



EU budget review - mobilising nature and climate funding in the land use sector

At the mid-way point of the current EU budget, going forward is it time to rethink the framework for delivering rural environmental funding?

This second briefing is part of a three-part series looking at the extent to which the EU budget is supporting the transition to sustainable land use in order for the EU to meet its climate and biodiversity goals. It explores various avenues for channelling EU funding towards environmental services in the rural areas, in particular on farmland. Moreover, it summarises the issues with the current approach of integrating biodiversity and climate spending into existing funds, notably the CAP and explores the case for creating new standalone EU funding instruments with environmental objectives post 2027.

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Introduction

The EU Green Deal, the flagship policy of the current EU Commission under President Ursula Von der Leyen, contains a suite of strategies and policy packages aiming to deliver a climate neutral Europe by 2050, along with other goals which include restoring Europe's biodiversity and achieving a sustainable food system. The [EU Biodiversity Strategy for 2030](#), adopted in May 2020, sets the ambitious goal of halting the loss of biodiversity and putting the EU on the path to recovery by 2030. In 2024 the EU will set new emission reduction targets for 2040, requiring emission reduction contributions from all sectors, including agriculture, which currently does not have specific targets to reduce its emissions.

Therefore, the EU's current legal climate framework for the agricultural sector will need to be enhanced to deliver the 2040 targets, with the possibility of a climate neutrality goal for the land sector (agriculture, land use and forestry) before 2040. In this context, the European Commission is currently assessing options for an Emission Trading System (hereafter, ETS) for the agricultural sector.

Meeting the Green Deal climate and biodiversity goals entails numerous actions and changes in the agriculture and land use sectors (see briefing 1 of this series). For example, it includes an EU-wide target to bring 25% of farmland under organic management and proposes broadly to reduce pesticide and fertiliser use by 50% and 20%, respectively, by 2030 (although agreement on the relevant legislation is far from certain). The Strategy also sets a target for EU farmland to include at least 10% of high-diversity landscape features and to halt and reverse the decline of pollinators. These ambitious goals will inevitably require major changes in agricultural management and policy (including the Common Agricultural Policy, hereafter CAP) and some outright changes in land use.

To meet these goals, a combination of policy instruments will need to be deployed, including regulatory instruments, market-based instruments, and financial instruments. Incentives are certainly a key element in this mix and the estimates of the potential costs for biodiversity alone suggest that the scale of overall funding required is potentially large (see section 1 of this briefing). For climate objectives, while a new policy instrument—such as a potential ETS for agriculture or payments for removals generated under the EU's proposed Carbon Removal Certification Framework—could create new incentives and provide new sources of income to help meet these costs, it seems very likely that substantial aid still will be required for some practices on farms pursuing changes that are costly and/or unprofitable.

At the mid-way point in the EU's budget cycle, known as the Multi-annual Financial Framework (MFF), this briefing takes stock of the specific support needed to meet biodiversity, climate and environmental sustainability goals in rural areas. Section 1 provides an overview of the types and level of funding required. Section 2 sets out the current policy framework whereby financing from the EU budget is integrated into existing EU funds. The final section assesses the case for reforming this policy framework in the post-2027 EU budget cycle, by establishing standalone funding for nature, climate and key environmental objectives in rural areas.

1. Funds needed for EU targets for nature and climate in rural areas

What type of EU and other public funding is needed?

To meet biodiversity and climate goals, a range of changes to practices and land management models are required. As with many other forms of environmental improvement, costs arise in a range of different categories, including: adopting and maintaining practices involving higher costs, investments in physical assets and enhanced knowledge, some land-use and structural

change, the development of new markets, increased attention to monitoring and measuring key parameters, as well as increased advice and training.

Leaving aside any changes driven by the markets and evolving labelling requirements, there is a clear case for public support for investments to support a transition in practices and systems, according to a “Just Transition” approach (see e.g. [Baldock and Buckwell, 2022](#)). Even more so if there is an ambitious policy framework bearing down on emissions, such as an Emission Trading System (hereafter, ETS) for the agricultural sector. This would support certain climate actions in agriculture, including aid for the exceptional levels of investment required and a time-limited compensation element linked to the early retirement in the livestock sector and assistance for farmers facing other major structural changes. It is not without precedent: as part of its revision of the EU ETS (ETS 2), the Commission has proposed to establish a Climate Social Fund. The purpose of this fund is to address any social impacts that arise from this system. The fund will finance income support for vulnerable households and support measures and investments that reduce emissions in certain sectors. The funded measures and investments principally need to benefit vulnerable households and micro-enterprises.

Some changes, in particular those aimed at increasing the sequestration potential of agricultural land, will require long-term investments for on-going management including agro-forestry, peatland re-wetting, the adoption of paludiculture in certain environments and building up soil organic carbon. For interventions targeted at certain specific investments, a shorter-frame transitional support may suffice. Many such changes to land management practices have overlapping co-benefits associated with biodiversity, especially where nature-based solutions are adopted (see [Scheid et al 2023](#) for a description of potential biodiversity co-benefits and risks associated with different carbon farming practices). Therefore, it is desirable to provide funding instruments that support an integrated approach to various environmental land management objectives.

In addition to the role of incentives in meeting biodiversity, GHG emissions reductions and carbon storage objectives, funding will also be required to help farmers and other land managers meet other Green Deal and wider environmental targets. These include aspects of climate adaptation, improved farm related air quality and water quality. As above, both targeted schemes for the ongoing supply of environmental services as well as aid for a programme of new investments will be needed (e.g., for new machinery) as well as support for training and advice, for example for whole-farm management plans to reduce inputs. At farm level the management practices that are required for different environmental objectives often partly overlap (e.g. reduced or more efficient input use, improved soil management including no or reduced till, reductions in livestock densities) but incentive schemes need to be sufficiently well designed to achieve concrete progress against several objectives in parallel.

Estimates of the level of funding required.

Biodiversity funding requirements

There is a range of available estimates of funding needs for meeting the EU's biodiversity goals. These relate to implementation across different environments so are not specific to rural land use. However, they can provide a sense of the scale to the funding in question.

The EU Biodiversity Strategy to 2030 sets a target of 20 billion¹ euros per annum for biodiversity². However, independent work by Nesbit et al. (2022) places the figure higher, at an average of 48 euros billion annually over 2021-2030. This is significantly increased when compared to the funding which is estimated to have been mobilised in the current EU budget to 2027 (around 29 euros billion a year). Whilst all these estimates contain varying assumptions and therefore must be treated with caution, the funding gap faced to 2030 could be in the region of 187 euros billion.

Furthermore, significant additional funding will be required to support the proposed EU Nature Restoration Law, including: the costs of the actual restoration efforts, increased surveying of ecosystems, developing national restoration plans, administration, monitoring of ecosystems chosen for restoration, and the subsequent reporting. The impact assessment study estimated the investment that needs to be mobilised to be circa 6-8 billion euros annually until 2030, excluding costs for marine, urban ecosystems as well as pollinators. On top of this, an estimated additional 14 billion euros up to 2050 would be needed for administrative costs³.

In the long run, these investments can also pay off in economic terms. Biodiversity conservation reduces the risk of zoonotic diseases (Van Langevelde et al 2020) and over half of global gross domestic product (hereafter, GDP) depends on nature and the services it provides (WEF 2020). The ecosystem services provided by Natura 2000 have been estimated at between 200 and 300 billion euros per annum, amounting to around 1.7-2.5% of EU GDP (ten Brink et al 2011), which by far exceeds the estimated costs of managing the network. Further, it has been estimated that investing 1 euro in nature restoration brings 8 euros in return in terms of economic benefits (SWD(2022) 167 final).

Funding for climate and other rural environmental goals

Whilst estimates of the cost of investments and financing to meet net-zero have been attempted, to our knowledge there have been relatively few attempts to quantify the level of funding that could be required specifically for the transition in the land use sector. However,

¹ The cost estimate is based on the 2018 Impact Assessment of the LIFE Regulation (SWD(2018) 292), a Study on the costs of implementing the Target 2 of the EU Biodiversity Strategy to 2020 and data submitted by 16 Member States under Article 8(1) of the Habitats Directive. The Commission will update the estimate, notably based on Member States' Prioritised Action Frameworks under the Habitats Directive.

² Includes marine as well as terrestrial environments.

³ Proposal for a Regulation of the European Parliament and of the Council on Nature Restoration, COM(2022) 304 final.

as discussed above, many of the ongoing measures implemented on land to support biodiversity can and should be designed to be overlapping with climate and other environmental objectives. Overall, funding for all objectives seems likely to include a sizeable element of support to help farmers through a period of just transition, including a time-limited funding facility, as mentioned above.

2. Current sources of nature (and climate) funding in the EU: the 'integration principle'

At the highest level, expenditure via EU funds is structured through the Multiannual Financial Framework, the MFF, which is re-negotiated every seven years (the current period runs from 2021-2027). The MFF plays a crucial role in shaping EU policies and the programmes funding rural environments, including the Common Agricultural Policy (CAP) and the LIFE programme, the EU's funding instrument for environment and climate action which has been in place since 1972.

LIFE is the only specific EU fund for nature and climate, but it is relatively small with a budget of 5.4 billion euros for this current seven-year period. The largest single element, the Nature and Biodiversity sub-programme, amounts to 2 billion euros, about 40% of the total. It is mainly devoted to specific, time-limited projects selected centrally on a competitive basis.

Aside from this, most of the EU funding for the rural environment is 'integrated' or 'mainstreamed' into other much larger funds⁴, particularly the CAP, but also feeds into the structural funds, including the European Regional Development Fund (ERDF). This can be illustrated with respect to spending on Natura 2000, a key element of EU biodiversity policy, where the largest levels of EU funding in the 2014-2020 period came from the CAP, supplemented by national funding. The current CAP itself contains a ringfencing rule of 25% for eco-schemes in Pillar I, and 35% of Pillar II budgets that should be devoted to environmental or animal welfare objectives.

Aside from the hard ringfencing of funds within the CAP, the European Commission additionally applies a tracking approach using 'coefficients' to measure the magnitude of the EU budget funds that are in principle devoted to environmental objectives of various kinds. On this basis, concerning climate it claims that almost one third (30%) of the total MFF and NextGenerationEU⁵ budget over seven years is expected to be spent to "fight climate change" ([EC 2021](#)). The current budget cycle also contains a (non-binding) target for biodiversity spending, of 7.5% of expenditure as of 2024, and 10% in 2026 and 2027. However, the value of the methods used to derive this categorisation have been widely questioned (see e.g. [IEEP](#)

⁴ At the end of the most recent MFF negotiations, around 387 billion euros were allocated to the CAP, almost one-third of the European budget, divided between its two pillars, with about 75% allocated to Pillar I and 25% to Pillar II.

⁵ The EU's instrument to support the recovery from the coronavirus pandemic.

[2020](#) and [ECA 2020](#)). Both IEEP and the Court of Auditors' assessments concluded that the method of tracking biodiversity financing within the CAP in the last period was unreliable and thus, the estimates of progress were most likely too high. In the new funding period, the tracking approach has been revised, applying co-efficients to funding lines according to their programming to the CAP specific objective 6 for biodiversity and landscapes ([EC 2023](#)). Some weaknesses persist however, partly because direct payments beyond eco-schemes and ANC payments are still tracked with a small co-efficient and partly because many eco-schemes linked to the biodiversity objective are in fact broad packages of measures in which the biodiversity relevant options are a small facet of the overall package and cannot be siphoned off.

The reality of mainstreaming as a strategic reformulation of policy and its efficacy in terms of delivering environmental outcomes in rural areas has been questioned for a considerable time and increasingly been criticised, mostly due to the limited scale of measurable delivery from the CAP (this issue is further examined in Brief 1 of this series). The following section explores the case for departing from the current approach.

3. Formulating a new EU rural environmental land management Fund: issues and questions

The disappointing biodiversity and climate related results delivered by the CAP (see briefing 1 in this series), and the mainstreaming approach more generally, both in terms of the quality and quantity of available funds, have raised the question of whether a more effective alternative would be to create a standalone funding instrument for rural land use which is separate from the CAP. The estimates of funding needs, notwithstanding the caveats, imply that this would require a substantial portion of the EU budget to meet the stated goals. This would be designed to target actions dedicated to meeting the required environmental objectives and could take the form of a dedicated 'Nature Fund' or a broader rural environmental land management fund for example. The focus here is on the second of these approaches.

This concept could be developed in a variety of ways but the two main differences to the existing CAP would be: 1) the objectives of the fund and the policies pursued under it, and 2) the governance of the new fund. In terms of governance, a new fund would need to have formal environmental objectives, with an appropriate legal foundation, independent of the agricultural objectives set out in the Treaties. Given more specific environmental and agri-environmental objectives, the policy interventions made under the fund, especially payment schemes, would be made solely for environmental land management and the provision of specified environmental public goods (or only nature conservation in a specifically 'Nature Fund' version). Measures would be restricted to this goal and appraised against these outcomes.

Logically, decisions over the new fund would be made within the Environment Council rather than the Agriculture Council and this would be an important shift, given the long-standing dominance of the Agriculture Council over the CAP. A similar change in governance towards environmental ministries or new multi objective agencies might be envisaged at the Member State level, with payment schemes developed and managed primarily by environmental instead of predominantly agricultural authorities.

A change to the structure of EU funds along these lines would be a major strategic decision, unlike the more incremental policy adjustments that occur relatively frequently in the CAP. It would require a change to the MFF, for the next period from 2028 to 2034. Amongst other things, MFF reform and the establishment of a new fund would have important implications for the distribution of the EU budget between Member States, as the logic underpinning the distribution of current CAP allocations between Member States and individual farms would cease to apply. Major decisions would be needed regarding the rules for allocation: it would be reasonable to assume that this would reflect the level of environmental services provided in broad terms. It is worth noting that those Member States that have a large area of farmed land and are major beneficiaries of Pillar I, such as France, might also have the potential to roll out environmental measures over a large area and make the case for a substantial share of a new environmental services fund.

As previously outlined, part of the case for a new Environmental Land Management Fund separate from the CAP is that it would be a fresh start, not confined by the existing distribution mechanisms of the CAP budget, the distinction between the two Pillars of the CAP, the design and delivery structures now dominated by agricultural ministries, the tendency to blur economic and environmental objectives, the principle of paying only for costs incurred and profit foregone and other attributes of an agricultural fund. However, clearly it would not be free of constraints. For example, to justify the use of EU funds it would almost certainly need to have a clear focus on EU objectives, especially quantified objectives, and corresponding national and/or regional targets on biodiversity, climate and soil. Those interventions and actions eligible for funding should also benefit other environmental objectives and targets (or avoid compromising them at least) established under EU water and air quality policies.

In terms of designing the schemes aimed at farmers and land managers, payment levels could be fixed according to various levels of ambition, as in the current CAP interventions. Given the value of influencing land management on a sufficient scale, additional incentives to encourage group and landscape scale schemes beyond the boundaries of individual farms are likely to be needed.

With respect to the sharing of costs, a co-funding approach, with some contribution from national and regional authorities alongside that from the EU fund, as in Pillar II of the CAP, would be one model. This might be politically attractive to those Member States that are net contributors to the EU budget. However, on this and other models there would be scope for varying the level of EU contribution with respect to cohesion criteria to increase the level of participation in less affluent Member States.

On the other hand, given the overall goal of increasing sustainability, the possible environmental consequences of the separation of funds need to be carefully considered. There would be fewer farmers receiving direct payments and subject to GAEC⁶ rules and other forms of 'conditionality'. Conditionality could be removed altogether as a condition of CAP support introducing new environmental risks, the scale of which is difficult to gauge. In principle, binding minimum standards could be introduced at either Member State or EU level to compensate for the loss of cross-compliance but this might be difficult to negotiate if direct payments are being phased out with negative impacts on farm income, as experienced during such a transition in England (see the third briefing of this series). Further, establishing a new fund would involve a learning period which could delay action on the ground. This would have to be weighed up against the likelihood of achieving a significant change within the existing policy architecture (i.e., the CAP), and the ability to mitigate this risk, such as building up capacity already in the lead up to 2027 and shifting resources from agricultural to environmental authorities.

Finally, given the magnitude of change involved and the need for preparation at Member State level in particular, a period of transition would be required. If a new fund was created in time to be launched in 2028 it might not be fully operational until the mid-2030s, which underlines the importance of launching this debate ahead of the next MFF if any new fund is to have serious impact in the crucial decade of the 2030s.

What would remain of the Common Agricultural Policy?

One of the challenges that would be encountered in establishing a separate fund (or funds), is the question of coherence between a separate fund and what might remain of the CAP, where there would still be a need for baseline sustainability conditions and safeguards. Several functions of the existing CAP would continue to be needed in this scenario. These might be expected to include market stabilisation, crisis management, the setting of certain standards, trade arrangements and policies, rural development, farm productivity improvement, research and development etc. Concerning the model put forward here, an ongoing but more targeted element of income support for lower income farmers and regions within the EU could be included in the CAP (although not necessarily in Pillar I), most likely in the form of direct payments. The scale of spending on income support would be expected to decline over time as the budget diminishes and a sizeable share of expenditure is transferred to a new environmental services fund or other rural development measures.

⁶ Good Agricultural and Environmental Conditions, mandatory for receiving CAP direct payments.

Conclusion

Now is the right time to start thinking as to how the post 2027 MFF can be moulded to help support the transition to and maintenance of environmental land management. There is a clear need to step up both the quality and quantity of spending dedicated to these aims. It is timely to consider whether, given the disappointing delivery to date where most spending has been channelled via the CAP, establishing a separate and standalone fund for environmental land management would be better able to deliver the goals, even if in many cases the final recipients would de facto be the same. There are several compelling reasons in favour of such a reform, but as outlined, some potential drawbacks or risks would have to be considered in further contemplation of this option and further assessing its impacts.

The **Institute for European Environmental Policy** (IEEP) is a sustainability think tank with offices in Brussels and London. As a not-for-profit research organisation with over 40-years of experience, we are committed to advancing evidence-based and impact-driven sustainability policy across the EU and the world.

