



CAP Reform post 2027

**A better use of the EU budget and
with a more decarbonised agricultural
production and a more competitive EU
farm sector**

**Jens A MUNCH
02.01.2024
La Hulpe**

PREFACE

This paper is an attempt to come up with some input to the ongoing discussion on the Common Agricultural Policy after 2027. The EU Commission is currently internally working on this, and it will be a central part on the Multi-annual Financial Framework post 2027.

This paper analyses the current Direct Payment system together with the level of production per Member State as well as the importance of trade to the EU farm sector. With the EU now as the world largest agri-food exporter, and 15% of EU total agricultural production exported, the products from every seven farmer is consumed outside the EU.

Any future reform therefore needs to take into account how to ensure the EU competitiveness on the world market, while at the same time ensure the farm sector reduces its environmental impacts/contribute to the needed climate mitigation efforts.

In the following some elements on how this can be done.

Jens A MUNCH

CAP Reform post 2027

Challenges

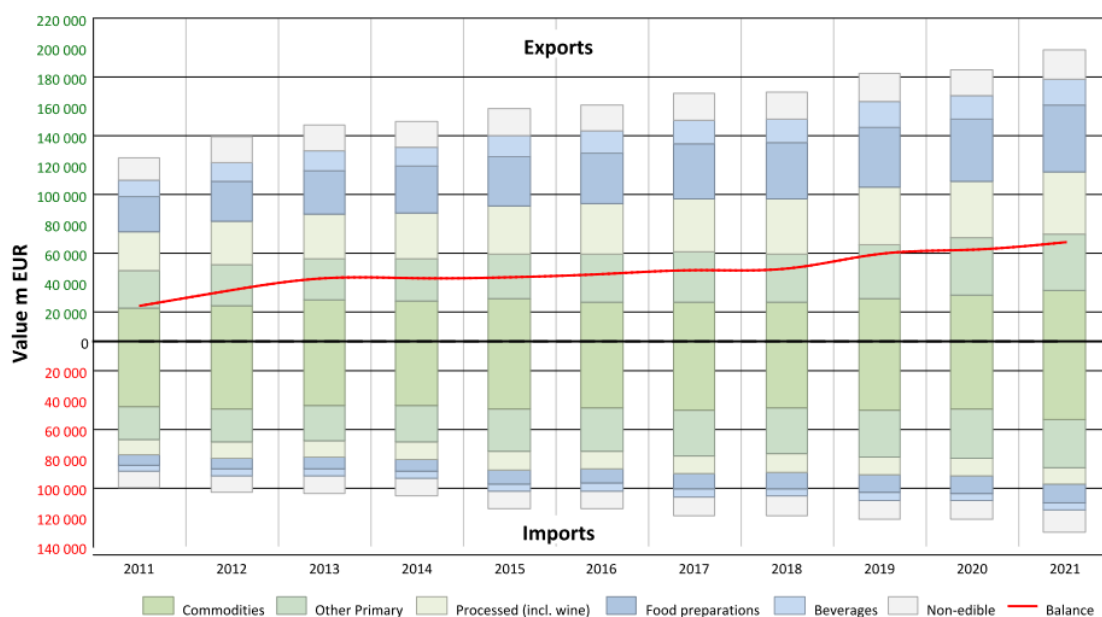
The CAP has changed over the last 30 years – and too the good. From surplus stocks in the eighties, that lead to budget crisis and the extensive use of export refunds that profoundly influenced the world market prices. All of this is luckily belonging to the past.

The reforms that began with the Macsharry 1992 Reform has led to a completely different CAP, a market oriented CAP, where it is the farmers that decide what to produce, based on his capacities as a producer and his expectations to the consumers demands. The following reforms of the CAP through the Agenda 2000 decisions in 1999, the 2004 Fischler Reform (and the successive cotton, sugar, wine, fruit and vegetables reforms), the 2009 Health Check all was about reducing direct market price support and reduce Brussels interference on the price fixation on the products the farmers sell and hereby reducing the intervention system from a “market outlet” to a real safety net instrument only. The 2013 Reform as well as the recent 2021 reform has strengthened the environmental and climate mitigation part of the CAP while maintaining the principle that direct payments is an income support instrument to farmers.

The policy change has overall been successful. In particular, it has allowed a better allocation of production resources and in particular it has allowed EU farmers and agrifood industries to participate in and supplying EU products at world market prices to a growing demand from the world market. The EU has now become the world’s largest exporter of agri food products. Furthermore, the EU has become a net exporter of agri food products, and is now in top three of the worlds net-exporters.

Graph EU net-export

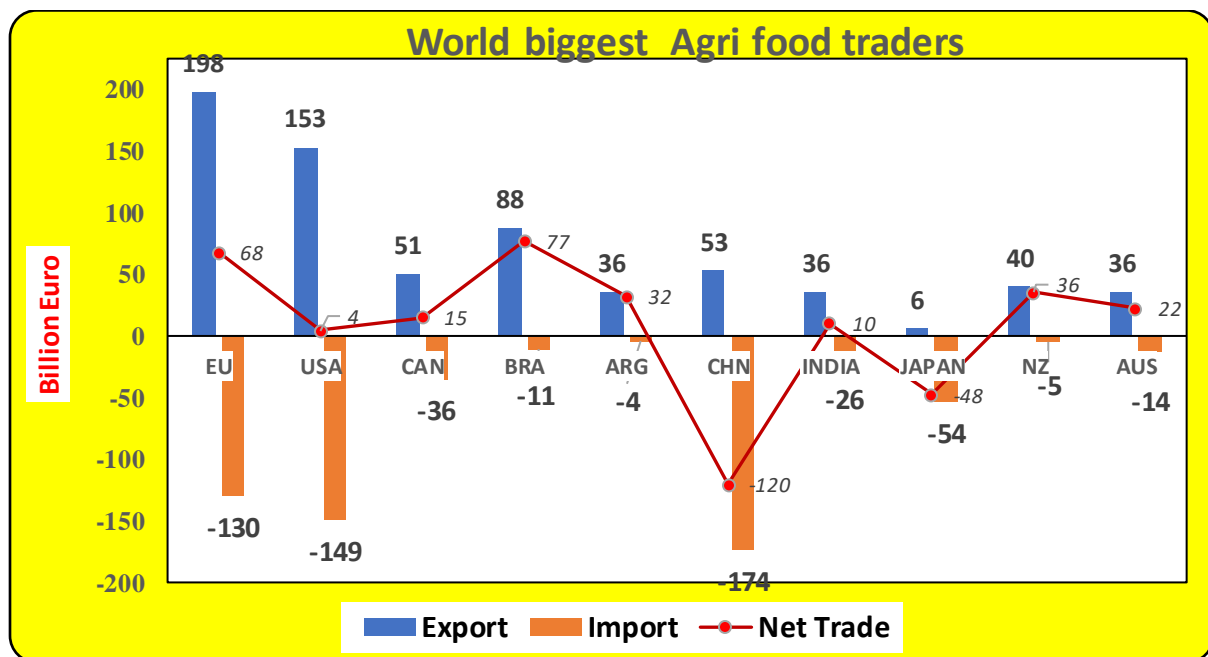
2. Structure of EU Agri-Food trade with Extra EU27, 2011 - 2021



Source : EU Kommission, DG Agri.

The EU is clearly the world biggest trader – As can be seen from the graph below total trade – import + export equal €328 billion.

While EU clearly is the world biggest exporter, it is only the third biggest importer, with China and USA having imports that is significant larger than the EU.



For net trade positions Brazil is the only member to having a bigger net export than the EU with Australia, Argentina and NZ only less than half of EU net exports – see table below.

World biggest agricultural traders 2021 calendar year										Billion €
	EU	USA	CAN	BRA	ARG	CHN	INDIA	JAPAN	NZ	AUS
Export	198	153	51	88	36	53	36	6	40	36
Import	-130	-149	-36	-11	-4	-174	-26	-54	-5	-14
Nettrade	68	4	15	77	32	-120	10	-48	36	22

Source: WTO – Trade profiles 2022.

CAP and Trade

The growth in demand for food products on the EU internal markets will be limited in the future. Nonetheless, already today changes in demands away from animal protein to more plant based diets is observed and expected to continue in the years to come.

On the other hand, food demand globally is expected to increase. An increase driven by both population growth, but also economic growth. Population growth in particular in Africa and Asia. Many of the countries concerned will most likely not be able to increase their own food production with the same speed as their demand growth. EU can play an important role in supplying safe food to the growing world demand. It is necessary to ensure access on world market for EU products. The EU and EU farmers have an obligation to contribute to the

reduction in world famine, and due to the natural growing conditions EU farmers are in many cases in a position to produce food product with the least environmental impacts.

The demand for food is expected to increase in the coming years as a consequence of increasing world population and the aid to reduce world famine. The CAP shall ensure EU farmers can contribute to this development while at the time ensure sustainable production methods.

Furthermore, as demand in some markets move to be less animal protein oriented the CAP shall ensure EU farmers can adjust to these shifts in demands. Not only towards a diet with more plant based but also other shifts in demand structure.

Trade is part of the solution to reduce any food deficiencies as has been shown over the last three years through the Covid pandemic and the unjustified Russian war on Ukraine.

Food Security – Food Insecurity

Agricultural production and the distribution of food has become essential piece of policy discussion world wide following the unjustified Russia war on Ukraine and the its consequences on the world food and feed supplies as well fertiliser.

There is currently no shortage of food in the EU market. It is not expected to be case in the coming years. The first period during the pandemic showed the importance to keep the internal market functioning – both for persons but also for the transport of goods.

The food security in the world market has two aspects. Availability and affordability. The immediate effect of the Russian war influenced both, and net importing developing countries was clearly the most affected. In a context of significant food insecurity it is important that the EU assist countries most affected by the price increases to develop their internal food production capacity, and indeed to ensure that the production capacity can be developed in sustainable manner.

The EU, has thanks to its reforms of the CAP during the previous 30 years been able to contribute to the continuous increasing world food demand. Nearly up to 15% of the EU agricultural production is consumed outside the Union, and the EU has been able to maintain this level of export even after the eruption of the war.

At the outbreak of the Covid pandemic the importance of the EU internal showed its importance to ensure free movements of food within the EU borders, but also in ensuring the possibility for the EU food products to reach the export points and ensure EU products to continue to be available for those in need on the world market.

In the future CAP it will be important that EU farmers continue to be able to produce safe and healthy products to the world markets.

Farm Structure

The structure of EU farms is diversified. History, inheritance law, tax law, economic development within each Member state etc has all played a role in the farm structure as it is today. The EU farm sector today is a very diversified one. Some highly specialised, some large applying the latest technology, some very small one-man enterprises, requiring the farmer working 365 days a year to larger farms with several employees and where 40 hours weekly work with free weekends common. Not one farm size is the right. It is the diversity of the EU farm sector that make it so strong and so flexible to adjust to the changes in consumer demands. What is important is that farmers can make a living comparable to that outside the farm sector. In this respect too many farms today do not have the size that allow farmers to reach income levels outside the farm sector. A 50 hectare cereals farm will not be able to generate a revenue for a farmer to have a similar economic return as an average worker outside the farm sector receives.

In the Member States joining before 2004, single owned farms have been the dominant type of ownership. This has also meant that farmers traditionally has been supposed to work 7 days a week all year round in particular for those with animal production. Such a lifestyle is not attracting to many of young people in Europe.

The age structure of EU farmers show that more than half of the farmers are aged 55 or more. Over the recent decades the number of farmers has decreased by around 3% annually. This development is expected to continue, in particular taking into the age structure of farmers.

The technologic development over the last 50 years has for sure also affected the farming sector. Horses has been replaced by tractors, combine harvesters etc and todays machinery allows for one person easily to take care of several hundred of hectares of cereals production and in particular when using the latest information technology even by reducing the use of inputs – both fertilisers and pesticides.

The technology is also progressing in animal husbandry, where genetical improvements together with technologic progress has allowed for significant productivity increases through specialisation. Use of information technology has allowed to optimise feeding and reduce the workload in feeding animals.

Small farm Part time farming

A significant part of EU farmers are part time farms, where salary income from the owner and/or his partner play a significant part in the owner's overall economy. In a CAP for the 21st centenary, shall such farms have the right to receive income support.

Some small farms are in mountain regions where the use of big machinery is not possible. How can CAP ensure that agricultural activity is maintained, as it is essential to bio-diversity and keeping certain landscapes? How much money shall the EU tax payers pay for keeping this? And how is it ensured that the production in these areas are made sustainable and helping reducing the long term environmental of agricultural production.

Small and big

Many are complaining about that 20% of EU farmers get 80 % of EU direct payments. However, these 20% of EU farmers produces around 80% of the products from the EU farming sector.

The reality of today's agriculture is that a 50ha arable farm will have severe difficulties to make sufficient earning for a family to live comparable to a person in a job in the cities. No surprise if people then choose the urban life style. The same count for a dairy farm of 30 cows. The question is therefore which instruments shall be used to ensure food products will continue to be produced in Europe including in an environmentally sustainable manner and how can young people be attracted to continue to ensure quality food products is produced in in Europe. To say it in another way should the CAP support farmers in low income and should it promote these to find better alternatives in other parts of the economy and help the more efficient farmers to produce more with less include less environment al impact?

Technology – smart farming

Thanks to the technological development over the last century, the farmers globally has been able to feed an ever-greater global population. In the future there will still be a need to feed an even larger global population, but farmers will face an even greater challenge in doing so in future when at the same to do this in a sustainable way.

Smart farming with precision technology for the use of fertilisers, pesticides etc in agricultural production will play a significant role in helping farmers reducing their input and reduce of those than can be harmful for the environment. Smart technology is not only about arable production. It is also about how to decrease input use in the animal sector and how to reduce emissions from animal production.

Therefore, a significant re-orientation of rural development type measures towards investment in new technology should have priority over continue annual payments. EU farming should be the world leader in smart farming, that is most likely the fastest way more environmentally friendly production methods while maintaining sustainable production capacity

Environment and climate mitigation

Farm production has effect on the surrounding nature, and agriculture is affected by climate change. Agricultural activity may indeed contribute to the climate change. However, the world population need to have access to food. So how can society move towards society move to a more sustainable production environment while at the same time ensure that this does not to less production? This is the real challenge for the EUs CAP and agricultural policies around the world.

Over the last 20 years cross compliance and similar measures applying to all farmers have been preferred policy option. However, it has been questioned whether to require something from all farmers will have the biggest effect or whether one should instead go for more specific target directed measures. While, all farmers should do an effort, it is not sure that the current policy method has given sufficiently value for the EU money, CAP Direct Payments on the environmental challenges.

Firstly, environment and climate change mitigation related to agricultural production processes need more research to help farmers in finding new more effective production methods and hereby reduce potential negative effect agricultural on the environment from the food production. Secondly, consumers need to show more interest in their buying to encourage towards a shift towards more environmental production. To force farmers to produce 25% organic by a certain date if consumers don't want to pay for products is not a good policy.

Biodiversity is a real challenge for the farming sector. In the EU but certainly also more widely on the planet. Incentives need to be created to farmers to include this in their production processes. Instead of requiring all to do a little, one should consider to direct the measures towards those with the biggest effect. This support should be directed to areas/measures where society get most value for the money in terms of more biodiversity less environmental impact or highest climate mitigating effect. Soils with high CO₂ leakage, soils with high risk of nitrate leakages to water should be given priority. To direct more support specific measures that can decrease the fall in biodiversity.

FARM to Fork and Green Deal - CBAM

In 2021 the EU launched the Farm to Fork strategy/Green Deal. For several elements the Commission has proposed specific proposals. This strategy is important in the overall fight against climate change and towards a more sustainable production pattern

The F2F/GD has indeed meet strong opposition from some traditional exporters to the EU market, and in particular proposals concerning reduced use of pesticides, increase organic production and the Carbon Border Adjustment Mechanism (CBAM). Several of these traditional exporters are claiming that the proposed EU measures are trade protectionism, and do not respect WTO rules.

It is important that when implementing Farm2Fork and Green Deal, including CBAM that the EU does this in a way that is WTO legal and that it does not lead to other countries limits the possibilities for EU farm products entering their market. EU farmers need access to third country markets

CO₂ emission – methane etc

Agriculture contributes to the emission of CO₂ and methane to the air. In the fight against climate changes it is important that all sectors contribute to the reduction of glasshouse gasses. Unfortunately, today's knowledge on the biological processes and more research in this field is urgently needed. How to reduce methane emissions from cows and sheeps. How to reduce CO₂ leakage from soil. How to reduce Nitrate leakage into water. How to optimise carbon storage in the soil.

On top of the research efforts Rural developments instruments should be directed towards investments that can assist farmers in reducing the emissions permanently, and hereby help society in reducing emissions and reach a carbon free emission in 2050 or earlier if possible.

Young farmers

Young people looking for a future in agriculture are also looking for a work life similar to that of urban population. Young rural people also want to be able to go on holiday, and not be bound to work 7 days every week all year round. Young people in rural area also wants to be also pay for a smart phone or tablet for their kids. Furthermore, not all looking for a job in agriculture is looking to become owner of a farm.

It is therefore clear, that not all farmers will in the future be single work entities. This off course will lead to a continued developments towards 2,3 or more employee on farms. This is not a bad thing and not a development that destroy the European farm model. It is just a natural development, where the farm sector adjusts to the changes in society, and expectation to future lifestyle for today's young population.

The future CAP should take this reality into account. Maintaining their highest number of farmers is itself not a viable policy objective. It is more important that the CAP support a structural development in the farm sector that enables farmers to have an economic outcome more similar to outside the agricultural sector.

To obtain this, the current support is based on helping the young farmer pay as high a price as possible for the farm to take over. In reality that leads in many cases the young farmer having high debt. It should be considered whether it would be more interesting to give the grants to famer above a certain age get the payment on the condition his sells the farm to a farmer younger by 35year. Hereby the young farmer will have less debt to pay interest on and pay back.

EU selfsufficiency in protein

The EU is a net importer of protein meals. However it should be remember that more than 75% of all protein consumed by the animal sector in the EU is produced in the EU (DG Agri website 2/5-2023

https://agriculture.ec.europa.eu/data-and-analysis/markets/overviews/balance-sheets-sector/oilseeds-and-protein-crops_en .

While EU use of soymeal is mainly based on imports, in the overall protein consumption it is only 15% that is imported.

When asking for more EU based production one should not forget, that a significant part of the protein consumed by the animal sector in the EU comes from cereals, in fact 20% of all protein consumed arrives from cereals. Furthermore, in many cases will one hectare of cereals produce more protein than one hectare of peas and beans or soyabean. A hectare of wheat with a yield 10T/ha with 11% protein will produce 1.1 ton of crude protein. A hectare pea with a yield of 4t/ha and a protein content of 22%, will in fact only producing 0.88t of protein. So a shift from wheat to peas in this example will in fact increase the need for protein import to the EU.

Global food demand and urbanisation

World population is expected to continue to grow in the next 20 years. However, the growth will not take place in the developed world or in China. Many of those countries with high population growth, and in particular those in Africa will have limited resources to their food production with the same speed. Furthermore, taking into account the expected increase in wealth demands for more processed products will also increase. This will give opportunities for EU farmers and Agrifood sector to supply products and contribute to this expected demand for agricultural products.

The share of the world population that lives in cities seems to continue to increase. This increased urbanisation will therefore also lead to increase in demand for food.

The increase living standards in the developing world will also increase the demand for a more diversified food products including more processed products and specialised products.

In the EU and many developed countries one observes a switch towards a less meat/animal product content of foods. Farmers need to adjust to this change in demand as well.

It is important that the CAP instruments is made up in way, that the farmers can adjust their production towards these changing trends. This can not be done by the old type EU market instruments. The market orientation of the CAP, has clearly shown how good EU farmers and the agrifood sector has been able to benefit from the increase demand on the world market.

EU and developing world

During the last decade the biggest increase in food demand have come from the population and income growth in the developing world. This has in general lead to many developing countries becoming net food importers. Many developing countries and in particular African ones will also be the most affected by climate change challenges that will limit their possibility to increase local food production at the same speed as the growth in population and incomes growth increase the demand for food. A significant share of the worlds undernourished is also found in Africa.

It is important that the EU together with the rest of world assist these countries to develop their food potential at the most, but in many cases many of these countries will not be able to feed their growing population with homegrown products alone. It is therefore important that the EU development aid also includes these aspects. It is therefore to include the EU Development Fund into the MFF framework, to ensure a better co-ordination with the EUs other External Actions.

Delivery models

The CAP has been changing many times since its creation in the 60ies. In the beginning the CAP was a policy that should ensure sufficient was available with the Union. Therefore, the policy was about price support to farmers to increase incentives to produces. In the 80ies this policy ran into problem, exemplified by the large intervention stocks - >1 mio t butter, >1 mio t beef meat, >.1 mio hl wine. In the 1992 Reform this per ton product support was replaced by area support, and in Agenda 2000 this way of support was extended to the animal sector.

In 2004 Fischler Reform began a decoupling process and the support became an income support per farmer, and the market orientation of the CAP became more evident. The health

check, sugar, Fruit and Veg, cotton and wine sectors all followed towards decoupling of sector support and more emphasis on environment through cross compliance. This was further strengthened through the 2014-Reform.

The 2021-Reform continue the decoupled, WTO Green Box support, but leave a significant higher degree of flexibility to members to chose how to construct the actual support measures .

In a market oriented CAP one now need to reflect whether Direct Payments as income support and Rural Development measures together with eco-schemes is the right policy for the future challenges ahead of the EU farming sector.

How can one increase the incitement to farmers to be even more environmental friendly in their production and ensure that agricultural land remains in sustainable conditions. Currently more than 2/3% of the EU budget for agricultural is spend on direct payment spend annually.

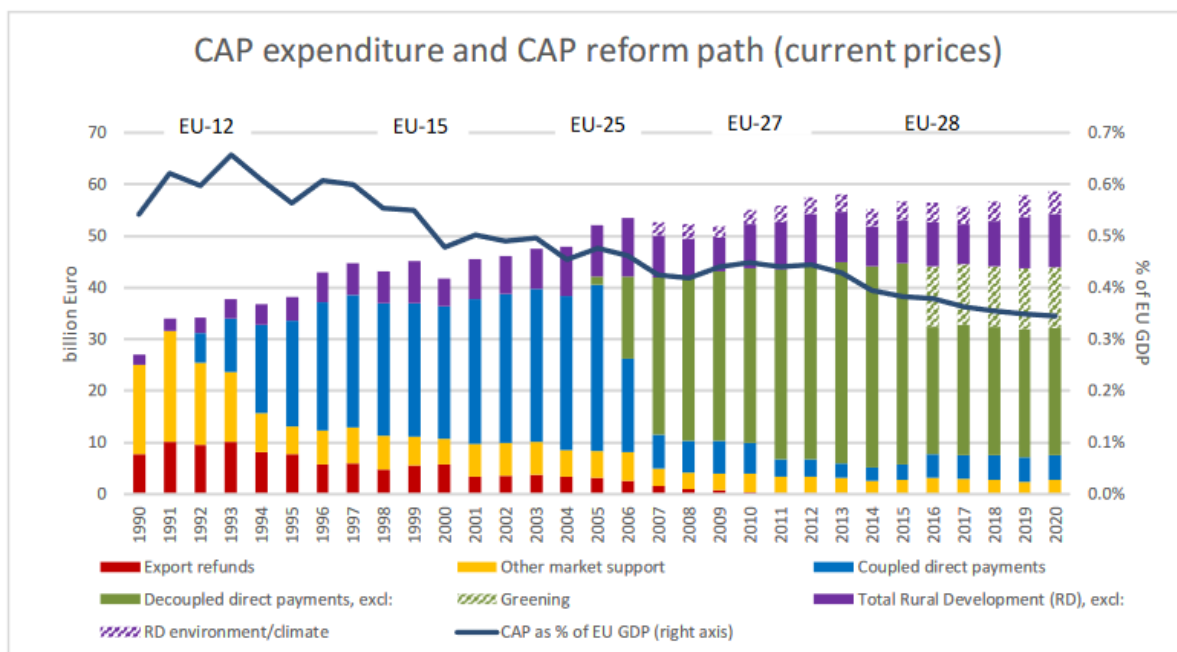
While direct payment is important to ensure farmers income over the last Reforms higher importance has been put on requirements for farmers to respect certain criteria linked to environmental, climate mitigation or sustainability. However not significant resources is put aside to assist farmers in investing in equipment/innovation/knowledge that can support a shift in technology towards permanently more competitive position. It is extremely important that EU farmers shift more quickly to more environmental friendly production methods, and it is therefore necessary to re-allocate more resource to Rural Development type of measures assisting farmers to make the necessary investment that can ensure they can meet these societal expectations while maintaining production capacity and reduce the need for Direct payments as income tool.

The 2021-Reform unfortunately began a mix of supporting same type of environmental measures both under Direct payment and Rural Development. This should stop in the future, and instead a higher share of overall agricultural spending should be given to investment in long-term shift towards more sustainable agriculture sector within the EU.

EU agriculture and energy

EU is a big user of fossil fuels both directly and indirectly through its use of inputs such as fertilisers and pesticides. However, in a circular economy agriculture can also deliver a lot of inputs to energy production, mainly by-product from vegetable or animal production. An increase of agricultural by-products in energy production such gas from manure/straw could quickly reduce the EU dependency on imported gaz.

CAP and overall Budget

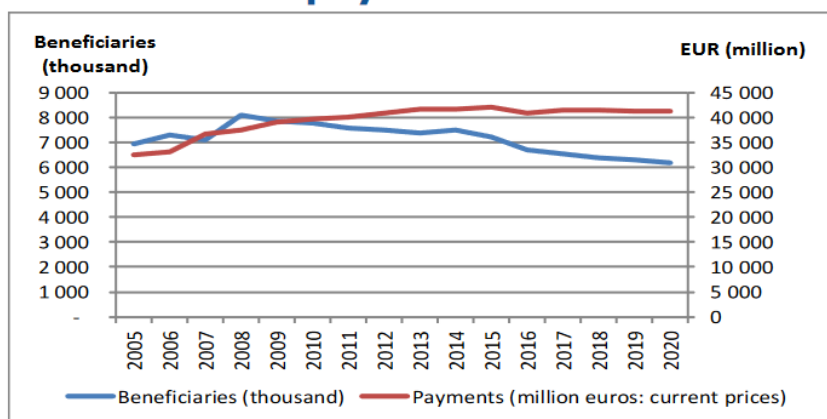


DISTRIBUTION OF CAP

While the overall budget for direct payments has been relative stable over the last 15 years, see previous graphs, then has the number of farmers receiving direct payment gone down significantly..

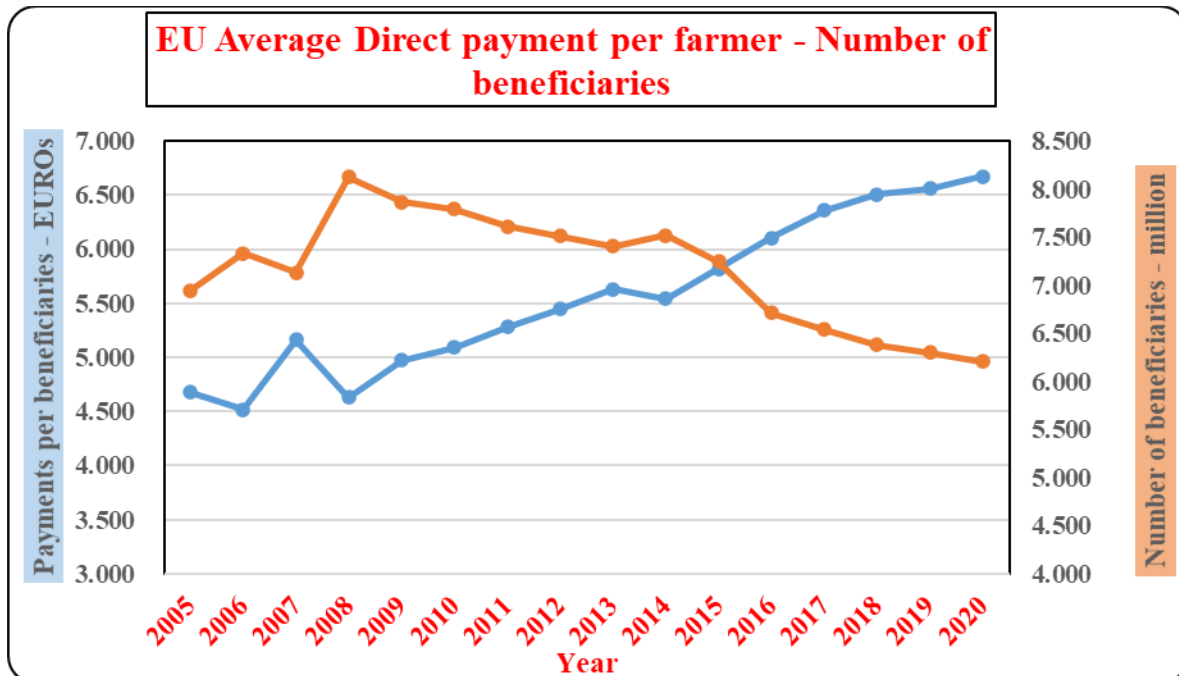
In the Report from DG Agri on the execution of the 2020 direct payments it is shown that direct payments stay extremely stable at around €41 billion while the number of recipients go down, from 8 million in 2008 to just above 6 million in 2020.

Evolution of total payments and beneficiaries



Source : DG AGRI. https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/key_policies/documents/direct-aid-report-2020_en.pdf

As can be seen in the graph below, the EU average of payments per farmer has increase constantly during this period. Two factors influence primarily this development. In the years 2004 to 2017 the phasing in of payments in the twelve new MS (Croatia still 2014 to2020). However even more importantly is the reduction in farm numbers. due to reduction in number of farmers.



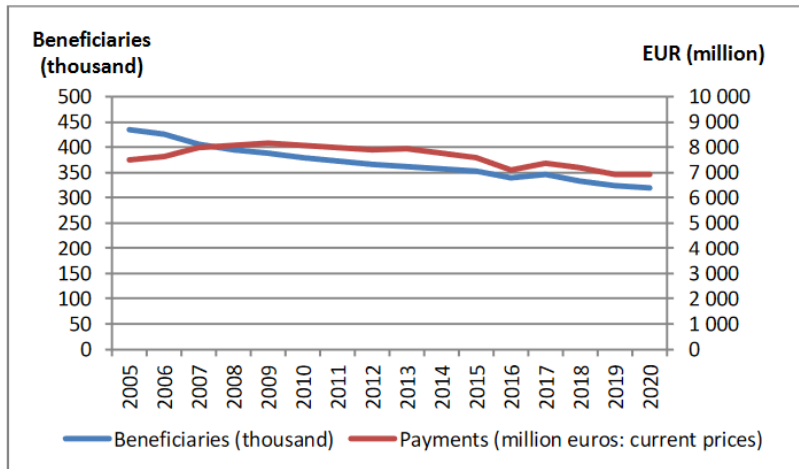
Source: DG Agri https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/key_policies/documents/direct-aid-report-2020_en.pdf

And when we look into this by member states, this increase of the average amount received in direct payments per farmer has been most significant in the Member states that joined the EU in 2004 and later. Mainly, due to the 10year phasing period as agreed during the accession negotiation, but also the large reduction in the number of farmers in these countries since 2004. During the period after 2014 the external convergence played a factor, leading to an overall reduction of the payments paid in the old Member States and an increase in most of the new Member States.

While the overall development is clear, there are indeed differences between the Member States. For the Member States acceding in 2005, 2008 and 2013, the 10 years phasing-in period is an important element in the increases of the direct payments. Even though, this increase in some cases where reduced by their possibility to use part of their Rural Development envelope to top-up EU financed Direct payments. Furthermore during 2014-2020 MFF period the external convergence reduced overall Direct payment in some Member States and benefitting others, for instance the Baltic Member States. :

France

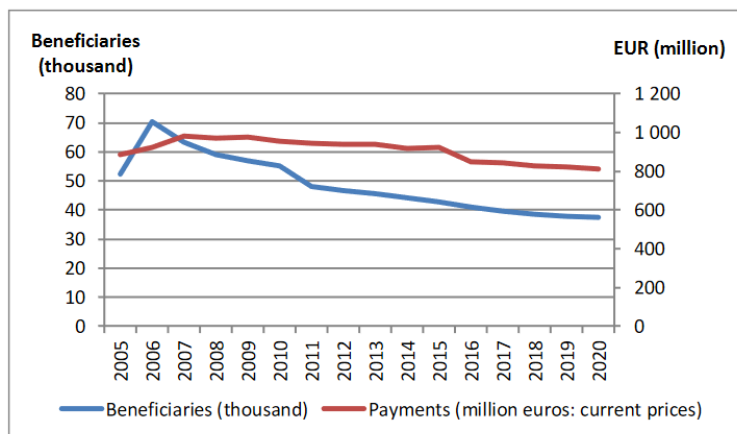
Evolution of total beneficiaries and payments



In the case of France the decrease in farmers has nearly been linear in the overall reduction of Direct payment for France. In 2020 350.000 beneficiaries received nearly €7 billion in direct payments, or on average around €20.000.

Denmark

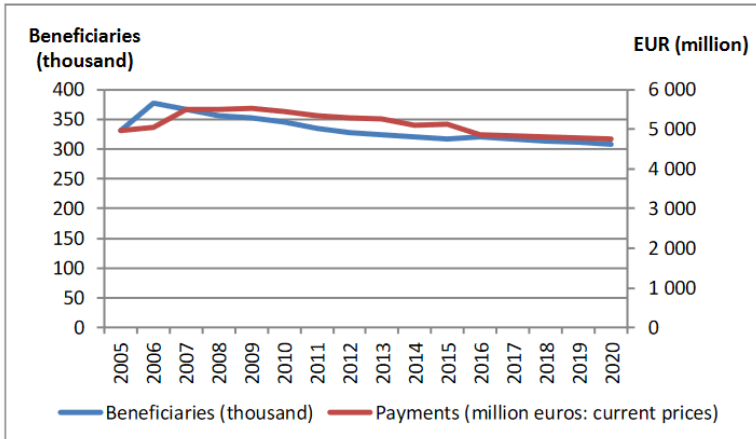
Evolution of total beneficiaries and payments



Denmark had an increase in 2006, linked to the Reform implementation of Direct payments in 2007, but since then the number of farmers has decreased faster than the decrease in overall Direct Payments. Number of recipients of Direct payments nearly halved from 70.000 farmers to 37.000, now receiving around €800 billion or €22.000 on average. The reduction in Direct payments is partly due to the transfer of part the direct payment envelope to Rural Development.

Germany

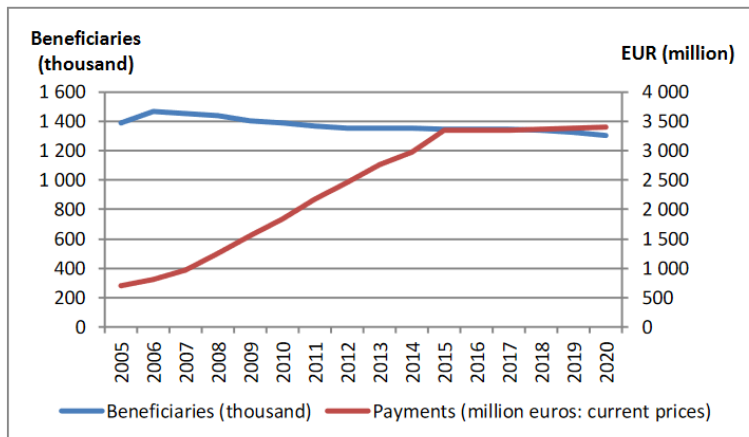
Evolution of total beneficiaries and payments



Germany shows a development similar to that of France, linear decrease in number of recipients as well total direct payments paid. In 2020 just 320.000 beneficiaries received €4.3 billion which equals €13.000 on average per beneficiary.

Poland

Evolution of total beneficiaries and payments

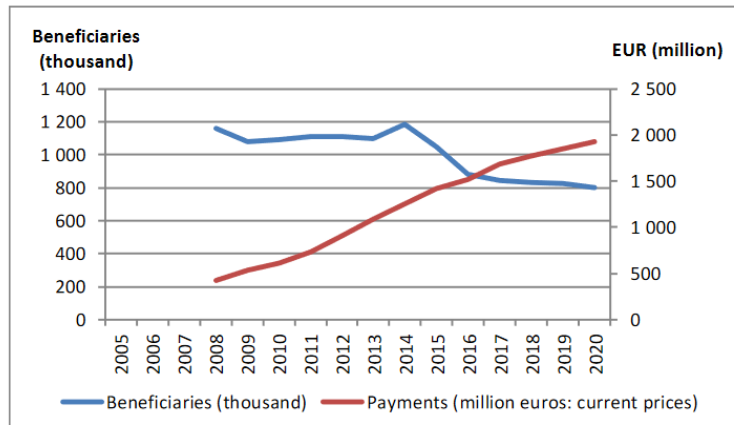


Poland is in fact one of the new Member states that has observed the relatively smallest decrease number of Direct payment recipients. In fact during the period 2015-2020 only very minor changes is observed in the number of Direct Payments recipients, and over the 2002 to 2020 only a reduction in the order of 10%.

In 2020 1.3 million farmers received €3.4 billion. This give an average per beneficiary of less than €3.000.

Romania

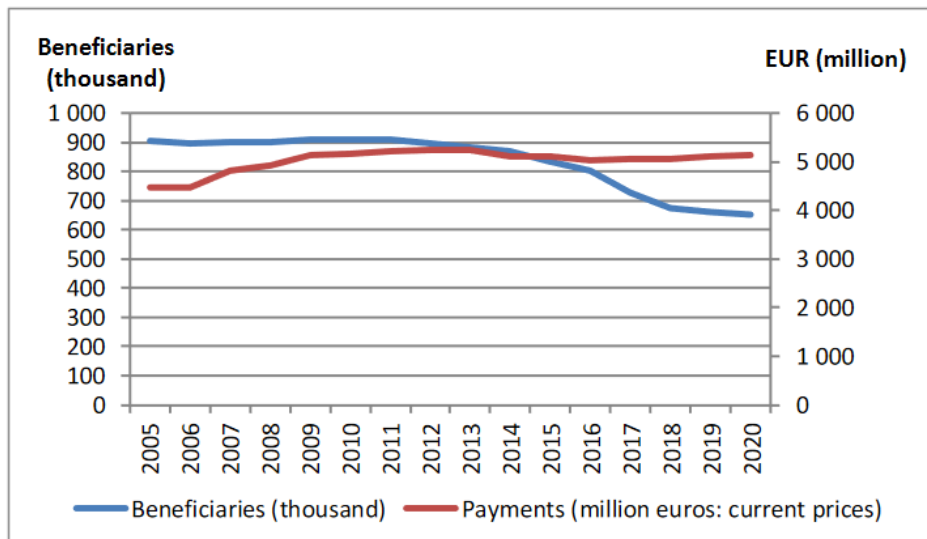
Evolution of total beneficiaries and payments



Romania only reached 100% phasing in 2017, but benefitted from external convergence in the latter years as well. The number of farmers stayed stable from 2008 to 2014, but has since gone down significantly from 2 million to 1.5 million, a reduction of 25% in just six years. However, average amount still very modest at around €1 300 per farmer, showing the very small size of many farms in Romania.

Spain

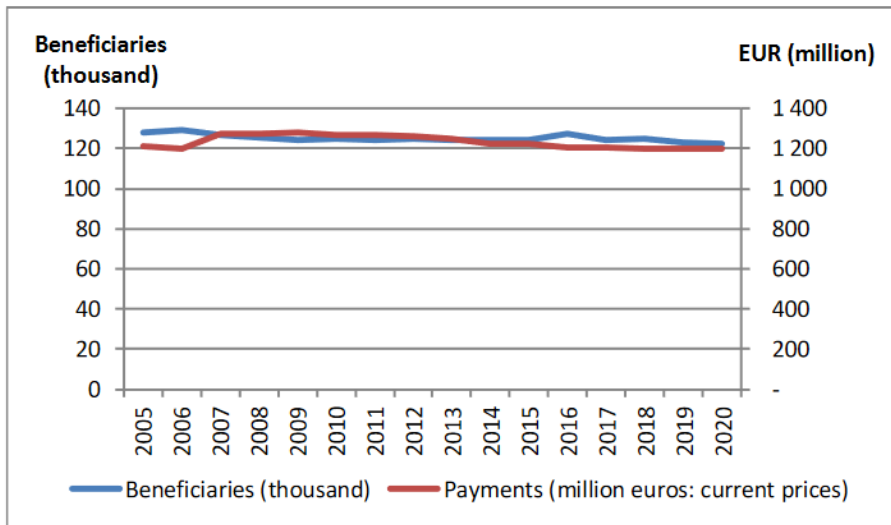
Evolution of total beneficiaries and payments



The total amount in direct payments increased from 2005 to 2012 as the different sectoral reforms were implemented during these years. The number of farmers has been decreasing since 2011 from around 900.000 to 660.00, and around on average €8.000 per farmer

Ireland

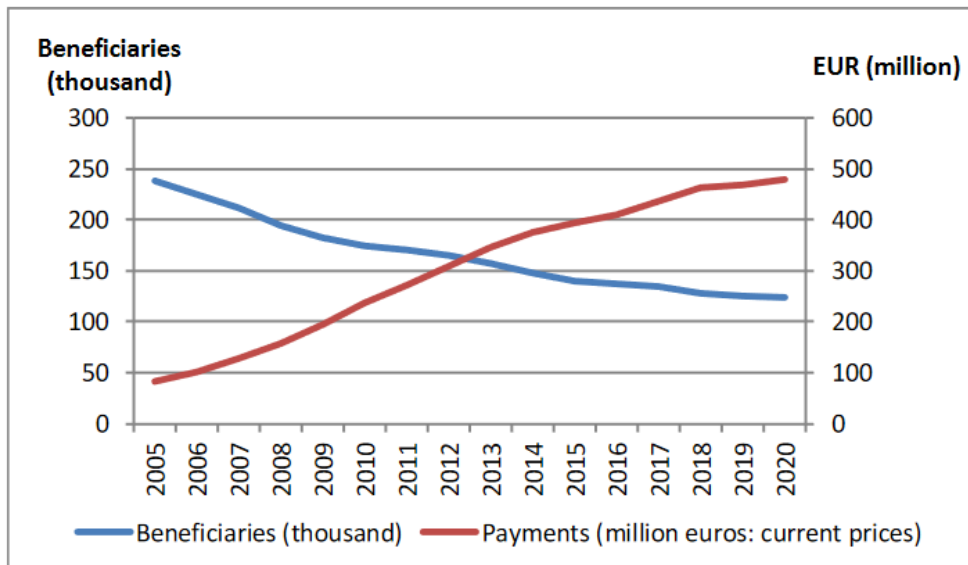
Evolution of total beneficiaries and payments



Ireland is one of the countries with the smallest changes in number of beneficiaries as well as direct payments paid out. 120,000 farmers receiving €1.2 billion, or on average around €10,000 per farmer.

Lithuania

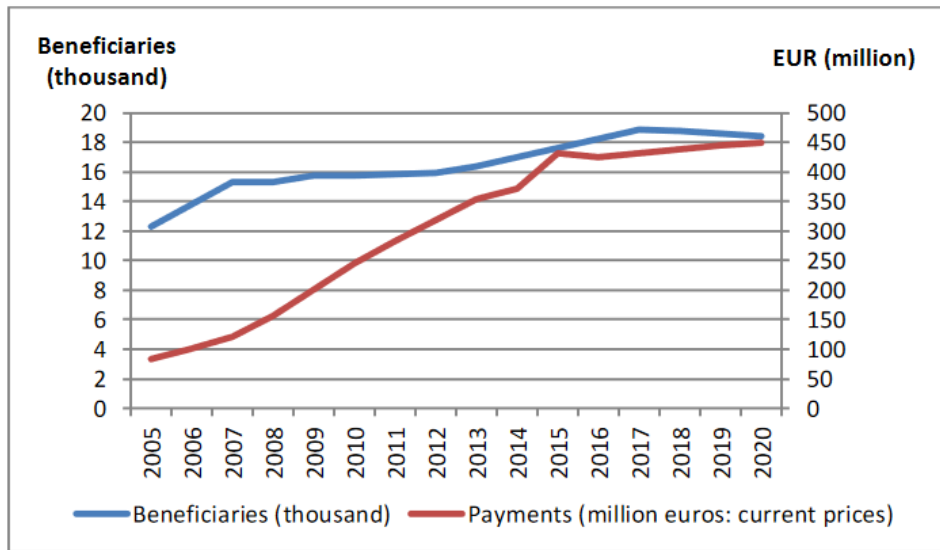
Evolution of total beneficiaries and payments



Lithuania has seen a significant reduction in the number of farmers from 240,000 to 130,000 or nearly 50%. Currently the average direct payments received per farmer is less than €4,000.

Slovakia

Evolution of total beneficiaries and payments



Slovakia is one of the very few, where the numbers of beneficiaries has in fact increased over the entire time span. Now 18,000 beneficiaries receive €450 million or an average €25,000.

Overall, these figures of course also show the difference in structure of farms and farm structure within the Union. What is a small farm? In one country a 50ha may be a small farm and in another above average. And how many of these small farms serve as the entire income for a family and for how many are these small farms just a part-time farm with the main income coming from the outside of the agricultural sector.

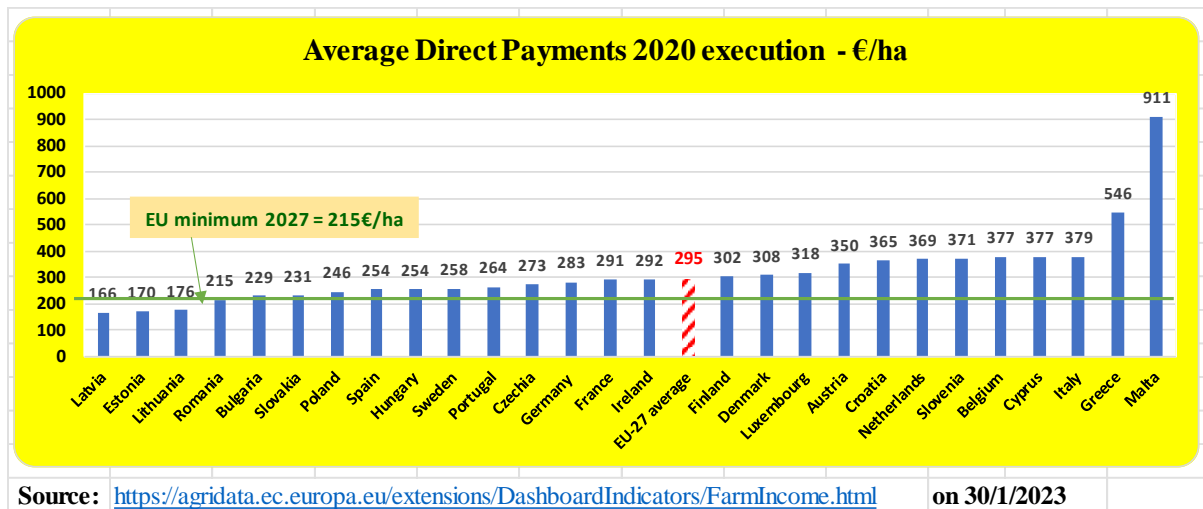
External Convergence

During the last two reforms of the CAP, an important discussion has been the so-called external convergence, whereby one has compared the overall average of direct payments per ha in the 27 Member States.

In the 2013-Reform it was decided that those Member States that have a per ha average below 90% of the EU average should close one-third of the gap up to 90%.

In the 2020 MFF decision a further step was taken in the external convergence. All Member States with direct payments per hectare below 90% of the EU average will close 50% of the gap between their current average direct payments level and 90% of the EU average in six equal steps starting in 2022. This convergence will be financed proportionately by all Member States. Additionally, all Member States will have a level of at least EUR 200 per hectare in 2022 and all Member States shall reach at least EUR 215 per hectare by 2027.

In the following graph is shown the average Direct payment per ha for 27 Member states based on 2020 execution of Direct payments. Furthermore the 2027 minimum at 215 €/ha is also indicated



Malta and Greece top the list due some very special structural and historical reasons. The difference between the Member States with the highest and lowest will hereby a been significant reduced compared to 2014, when the phasing in was finished for the Members that acceded to the Union in 2005.

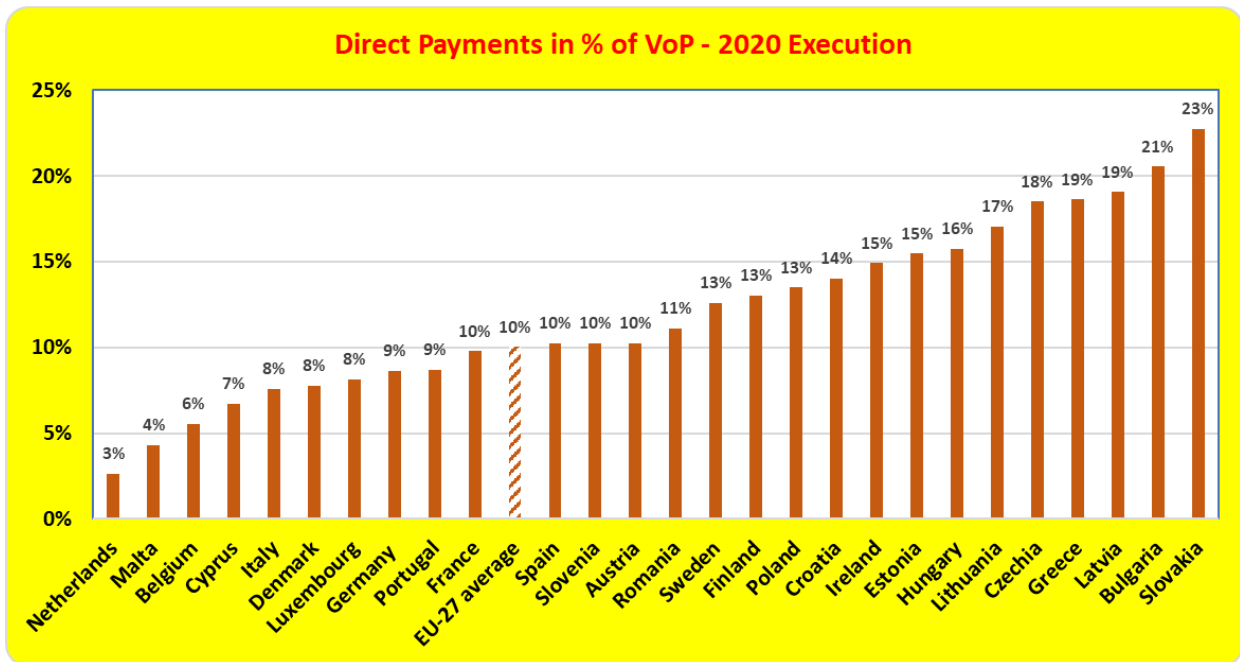
Direct support and Value of Production (VoP).

So far the only way at looking at convergence has been comparing the per ha support. However this is not the only way to analyse the aid incentive of Direct payment. When measuring the importance of Direct payments in agriculture and the differences between member States, one could also look as the share Direct Payment in percent of total Value of Production (VoP) in the different member states.

Below is the values based on 2020 figures for payment made under Direct payments as well as VoP per MS as reported by EUROSTAT.

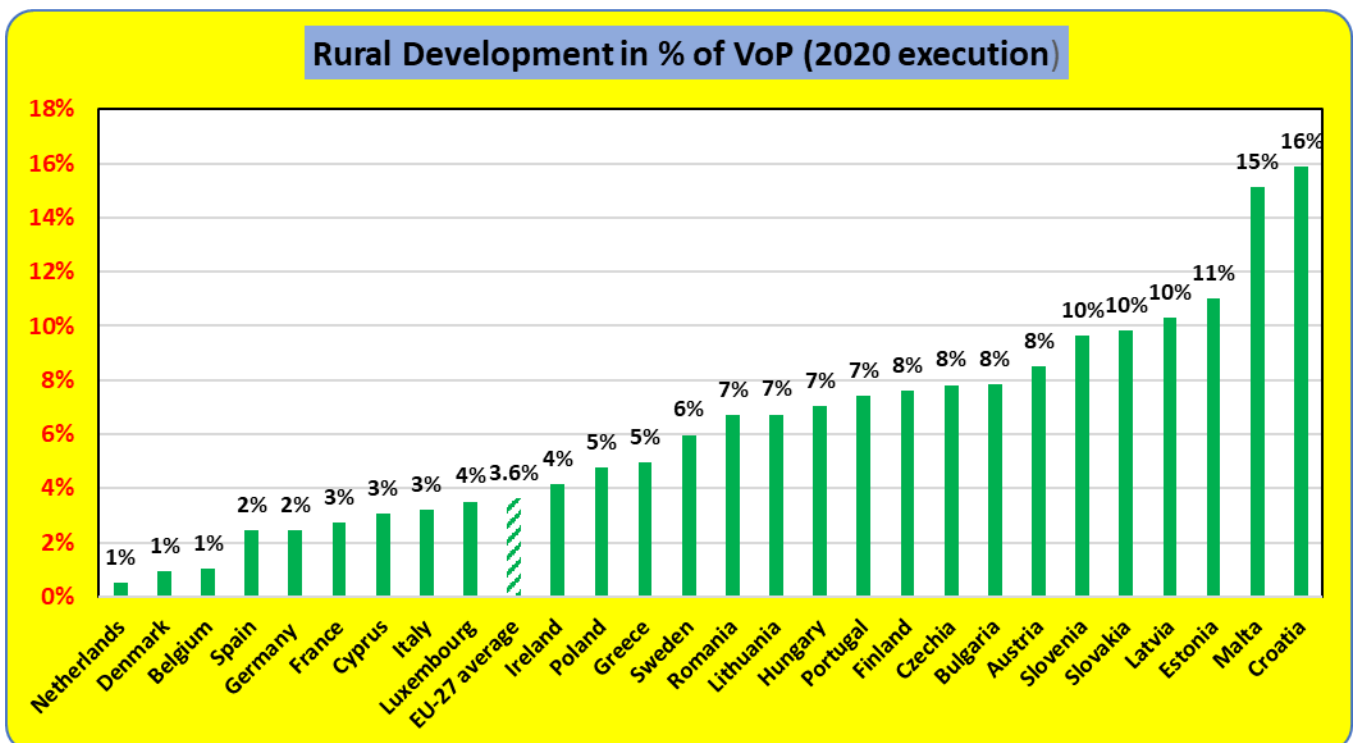
(source: https://ec.europa.eu/eurostat/databrowser/view/aact_eaa01/default/table?lang=en on 20/01-2023).

Again as is the case for the per ha comparison, the VoP comparison show large bigger differences between the Member States. The difference can mostly be linked to the importance of the sectors that traditionally has been the least supported within the union – Fruit and vegetables, wine, pig meat and poultry sectors and their relative share in Value of Production for the individual Member States. The higher the share of these sectors are in the VoP of the Member State the lower will the percentage of Direct payment and Rural Development in of VoP be.



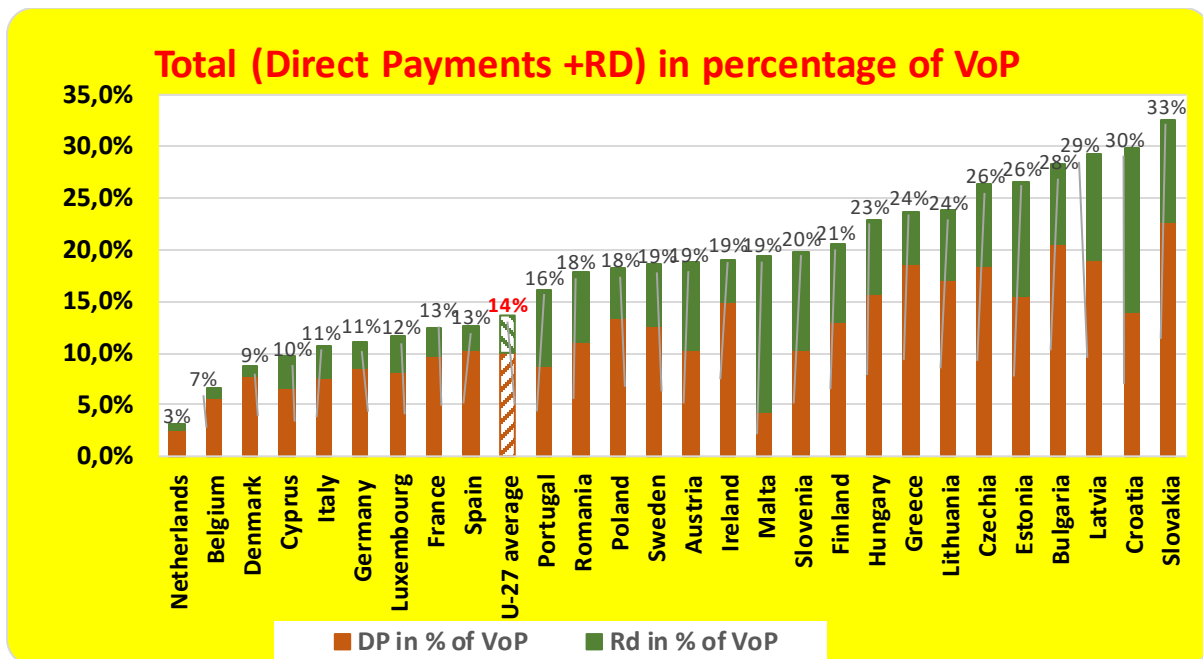
As can be seen in the table in the Netherlands Direct payments equals only less than 3% of the VoP, whereas it in the cases of Slovakia and Bulgaria is above 20%. The EU average is 10%.

When one analyse the Rural Development there is also a significant difference, and again the same countries in the low end as well as those with the highest percentage.

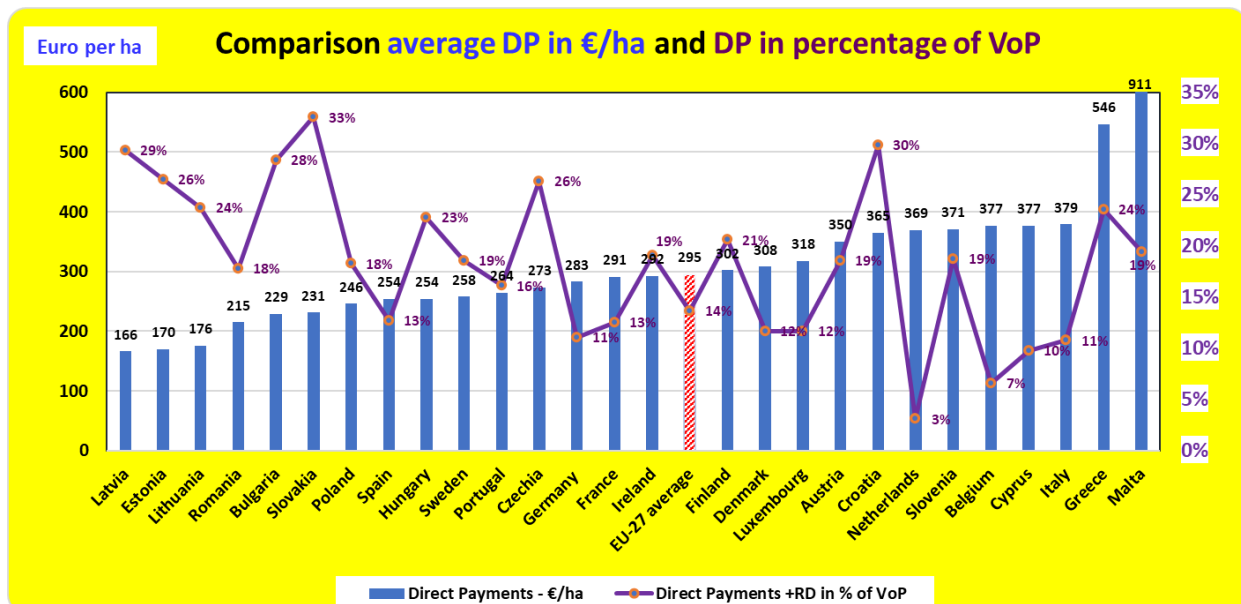


For the Rural Development the same big difference is visually. The one country that change position is Malta with Direct Payment in the bottom with only 4%, while in top with Rural Development at 15%.

When one add both Direct payments and Rural Development together the EU average is 14%, of total VoP. Netherlands as the lowest above 3% and Slovakia in the top with 33%.



In the following is shown a comparison for each Member State of average Direct payments in percentage of EU average and total support in percentage of VoP.



While there is no clear statistical link, there is surely a trend that the lower the average direct payments per ha the higher is the percentage of direct payments as measured in percentage in Value of Production for the member state in question.

This conclusion therefore put a big question mark on whether direct payments per ha is the only measurement with discussing what is a fair distribution of direct payment.

CAP post 2027

What should be the future principle for CAP

The future CAP should do more to help farmer investing in long-term solutions to mitigate climate and environmental challenges. It should change it focus to help older farmers to leave and hereby reduce the entrance costs for young farmers to establish them and help the necessary restructuring in the farming sector.

To do this the current Direct Payment system is not adequate and is too easy to criticise for not delivering on its promises towards climate and environment including biodiversity.

It is therefore proposed to reduce the budget for Direct payments annually by 4%. Of this reduction the 2% should be transferred to rural development and this increased amount should be used to increase investments in climate mitigating measures or to support older farmers to leave the sector if they sell their holding to a farmer younger than 35 years old.

Based on the amounts in the current MFF for the year 2030, it will give the following amounts for Direct Payments and Rural development:

Proposed MFF 2028 to 2034							current Euro - billions	
	2027 amounts	2028	2029	2030	2031	2032	2033	2034
Direct Payments	35.0							
reduction - 5% of 2027 amount		-1.75	-3.50	-5.25	-7.00	-8.75	-10.50	-12.25
New Direct Payment		33.25	31.50	29.75	28.00	26.25	24.50	22.75
Rural Development	12.0							
increase (2% point of DP reduction)		0.70	1.40	2.10	2.80	3.50	4.20	4.90
New Rural development		12.70	13.40	14.10	14.80	15.50	16.20	16.90
TOTAL DP + RD	47.0	45.95	44.90	43.85	42.80	41.75	40.70	39.65
Agricultural Research (1% of DP reduction)		0.35	0.7	1.05	1.4	1.75	2.1	2.45
General research (1% of DP reduction)		0.35	0.7	1.05	1.4	1.75	2.1	2.45
Transfer to EDF - Farmers in Developing Countries adjust to climate change.(1% of DP reduction)		0.35	0.7	1.05	1.4	1.75	2.1	2.45
Total		47.0	47.0	47.0	47.0	47.0	47.0	47.0

The current structure with two funds to administer the CAP seems to be outdated, and the 2021 Reform with a clear overlap with the supporting same type of measures (eco-schemes) both in EAGF first pillar and EAFRD (second Pillar). Whereas measures in EAGF in principle are without national co-financing and measures under EAFRD with obligatory national co-financing (and possibility for in some cases national top-ups), for a purely administrative point it seems no longer needed to have two funds. However, it is important to maintain the principle of national co-financing for EAFRD types of measures. It should also be ensured that the

By reducing the overall amount of Direct payment, one also indirectly mitigates the problem that 20% of farmers receive 80% of direct payments. With this proposal the total Direct Payment in 2034 will be one third lower than in 2027.

How to distribute the reduction in Direct payments and increase in Rural Development.

The new delivery model decided in the 2021 Reform, has led to some differences in implementation. To ensure level playing field it is necessary for the next reform to ensure that all EU farmers have the same opportunities and that the Common Agricultural Policy remains **a COMMON policy**, and a policy of the sum of the policy of 27 member states. It is difficult to decide a policy in Bruxelles that is correct from Lapland to Cyprus, but the CAP has been one of the most successful policies in the Union, and this should not be thrown away in the wish to allow member states some flexibilities to address their specific needs.

The future CAP while maintaining its focus on supporting farmers income and the respect of Article 39 of the Treaty, its focus will more and more be on ensuring that production is done in a sustainable way and reducing the effect farm production has on this.

The biggest challenge facing EU agriculture currently is how to reduce the negative impacts through emissions from agriculture whether from soil activity or animal production. Priority one in the the next CAP-Reform is therefore to increase the budget helping farmers in this transition to more sustainable production methods. This can be done through a significant increase in the budget towards support to farmers for taking action to reduce emissions and ensure more sustainable production methods. However, such new measures should be limited in time, and be seen as a support to the farmers in their transition. Part of these new measures could be financed through re-allocation of current Rural Development measures, but that will not be sufficient.

Since in a time where EU security measures will be priority number and more money also will be needed for the transition towards a more greener energy production within the Union, it is proposed to introduce an annual reduction in the overall envelope for Direct Payments. Such a reduction, shall be applied equally to all farmers currently receiving Direct Payments within the entire Union – no exceptions to any country or region. Therefore the annual envelope per Member States shall be reduced by 5 percentage point per years as from 2028 based on the 2027 amount available for the Member State concerned.

The amount of reduced Direct Payment that shall be transferred to Rural Development, shall equal the 2 percentage points reduction in the country concerned. It is not proposed to make any transfer between Member States, nor any new convergence of direct payment per ha. As shown on the prior pages, those member states with a high per ha Direct payments in most cases has a very low ratio of direct payment in comparison to VoP, and the level of Direct payment is really linked to the structure of the farm production in the different member States.

The need to more sustainable and environmental friendly production methods is equally important in all member States. Some Member States may have begun on some of these changes, but it is important that progress is made in all Member States.

ECO-schemes -Set – a – side obligatory rotation – CO² emissions from soil- decarbonisation- pyrolyse-biological carbon, carbon sequestration

In today's world, where food insecurity is high on the global agenda, the EU obligation for farmers to take part of their land out of production can be questionable. At least it should be ensured, that the annual set-aside is equal in all EU Member states.

Monoculture, is not good for the biodiversity. But is current requirement of rotation is in fact guaranteeing in more bio-diversity.

Some member states are considering introducing CO² levies (including methane) on agriculture. While CO² and methane emissions is important factor in the climate challenges, the best ways to reduce these emissions quickly is important. Just taxing farmers in one Member States or the EU will easily lead production shift towards places without such taxes/levies. It should be considered to introduce a EU wide emission levy based on scientific recognised methods, that also includes to benefit the agricultural sector when delivering raw material for baz production or other circular economy measures.

It is therefore proposed that 20% of each member states envelope for Rural Development should be reserved for measures to invest in decarbonisation including pyrolyse and biological carbon.

How to re-orientate Rural Development policy

Currently a significant part of Rural Development system is granted as annual premiums to environmentally friendly production in different ways including organics and Less Favoured Areas

The need to invest in more sustainable production is equally important in all member states In the future there is need for a redirection of Rural Development to support farmers investing in permanent change in their production method. It means that there should be a reduction in the many annual premiums. Rural Developments should be use and seen has an instrument to help farmers invest in more environmental as well as sustainable production. It is therefor proposed that during the programming period 2028 to 2034 [30%] of the overall envelope shall be targeted investments in

Support to Organic:

There is clear need for support to the armers switching from traditional to organic agricultural practices. Therefore, it is useful to give farmers support in this process, but after a transition period, there shall **no longer be annual subsidies** to organic production. As Organic production is becoming mainstream just as many other productions within the Union, to continue annual subsidies is not sustainable. However, support to farmers wanting to move into and invest in organics should be continued and better incentives to do this should be elaborated.

The EU should not support production or products that the consumer does not want to buy. Organic production clearly has some environmental and sustainability advantages, but the consumers also need to take their responsibility when buying their food.

Support to young farmers

The current support to young farmers is mainly based on granted subsidies/loans to the young farmer buying/setting up his farm. In reality, this way of support increases the farm prices, as the seller can increase the price demand, as he knows the financial value the young farmer can get. In the end this leads the young farmer with a higher debt.

It is therefore proposed to change the young farmers aid to give a premium to the farmer above 60 years old that sell his farm to a young farmer – under the age of 35 years. Such a system will reduce the debt that the young farmer will have to take to finance his buying of a farm. To encourage young farmers to establish them early it is proposed to limit the aid to farmers not yet 36 years of age.

Why increase the EU budget for agricultural research

The challenges, whether environmental, sustainability or climate-mitigating all need more research and innovation. Furthermore, the quick change in consumer trends towards more plant based products needs more innovation in the farm production methods. A significant increase is needed in the research related to agricultural production methods and processes to reduce the impact of agricultural production on the environment, i.e. CO₂, methane etc is required urgently, to ensure the EU and its farm sector can fulfil the Paris agreement. This research shall also include how the bio-energy production can be further developed and how the agricultural sector can be better integrated in the bio-circular economy.

It is proposed that for each 5% reduction of the direct payments 1 percentage point is transferred to the EU agricultural research budget within the EU.

Why transfer to General research

The EU research budget has in the last two MFF negotiations been severely reduced from the Commission proposal to the final outcome. This despite the significant need to increase EU research compared to our biggest competitors, the US and China.

It is proposed that for each 5% reduction of the direct payments 1 percentage point is transferred to the EU 1 research budget. The amount transferred shall be used for environmental related research to mitigate climate change effect.

Why is a transfer to EDF necessary

While climate change is influencing the EU farm sector, it is even challenging for some of the countries in Africa in particular. In order to assist these countries in mitigating their challenges it is proposed to transfer one percentage point for each of the 5 percent reduction in direct payments to EDF, to help the developing countries in Africa to make their agricultural sector more resilient to climate change and increase productivity in their sector and hereby contribute to a lesser migration pressure towards the EU borders.

Staffing

The future markets for the quality products, the inclusion of environmental conditions in trade agreements and the increased world demand for food will need a better staffing of the trade negotiators in DG Agri and DG Trade. New and revisions of existing trade agreements needs to take into account more environmental and climate-mitigating measures into account and will need an increase of staff in DG Agri Trade directorate from 60 til 100 AD officials, and a similar increase in number of staff for food related issues in DG Trade (SPS, TBT and trade defence). While most of these will be needed in relation to negotiate and implements all aspects related to agricultural trade issues (including SPS and TBT but also trade defence measures both defensive (cases raised against EU products) but also offensive (EU challenging measures in third countries), EU also need to increase its negotiation power on the multilateral trade arena, primarily WTO but also WIPO, FAO and OECD.