



fact sheet

knowledge for managing Australian landscapes

Should agricultural land be used for producing private agricultural gain or public environmental goods – can farmers be encouraged to do both? Governments in a number of countries pay farmers to manage agricultural land as a natural resource for the greater public good. It has been recommended that Australia introduce a scheme of environmental stewardship payments to farmers¹, and national programs already provide some payments to landholders in recognition of the public benefits associated with conservation on private lands².

This fact sheet looks at agri-environmental schemes in the USA and Europe and what Australia can learn from them. It draws together information from two separate reports:

- ▶ ***Agricultural land retirement as environmental policy*** by Professor Ben White
- ▶ ***Agri-environmental stewardship program architecture: towards convergence in the USA and Europe?*** by Dr Michael Lester

These reports are available at

- ▶ <http://products.lwa.gov.au/products/PN22142>
- ▶ <http://products.lwa.gov.au/products/PN22135>

1 Commonwealth of Australia, 'Creating our Future – agriculture and food policy for the next generation', Canberra, 2005, also known as the Corish Report.

2 The Australian Government announced in its 8 May 2007 Budget Statement that a stewardship scheme of \$50m over four years would be introduced and that funding would be continued for regional NRM groups under the NAP/NHT program for another five years.

How does the international experience of agri-environment schemes inform Caring for our Country?

What are agri-environmental measures?

Agri-environmental measures (AEMs) are designed as voluntary, direct annual payments made to farmers under multi-year contracts between farmers and their national government. In return for payment, farmers provide environmental 'stewardship' – managing agricultural lands to reduce environmental risk, maintain biodiversity and ensure ecosystem sustainability. Land retirement or set-aside programs are not new agricultural policy programs, but most were historically aimed at controlling agricultural production and commodity prices, environmental concerns came later. Overseas, AEMs have evolved since the 1980s in the context of broader agricultural production subsidy and payment reforms. The programs are popular with both farmers and environmental groups with expenditure on AEMs having grown considerably since their introduction and set to grow further. Their future however, is also caught up within the wider issue of ongoing reform of agricultural policies, not least in the global WTO context.



Agri-environment issues and Australia

In Australia, agriculture has led to the widespread replacement of native vegetation with crops and pasture species, deterioration in water quality, salinisation, soil erosion and pollution due to the use of pesticides and fertilisers. In most respects Australia has similar agri-environmental problems to other developed nations, but on a larger spatial scale due to the extent of agricultural land and the fragility of our landscapes. The scale of agri-environmental problems has led to a search for and adoption of policy mechanisms which are potentially more cost-effective than traditional fixed price or cost-sharing schemes.

Given their longer history of AEMs, what can be learned from the USA and Europe about designing the best agri-environmental stewardship programs for the Australian situation? The following questions are aimed at understanding the overall policy framework and architecture of overseas agri-environment schemes rather than on a detailed explanation of their operation and impact on the ground.



Question 1

Do AEMs in the USA and Europe target environmental positive externalities, negative externalities or both?

Finding

Positive externalities or public good outcomes can be supported by AEMs through incentives or ecosystem services payments in accordance with the 'provider gets principle'. On the other hand, negative externalities or pollution can be redressed by regulations and charges in accordance with the 'polluter pays principle'.

US AEMs have generally targeted negative externalities, while EU AEMs have generally targeted positive externalities. The OECD among others has highlighted the need for stronger AEM alignment with the 'polluter pays principle' which is breached when payments are made for actions that are in any event required under existing laws and regulations.

Recently there are signs of an emerging convergence between the USA and the EU towards schemes with multiple objectives which recognise multifunctional agriculture, and the associated national value placed on retaining modified landscapes, associated farming practices, communities and cultures.

Relevance for Australia

Australian agri-environmental assistance including under NAP/NHT has targeted both negative and positive externalities. Any new stewardship scheme payment scheme will need to grapple with defining a clear baseline or duty of care above which payments might be made so as to achieve additionality and cost effectiveness, as well as complying with 'polluter pays principle'.

An assessment of the national value, that is placed on maintenance of modified landscapes, existing farming practices, and associated cultural and community attributes might also help to inform the nature and level of payments, if any, that might support the multifunctional role of agriculture.

Question 2

Does overseas experience show a preference for broad or targeted schemes or a mixture of the two (e.g. through a tiered program architecture) depending on the environmental objective and/or local circumstances?

Finding

Early US and EU AEMs had a preference for targeting, but more recently there is a convergence towards a multi-tiered program architecture, with broadly available schemes to encourage most farmers to attain basic stewardship standards supplemented by targeted schemes that reward higher levels of performance.

This has been driven in part by concern to reduce the red tape, bureaucratic discretion and generally high transaction costs associated with highly targeted schemes. A further consideration is the perceived lack of fairness, equity, trust and engagement in highly targeted schemes.

Financing of this costly broadly based program architecture in both the USA and EC has been by shifting (decoupling) a growing proportion (currently in the range 20%-25%) of the significant payments for production subsidies into payments for environmental services (i.e. AEMs). Under WTO and other reform pressures this proportion is likely to grow with AEMs exempt from WTO disciplines being classified in the 'green box'.

Relevance for Australia

Australia has adopted regional or catchment NRM based program delivery primarily under national NAP/ NHT funding. In order to implement an environmental stewardship program with payments to farmers, rules and mechanisms would need to be established to translate regional assistance to farm based payments or at least to ensure strong alignment between them.

If farmers in areas with qualifying regional plans were eligible for assistance, the program could be very costly. Therefore Australia may consider options such as targeting environmentally sensitive areas, or areas requiring urgent improvements in environmental outcomes, or producers who are achieving exceptional results.

Multi-tiered assistance provides a further option that, among other things, could build trust and participation among landholders. However, broadly available albeit shallow payments in the bottom tier are likely to be prohibitively expensive and difficult to finance given the very low levels of overall agricultural production linked payments in Australia. There is also likely to be further WTO consideration of the trend towards potentially larger AEM payments being classified as 'green box' exemptions.

Question 3

What standards or conditions are in place in the USA and Europe for access to AEM payments?

Finding

The USA and Europe have both adopted mandatory environmental regulatory standards as a baseline for access not only to continuing agricultural production support payments but also to environmental stewardship, and payments are conditional on reaching these standards ('cross compliance'). Their schemes also variously require compliance with baseline good practice agricultural practices and environmental condition standards.

Relevance for Australia

In Australia landholder access to a range of agricultural assistance programs is not contingent upon compliance with environment or natural resource management (NRM) objectives or standards. Neither are NRM payments in Australia linked to compliance with national environmental standards. Australia does not have a uniform minimum national environmental standards or specified practices for land and water management. Compliance with uniform minimum standards and practices might provide competitive neutrality, increased certainty for industry, and benchmarks for program accountability.



Question 4

Can anything be concluded about the appropriate processes to be undertaken before setting standards, specifying management practices, imposing restrictions and providing compensation and/or transitional assistance?

Finding

The development and implementation of standards and management practices in the USA and the EU has been a long, expensive process, primarily driven at the national level by a big investment in technical expertise and with relatively limited participation by directly affected parties on the ground. The experience with 'new regulatory mechanisms' in the AEM context based on collaboration and partnership at regional scale, at local community scale and with industry is relatively limited but there is a growing awareness and interest in these approaches. AEMs in the EC are framed as a component of Rural Development.

Relevance for Australia

There is an opportunity to further refine and codify a wide range of best practice land management practices as a basis for formal stewardship contracting arrangements. However, this is particularly challenging and likely to be very expensive given our extensive biodiversity and variety of ecosystems, and landscapes. If Australian jurisdictions decide to develop uniform standards and management practices to underpin delivery of stewardship schemes, the process could build on previous favourable experience with collaborative and participative initiatives such as regional NHT standards and targets, voluntary LandCare arrangements, and voluntary industry based schemes such as environmental management systems (EMSs), eco-efficiency schemes and codes of practice.

Question 5

What administrative mechanisms and processes are the USA and European countries using to allocate funds cost-effectively and fairly, with what results?

Finding

In both the USA and the EU funds are generally allocated by the central government directly to producers who (claim to) meet eligibility conditions, usually contractually specified as compliance with specified land management practices. Various environment benefit ranking indices are used. There is some limited use of both regional and priority targeted block funding in the USA. Market-based approaches such as auctions have occasionally been used in the USA and hardly at all in the EC.

Relevance for Australia

Under the NAP/NHT regional NRM model in Australia, funds are allocated to regions by the national government on the basis of accredited strategies and plans. This provides an opportunity for delivery of stewardship at the regional level consistent with those plans but raises governance and capacity challenges that would need to be addressed.

Australia is experimenting with competitive funding allocation, market-based approaches and auctions, and may draw on this experience in developing an environmental stewardship scheme.



Question 6

To what extent are markets for environmental services and government industry partnerships being used in addition to or linked with agri-environmental programs, and with what results?

Finding

There are significant emerging private sector markets for investment in environmental services in the USA for philanthropy, hunting, recreation and carbon markets. These complement the 'quasi markets' financed by government investments and payments. Consideration is being given in the EC to opportunities for using industry based co-regulatory, code of practice approaches alongside government regulatory standards and compliance measures.

Relevance for Australia

Australia has an emerging experience with private sector, philanthropy-based nature trusts and covenanting arrangements, and with collaborative industry partnerships such as EMSs and codes of practice. There is an opportunity, using such approaches and complemented by tax based measures, to promote leveraged private sector investment in environment services to maintain long term NRM financing and to provide incentives alongside regulations.



Question 7

What have been the main challenges faced in implementing US and European agri-environmental programs (e.g. decentralised administration, providing advisory services, ensuring compliance)?

Finding

AEM delivery in the USA and the EC is under 5-15 year contracts between the national government and the landholder. Advisory services were reduced in the USA and the UK as part of efficiency measures, but are now being reinstated and in the case of the US Environmental Quality Incentives Program are about 25% of program spending. Selective audits have been used in both the USA and the EU to achieve compliance, but there is still a significant amount of non-compliance.

Relevance for Australia

In Australia, establishment of regional NRM organisations and delivery mechanisms has proved to be a major challenge, because of unclear mandates and goals, resistance or inertia from established institutions, and lack of capacity and resources. Further support and capacity building would be needed for a regionally implemented stewardship program including technical assistance, advisory services, contract procurement, accreditation and auditing.

The report *Agri-environmental stewardship program architecture: towards convergence in the USA and Europe?* by Michael Lester contains an extensive bibliography on environmental stewardship in the USA and Europe.

This report is available at:

<http://products.lwa.gov.au/products/pn22135>

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