

The Minister for Agriculture

Ms S.A.M. Dijkma

Bezuidenhoutseweg 73

NL-2594 AC THE HAGUE

Date: 31 October 2013 **Enclosure(s):** 1
Reference: lenM/BSK-2013/251366
Subject: Sustainable choices in the implementation of the Common Agricultural Policy in the Netherlands

Dear Minister,

In mid-2013 the European Parliament, the Council of Ministers for Agriculture and the European Commission reached agreement regarding the Common Agricultural Policy (CAP) for the 2014-2020 period. The new policy has been established in keeping with the structure and cohesion policy, as well as the Multiannual Financial Framework. It now falls to the member states to conduct the decision-making processes with regard to their implementation of the CAP at the national level, hence this advisory letter.

This document considers the main strategic choices that, in the opinion of the Council for the Environment and Infrastructure (Rli), must now be made with regard to the national agricultural and rural development policy of the Netherlands. The Council stresses the importance of arriving at choices that will strengthen the Netherlands' competitive position. This demands ongoing attention for sustainability and efforts to increase the innovative capacity of the Dutch agricultural and horticultural sector.

Accordingly, there are three key decisions to be made concerning:

- The timeframe for the transition from the current system of individual and variable subsidies (based on historic production figures) to one based on a standard payment or 'flat rate' per hectare
- The design of the new system in a way which promotes sustainability and 'greening' to the greatest extent possible
- The reallocation of funds from the per-hectare budget to the budget for rural development so as to create additional opportunities for innovation and sustainability.

The Council offers a number of recommendations with regard to each of these key decisions. The objective is to make full use of the discretion allowed at national level to design and implement



policy in such a way as to strengthen the Dutch agricultural and horticultural sector, while maximising the potential to achieve long-term sustainability.

In making its recommendations, the Council acknowledges that the decisions made at European level in mid-2013 are final and leading.¹

It is likely that the next decision-making round will take place midway through the 2014-2020 period rather than at its end. Brussels has already proposed a review of the Multiannual Financial Framework (which determines the CAP budget) and of the current 'greening' measures. This may lead to those requirements being made yet more stringent. A new European Parliament and a new European Commission will take office following the elections in May 2014. Both may wish to make their own mark on the CAP rather than leaving decisions to their successors (who will take office in 2019). Past experience suggests that the next decision-making round in Brussels will reconsider the policy lines proposed during the most recent process but not yet ratified or adopted. Such policy lines are then often fast-tracked or intensified.

In the Council's view, such developments increase the urgency of adopting the most appropriate route as quickly as possible. By making the right choices today, the Netherlands can anticipate the coming decision-making round and will be in a position to exert due influence. Government and parliament must therefore make certain strategic choices concerning the interpretation and implementation of the Common Agricultural Policy 2014-2020. The Council advises that the decision-making process at the national level should anticipate developments in both the short term (to 2016) and the medium-to-long term (2020) to the greatest extent possible.

Before presenting the Council's advice and recommendations, this document outlines the challenges now facing the Dutch agricultural and horticultural sector, and considers the reforms that the Common Agricultural Policy has undergone in recent years. Because of these challenges and reforms the Council decided to prepare this advisory letter.

Challenges facing Dutch agriculture and horticulture

The Dutch agricultural and horticultural sector faces major challenges. It must contend with increasing international competition against a backdrop of budgetary constraints and diminishing financial support from the European Union. At the same time, the expectations and requirements of society are becoming ever more stringent. In the Council's view, the only way in which to achieve appropriate progress is to fast-track the pursuit of sustainability which entails increasing the innovative ability and competitive strength of the sector. The CAP offers various means by which the government can support these processes in the Dutch agricultural and horticultural sector during the period 2014-2020.

Several, often heated, societal discussions are ongoing with regard to agricultural activity in the Netherlands. There is increasing criticism of certain production methods. The public demand that attention is devoted to animal welfare, manure management, the environment, water quality, biodiversity and the quality of nature areas. Veterinary diseases are also becoming an increasingly sensitive topic, particularly where there is any risk of transmission to humans.

¹ European Agricultural Policy as a Transition Instrument for Agriculture and Horticulture [*Het Europees landbouwbeleid als transitie-instrument voor land- en tuinbouw*], Rli (2011), The Hague. In this advisory letter, the Council focuses on a system of targeted payments rather than per-hectare payments.

In recent years, outbreaks of zoonoses such as Q fever have once again placed the public health aspects of livestock farming firmly on the agenda. As a result, there have been certain changes to farming practice. Planning regulations governing the location of livestock operations have been made more stringent, as have building regulations governing new livestock systems. Only by addressing society's expectations can the agricultural sector as a whole, and intensive livestock farming in particular, gain the public support needed to safeguard its continuity.

Many farmers and agricultural enterprises are already aware of this fact. They are developing operating systems which combine sustainable production methods and ways in which to add value to both the product and the local setting. For example, the sector is making an ever more substantial contribution to integrated area development, thus helping to meet the objectives of policy addressing nature, landscape, water and climate. We see new combinations of functions, such as agriculture and (health) care, energy generation or resource production. If such developments are to be continued with appropriate vigour and breadth, they must be supported by a forward-looking agricultural policy. To establish such a policy will not be simple, but it is nevertheless essential (see Box 1).

Box 1:

Sustainability calls for ongoing care and attention

The pursuit of sustainability is an ongoing process which involves a number of successive steps and decision-making moments. The three key aspects of sustainability - People, Planet and Profit - are not always reconcilable. They can sometimes give rise to a conflict of interests. It is not unusual to find that solving one problem causes other problems elsewhere. Efforts to promote one dimension of sustainability may have an adverse effect on another dimension. Sustainability therefore calls for an ongoing focus on the intended result, which must be achieved with no unintended side effects, conflicts of interests, or displacement of adverse consequences (refer to the RLI advisory report 'Room for Sustainable Agriculture', 2013).

Many agricultural enterprises have sought cooperation with other actors in the chain, as well as with research institutes and NGOs, in order to increase their competitive strength through innovation and the pursuit of sustainability. It is extremely important that the process of achieving sustainability is guided by sound research which is relevant to the practical situation, and that any unintended adverse effects and displacements associated with new solutions are closely monitored.

Past reforms of European agricultural policy

Since its inception in 1962, the European Common Agricultural Policy (CAP) has been adapted several times to meet the societal requirements of the day. Originally, the focus was on food production to meet Europe's own needs, and on increased labour productivity in the agricultural sector. As these aims were gradually achieved, the policy began to address other public interests such as environmental and nature protection, food safety and animal welfare.

The traditional first pillar of the Common Agricultural Policy contained price support and market management measures. More recently, this has been supplemented by a second pillar addressing rural development, with targeted and regional measures.

When the Common Agricultural Policy was first introduced, the European Union was a net importer of agricultural products. Not long thereafter, however, it became an important exporter of agricultural products. In the 1970s and 1980s, this led to significant production surpluses (the 'butter mountains' and 'wine lakes', for example), international trade conflicts and budgetary difficulties. This situation demanded a drastic reform of the policy. The first step was the introduction of the milk quota in 1984. After several intermediate steps, the transition from price support to income support per hectare or per head of livestock followed in 1992.

Such payments were intended to compensate for falling prices and were therefore initially linked ('coupled') to specific products such as cereals and beef.

Beginning in 2003, the direct link was gradually abandoned ('decoupled') in favour of per-hectare payments. The amount concerned is established for each individual producer based on historic production figures. As a result, there are significant differences in the amounts paid to the individual producers, as well as differences at the regional level. In the Netherlands, for example, producers of starch potatoes and veal, as well as dairy products in the eastern and southern parts of the country were paid significantly more than farmers elsewhere, due to the much higher density of livestock per hectare. Segments which had received no or significantly lower price support in the past also received no or lower per-hectare payments.

This situation is not confined to the Netherlands. The use of historic production figures has skewed the per-hectare payments within and between all member states. The highest subsidies were seen in countries such as Greece, the Netherlands and Belgium, while the lowest were found in the more recent accessions to the EU, notably the countries of Central Europe. Since 2003, many member states have taken steps to reduce the differences between individual producers by introducing a standard per-hectare amount ('flat rate') at the national or regional level ('internal convergence'). The Netherlands has not yet done so. Moreover, the Netherlands is one of several member states that have been comparatively slow to abandon the direct link between payments and specific products. In the case of veal and starch potatoes, for example, decoupling took place only recently.

The EU regulations for the period 2014-2020 require all member states to discontinue the use of the historic data model in favour of a (more) standard national or regional per-hectare subsidy for all agricultural activities: the Basic Payment Scheme. A phased approach is permitted, however. An initial step has also been taken in reducing the disparity in the per-hectare payments between the member states ('external convergence'). It is reasonable to assume that this policy line will be continued and reinforced in subsequent decision-making rounds. The possibility of partial coupling between payments and specific products has been retained, and indeed the opportunities to do so have been increased. This is something of a U-turn in that it was previously stipulated that the decoupling should be complete no later than year-end 2012, with only a few exceptions such as the 'suckler cow' premium paid in respect of breeding cattle grazed in mountainous regions.

Alongside this shift from price support to individual producer payments, the payments themselves became subject to an increasing number of conditions. When the payments were introduced in the 1990s, member states were permitted to impose environmental conditions should they so wish. Only the United Kingdom availed itself of this opportunity at an early stage, opting to pursue certain environmental and landscape conservation objectives. Other member states, including the Netherlands, followed suit somewhat later and to a lesser degree.

In 2003, the direct payment system was made subject to a number of mandatory requirements, whereby these payments, as well as those for rural development (including for agricultural nature management) could be reduced if member states failed to comply in full with European legislation governing aspects such as environment, nature, food safety, animal and plant health, and animal welfare. In EU circles this is termed 'cross-compliance'. Moreover, member states were obliged to impose their own additional requirements for good agricultural and environmental management. Finally, rules requiring the preservation of permanent grassland were introduced, primarily to avert a mass transition to arable farming following the decoupling of the direct payments, in order to protect habitats for meadowland birds and to prevent soil degradation and erosion.

EU legislation ratified in 2013 added a number of 'greening' requirements to the existing conditions. For example, the permanent grassland requirement is now supplemented by a ban on ploughing in all Natura 2000 areas. This prohibition can be extended to other areas at the discretion of member states. There are also new crop diversity requirements, whereby areas of up to thirty hectares must contain at least two different crops and those larger than thirty hectares must contain at least three. At least five percent of the arable acreage must be designated an 'Ecological Focus Area'. This is the first time that such greening requirements have been incorporated into legislation. It seems likely that they will be made yet more stringent during subsequent decision-making rounds.

Another longer-term shift is that from the original European agricultural structural policy to rural development policy. This second pillar of the policy was first given form in Agenda 2000, decided in 1999. Its main elements are a strengthening of the competitive position of agriculture and horticulture, the integration of environmental objectives within agricultural policy, diversification of the rural economy, and enhancement of the viability of rural areas. In 2013, the EU decided to reinforce the existing links between the agricultural and rural policy on the one hand, and the structural funds (regional development fund, social fund and cohesion fund) and the research and innovation policy (Horizon2020) on the other, whereupon resources can be devoted to the six themes listed in Box 2.

Box 2:

Themes of European rural development policy 2014-2020

1. Fostering knowledge transfer and innovation
2. Enhancing competitiveness of all types of agriculture
3. Promoting food chain organisation, including processing and marketing, and risk management
4. Restoring, preserving and enhancing ecosystems
5. Promoting resource efficiency and the transition to a low-carbon economy
6. Promoting social inclusion, poverty reduction and economic development in rural areas

The decisions made in 2013 allow member states to reallocate up to 15 percent of the first pillar budget (income support and market measures) to support rural development policy (second pillar). In a departure from the current system there will be no requirement for national co-financing. It is likely that the next decision-making rounds will also seek to improve access to targeted and regional payments as part of the rural development policy.

The majority of funding received by the Netherlands under the CAP is in respect of income support and market measures, in recent years mainly in the form of direct payments. It is precisely this funding flow that will come under pressure due to the discontinuation of the market measures, the relatively high per-hectare payments, and conditions which now attach to the those payments. The Netherlands' share of the budget for rural development policy is extremely limited, as illustrated by the following table taken from the Common Agricultural Policy Quarterly Report submitted by the Dutch government to the House of Representatives, September 2013.²

² House of Representatives (2013). Quarterly Report on Common Agricultural Policy, September 2013. Written reply by the Minister for Agriculture to the House of Representatives, dated 10 October 2013.

CAP payments for the Netherlands in the 2014-2020 period (amounts in millions of euros)

	2014	2015	2016	2017	2018	2019	2020	Total
Direct payments	793	781	768	756	744	732	732	5307
Rural development policy	87	87	87	87	87	87	86	607

The redistribution of CAP funding between member states and the continued reduction in the CAP budget will serve to diminish the resources available to the Netherlands yet further.

Urgency of 'greening' and sustainability measures and innovation

The Council advises the government and parliament, and hence also the sector itself and society at large, to make maximum use of the opportunities which exist to help the Dutch agricultural and horticultural sector on the path to greater innovation, sustainability and competitive strength. It does so not only because this will make a significant contribution to the necessary development of a sector which is of great importance to the national economy, but also because the ongoing pursuit of sustainability is essential to ensure public support for the sector.

The ever more targeted use of payments, with a more equitable distribution of those payments across Europe, is likely to continue unabated. It therefore becomes even more important to address the changing nature of the markets and the ever more stringent societal demands in terms of product quality, production methods and production environment. The system of direct payments to agricultural producers is, as noted above, based on historical figures. The societal legitimacy of this system has now been lost. The government and parliament are jointly responsible for ensuring that the available resources are spent in an effective and socially responsible manner. Support of innovation and sustainability, the path to the future, will ensure new legitimacy.³

Accordingly, the Council concludes that the Netherlands faces the following strategic choices when implementing European agricultural policy within national legislation:

1. The swift introduction of standardised per-hectare subsidies, whereby full equality is achieved nationwide by the end of 2019.
2. Establishing as direct a link as possible between payments and societal requirements relating to greening and sustainability of the sector.
3. Making use of the opportunity to reallocate resources within the per-hectare subsidy budget to fast-track sustainability efforts and enhance the innovative strength of the Dutch agricultural and horticultural sector.⁴

The Council has formulated the following recommendations with regard to these strategic choices.

³ See also European Agricultural Policy as a Transition Instrument for Agriculture and Horticulture [*Het Europees landbouwbeleid als transitie-instrument voor land- en tuinbouw*], Rli, The Hague 2011. In this advisory letter, the Council contends that the Dutch agricultural sector will be able to compete successfully in the long term even without direct income support. However, the Council considers a transition phase necessary, in which CAP funding is used to achieve added value within the chains and regions. This is and remains the way to help the agricultural sector transition out of a situation in which it faces pressure from two sides: international competition and societal demands.

⁴ Room for Sustainable Agriculture [*Ruimte voor duurzame landbouw*], Rli, The Hague, 2013.

Recommendation 1: Aim to implement a standard nationwide per-hectare payment no later than 2019

The Council advises a rapid transition to a standardised per-hectare payment system, whereby all direct payments will have the same level per hectare by the end of 2019.

The Council takes the view that the transition to a standardised system ('internal convergence') should be complete, regardless of any discretion or exemptions permitted by the new CAP.⁵ In other words, by the end of 2019 all direct payments should be made according to the new system.⁶ The Council notes that a significant number of producers (approximately 70%) will experience only limited effects.⁷ The convergence will have a major adverse impact on the income of some producers and subsectors. However, the Council considers it appropriate to prioritise the establishment and acceptance of the new circumstances, and the sector's ability to meet the societal demands placed upon it. If producers know exactly where they stand, they can make the necessary investments and implement the innovations which will enable them to meet those demands. This will also prevent any uncertainty concerning possible mandatory fast-tracking of the convergence at the midway point of the process.

The Council also draws attention to the fact that the income payments were originally intended to compensate for falling prices. Prices on the world markets have since been more likely to rise than to fall, whereby many producers no longer require any form of income compensation.

The Council advises against utilising the opportunities to re-establish a link between subsidies and production. Doing so will only delay convergence and is, in the Council's view, undesirable. Moreover, it would give some producers false hope that the policy reforms will be postponed or abandoned altogether. We know from experience that policy changes create a new market equilibrium which will compensate for at least part of the loss of income. The sooner policy is adapted, the sooner this new equilibrium will develop, creating greater certainty for the producers concerned.

Recommendation 2: Continue the development of certification systems

The Council advises the government, the private sector and NGOs to press ahead with their joint efforts to establish quality or enterprise certification systems which guarantee a basic level of sustainability. Such systems should be closely aligned to those already in use by the market, whereupon they are equivalent and can be applied in any future upgrading of the sustainability requirements of the CAP.

⁵ The CAP 2014-2020 offers member states the option of restricting the losses suffered by major beneficiaries (to 30%). In addition, a guarantee may be introduced whereby all producers, including those who have received little or no direct subsidy in the past, receive a minimum payment of 60% of the national average. Refer to the European Commission Memo of 26 June 2013 entitled CAP Reform - an explanation of the main elements (Memo 13/621).

⁶ Assuming a final amount of €732, without allowing for any reductions further to specific measures and based on an agricultural area of 1.9 million hectares, this is the equivalent of €385 per hectare.

⁷ Jongeneel et al. (2012). 'GLB-hervorming 2014; Effecten van toeslagvarianten voor de Nederlandse landbouw'. Wageningen University & Research Centre / Agricultural Economics Research Institute 2012-014: Wageningen.

The Council believes that the conditions which attach to direct income support (the per-hectare payments) will in future show even greater regard for societal demands with regard to sustainability. The new CAP introduces a number of 'greening' measures over and above the existing legislative requirements (thus requiring 'cross-compliance'), as well as standards imposed in terms of Good Agricultural and Environmental Conditions (GAECs).

Compliance with the greening requirements entitles agricultural producers to claim thirty percent of the per-hectare payment. In the Netherlands, these requirements have already been met or, in the Council's opinion, can be achieved with relative ease. The European Commission had originally set the bar somewhat higher, but even these already weak requirements are weakened even further in the decision-making process, leading to a result which many found disappointing. The alternative, championed and adopted by the Dutch government, is a system of sustainability certification as an equivalent to greening requirements. In view of the limited scope of the current greening requirements, this is unlikely to take on any great significance other than possibly in the arable farming sector.

The Council foresees that the requirements will be made more stringent during the next decision-making round, whereby it becomes important to begin working on a widely accepted alternative in the form of a sustainability certification system.

Accordingly the Council calls for ongoing efforts to establish quality and enterprise certification systems which will serve to structure:

- The process of ongoing improvement to achieve compliance with the increasingly stringent greening and sustainability requirements, both today and in the future
- A clear approach which is in keeping with the corporate culture of the agricultural sector and which minimises the administrative burden
- Public transparency
- The government's ability to monitor performance and developments (public control).

Several member states have already gained experience in collating the various requirements placed on agricultural enterprises within a single system. The United Kingdom, for example, has a government-backed enterprise certification system (the Entry Level Scheme) that can be updated and adjusted in line with the new greening requirements. Sweden uses an online checklist (the *Miljöhusesynten*) which serves as a management instrument for the individual farmer, as a regulatory instrument for the relevant authorities (responsible for administering permits and subsidies) and as the basis for market certification. France is to introduce a system whereby producers must demonstrate a basic level of compliance with agronomic and ecological good practice in order to qualify for funding under the rural development budget. The Council regards such examples as a useful source of inspiration which will provide guidance for the transition from a system of enterprise certification to one of specific product certification.

Recommendation 3: Take advantage of the possibility of reallocating funds in order to fast-track innovation and efforts to maximise sustainability

The Council advises that use should be made of the opportunities to reallocate funds in order to fast-track innovation and sustainability of the Dutch agricultural sector, whereby the sector will be able to maintain its leading international position and public support in the Netherlands.

Under the new CAP, a member state is permitted to reallocate up to 15 percent of the direct payments within the first pillar to the budget for rural development policy. No co-financing by the national government is required to deploy these funds.

In the Council's view, this possibility should be exploited as much as possible in order to accelerate the transition to a fully sustainable, innovative and competitive agricultural sector. At the same time, the Council concedes that there are significant obstacles on the path to full sustainability. The agricultural sector is for the most part made up of relatively small and medium-sized enterprises. Innovation and investment costs are high and often present an (unacceptable level of) risk for an individual farmer. Although Dutch agricultural science and R&D activities enjoy a very high global reputation, it remains difficult to introduce innovations at the level of the individual farm.

Farmers' unions have stated that they find the proposed reallocation of funding unattractive because it will bring about a further fall in income for some producers. As stated above, the Council believes that the effects will be limited at the level of the individual farm. Moreover, in the coming years a significant proportion of the per-hectare payments will go to producers who currently receive little or no income support. Objections to the proposed reallocation of funding are also partially based on the fear that the money will be spent 'beyond the farmyard'. The Council wishes to point out that the revised rural development policy encompasses several themes which specifically address the necessity of innovation and sustainability on the part of agricultural producers (see Box 2), and calls for a substantial part of reallocated resources to be devoted to these themes. In fact, it has been possible to use first-pillar CAP funding in this way already for some time (under the provisions of Article 68). The Netherlands has made limited use of this opportunity, applying approximately three percent of the amount compared to the five to ten percent permitted. The new arrangement allows even greater discretion, with no requirement for national co-funding.

It should also be noted that the so-called 'Manifest Parties'⁸ (which include the Dutch farmers' union LTO) and the provincial authorities have entered into a formal agreement known as the Nature Pact, under which LTO and the federation of agricultural nature management organisations will strive to apply twenty million euros (per annum) of the unused first-pillar direct payments to support agricultural nature management and water management measures. This ambition can only be achieved through reallocation of the funds concerned to the second pillar.

To accelerate the transition, it will be necessary to devote attention to the sector's tasks with regard to sustainability as well as organisation and the manner in which innovation is applied in pursuit of sustainability.

The challenges faced by the agricultural sector in terms of sustainability and the resilience of the agricultural system are many and various:

- In arable farming, the considerations include the use of pesticides and other methods of crop protection, maintenance of soil quality (particularly organic nutrient content) and appropriate use of fertilisers geared to specific crops and soil conditions. There are various ways in which these challenges can be met.
- In livestock farming, the issues include animal health and the problems associated with a drastic reduction in the use of antibiotics, the origins and composition of animal feeds, disposal of manure, and the use of livestock management systems in relation to animal welfare, etc.

⁸ House of Representatives (2013). Nature Pact (annex to an agreement between the Manifest Parties and the provincial authorities / the Association of Provinces of the Netherlands concerning the implementation of nature and landscape conservation policy), Proceedings 2013-2014, 33576, no. 6.

- With respect to the rural area as a whole, the challenges include finding ways in which different functions can co-exist, and finding ways in which to reconcile the process of introducing sustainability to agriculture while protecting nature. Regional collectives have already taken the lead in this respect; their efforts can be given additional support under the new rural development policy.

Box 3 sets out the impact of these challenges at the level of the individual farm.

Box 3

Greening and sustainability on the farm

- An agricultural entrepreneur is the owner of valuable natural resources, knowledge, labour and land which he uses in pursuit of product innovations which will bring about a transition that extends far beyond the agrifood sector (energy, fine chemicals, new materials, etc.)
- A 'smart' approach to inputs and resources demands innovations to create a circular economy at the level of the individual farm, that of the region and perhaps even higher levels of scale.
- The integration of knowledge about agricultural biodiversity within business operations (both individual and collective) will result in natural means of controlling pests and diseases, a reduction in the use of chemical pesticides and fertilisers, improved soil quality and greater soil fertility.
- At individual farm level, innovations should be applied in an integrated manner. New innovations are based on a combination of social, economic, organisational and technological considerations.
- By pursuing greening and sustainability, the individual farmer adds value to the wider (physical) setting, the chain and his own business operations.

Source: Meetings with experts held on 3 September and 2 October 2013

Attention should also be devoted to the manner in which innovations and the innovation infrastructure are organised. There are currently problems besetting both the (rapidity of) dissemination of successful innovations and the development of new innovations. These problems are due in part to the high-risk nature of innovations and the limited financial resources available to small and medium-sized enterprises in the agricultural sector. Adequate coverage of the risks could lead to a significant acceleration in the application of innovations, and particularly system innovations. The process of disseminating knowledge and innovations among a larger group can also be accelerated by means of financial incentives in the form of subsidies and innovation support programmes. The programmes currently in place have limited financial resources, whereby applications are selected by means of drawing lots.

Practical experience shows that innovations can be disseminated more rapidly when agricultural entrepreneurs learn on a collective basis by measuring, comparing, benchmarking, and sharing new insights and best practices. This process demands effective guidance. Innovation at the individual farm level calls for cooperation between agricultural entrepreneurs and actors within the production chain, NGOs, and institutes for applied research.

In the past, the Netherlands had a number of product marketing boards. These are being replaced by new organisational forms such as practice networks and other types of collectives. Under the new rural development policy, these organisations are given greater opportunities to play a connective role between individual businesses, the chain and the region, and to contribute to the organisation of innovation.

A similar role is taken by the producer organisations and interbranch organisations created by the new market structure of the Single Common Market Organisation (SCMO).⁹ They are expected to promote production, processing and distribution, but also quality, health and food safety throughout the chain. These new organisations sometimes also undertake initiatives with regard to innovation, and should therefore be entitled to apply for funding from the new rural development policy budget. Research has shown that the effectiveness of such organisations relies on a common sense of purpose, whereby there is a strong desire to arrive at solutions that enjoy broad support. Although their members are expected to show a certain degree of autonomy, they must have confidence in each other and in a shared future. Further points for attention with regard to innovation and sustainability are listed in Box 4.

Box 4

Points for attention with regard to innovation and sustainability in the agricultural sector

- Encourage 'cross-overs' between sectors and cooperation between the various parties (government and public authorities, the private sector, NGOs, and research and innovation institutes, both in the Netherlands and elsewhere in the world).
- Encourage new forms of cooperation within the chain, in the region, and particularly between new sector and transregional networks in order to push forward the transition.
- Develop and apply systems whereby sustainable performance can be measured. Measurement and comparison provide empirical knowledge and offer a basis for both innovation and the more efficient use of scarce resources.
- Empower farmers by means of practical, applied innovations and the dissemination of knowledge. Ensure that promising innovations are available to those who will benefit from them.
- Support the process of practice-based learning, with support from practice networks and other relevant institutions. The CAP offers several opportunities such as operational groups within the European Innovation Partnerships, and funds reallocated to the second pillar, alongside funds for operational programmes under the new SCMO.
- Ensure that further funding is available for the development of promising innovations. Strengthen the existing innovation programmes aimed at supporting sustainability and competitiveness in agriculture (e.g. tenders and competitions such as those of the so-called SBIR innovation programme).
- Establish a guarantee scheme for high-risk innovations and 'valley of death' bridging loans for the first five to ten years, as well as for risk coverage and room for experimentation.

Source: Meetings with experts held on 3 September and 2 October 2013

The Council believes that the effective use of reallocated funds to support innovation and the pursuit of sustainability requires clear objectives to be established at the national level.

The Council recommends exploring the possibility of a new Innovation & Sustainability Fund to facilitate cooperation between the agricultural sector, knowledge and innovation institutes, NGOs and private-sector parties in the further development of the transition process.

The Council sees the main purposes of such a fund to be:

- Developing and disseminating innovations
- Ensuring more funding for the development of promising innovations
- Providing financial guarantees in the case of high-risk innovations.

⁹ Single Common Market Organisation (SCMO); Regulation of the European Parliament and of the Council establishing a common organisation of the markets in agricultural products

Final remarks

This letter concludes a series of three Council advisory letters and reports that consider the necessity of promoting innovation and sustainability in order to maintain and enhance the international competitive position of the Dutch agricultural and horticultural sector.¹⁰ The Council welcomes any opportunity to contribute to the implementation of the Common Agricultural Policy by further developing the concepts outlined in this document, and to encourage innovation and sustainability within the Dutch agricultural and horticultural sector in any way it can.

This advisory letter has also been presented to the chairs of the Senate and the House of Representatives of the Dutch Parliament.

Yours sincerely,

Council for the Environment and Infrastructure



Henry M. Meijdam
Chair



Dr Ron Hillebrand
General Secretary

¹⁰ European Agricultural Policy as a Transition Instrument for Agriculture and Horticulture [*Europees landbouwbeleid als transitie-instrument voor land-en tuinbouw*], Rli, The Hague, 2011

Room for Sustainable Agriculture [*Ruimte voor duurzame landbouw*], Rli, The Hague, 2013

Sustainable Choices in the Implementation of European Agricultural Policy in the Netherlands [*Duurzame keuzes bij de toepassing van het Europese landbouwbeleid in Nederland*], Rli, The Hague, 2013

APPENDIX: RESPONSIBILITY AND ACKNOWLEDGEMENT

Realisation

On 16 May 2013, a meeting was held with the Minister for Agriculture, Ms Sharon Dijksma. During this meeting, the Council proposed preparing an advisory letter on the possibilities offered by the new European agricultural policy with respect to further improving the sustainability of the Dutch agricultural sector. The Council duly informed the chairs of the Standing Committees for Economic Affairs of the House of Representatives and the Senate of its intentions. The advisory letter was discussed by the Council on two occasions. The Preparatory Committee met on four occasions between 19 August and 17 October 2013. Meetings with experts were held on 27 August, 3 September and 2 October. Bilateral meetings were also held with collaborators of Wageningen University & Research Centre, who supplied material in response to specific questions. Additional information on this advisory letter is available on the Council's website at www.rli.nl.

About the Council for the Environment and Infrastructure

The Council for the Environment and Infrastructure (*Raad voor de Leefomgeving en Infrastructuur*, Rli) advises the Dutch government and Parliament on strategic issues concerning the living and working environment. The Council is independent, and offers solicited and unsolicited advice on long-term issues of strategic importance to the Netherlands. Through its integrated approach and strategic advice, the Council strives to provide greater depth and breadth to the political and social debate, and to improve the quality of decision-making processes.

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Consulted experts

K.H.M. van Bommel, Ministry of Economic Affairs, Directorate-General for Agriculture
P. Bonnier, Ministry of Economic Affairs, Directorate-General for Agriculture
J. Chhatta RA, Netherlands Court of Audit
M.P. Cuijpers, Dutch Federation of Agriculture and Horticulture
R.P. Lapperre, Ministry of Economic Affairs, Directorate-General for Agriculture
Dr F.R. Leenstra, Wageningen University & Research Centre, Animal Science Group
P.E. Lubach RA, Netherlands Court of Audit
D.M.S. Lutz, Ministry of Economic Affairs, Directorate-General for Agriculture
A.J. Maat, Dutch Federation of Agriculture and Horticulture
N. van Opstal, Ministry of Economic Affairs, Directorate-General for Implementation
R. Nijland, Ministry of Economic Affairs, Directorate-General for Foreign Economic Relations
M.C. Remmers, Ministry of Economic Affairs, Directorate-General for Agriculture
W. Schoustra, Ministry of Economic Affairs, Directorate-General for Agriculture
H. Snijders, Ministry of Economic Affairs, Directorate-General for Agriculture
A.C.M. van Straaten, Ministry of Economic Affairs, Directorate-General for Agriculture
A. de Veer, Wageningen University & Research Centre, Animal Science Group

Researchers at Wageningen University & Research Centre

P. Berkhout, Agricultural Economics Research Institute
Dr A.B. Smit, Agricultural Economics Research Institute
Dr A.M. van Doorn, Alterra
Dr B.S. Elbersen, Alterra

Participants in expert meetings

S.P. Akkerman, Netherlands Society for Nature & Environment
H. Bartlema, Netherlands Centre for the Development of Band Fertilizer Application
Dr A.P. Bos, Wageningen University & Research Centre, Animal Sciences Group
J.M. Brand, Ministry of Economic Affairs, Directorate-General for Agriculture (informer during brainstorming session)
Dr A.M. van Doorn, Wageningen University & Research Centre, Alterra
Dr G. van Duinkerken, Wageningen University & Research Centre, Animal Sciences Group
Prof. Dr P.W.G. Groot Koerkamp, Wageningen University & Research Centre, Animal Sciences Group
Dr J. de Jonge, Wageningen University & Research Centre, WING
Dr F.R. Leenstra, Wageningen University & Research Centre, Animal Sciences Group
F. Mandersloot, Dutch Federation of Agriculture and Horticulture
Dr B.G. Meerburg, Wageningen University & Research Centre, Animal Sciences Group
G.F.V. van der Peet, Wageningen University & Research Centre, Animal Sciences Group
K.J. Poppe, Wageningen University & Research Centre, Agricultural Economics Research Institute
P. Terwan, Paul Terwan Research & Consultancy
Dr J.M. Vrij, Dutch Dairy Association
P.L. de Wolf, Wageningen University & Research Centre

Innovation Network (meeting of 26 August 2013)

N. Beun
M.H.A. van den Ham
Dr J.H.A. Hillebrand
J.A. Landstra
P.T.H.H. Oei
J.A.W.A. Reus
Dr G. Vos
C.K. de Vries (Courage Foundation)

External reviewers

M. Bos, Social and Economic Council of the Netherlands
G.U. Kuneman and W. Dijkman, Centre for Agriculture and the Environment
Dr H. van Latesteijn, Value Mediation Partners
Dr G. Vos, Innovation Network

Articles

De Boerderij (2013). *'GLB inzetten om concurrentiekracht Nederlandse landbouw te versterken'*
Het Financieele Dagblad (2013). *'Europees landbouwgeld moet worden ingezet voor versterking van de concurrentiekracht'*

Other contributors

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