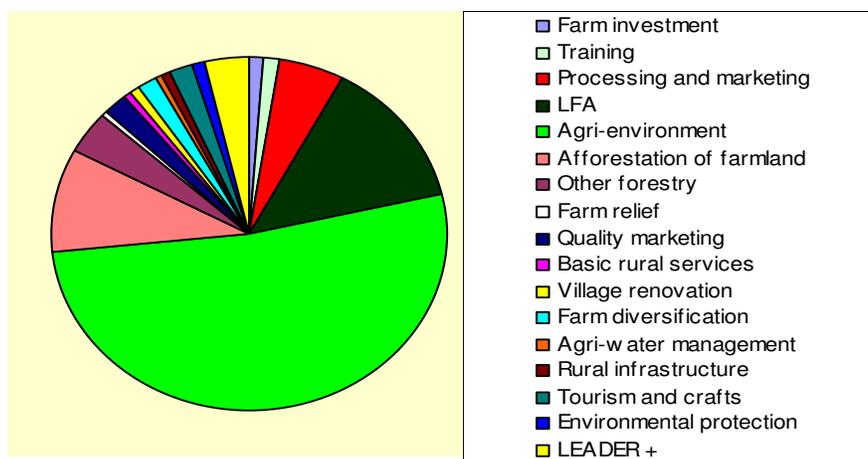


Figure One: ERDP 2000 – 2006 spending by measure

Since 1999 additional finance for pillar two has been available through re-directing funds from pillar one (Falconer and Ward, 2000). This is done through both ‘modulation’ and the use of the so-called ‘national envelope’. Controversial with farming lobbies and resisted by some of the Member States there is a degree of national discretion over the level of modulation. However, the rates of compulsory modulation have gradually increased since 1999 further accelerating the process of transfer from pillar one to pillar two.

The next major landmark in recent CAP history is the introduction of the Single Farm Payment (SFP) or Single Payment Scheme (SPS). This was a major step forward in the process of ‘decoupling’ payments to farmers under pillar one from how much they produced. Hence the de-coupling reforms of 2003/04 aimed to sever the fifty year link between production levels and subsidy cheque, as the policy rhetoric portrayed it, giving farmers the ‘freedom to farm’. However, the process is only gradually being achieved with many states and regions choosing to base individual SPS calculations not only on acreage but also on production levels in an historical reference period. In England the ‘dynamic hybrid’ has been used. In 2005 90% of the SFP consisted of an historic element based on the 2000 – 2002 reference period. At present (2008) 45% is

based on a regional average payment<sup>3</sup> and 55% on the historic element. By 2012 100% will be regional average payment (Franks, 2007).

The knowledge base on the impacts of the SPS is already forming. It seems that overall the environmental consequences have already been 'mixed' (Dwyer, 2007) but that the uplands have witnessed particularly marked effects. A recent study by the Scottish Agricultural College (Waterhouse *et al.*, 2008) points to the growing problem of under grazing in upland Scotland with 47% of the farmers surveyed reported having made significant changes to their livestock management practices since 2005. Work by Renwick in the North East of England also showed that even as early as 2006 livestock numbers in the uplands had fallen (Renwick, 2007).

The final noteworthy policy development came in September 2005 with the agreement of a new rural development regulation to succeed the old RDR. The European Agricultural Fund for Rural Development (EAFRD) covers the programming period 2007 – 2013. In England it consists of four 'axis': improving competitiveness for farming and forestry; environment and countryside; improving quality of life and diversification of the rural economy; and facilitating locally based bottom-up rural development initiatives. The main significance of the EAFRD is the continuation with the past it represents. The menu of second pillar measures available to Member States remained broadly the same as under the RDR. In England this has meant continuing the emphasis on the farm environment. A massive 80% of the total RDPE budget has been allocated to agri-environment schemes. This means an investment of approximately £3 billion 2007 - 2013 in England alone (Defra, 2008). The benefits of this investment will be felt in the uplands as Natural England will continue to be relatively well resourced to set up and renew past agreements. However, the Higher Level Scheme which provides the higher levels of payments and more sophisticated prescriptions for environmental conservation will continue to be competitive. This could raise some issues for maintaining necessary levels of investment in areas of high conservation value.

There have been significant achievements in terms of reforming CAP to widen its scope and objectives. But it is important that we recognise how little is invested in nature and territorial development in comparison to simply paying farmers via SPS. The figure below is based on figures contained in Farmer *et al.*, 2008 (p.17) on the level of investment going into each of the two pillars of the CAP in the UK in the 2007 – 2013 period<sup>4</sup>. The figures used to produce the table are already inaccurate because they are subject to change as a result of the Health Check reforms set out in the next section. However, the pie chart is useful in indicating the relative level of investment still going into pillar one.

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<sup>3</sup> The Regional Average Payment is based on a threefold classification of land: non-seriously disadvantaged, seriously disadvantaged outside the moorland line and seriously disadvantaged inside the moorland line (Franks, 2007).

<sup>4</sup> Estimated Pillar one budget is 27,827 EUR million and estimated Pillar Two budget is 8,635 EUR million. The pillar two slice includes both the European contribution through the EAFRD and a national co-finance element. The pillar one slice is an after modulation figure calculated on the basis of the pre-Health Check modulation rates.

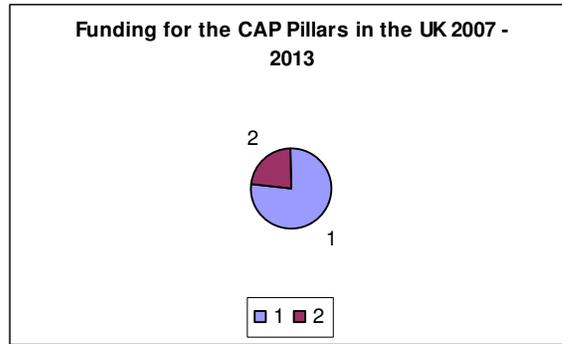


Figure Two: Percentage of Total UK CAP Budget available to Pillars One and Two 2007 – 2013.

Over a fifteen year period we have seen the gradual growth of a second pillar in the CAP which in the UK represents nearly a quarter of the CAP ‘pie’. In the same period pillar one has been radically reformed with the 2003 introduction of the SPS marking an important if not total break with the past productivist policy imperatives of the CAP. The next section focuses on the set of reforms currently on the table, what these signal about the future direction of reform, and the likely impacts for the commons.

### Looking to 2013 and Beyond

The 2008 Health Check process commenced with the publication of a Commission Communication on the 20<sup>th</sup> November 2007 “Preparing for the Health Check of the CAP reform”. A consultation exercise followed before the Commission Proposals were published on the 20<sup>th</sup> May 2008. It is expected that the proposals will finally be agreed at the Agriculture Council in October 2008. The Health Check is not, and was never designed to be, a comprehensive review of the CAP. According to the DG Agri web site, it is supposed to “streamline and modernise”. The proposals (CEC, 2008) are focused on five sets of reforms:

- Full decoupling except in certain exceptional regions where this is likely to be socially or environmentally detrimental. Partially coupled payments will remain for the suckler cow, sheep and goat sectors
- Increasing the amount of second pillar finance through progressive modulation. Farmers in receipt of payments above 5,000 Euros will see the rate of EU compulsory modulation<sup>5</sup> applied to them go up until it reaches 12% by 2012. The modulated money is to be spent at the discretion of the Member States but will be focused on alleviating new challenges such as climate change and assisting farmers to manage land for multiple purposes.
- Allowing Member States to change their systems to encourage flat rate rather than historic payment systems and the introduction of a minimum payment per holding of 250 Euros or a minimum size of eligible area per holding.

<sup>5</sup> The overall rate of modulation applied has two components. Compulsory EU modulation is set down by the Commission. It is currently 5%. In addition, Member States can levy a further additional national rate. For England this is currently 13% raising to 14% in 2009.

- Expanding cross-compliance<sup>6</sup> to help conserve landscape features such as hedges, ponds and field margins.
- Reforming national envelopes (one of the means of transferring pillar one to pillar two) to ensure that they become a more flexible means of giving farmers in sectors and areas with ‘special problems’ more security<sup>7</sup>.

What might this mean for farming in the uplands? *First*, the transfer from pillar one to pillar two will again be accelerated with the result that there will be a further increase in the budget for agri-environment and rural development schemes. This may feed more resources into the competitive Higher Level Scheme. *Second*, the changes to cross compliance could help in the preservation of upland characteristics although much is likely to depend on what landscape features are included and the additional benefit may be relatively minor. *Third*, there is the distant possibility that new agri-environment and rural development schemes could be developed using the money from national envelopes although at the moment this seems unlikely (Hart and Eaton, 2008). *Fourth*, the plans for decoupling and the emphasis placed on this in the public statements of the DG Agri Commissioner (Fischer Boel, 2008) strongly signal the dominance of the liberalisation agenda as the driving force of CAP reform<sup>8</sup>. But while liberalisation is dominant the proposals also repeatedly reiterate the importance of protecting those sectors and areas which are particularly vulnerable. The retention of coupled payments for livestock rearing is seen as a way of protecting vulnerable regions from serious environmental, social and problems. This recognition of the need to protect certain regions could be important to the maintenance of traditional farming systems in the uplands.

The Health Check also signals the likely direction of reform post 2013 particularly with regard to the first pillar. The pressures to cut CAP’s share of the EU budget and the drive to liberalisation raise longer term questions about the actual survival of pillar one post 2013. Given the amount still being spent on payments to farmers this would be a radical turn of events. However, as the figure below illustrates there are a variety of credible possibilities each of which are associated with the lobbying stances of the major Member States.

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<sup>6</sup> Farmers in receipt of Single Farm Payment are required to meet a set of minimum environmental standards. This is referred to across the EU as ‘cross –compliance’.

<sup>7</sup> This proposal revises Article 69 of Regulation 1782/2003 which states that “Member States applying SPS may retain by sector up to 10% of their national budget ceilings for direct payments in the sector concerned for measures relating to environment, quality and marketing”. This reform means the money taken out of pillar one will not have to be spent in the same sector which the money was taken from. It effectively means that national envelope receipts can be used to support marginal or disadvantaged sectors more easily.

<sup>8</sup> The prevailing discourse in DG Agri is neatly summed up in the following quote from Marian Fischer Boel in July 2008 “We must clear away obstacles which are hindering farmers’ responses to market signals. When the market tells farmers that they should produce more, they should not have a hand tied behind their back”

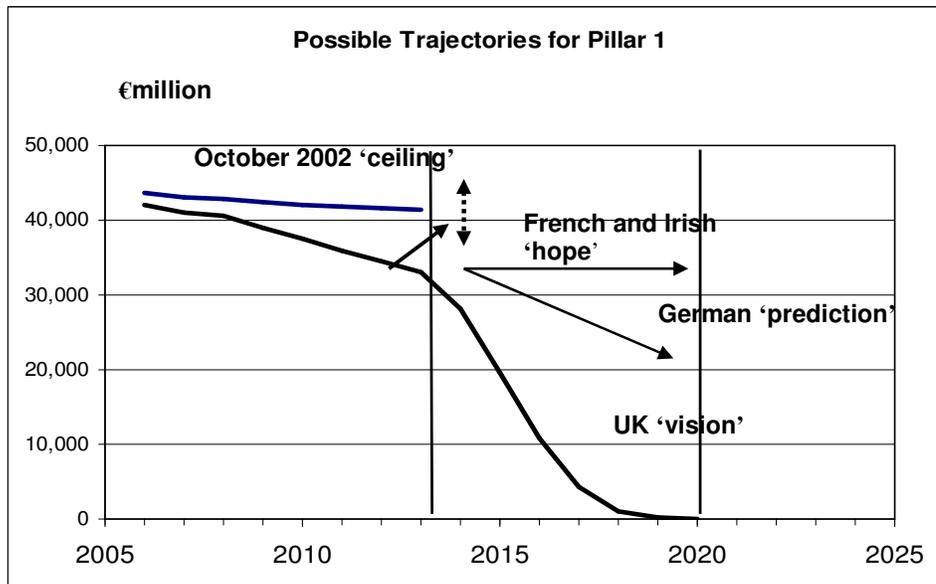


Figure three: possible trajectories for pillar one (Buckwell, 2007)

As the figure shows whatever scenario wins out pillar one will be substantially diminished. Indeed the net ceilings for spending under pillar one are already effectively decreasing in real terms (Ward, 2008). This trend will be highly significant to the economic health of farming in the uplands as liberalisation will profoundly affect the market conditions in which these farmers operate. While upland farmers can expect to be 'protected' from full decoupling, agriculture in these areas will not operate in an 'exceptional' vacuum, the price of stock, land and supplies will inevitably be affected.

Reform of pillar one will also have environmental consequences. The consensus seems to be that this impact will be very significant but highly uncertain (Dwyer, 2007, Potter, 2007). With full decoupling farm profitability will rely on successfully responding to world market conditions. The prices of agricultural commodities tend to fluctuate so that profitability will increasingly rely on being able to respond quickly to changing conditions. The economic incentive to retain maximum flexibility and adaptability creates risks for the environment that are both hard to predict and difficult to prevent<sup>9</sup>. It is also becoming harder to predict how attractive agri-environment schemes will be to farmers as they make medium to long term decisions on their farm businesses in this changing economic context. Although it is commonly thought that liberalisation will make upland farmers even more reliant on these kinds of payments it is far from certain that this will be the case. It is important to question the current reliance on agri-environment payments to achieving more sustainable land management. If farmers on the commons become even more reliant on agri-environment schemes for income questions will arise of whether the payments can ever be high enough and extensive enough to keep farms in business in the long term.

<sup>9</sup> In the lowlands the abolition of set aside has already created controversy as groups have mobilised to try and protect environmental gains now threatened by reversion to production. Although set aside was never designed as an environmental scheme the case is interesting in showing the strength of interest group and media reaction at the withdrawal of a policy with beneficial environmental impact.

But in a scenario where participation in schemes is becoming unattractive for farmers i.e. where financial incentive is starting to fail, the question will be how to best maintain and protect the natural environment using alternative mechanisms such as regulation.

It is therefore imperative to question the future viability of voluntarism as a means of addressing the highly significant but highly uncertain environmental consequences of liberalisation. This is an especially pressing issue in the lowlands but in certain scenarios may also be pertinent to upland farming systems. One response could be to strengthen cross – compliance, an option that environmental groups have actively pursued and which has been included in the 2008 Health Check. But this alone may not be sufficient. In their response to the Health Check consultation Scottish Environment Link (2008) give an eloquent critique of the current standard of cross compliance arguing that the rules are currently so weak and enforcement so poor that it is currently failing to deliver in key areas (Scottish Environment Link, 2008). Hence while cross compliance is vigorously defended by groups keen to maintain the link between the SPS and the maintenance of environmental standards the significance of this mechanism in preventing environmental harm needs to be seen in the light of recent experience. Using cross compliance also assumes the long term survival of SPS which has already been established as precarious. There is of course the option of national and devolved level legislation to improve the protection of the rural environment. Hence Dwyer (2007) points to the growing importance of the planning system and national level environmental regulation in determining landscape and biodiversity outcomes.

On a final note of extreme pessimism there is the long term question of whether even pillar two will survive in the post 2013 era. In the context of the increasing pressure to reduce the CAP budget it seems likely that without vigorous defence this too will attract the attention of politicians keen to see fundamental realignment of European public spending priorities. Even if this is extreme pessimism and funding for agri-environment schemes continues to grow it is likely it will be increasingly framed to tackle and prevent climate change. This could mean a substantial change in the nature of the work that such schemes fund and a re-orientation of the goals pursued. It could also impact on the geography of spending.

### Conclusions

The title of this paper refers to the prospects for the creation of a sustainable farming system. Of course, there is no easy answer to the question of whether the current reforms will make this more achievable; just some encouraging signs and more worrying ones. Most encouraging is the trend in agri-environment spend. Also positive are the signals about the strengthening of cross compliance and the recognition that the nature and importance of farming in certain regions makes its survival important beyond the competitiveness of agriculture. But liberalisation also gives cause for concern. The certainties of past subsidy regimes are now a thing of the past. Pressures to reduce the CAP budget are ever present and growing. These two factors make predicting the future a very difficult task.

Clive Potter in his extensive work on the reform of the CAP has argued that the current arrangements are based on the premise that in the future there will be two

types of agriculture. The first will be competitive agriculture, farms able to ‘ride the market’ and which will be gradually be fully exposed to the world market. The second will be agriculture in the marginal, high nature value places which will continue to rely on substantial public investment (Potter, 2006). This paper has shown how this concept of a two type agriculture sector is now prevalent in CAP thinking. The Health Check proposals involve the operation of two very different sets of policy instruments for two ‘demarcated’ types of farming. It seems, however, that the successful ‘protection’ of farming systems in economically marginal but high nature value areas will crucially depend the unforeseen consequences of the vagaries and uncertainties of liberalisation together with the design of effective policy interventions flexible enough to cope with this uncertainty and the needs of ‘local circumstance’. The design of such policies is not just a task for DG Agri, it needs to involve a range of actors and institutions from the EU to the most local level to ensure both the appropriateness and flexibility of intervention and a place for the uplands on the political agenda.

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