



EU budget review – is the CAP delivering the ‘transition towards a more sustainable agriculture’?

At the mid-way point of the current EU budget, is one of the largest tools for change delivering value for money?

There are roughly 3.5 seven-year budget cycles left until 2050, by which point the EU is expected to realise its climate neutrality ambitions. Achieving a transition to sustainable production and consumption in the EU when it comes to food and land use is essential for attaining the EU’s climate neutrality goals, along with the 2030 targets and legal obligations to protect biodiversity and natural resources. This is the first briefing in a three-part series looking at the extent to which the EU budget is supporting this transition, specifically for the rural land use sector. It examines the largest fund within the EU budget which supports both agriculture and land management, the Common Agriculture Policy. At the mid-way point in this current EU budget cycle, it is timely to assess how well the CAP is performing as a tool for reaching a range of sustainability objectives. This is highly relevant to discussions that will begin at the end of summer 2023 which will focus on the post-2027 EU budget and the CAP, along with amendments to the CAP Strategic Plans before 2027.

Publication date:

June 2023

Author:

Harriet Bradley,
Juliette Pagnon

Context: Why is a sustainable agriculture and land use transition needed to meet EU Green Deal goals?

There is a scientific consensus that the EU food system is unsustainable ([SAPEA, 2020](#)). We can only remain within 1.5oc warming with dramatic reductions in food system emissions, most of which stem from agricultural production ([Clark, Domingo et al., 2020](#)). Europe is warming faster when compared to other continents (most recent estimates put it as

being twice as fast ([WMO and Copernicus, 2022](#)). Droughts and floods are already severely affecting agricultural production in Europe.

For instance, the 2022 summer drought reduced expected yields for grain maize, soya and sunflower by an average of 16%, 15% and 12% respectively compared with the average for the last 5 years ([Toreti et al., 2022](#)). In total, the 2022-23 EU usable cereals production was projected at 265.6 million tonnes, a 6.9% decrease compared to the previous 5-year average ([European Commission, 2023](#)).

We must therefore limit warming as much as possible, and decrease agriculture sector emissions, where many opportunities for rapid reduction exist. An IEEP report on how to achieve net zero for agriculture by 2050, found that a combination of efficiency improvements, changes to both agricultural practices and the mix of outputs, and increasing land-based sequestration, could reduce emissions by 37% by 2030 and 46% by 2050 (i.e. without major land use changes) ([Lóránt & Allen, 2019](#)). This is similar to other scenarios which coalesce in the 35-55% range, but this still leaves an estimated gap of 265-323Mt CO₂e to net zero. Large land use changes such as significant afforestation could lead to -81% emissions reductions by the sector, however this is still 20% short of attaining net zero status. Based on current national projections, EU agriculture emissions are expected to fall by 2% by 2030 (on 2005 levels) ([EEA, 2022](#)).

Given that severe effects are already being felt and a further increases have already been locked in, EU land use sectors will need to direct significant efforts on adaptative measures to climate change and build long-term resilient systems that use natural resources such as water and soil sustainably.

At the same time, the EU needs to meet ambitious targets for restoring and protecting nature in the coming decade, to avoid ecosystem collapse. The majority of EU habitats and species are deemed to have poor or bad conservation status, with the largest pressures reported by Member States coming from the agriculture sector (Figure 1, [EEA 2020](#)). Actions to restore nature in farmed habitats can boost ecosystem services, resilience and adaptation to climate impacts. Hence climate and nature objectives can and must be pursued as complementary goals, as highlighted by the IPCC and IPBES.



Figure 1. Distribution of level 1 pressure categories among habitats and species (Source: [here](#))

Is this compatible with the need to ensure food security?

There is strong evidence that the move to a sustainable agri-food model is compatible with both providing adequate food and nutrition and improving public health outcomes ([Poux and Aubert 2018](#), [Willett, Rockström et al., 2019](#)). Such a change requires complementary and significant shifts in both production and consumption which, if implemented successfully, could make the food system carbon negative by the end of this century ([Clark, Domingo et al., 2020](#)). A more sustainable model is also likely to be more resilient, and thus productive in the long run ([Midler, 2022](#); [Nadeu, 2022](#); [European Commission, 2023](#)). In addition, the scientific community is in agreement that such a transformation will not happen if left up to individual choice, but rather it needs to be guided and supported by public policy ([SAPEA, 2020](#)).

The need for a rapid but also significant long-term shift requires us to embrace systemic solutions and changes to practices along with supportive technologies that can contribute to significant effects at scale (including those that have the potential to free up large amounts of land for carbon sequestration and nature restoration). All this needs to be done without negatively impacting efforts to build resilient and sustainable food systems in non-EU countries, and thus avoid outsourcing the EU’s environmental and food footprint.

This briefing looks at the extent to which the EU’s current policy tools for addressing the challenges are up to the task. It is structured in four main sections: 1) a general overview of the CAP’s environmental impact, 2) the available evidence on the latest CAP reform’s impact vis-a-

vis the environment, 3) the evidence on the effectiveness of CAP spending on economic objectives, and 4) a look ahead to the next steps for policy reform.

Overview of the current policy framework, with CAP at the helm

One of the EU’s oldest and most established policies is the Common Agriculture Policy. It is the main delivery mechanism that the EU currently has for addressing the above-mentioned challenges, alongside environmental and climate regulations. It represents almost a third of the EU’s budget, around 387 billion EUR up to 2027, divided between two funds known as ‘Pillars’, with about 75% allocated to Pillar I (the European Agricultural Guarantee Fund, hereafter EAGF) and 25% to Pillar II (the European Agricultural Fund for Rural Development, hereafter EAFRD).

Summary of evidence on the CAP’s environmental impact

Despite successive reforms aimed at improving the CAP’s impact on the environment, the evidence suggests that the measurable delivery from the CAP on reducing greenhouse gas emissions, protecting biodiversity and curbing impacts on soil and water, has been limited.

The Commission’s official evaluations of the 2014-2020 CAP and its impact on different environmental objectives, analysed the measures within the CAP that have an environmental objective according to a number of criteria, including their effectiveness and efficiency. The climate evaluation estimated that the ‘greening’ payments in Pillar I for environmentally sensitive permanent grasslands and ‘ecological focus areas’ reduced emissions by 3.5%, although the number must be treated with caution as it counts many grasslands which would already have been protected by EU Nature laws, but it also leaves out the impacts of measures that were not possible to quantify. For those measures that could be quantified in Pillar II, the estimated contribution to emissions reductions was 1.1%. In view of these figures, the estimate of the emissions impact of other CAP subsidies such as voluntary coupled support for livestock, should be weighed (see e.g. [Jansson, Nordin et al., 2021](#)). The evaluation found very little support from the CAP for agricultural adaptation to climate change.

The biodiversity evaluation found that the Pillar II instruments (in particular targeted Agri-Environment-Climate Measures (AECM) schemes, Natura2000 and forest ecosystem/environment measures) were most positive in terms of supporting semi-natural habitats and ‘High nature value’ (hereafter, HNV) farmland ([Alliance Environnement, 2019](#)). However, their impacts have been limited by insufficient implementation by Member States, along with low budgets and uptake by farmers. A key need is to increase budgets for the provision of advisory services to accompany such payments, as the evidence suggests this can significantly improve uptake. The study found less potential in Pillar I measures to support biodiversity, with the potential of payments for protecting permanent grasslands and ecological focus areas being limited by poor design at Member State level. Other direct payments and coupled support, as well as ‘Areas of Natural Constraint’ payments can provide support for HNV farmland, but may also

facilitate agricultural improvements and intensification, resulting in negative impacts for biodiversity.

With regards to soils and water, there are some broad CAP measures that can have a positive benefit, although there appears to be a lack of direct attention and budgets dedicated towards the protection of these resources. Looking at adaptation and water use, the evaluation found that the percentage of irrigated land switching to more efficient irrigation systems was almost zero at the EU level ([Alliance Environnement, 2020](#)).

These studies did not consider the net impact of the CAP overall once the impact of payments for non-environmental measures are taken into account. For example, coupled income support payments for livestock are likely to increase emissions, even if in some cases they can support extensive grazing. Whilst the overall impact is difficult to measure due to a lack of suitable data and monitoring, the European Court of Auditors published a series of assessments on the CAP’s performance in relation to the climate, biodiversity and water, which concluded that for the amounts spent, the delivery that can be demonstrated is limited (ECA, [2020](#), [2021a](#), [2021b](#)). For example, the Commission attributed half of EU climate spending (100 billion EUR) to the CAP in the last period, but no visible emissions reductions for the agriculture sector in this period can be observed (see Figure 2).

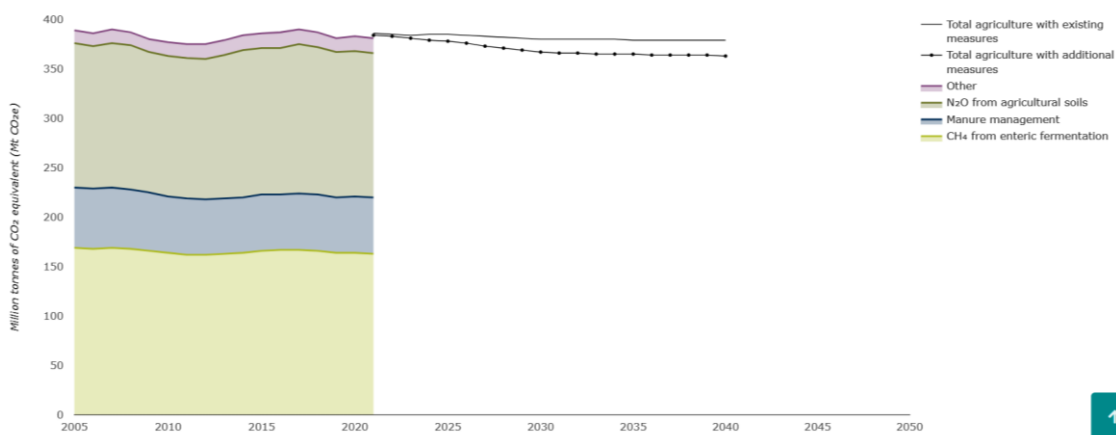


Figure 2. EU agricultural emissions by source and projected emissions (Source: [here](#))

Whilst there is ringfencing of the budget that must be spent on environmental and climate measures in the CAP, this has not always translated into funding for sustainable agriculture. For example, in the period up to 2020, payments for ‘Areas of Natural Constraint’ represented 35% of Pillar II ringfencing for the environment, despite not having specific environmental conditions attached. Their effectiveness therefore varies depending on the types of areas or farms receiving payments and the practices adopted by farmers. In some cases they can help to avoid land abandonment and maintain grasslands, but in others they can contribute to intensification ([Alliance Environnement and Ricardo, 2018](#)). In the current CAP period to 2027, 50% of these payments will count as environmental spending, without additional environmental safeguards

being introduced. This underlines the limitations of broad-brush budgetary categories of this kind.

The latest reform – delivering a transition to sustainable agriculture?

The current CAP has been fully in place since January 2023 with CAP Strategic Plans (CSPs) agreed upon by all Member States. The European Commission’s 2017 Communication stated that the policy should ‘lead a transition towards a more sustainable agriculture’ ([European Commission, 2017](#)). In policy terms the New Delivery Model is probably the most important innovation in the new CAP and has required a new ‘strategic planning’ approach in Member States, which has been a significant developmental and administrative change for many. This new approach grants significant flexibility to Member States; should they wish to use it so there is ample scope for supporting the transition e.g., via ongoing payments for sustainable land management, for support for investments in sustainable production models, collective and co-operative approaches and for providing adequate farm advisory service support.

However, within this new framework, the actual policy measures and budgets allocated to them have changed much less so, with a central role for direct payments and widespread and increased use of coupled support: it has risen from 10,6% of P1 ([DG Agriculture and Rural Development, 2021](#)) in the previous CAP to 12% in the current one ([European Commission, 2023](#)). An exception are the eco-schemes, perhaps the greatest policy innovation of the new CAP, accounting for approximately a quarter of the Pillar I budget. More challenging topics, such as the link between food production and consumption, and the scale of future livestock production hardly surfaced at all in the CAP settlement.

There is not yet a definitive account of how far this CAP is different from the previous one and its aggregated impact. There were improvements in the environmental conditions attached to all payments, but some of these have been weakened by time limited derogations associated with the war in Ukraine and some Members of the European Parliament have called for these to be maintained in future years. Some benefits (e.g., more stakeholder consultation in most Member States) and limitations (Commission leverage on the ambitions and proposals of empowered Member States is constrained by several factors) are already visible.

A 2023 IEEP assessment of the CAP Strategic Plans—for France, Germany, Poland and Spain ([Midler et al., 2023](#))—suggests that the overall effect in environmental terms is an incremental change, as in the majority of previous CAP reforms. While the new CAP structure provides more flexibility to Member States, most did not take this opportunity to significantly increase support for environmental and climate action. In general, the majority of the resources drawn from the CAP still fund economic objectives, by far the largest portion of spending continues to go to untargeted per hectare income support. There have been some environmental steps forward, with variations between Member States e.g., in relation to ‘conditionality’, the design of eco-schemes etc. However, studied Member States have *on the whole* chosen the easiest (and less effective) options for ‘conditionality’ standards. Eco-schemes are likely to have low additional

benefits and environmental and climate commitments, while well-designed, are allocated small budgets, cover limited areas and are not always targeted well regionally. The assessment notes that some interventions simply continue to support the most intensive and most environmentally damaging farms. There is an increase in coupled support compared to the previous CAP, with most going to livestock (European Commission, 2022). This and other forms of production support (e.g., some investments in Pillar II, or some of the sector payments), could undermine improvements on the environmental side. The Commission is expected to produce their verdict, potentially underlining the environmental and social accomplishments as they see them, by the end of 2023.

Direct payments – the main form of CAP spending – money well spent?

As mentioned above, Member States have chosen to place the majority of CAP support into per hectare ‘direct payments’, on the basis that they provide income support for farmers. However, it is well known that income support (direct payments) does not supporting farmers’ income equally¹. Direct payments are indeed highly concentrated, with around 20% of farmers receiving 80% of the payments, as shown in the figure below. This skewed distribution in favour of larger farms may have improved (but still to a limited extent) in the latest CAP reform which included some mechanisms to require Member States to increase the share allocated to small farms.

The degree of concentration of land and direct payments on large holdings differs between Member States. In Slovakia more than 90% of agricultural land is farmed by 20% of beneficiaries who receive a corresponding share of direct payments. This figure is the lowest in Luxembourg (49%).

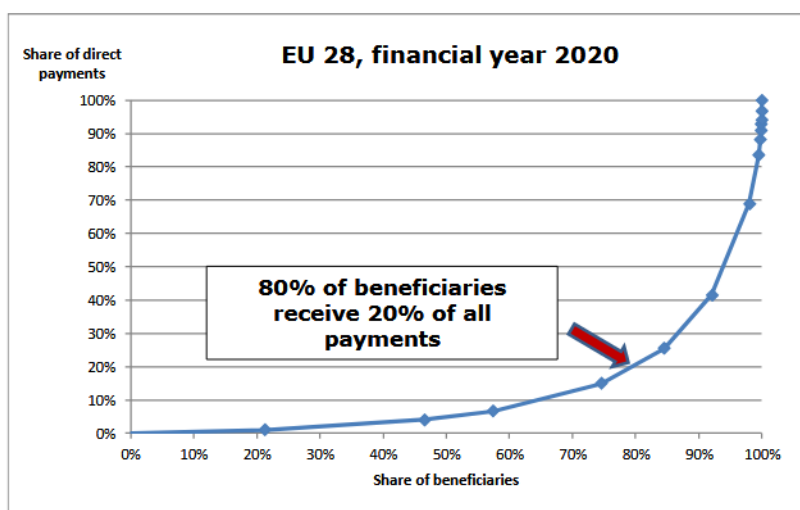


Figure 3. Distribution of direct payments among the share of beneficiaries (Source: [here](#))

¹ An analysis of the unequal distribution of direct payments by Alan Matthews can be read [here](#).

Differences in the share of direct payments within overall farm income also differ widely per type of farm. For the horticulture sector they represent 6% of farm income, for dairy farms 56%, for cereals, oilseeds and protein crops it is 112% and for beef and veal production it exceeds their income by 127% (coupled support for ruminants is often justified on the basis that these farms depend highly on subsidies for their existence. Livestock farmers are the main beneficiaries of coupled support).

It is widely questioned whether decoupled aids are the most effective instrument for supporting farm incomes. For example, a study in Italy found that direct payments are not very efficient in supporting the incomes of small farms and reducing the disparity existing within the farm population ([Ciliberti et al., 2022](#)).

To address this question more generally, we need to be able to measure farmers’ incomes and their living standards. Two indicators are currently to assess this, drawing on two major data sets: the Economic Accounts for Agriculture (EAA), at the macroeconomic level, and the Farm Accountancy Data Network (FADN), at the microeconomic level. However, neither of these data sets allows us to capture the reality of the incomes, living standards and assets of agricultural households as a unit, which is the key indicator of concern rather than focusing solely on the income attributed to agricultural work. The EAA only factors in labour, capital and land, it includes budgetary support from all sources, not exclusively from the CAP, and does not include income from activities that are not strictly agricultural. The FADN excludes the smallest farms and other income related to agriculture (besides farm support payments) is not well reported. Indeed, the Court of Auditors concluded in their report on farm income that there is insufficient data to allow an assessment of the need to provide farmers income support ([European Court of Auditors, 2016](#)).

The reality seems to be that in some Member States farm incomes are comparable with those in other sectors but there are regions in Europe and specific farm types where incomes are very low and there is genuine poverty. The variable extent to which farmers also own significant assets in the form of land and property complicates the picture further.

Even if income support via the CAP was found to be an efficient means of supporting farmers’ income, it can be questioned whether it should be the dominant objective of a sectoral policy, such as the CAP, to support farmers’ incomes, especially on an untargeted basis. Which categories of farm in which areas need support of this kind? How far should this be delivered by social policy and fair pensions for retired farmers, issues that are addressed at Member State levels for most economic sectors? Is it justified to continue with a system whereby some types of farms receive the highest level of support, regardless of their overall disposable income?

The route to the next CAP

Member States can amend their CSPs once a year. The flexibility in the CAP architecture allows them to use these changes to progressively upscale the level of support allocated to increasing the sustainability of agriculture and contributing to the goals set out in the Green Deal and elsewhere. For example, Member States can move money from direct income support where

this lacks justification, to eco-schemes or to Pillar II. However, it should be noted that the most recent trends in terms of Member State responses to greater flexibility have gone in the opposite direction. Governments chose to weaken important elements of eco-conditionality when given the chance to do so by derogations introduced in response to the war in Ukraine. There is clearly a risk that Agriculture Ministers could choose to reduce the environmental and climate ambition of their CSPs further in forthcoming amendments.

In the next EU budget cycle, a holistic framework is needed that can answer to the needs of the just transition while also contributing to a significantly more sustainable agricultural system. The next EU budget proposal is due in June 2025, and the next CAP proposal in July the same year. In principle, changes in the current period should help to prepare administrations and beneficiaries for an improved or potentially new regime in the next MFF, which reinforces the argument for reaching agreement on the direction of the post 2027 CAP sooner rather than later.

Conclusion

There are both recent and more long-standing challenges for European agri-food policy. However, at this point perhaps the most fundamental aspect is to guide and support the transition to a more sustainable set of food systems in Europe. This implies a transition to systems that incorporate environmentally appropriate and economically viable forms of agriculture with accompanying changes in land use and consumption to meet objectives that are emerging from the health, climate and biodiversity agendas as well as the requirements of food production. To meet these needs, a paradigm shift in EU agriculture policy is needed, towards meeting the goals the EU has set in its Green Deal and Farm to Fork Strategy and building a sector that is resilient and economically viable for the long term. Agriculture ministers appear to have failed to use the increased flexibility to significantly increase support for environmental and climate action, raising the question of whether the CAP and its current governance arrangements are the right delivery mechanism for the task ahead. Briefing Two of this series explores the rationale for creating a separate fund outside of the CAP for supporting the transition to, and ongoing maintenance of, environmental land management.