Report

Realigning selected CAP payment schemes towards sustainable agriculture

Exploring options, benefits and risks

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AUTHORS

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CORRESPONDING AUTHORS

David Baldock (dbaldock@ieep.eu) and Melanie Muro (mmuro@ieep.eu)

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IEEP AISBL office
Rue Joseph II 36-38,
1000 Brussels, Belgium
Tel: +32 (0) 2738 7482

IEEP AISBL - UK registered address
Acre House 11/15, William Road
London NW1 3ER

CONTENTS

Executive Summary **1**
1. Introduction **3**
1.1 Defining 'realignment' 3
1.2 Realignment and the CAP 4
2. The CAP and its support schemes **7**
3. CAP Support Schemes and realignement options **13**
3.1 Basic Income Support 14
3.2 Coupled payments 20
3.3 Investment aid measures 26
3.4 Payments for farming in Areas of Natural Constraint 31
4. Next steps in taking forward the CAP **37**
5. Conclusions **39**
6. References **41**
7. Annex **46**

EXECUTIVE SUMMARY

As the EU moves toward the next reform of the Common Agricultural Policy (CAP) for the 2028–2034 programming period, questions around the effectiveness, fairness, and environmental impact of current CAP payments are growing in urgency. This report assesses how four key CAP payment schemes—Basic Income Support, Coupled Income Support, Investment Aid, and Payments for Areas of Natural Constraint—can be realigned to better support key EU environmental goals, including climate mitigation, and more resilient and sustainable EU farming systems.

The current generation of CAP payments often fails to deliver strong environmental benefits or income support where it is most needed. Basic Income Support remains broadly distributed based on land area, disproportionately benefitting larger farms and doing little to target low-income or environmentally beneficial systems. Coupled Income Support remains heavily concentrated in livestock sectors, particularly cattle, with weak links to sustainability outcomes and, in some cases, unintended reinforcement of emissions-intensive practices.

Investment aid, while a potentially powerful tool for transformation, is largely skewed toward productivity-enhancing investments, with relatively little funding allocated to environmentally driven or significantly climate-positive transitions. Similarly, payments dedicated for farms in "Areas with Natural Constraints" - a category covering over half of all EU farmed land) intended to support farming in disadvantaged areas - are widely dispersed, often without clear environmental or socio-economic targeting. In many cases, these schemes absorb substantial CAP resources without generating a commensurate return in public goods or long-term resilience.

The need to address fundamental sustainability challenges, including significantly reducing the level of GHG emissions from the agriculture sector, will not diminish, whatever policy mix is selected for the 2028-2034 period. However, now is the time to focus on how support policies within the CAP umbrella might contribute substantially more than they do today.

Against this backdrop, the report explores two broad approaches to reform.

1. **Remove & reinvest**

    - Gradually phase out untargeted or environmentally counterproductive payments.

- Reallocate funding to better targeted alternatives such as agri-environment schemes with clear sustainability outcomes, including result-based payments and targeted income support for vulnerable farms.

2. Redesign

Options depend on the current scheme design and related conditions but include

- Introduce stronger environmental criteria and targeting within existing schemes and more focused forms of conditionality.
- Restrict eligibility to more precisely selected farms or regions, reflecting demonstrable need or clear potential for enhancing sustainability and environmental benefit.

In addition, national and regional administrations in the Member States are able to use the discretion available to them under present and likely future CAP rules to shift budgets toward better-performing support policies.

Both approaches emphasise the importance of improving scheme design, alongside investing in the necessary administrative capacity, and accessible and supportive advisory services. They also recognise the need to balance ambition with practical delivery, taking into account the particular needs of different areas in Europe, including those with limited administrative resources or farming systems under particular economic pressure. Ensuring a just transition must be a priority, with targeted support for farmers as they adapt to more sustainable agricultural practices, particularly those in economically disadvantaged or environmentally sensitive areas.

While major structural reform will require changes at the EU level, Member States already have room to act. Modifications to national CAP Strategic Plans before 2027 offer immediate opportunities to pilot or scale more targeted approaches. At the same time, national authorities are in a critical position to shape the direction of the next CAP by engaging in the early design of future schemes and funding models.

This report offers a foundation for such efforts. It aims to support policymakers and agricultural administrations in considering some of the key objectives that policy will need to help deliver, identifying viable realignment strategies, anticipating implementation challenges, and building consensus for a more strategic and sustainability-oriented CAP.

1. INTRODUCTION

This paper is intended as a non-technical introduction to a topic that is relevant to the long running debate about the future of agricultural policy in the EU. That future will be in the spotlight over the next two years as the proposals for the next phase of the Common Agricultural Policy post 2027 emerge, are scrutinised, modified and then adopted, with the resulting schemes running to 2034.

The topic is how to better align the current generation of support schemes for the agricultural sector with the EU's longer-term environmental and climate objectives. The result would be a much sharper focus on the development and maintenance of more environmentally sustainable forms of farming than is now the case. Aligned agricultural support schemes would aim to contribute to more resilient and well adapted forms of production and rural land use, to lower greenhouse gas emissions and to the halting and reversal of the decline of nature. Moreover, as agriculture is particularly vulnerable to the impacts of climate change and biodiversity loss, resilience will be a major priority.

The support schemes within the EU Common Agricultural Policy (CAP) are a leading example of where greater alignment could take place, not least because they influence farming practice in 27 countries and command a large budget in doing so. Notably, the EU agricultural budget amounts to EUR387 billion over 2021-27 (Bradley and Pagnon, 2023). These schemes are the main subject of this report, which is intended as an introduction to the subject, reasonably accessible to those who are not specialists in either agricultural policies or the CAP. This has entailed some simplification and generalisation in outlining the policies themselves and how they might change. The intention of the report is to provide signposts to the types of changes that could constitute "re-alignment" for an audience who are not engaged day to day in the CAP. It is not intended as a developed policy analysis of the kind that would be needed to elaborate the various alternative options sketched solely in outline here.

1.1 Defining 'realignment'

The realignment of agricultural support policies is understood as the process of altering or phasing out those measures that produce negligible or negative outcomes from the perspective of environmental sustainability and the reallocation of the financial support to existing or new types of payments that deliver the desired sustainability benefits. Alternatively, it can involve altering the impact of schemes that are retained via a significant revision of the criteria or mechanisms for receiving the support) (FAO, UNDP and UNEP, 2021). Environmental sustainability is the main concern addressed in this paper but the

need to deliver on economic and social sustainability is recognised as equally important. Agriculture must be viable in all three dimensions.

Voices advocating policy reform in this direction are not confined to environmental organisations and include international fora. In 2022, OECD Agriculture Ministers pledged to intensify efforts to reform or reorient agricultural policy, particularly by addressing support measures harmful to the environment (OECD 2022). This call that was reiterated in their most recent Agricultural Policy Monitoring and Evaluation Report (OECD, 2024). At the global level, countries also committed under the Global Biodiversity Framework's Target 18 to reduce incentives harmful for biodiversity[1].

Similarly, the FAO emphasises the need to address the hidden costs of current agri-food systems—such as productivity losses, diseases linked to unhealthy diets, environmental degradation, and climate change effects caused by nitrogen and greenhouse gas emissions, as well as social issues like undernourishment and poverty. These challenges, they argue, highlight the importance of redirecting public support to promote the production and consumption of healthy diets that benefit both people and our ecosystems (FAO, 2023).

1.2 Realignment and the CAP

It is widely acknowledged that environmental sustainability requires greater attention in EU agricultural policy. This emerged recently in the conclusions of the "Strategic Dialogue" process bringing together around 30 leading stakeholders from within and beyond the agriculture and agri-food sector in Europe. All, including COPA-COGECA and leading green NGOs, ultimately signed a document sketching a direction of travel, including a fairer deal for farmers, more payments for ecosystem services, a potential new fund for transition in agriculture[2], aid for generational renewal and the need to at least think further about the issues surrounding livestock production in Europe (Strategic Dialogue on the future of EU agriculture, 2024).

It was also visible in the speech delivered by the new European Commissioner for agriculture and food Christophe Hansen, during his December address to the high

[1] The Kunming-Montreal Global Biodiversity Framework (GBF), adopted at COP 15 for the Convention on Biological Diversity, includes four long-term goals for 2050 and 23 targets to be met by 2030. For more information see: https://www.cbd.int/gbf/targets.

[2] The arguments for such a fund and some on the issues involved are explored in a recent short report published by IEEP and Concito under the title "Bridging the Gap" https://ieep.eu/publications/bridging-the-gap-why-the-eu-needs-a-just-transition-funding-mechanism-for-agriculture/

level annual "Outlook" conference in Brussels in December 2024[3]. *"Climate change and biodiversity collapse are certainly very important challenges that our farming community wants to address […] because they are not only the first victims, but they are also our best defence against changing climate […]. We need to get it right […] go towards incentives and not just top-down figures."*

Most independent analysts do not consider that the present support policies for agriculture adopted by EU Member States (MS) under the CAP are either the most effective or the most efficient way to establish more environmentally sustainable agriculture in the EU. Critical voices have long assessed the CAP as ineffective in delivering on sustainability (e.g. Pe'er et al, 2019), particularly highlighting, inter alia, area-based income and coupled income support and investment aid as contributing to environmental pressures such as the intensification of livestock farming and the continued maintenance of high input conventional crop production (WWF European Policy Office 2024).

A recent in-depth assessment by the EU's Court of Auditors (ECA, 2024a) of the CAP's contribution to meeting the EU's environment and climate objectives for the current period up to 2027 concluded that, although the policy architecture of the current CAP provides scope to improve the sector's contribution to established EU environmental goals, this potential is not being realised in practice at a satisfactory scale. There is insufficient environmental ambition in the CAP Strategic Plans prepared by the member states and signed off by the European Commission under tight time pressure. The Court of Auditors offers several reasons for this judgement, starting with the suggestion that the way Member States have translated the CAP's green architecture into their Strategic Plans has had a direct impact on the level of environmental ambition. In practice, many countries made use of the exemptions allowed under the new system of conditionality. Notably, 16 Member States opted to postpone the requirement to protect peatlands and wetlands, as permitted by the CAP Strategic Plans Regulation. Moreover, some Member States failed to fully utilise the potential of the Good Agricultural and Environmental Conditions (GAEC) standards. Voluntary instruments such as eco-schemes and rural development measures often do not lead to changes in farming practices. Overall, the Court found that the final Strategic Plans do not represent a significant increase in environmental ambition compared to the previous CAP programming period (ibid.).

Whilst the current MS CAP strategic plans run until 2027 and the actions required still are incomplete, it is possible to project the potential impact of the schemes

[3] Keynote address by Christophe Hansen, European Commissioner for Agriculture and Food, EU Agri-Food Days, 10 December 2024, Brussels, https://audiovisual.ec.europa.eu/en/video/I-265190

currently in place in broad terms since these are unlikely to change substantially before the end of 2027. Few detailed independent studies of this kind have appeared to date but one undertaken by the Commission funded EU CAP Network under the title of "*Rough estimate of the climate change mitigation potential of the CAP Strategic Plans (EU-18) over the 2023-2027 period*" was published in November 2024 (European Commission, 2024a). This reported a quantitative assessment of the impact of the measures being implemented by 18 member states together accounting for 95% of EU GHG emissions from the agriculture sector. The annual estimated potential of the measures in place was 31 million tonnes of carbon dioxide equivalent (Mt CO2eq) of which 9MtCO2eq represented reductions in GHG emissions from the sector and 22MtCO2eq enhanced carbon sequestration, principally in arable soils. The small scale of this contribution can be gauged from the fact that it corresponds to only 2.6% of the agriculture sector's reported emissions to the United Nations Framework Convention on Climate Change (UNFCCC) in 2021 in the member states concerned and to 10.9 % of the reported removals from the Land Use, Land Use Change and Forestry (LULUCF) sector.

An independent review of the CAP undertaken by the OECD, published in 2023 made several recommendations for the next overhaul of the CAP. One of the first of these was concerned with the payment schemes at the heart of the CAP, proposing *"Further redesign CAP payments into separate measures targeted at income support and environmental sustainability and align the CAP expenditures with environmental and climate priorities. Introduce specific mechanisms to incentivise performance by MS, reduce total spending on decoupled income payments and phase out coupled support"* (OECD 2023).

The Commission's *"Vision for Agriculture and Food: Shaping together an attractive farming & agri-food sector for future generations"*, a Communication published in February 2025 to build on the recommendations put forward by the 'Strategic Dialogue' (European Commission, 2025) signals that better targeting and realignment of CAP payments is now firmly on the table. It outlines a future where support is increasingly directed toward active farmers, particularly small and medium-sized holdings, young entrants, and those in constrained regions, while making payments more accessible, outcome-oriented and better aligned with sustainability objectives.

Against this background, this paper explores what a realignment of CAP payment schemes along such lines might mean. It begins with a condensed overview of the policies in place in the current CAP and then focuses on a subset of four support schemes of particular interest from the viewpoint of their impact on sustainability objectives. In each case the arguments for "realigning" these

schemes are considered briefly and broad realignment options for each type of scheme are explored. Some of the advantages and drawbacks of these options are flagged but not elaborated. Realignment is not always understood in exactly the same way by those using the term, but the simplifying assumption made here is that total expenditure levels on agricultural support would remain about the same as now, but the purpose and design of schemes would change.

2. THE CAP AND ITS SUPPORT SCHEMES

The Common Agricultural Policy was established early in the history of what is now the European Union and built on objectives set out in the founding Treaty of Rome. Central to the CAP is a portfolio of different schemes whereby EU funding is channelled to support the agriculture sector in a number of different ways, with a portion of the funds allocated to other rural development activities and, on a limited scale, to forestry. By 2022 its share of the overall EU budget was still substantial but had fallen from previously higher levels to around 23.5 % (DG AGRI, 2024).

The EU budget (the Multiannual Financial Framework, MFF) is re-negotiated every 7 years and the CAP, as a leading component of this, is subject to review on a 7-year cycle too. Over time the policies pursued within the CAP have evolved considerably, through a sequence of regular reforms in parallel with a major expansion both in the number of EU Member States and in the scale of production. Although CAP reforms often are considered to introduce only incremental changes, there can be substantive innovations and shifts in course. For example, milk quotas were introduced in 1984, becoming one of the hallmarks of the CAP, but were removed in 2015.

Initially, the CAP provided direct support for the price of key agricultural products to help incentivise production, before regular surpluses of several products and associated export subsidies and storage costs drove a change in policy towards a 'coupled support' system under which farmers received payments from the CAP linked to the production of specific products. However, even though coupled income support measures still exist in the current CAP, the majority of the payments are now 'decoupled' from production, in order to reduce market and trade distortions and increase market orientation in the sector.

Today, the CAP is concerned primarily with support mechanisms for EU agriculture and exists alongside EU legislation related to the production and distribution of agricultural products (covering amongst other issues food safety, use of pesticides, regulation of unfair trading practices). There is interplay with both trade and environmental policies, both of which impact considerably on the

agricultural sector. For example, there is tariff protection against imports for several key commodities such as beef and a body of EU environmental law seeking to control pollution, protect nature and improve resource efficiency that impact on agricultural practice in all MS.

The current key CAP Regulation (2021/2115)[4] sets out the rules for expenditure and for many specific schemes for the period 2023-2027[5]. It establishes a 'new delivery model', governing how the process of agreeing expenditure on different agricultural policies by individual MS over the period works[6]. This gives the MS increased flexibility on the measures they use relative to the system in the past, within national CAP budgets that are pre-determined for each MS in a prior negotiation over the allocation of the overall EU budget. The Regulation sets out a group of nine specific and one cross-cutting objective for the CAP[7], the broad types of support schemes and other policy interventions that MS are permitted to use and the minimum requirements applicable to farmers who receive CAP payments. For the first time, Member States are obliged to develop national CAP Strategic Plans (CSPs) for the period; funds are not released until these are approved by the Commission at the start of the period.

The plans detail how Member States intend to meet the CAP's as well as other relevant EU policy objectives and targets, including those set out by certain key environmental and climate policies and their planning tools[8]. Both a SWOT analysis and prioritisation of needs undertaken by national authorities are required and seen as essential building blocks of the CSPs: in principle they provide the rationale for the intervention logic of the schemes and associated funding plans in the CSPs.

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[4] Regulation (EU) 2021/2115 of the European Parliament and of the Council of 2 December 2021 establishing rules on support for strategic plans to be drawn up by Member States under the common agricultural policy (CAP Strategic Plans) and financed by the European Agricultural Guarantee Fund (EAGF) and by the European Agricultural Fund for Rural Development (EAFRD) and repealing Regulations (EU) No 1305/2013 and (EU) No 1307/2013

[5] This is a shorter period than usual, only five years, because of a delayed start.

[6] The current version of the CAP did not come into operation until 2023 due to delays that do not occur normally. Consequently, it covers a period of only 5 rather than the usual 7 years.

[7] 1) to ensure a fair income for farmers, 2) to increase competitiveness, 3) to improve the position of farmers in the food chain, 4) climate change action, 5) environmental care, 6) to preserve landscapes and biodiversity, 7) to support generational renewal, 8) vibrant rural areas, 9) to protect food and health quality, and 10) to foster knowledge and innovation.

[8] A list of environment and climate legislation to be taken into account by national authorities when developing the CSPs is listed in Annex XI of the CAP Regulation.

Agreed schemes providing funding to the agricultural sector are partly or wholly financed through two EU funds: the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD). The seven-year budget dedicated to the CAP under the current Multiannual Financial Framework is EUR 386.6 billion, with EUR 291.1 billion for the EAGF (75.2%) and 95.5 billion euros for the EAFRD (24.8%). The former provides funding for a central group of payments to farmers known as 'direct payments' and also funds policies that offer market support of various kinds including support to specific production sectors (e.g. fruit and vegetables, wine and olive oil) and corresponds to what was known as "Pillar I" under the previous CAPs[9]. The direct payment measures adopted by Member States in their CSPs are 100% funded by the EAGF, which means that there is no MS co-financing.

The EAFRD finances a second group of policies that contribute to what are known as rural development objectives, often referred to as "Pillar 2" measures. Member States generally can choose which of a set of different measures that they apply in their territories but are required to offer an agri-environment-climate scheme. Nearly all MS operate a scheme providing payments for farmers in areas that have been designated as subject to disadvantage in production terms, including mountain and hill land. Unlike the EAGF, the measures funded by the EAFRD are generally multi-annual and (for the most part) co-financed by Member States, at variable rates.

Within certain limits MS can move their budgetary allocation between the two funds and some do so. An element of budget ring-fencing applies and works to favour broadly environmental schemes. Within the EAGF/Pillar1 budgetary envelope, MS must devote at least 25% of the total to agri-environment-climate schemes eg the "eco schemes" now in this wing of the CAP. In the EAFRD/Pillar 2, the allocation must be at least 35%.

[9] Now the two CAP funds are under the same Regulation, the Commission prefers to speak of 'funds' rather than 'pillars', but the terms Pillar 1 and Pillar II are still frequently used in CAP policy discussions.

Table 1. Summary of the key payment schemes supported by EAGF and EAFRD*

EAGF	EAFRD
Decoupled direct payments: Basic Income Support for Sustainability (BISS): *Decoupled payment based on the number of eligible hectares on a farm, with a (declining) number of environmental conditions. This measure absorbs the largest share of CAP expenditure.* Complementary Redistributive Income Support (CRISS): *A second, complementary, form of basic direct payments, which is based on farm area, like BISS but more skewed towards medium and smaller sizes of farm. Major variations between MS.* Young Farmers income support: *payments for young farmers to help them to start farming. These can be annual payments based on the size of their land or one-time lump sums.* **Eco-schemes**: *Voluntary schemes that reward farmers who adopt practices that benefit the environment or help address climate change or raise farm animal welfare standards above the legal minimum.* ***Coupled direct payments:*** Coupled income support (CIS): Most *Member States run schemes that offer payments directly attached to levels of production (eg number of cows)on farms in sectors that they judge important for the economy or environment but are facing challenges.* Crop-specific payment for cotton: *Farmers in Bulgaria, Greece, Portugal, and Spain can get payments for growing cotton on eligible land.* ***Sectoral interventions:*** *Payments to support specific sectors like fruits and vegetables, wine, honey production, hops, and olive oil. These payments cover a range of aids including support for new investment costs.*	***Rural Development:*** Environment, climate and animal welfare schemes (including aid for organic farms): *Payments for farmers who voluntarily adopt or maintain practices that help with climate change, protect natural resources, preserve biodiversity or involve farm animal welfare practices more beneficial than required by legislation.* Investment aid measures: *Support for investments in a wide range of assets, predominantly on farms, including buildings and equipment, that contribute to one or more of the specific objectives of the CAP.* Areas of natural constraints payments (ANC): *Payments to farms in areas that are relatively difficult to farm, like mountains or regions with poor soil or extreme weather conditions (amounting to about half of the whole farmed area in the EU).* Cooperation measures: *Payments to incentivise collaboration, such as creating cooperatives or working together across different parts of the supply chain.* Knowledge exchange: *Support for advisory services to help farmers adopt more productive and sustainable practices and share information.* New/young farmers and rural business start-ups: *Additional support can be provided by MS to young farmers and people starting rural businesses, including helping them set up new farms.* Risk management tools*: Support for farm or crop related insurance programmes to protect producers against risks like extreme weather, disease, or pest infestations.* Compensation for disadvantages due to certain mandatory requirements: A scheme used by some MS to compensate *farmers for the costs they incur when they have to comply with specific environmental regulations* . *Aid for afforestation and forest management*

*See Figure 1 below for relevant Article numbers in CAP regulation 2021/2115.

Table 1 above shows most of the most widely used types of payment schemes supported by the EAGF and the EAFRD but is not comprehensive. The level of expenditure on these schemes varies considerably, with a few dominating

expenditures, as shown in Figure 1. There are also significant variations between Member States, reflecting their various priorities and attributes.

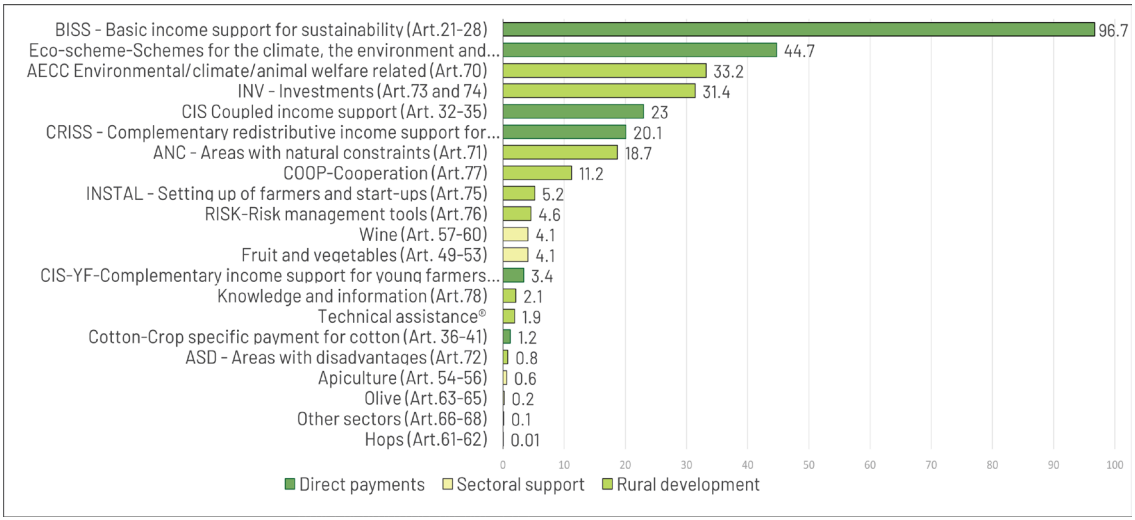
By far the largest share of CAP expenditure goes to 'Basic Income Support for Sustainability' (BISS), per-hectare direct income payments funded by the EAGF. As shown in Figure 1, this represents EUR 96.7 billion for the 2023-2027 period, which accounts for just under 25% of the CAP budget. This policy is compulsory for Member States to apply and payments are accessible to all farmers with land meeting fairly basic eligibility rules. Alongside this, the Complementary Redistributive Income Support for Sustainability (CRISS), which is closely related to BISS, but targeted in a way less favourable to the largest farms, accounts for a further EUR 20.1 billion. Other different categories of direct payment measures also get sizeable financial allocations, notably Coupled Income Support (CIS) amounting to EUR 23 billion and Eco-schemes (EUR 44.7 billion).

Eco-schemes are new for the current CAP and provide payments to farmers for adopting practices linked to either the CAP's environmental objectives and/or to animal welfare objectives involving agreement by the farmers receiving the payments to meet requirements beyond the compulsory minimum. There is a common EU wide list of actions by farmers that can be incentivised by the payments. With some exceptions[10], Member States must dedicate at least 25% of their direct payments budget to them, but they are voluntary for farmers.

Investment aid and environmental/climate/animal welfare measures are the EAFRD funded schemes with the greatest financial allocations, representing respectively EUR 31.4 and 33.2 billion for the 2023-2027 period (including national co-financing since they are only partially funded by the CAP).

[10] For example, in the first two years, 2023 and 2024, classified as a learning period, a lower level of expenditure arising from a limited initial take up by farmers can be acceptable to the Commission but should be compensated for later.

Figure 1. Planned expenditure from Member States' CAP Strategic Plans by category of scheme 2023-2027, including national co-financing, (in EUR billion)



Source: DG AGRI, 2023a

Most CAP beneficiaries are subject to conditions in return for receiving payments, a requirement known as 'conditionality'. A new conditionality system was adopted for the current CAP; replacing the former system of cross-compliance. In order to receive payments, in principle farmers must meet a set of specified legal requirements, the so-called 'Statutory Management Requirements' (SMR), established by EU legislation on animal welfare, environment and public, animal and plant health. In addition, their operations must comply with a set of 'Good Agricultural and Environmental Conditions' (GAEC), which pursue multiple objectives, such as maintaining a stable area of permanent grassland, protecting soil with relevant practices and protecting biodiversity (rules recently weakened, as discussed below).

Compliance with these conditionality requirements by farmers receiving the associated payments has to be controlled by the MS authorities, notably through on-the-spot checks carried out by the administration or through digital tools such as the integrated administration and control system (IACS). In case of non-compliance, payments may be reduced[11]. However, since the adoption of the CAP "Simplification package"[12] in 2024, many of these GAEC standards have been

[11] For further information on the application of penalties in practice, see ECA 2024b

[12] REGULATION (EU) 2024/1468 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 May 2024 amending Regulations (EU) 2021/2115 and (EU) 2021/2116 as regards good agricultural and environmental condition standards, schemes for climate, environment and animal welfare, amendment of the CAP Strategic Plans, review of the CAP Strategic Plans and exemptions from controls and penalties.

weakened, and farms of less than 10ha of agricultural area are exempted from control and penalties, while the number of visits that have to be made to farms by national inspectors has been reduced by 50%[13]. A further reduction in requirements on farmers, including some concerned with environmental conditions attached to payments, is expected during 2025 as part of the push for "simplification". Previous changes have reduced the extent to which conditionality can be considered a policy lever to raise environmental standards on farms and this trend seems very likely to be continued. The outlook is for greater reliance on incentives to encourage farmers to reach higher environmental standards rather than more regulatory approaches such as conditionality.

3. CAP SUPPORT SCHEMES AND REALIGNEMENT OPTIONS

Over time there has been a significant growth in the portion of the CAP budget that has been devoted to schemes with wholly or partly environmental objectives, at least on paper. These include a range of agri-environment and related schemes within the second pillar of the CAP and the much newer "eco-schemes", involving one-year contracts with farmers agreeing to follow practices deemed beneficial for the environment or farm animal welfare, which are in Pillar 1 of the CAP, as outlined above. This growth in the more environmentally focused component of the CAP is a significant step forward from a sustainability perspective. However, it is important to recognise the schemes vary greatly in their initial ambition, the extent to which they seek any significant departure from business as usual in farming practice and the rigour with which they are implemented so their environmental added value varies from very little to rather substantial. Many schemes have some shortcomings in terms of ambitions and performance (Midler et al, 2023; Nadeu and Godfroy, 2024, ECA, 2024a). However, as a recent European Court of Auditors' report (ECA, 2024a) concludes, these types of schemes make it possible for MS to have greater environmental and climate ambition in the implementation of the CAP, although this potential often is not effectively exploited in practice.

The implementation of the current CAP, the schemes it funds, and the accompanying rules only started in January 2023, rather than in 2021 as would

[13] In a farmers' consultation survey conducted by the European Commission in February 2024 which received 26 886 replies, more than 60% of the surveyed farmers declared that they had one or no on-site checks during the last three years. For details see https://agriculture.ec.europa.eu/consultations-eu-initiatives-agriculture-and-rural-development/farmers-consultation-simplification_en

normally be the case. Hence, evidence of the effects on the ground of the most recent batch of policies (including those selected for closer scrutiny in this paper) is limited. Most of the critical assessments of these latest measures published to date draw from reviews of the Member States' CSPs, which were published early in the current spending period. While these are important and can provide valuable, analysis, as in those quoted in Section 2.1, they are prospective rather than evaluations of impacts on the ground. The analysis of scheme impact presented in this paper therefore mostly reports evidence from studies covering previous seven-year programming periods. However, while the CAP framework, the payment schemes themselves and many of the conditions attached to them have evolved over time, the basic design and mechanisms of the support schemes covered here have not substantially changed.

This section briefly describes the objectives of, and conditions attached to the four types of support schemes covered by our analysis. For each payment scheme, we summarise the main environmental effects reported in the literature and identify realignment options with the aim of increasing their effectiveness for achieving environmental and climate objectives. Some potential objections to changes of this kind are highlighted briefly and possible remedies and responses signalled too.

It is worth noting that certain changes to schemes discussed here could be made by MS within the framework of the current CAP, using the discretion available to them under current legislation, while others would require changes in the CAP regulations.

3.1 Basic Income Support

Active farmers[14] in the EU can apply to receive annual payments, known as Basic Income Support for Sustainability (BISS), for each hectare of land within their holding used for agricultural activities. Nearly all do so. The support is paid as a uniform amount[15] with significant regional differences ranging from EUR 67/ha in Czechia to EUR 638/ha in Malta; the average for the EU-27 is EUR 134/ha (DG

[14] Article 4 of the CSP Regulation requires MS to define who they consider to be an 'active farmer' and thus eligible for receiving CAP payments. Definitions should "ensure that support is granted only to natural or legal persons, or to groups of natural or legal persons, engaged in at least a minimum level of agricultural activity, while not necessarily precluding the granting of support to pluri-active or part-time farmers".

[15] Member States can differentiate the amount of BISS per hectare amongst different groups of territories faced with similar socio-economic or agronomic conditions; this option is currently applied by Belgium, Greece, Spain and Portugal (DG AGRI et al 2023b).

AGRI 2023b)[16]. Since payments are not tied to a specific type or level of production or the income needs of a farm or farming family and are determined solely by the area of land controlled by a farmer, bigger farms absorb a larger share of the available funds than smaller ones as illustrated by Commission analyses covering the financial year 2021 (see Table 2).

Table 2. Distribution of direct payments among beneficiaries for the financial year 2021

Farm size class	% of Beneficiaries	% Area	% Direct Payments
<=5 ha	48.9%	4.9%	5.8%
5-250 ha	50.0%	68.7%	72.1%
>250 ha	1.1%	26.4%	22.1%

Source: DG AGRI, 2023c

These payments are broadly directed at farm income support, but they are not distributed in such a way as to favour those on lower incomes or even low incomes from farming. Analyses of direct payments during the 2014-2020 CAP programming period by Scown et al (2020) showed that average farm incomes in 65% of EU regions were at or above the 2015 EU median, but that most agricultural jobs were in the lowest-paid regions. The authors further show that payments to the richer farming regions brought them further above the EU median income, on average, while CAP payments to the poorest 40% of regions were not sufficient to make farm income reach the EU median disposable income. They concluded that the system of direct payments increases income inequality within agriculture (exacerbating income differences between rich and poor farmers), so the need to support farm incomes in farming regions where incomes already are above the EU median income across sectors must be questioned (see also Buckwell et al, 2017, ECA, 2019).

Policy variations designed to limit the scale of area-based payments to larger farms and redirect them to small and mid-sized operations, such as modulation, capping, degressivity, and redistributive payments, have been introduced through various iterations of the CAP but have not led to any meaningful changes in the distribution to date (Matthews, 2023).

Perhaps the most significant recent initiative to modify the way this support is distributed between farms is via the Complementary redistributive income support for sustainability (CRISS), outlined in Table 1, which became compulsory for MS in the current CAP period, with exceptions for Denmark and Malta. There is a requirement, again subject to some exceptions, that MS must allocate at least

[16] The reported figures are based on the rates provided in the CAP Strategic Plans approved by the Commission services (first version) by the end of 2022.

10% of their EAGF budget to the CRISS scheme. In essence this results in MS providing those farms with below a certain area of farmland with payments per hectare at a higher rate than the uniform rate paid under BISS, bringing about some re-distribution, varying greatly according to the rules adopted in the different MS. CRISS payments cover about 53% of the total supported area according to one recent independent analysis (Laroche-Dupraz et al, 2023). However, the authors point out that the size threshold below which CRISS payments are in principle targeted varies greatly between different parts of the EU and while the scheme does redistribute a portion of income support from larger to smaller farms in terms of their land area in practice CRISS payments are still far from being exclusively targeted at the smallest farms. Furthermore, the budget for CRISS is approximately a quarter of that allocated to BISS.

Simply put, direct payments allow larger farmers and landowners to access public funds without having to meet any substantive requirements beyond the limited and diminishing rules constituting "conditionality", as described above. Scown et al (2020) estimate that 24.2 billion of CAP income support for the period 2014 – 2020 failed to reach regions in clear need of income assistance, and that only a small portion went to regions performing well in terms of environmental goals. For instance, during the timeframe covered, CAP income support payments were 1.5 times higher in farming regions with the highest greenhouse gas emissions compared to those with the lowest emissions, with much of this support in high-emission areas going to regions with high farm incomes. Similarly, almost 58% of income support payments to wealthier farming regions were directed to the 40% most intensively managed areas (measured as those with the least area of High Nature Value farmland[17]).

While there is a system of conditionality in place, as noted above, requiring those receiving direct payments to comply with a range of European rules (such as those governing ear tags for livestock), with associated penalties for non-compliance, its efficacy depends on the frequency and thoroughness of inspections at farm level and the quality of enforcement on the ground.

There are mixed views about the extent to which the environmental and animal welfare part of these rules i.e. the Good Agricultural and Environmental

[17] High Nature Value farmland is typically characterised by a combination of low intensity land use, the presence of semi-natural vegetation and unfarmed features and a diversity of land cover and land uses. For further information see European Commission: Directorate-General for Environment, Tucker, G., Jones, G., Beaufoy, G. and Keenleyside, C., *High nature value farming throughout EU-27 and its financial support under the CAP – Final report*, Publications Office, 2014, https://data.europa.eu/doi/10.2779/91086

Conditions (GAECs), which MS are required to further specify and adapt to their context, do have a significant impact at farm level. On the one hand farming organisations have been protesting that they are burdensome and some impose costs that are resented, leading to the Commission's decision to roll back several of them.[18] On the other hand their implementation has been criticised as being too weak, and unambitious and as essentially maintaining the status-quo (ECA, 2024a). For example, GAEC 7 mandates that Member States establish rules for annual crop rotations. However, many Member States, often citing profitability concerns and the lack of market demand for alternative crops, opted to require beneficiaries to change their main crop only every three years or annually on only a portion of their agricultural land. Additionally, 16 Member States delayed implementing the requirement to protect peatlands and wetlands (GAEC 2) until 2024 or 2025, due to incomplete mapping of these areas at the time of the drafting of their national CSPs. Those following this path include Ireland and Poland, the largest emitters of greenhouse gases from peatlands (ibid.)

Requirements on farmers receiving these payments were further weakened by the" simplification" package adopted by the EU in spring 2024 following farmer protests over the winter. As noted above, this introduced multiple exceptions to the GAEC requirements, which weakened them to a great extent (ECA, 2024a)[19].

Realignment options, benefits and risks

Against this background, at least two broad realignment options can be envisaged, summarised here alongside a brief signposting of some of the major potential drawbacks (or objections to) this way forward as well as potential advantages:

- **Remove & reinvest:** The current CAP direct payments regime rewards those who own or control land (a purely private good) and is not targeted at those farms with lower incomes. By design, it does not provide effective remuneration for providing public goods on farms (e.g., climate mitigation, healthier soils, conservation of biodiversity and landscapes), although these are all areas where significant change is required to meet environmental

[18] GAECs 2,7 and 8 are amongst those that have been perceived as adding costs on at least a proportion of affected farms.

[19] The simplification package was adopted by the EU in 2024 following the protests by farmers around Europe in the previous winter and allowed Member States to adopt specific exemptions from GAECs 5, 6, 7 and 9 when "they are necessary to address specific problems in the application of those standards". These GAECs aim notably to maintain good organic levels in soil, prevent soil erosion and protect landscape features and biodiversity.

objectives. A better use of funds and greater contribution to sustainability balance could be made by moving from general area-based to dedicated agri-environmental schemes that are thematically and spatially targeted including result-based payments where they are appropriate. This could occur over a transition period of, say, approximately seven years for example[20].

To achieve greater gains in sustainability, such schemes would need to be more ambitious in environmental terms than many currently in place, with sufficiently demanding requirements and correspondingly attractive payments to ensure sufficient participation levels by farmers. They would need to be available to as many farmers as possible, so widely accessible. The aim would be to increase the flow of environmental public goods (e.g. protection and restoration of biodiversity and landscape features, cleaner air and water, better soil management, reduced GHG emissions), both on individual farms and at a larger landscape scale. Different types of incentive scheme, including those based on payments by results could be employed, alongside enhanced levels of advice to farmers and effective monitoring of outcomes. The existing efforts to achieve fair prices for farmers and to improve their share of the total revenue generated in the food chain could be intensified to accompany this approach. The larger scale deployment of well-designed schemes would help to build resilience to climate change and to prepare farms for changing market conditions as sustainability standards become more demanding over time.

Within this overall approach, some use of direct payments could be retained in a more targeted and limited form, focusing on farms and regions of particular need. The loss of direct income support would create considerable pressure on farms to find new income sources from the market and other sources as well as from much enhanced environmental payments. This could accelerate the decline in small to medium size and marginal farms, especially in particular farm categories and specific regions where direct payments are a significant portion of their net income/ profit. Rural regions with high agricultural employment and low household incomes would be a particular concern. To counter this, a combination of EU and national measures to protect the most vulnerable farming families would need to be applied,

[20] The length of a transition period would be a matter of negotiation, but a period of seven years would correspond to one cycle of the CAP, the programming period for MS Strategic Plans. It is also broadly in line with several assessments in the literature of the time taken to fully restore profitability after a transition to regenerative farming. For example, one recent study suggested that this might take 3-5 years, see https://www.wbcsd.org/news/farmers-stand-to-see-increase-crop-yields-and-profits/.

potentially utilising an adapted and more targeted form of direct payments as well as other more locally adapted measures.

This formula would lead to a combination of more ambitious and effective environmental schemes with sufficient budgets supplemented by new income support payments precisely directed to a well-defined sub-set of farms with the greatest needs, making greater use of national funds. In order to support these farm-level changes, enhanced aid for new investment would be needed as well and the mobilisation of additional private financing sources to support a process of change would become a higher priority for policy makers. The need to ensure fair prices for farmers and fair treatment within the food chain would remain.

There would be some risks from a major change of this kind. For example, direct payments currently serve as a guarantee for many private lenders, so removing them might make it harder for a range of farms to secure loans or make long-term investments and steps to mitigate this threat might be needed. At the same time, farm diversification and increased entrepreneurialism could provide viable alternative income streams alongside enhanced income from environmental payments. One environmental risk might be that some farms would adopt more intensive methods or damaging increases in scale e.g. increased field sizes, in the absence of income support. Again, financially attractive environmental schemes that reward the delivery of environmental goods and services and appropriate use of regulation could potentially counter such effects.

- **Re-design:** Hectare-based direct payments could be redesigned with stronger, more ambitious basic environmental requirements. To ensure payments reach farms in need of income support, certain farm types/sizes could be excluded from the support scheme. For those farm types/sizes that are included, minimum requirements could be tailored to different types of farming systems and localities, much more so than at present, which might make them more readily implemented by farms and also increase compliance. Impact could be further enhanced by making participation in selected complementary agri-environment schemes mandatory for beneficiaries, which would be a significant change from the current approach. Such a system would, however, impose considerable additional requirements on a proportion of farms if it was to add environmental value. It would require intensified and improved monitoring and enforcement by Member State administrations, leading to an increase in administrative load, although new technologies, such as greater use of remote sensing, could ease some of the burden.

This option would involve pursuing the right balance between sufficient simplicity and workability on the one hand and sufficient environmental ambition and practical added value on the other. Effective communication with farmers and practical guidance in operating within the system would be required. The incentive for farmers to claim for the modified direct payments and accepting the associated conditions would need to be strong enough to avoid a large portion of farms opting out of the scheme entirely and thus disabling what would be intended as a central mechanism for guiding the sector towards greater sustainability. The farming community would need to accept a major change in the nature of the direct payment system and be convinced that the attached conditions were well thought through and reasonable and the payment levels worthwhile even if they did not welcome such a new approach. As with any policy giving MS significant more discretion in setting key rules and payment rates, there would need to be sufficient Commission oversight to prevent excessive differences in farm support systems from arising between countries to the detriment of the EU wide level playing field.

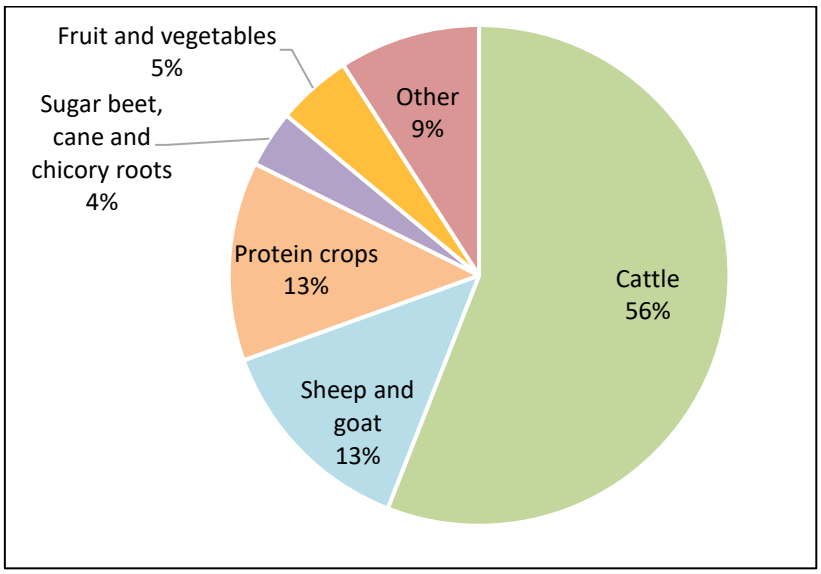
3.2 Coupled payments

Most CAP direct payments are "decoupled" from production, but Member States also have the option to adopt Coupled Income Support (CIS) payments to support production sectors or sub-sectors that they consider to be important for socio-economic or environmental reasons and that they judge to be facing difficulties. Nearly all MS use this option, to varying degrees. According to the CAP rules, these measures may aim to increase the competitiveness, the sustainability or the quality of output of certain sectors[21]. Within an individual MS the level of coupled income support is limited to 13% of the direct payments budget plus an additional 2% for protein crops.

For the 2023-2027 CAP period, all Member States adopted CIS measures, except the Netherlands, covering around 2.1 million (21%) of farms in the EU (DG AGRI 2023a). The total planned financial allocation to CIS for the 2023-2027 period is EUR 23 billion, which is an increase compared to the previous CAP. The share of expenditure went from 10.6% of the first pillar budget under the previous CAP to 12% under the current one (Bradley and Pagnon, 2023).

[21] The following sectors can be eligible for CIS : (a) cereals; (b) oilseeds, protein crops, including legumes; (d) flax; (e) hemp; (f) rice; (g) nuts; (h) starch potatoes; (i) milk and milk products; (j) seeds; (k) sheep meat and goat meat; (l) beef and veal; (m) olive oil and table olives; (n) silk worms; (o) dried fodder; (p) hops; (q) sugar beet, cane and chicory roots; (r) fruit and vegetables; (s) short rotation coppice.

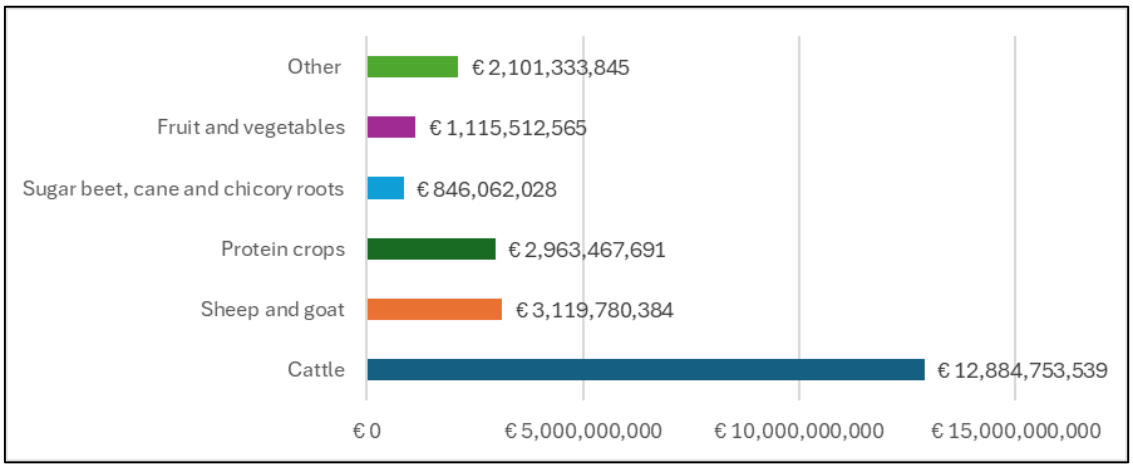
Figure 2. Share of the total EU CIS budget (in %) allocated to different crop and livestock categories for the CAP period 2023 to 2027



Source: Own compilation based on budget allocations reported in the national CSPs (versions approved by the Commission in 2022)

A detailed analysis shows that 69% of the total EU coupled support for the 2023-2027 CAP period is allocated to livestock, of which 55% is reserved for cattle, and around 30% for crops (see Figure 2). This equates to around 16 billion EUR, and 7 billion EUR, respectively (see Figure 3).

Figure 3. Share of the total EU CIS budget (in EUR) allocated to different crop and livestock categories for the CAP period 2023 to 2027



Source: Own compilation based on budget allocations reported in the national CSPs (versions approved by the Commission in 2022)

When adopting such measures, Member States need to justify in their CAP Strategic Plans the difficulties faced by the sector, the long-term aim of the

support, its impact on the internal market, as well as the socio-economic and/or environmental importance of the sector. In practice, most of the CIS interventions aim to increase competitiveness and income for farmers, with only a few interventions linked to CAP environmental and climate objectives. For instance, each of the specific objectives related to environment and climate (SO4-5-6) was only addressed by 2% of the CIS interventions (DG AGRI et al, 2023).

While MS may argue that helping to maintain livestock numbers has environmental benefits in some circumstances at least, critics argue that by providing an additional source of funding for the livestock sector, CIS contributes to the maintenance of livestock numbers above the counterfactual level and so results in an increase in the corresponding environmental footprint, including GHG emissions (Midler and Pagnon 2022) (see Box 1). GHG emissions from livestock, especially from cattle, account for the largest share of overall GHG emissions from the agriculture sector in the EU. Research published by the JRC suggests that on average livestock account for between 67 and 85% of total emissions from the sector, depending on the methodology adopted, the extent to which whole life cycle factors are included and other considerations. (JRC 2010.). The European Commission has suggested that livestock account for about half of all EU methane emissions and about a quarter of ammonia emissions (European Commission 2024b). Some authors argue that coupled payments may even explain some of the increase in herd size on farms in certain regions (e.g., Delattre et al, 2020). While coupled payments for livestock come with conditions such as a maximum number of eligible animals or stocking rates on farms, they are often not stringent enough to prevent large intensive farms from receiving support (Midler et al, 2023).

Finally, there is a debate over the environmental impact of CIS payments for crops like legumes, the increased area of which could be beneficial e.g. for soil health and potentially could reduce inorganic fertiliser use, but on the other hand, the way that crops are grown with support from CIS is not subject to environmental conditions under CIS rules (e.g. no requirement to have limits on the use of pesticides).

Box 1. Coupled Income Support in France

In its recent CAP Strategic Plan France allocated 13% of its direct payments budget - the maximum amount possible - to CIS[22] to 16 sectors[23]. Of these 5.1 billion EUR, 3.95 billion EUR is dedicated to the livestock sector and 1.18 billion EUR is devoted to crop production. The CIS budget allocated to livestock covers three sub-sectors: goats (66 million EUR), sheep (529 million EUR), and cattle, the main beneficiaries of the CIS (3.36 billion EUR). Pigs and poultry are excluded.

The eligibility requirements for farmers entering the scheme for cattle are: i) they need to own at least five cattle units; ii) the cattle must be more than 16 months old and comply with identification rules to be eligible. There are two payment levels: a 'premium' is paid for beef cattle and farmers receive a basic payment for animals producing milk or raised for both dairy and meat production. This CIS payment for cattle is capped at 120 livestock units (LSU)[24] per farm and at 1.4 livestock units per hectare of "forage area", to prevent larger farmers benefitting disproportionally and to encourage relatively extensive farming. The maximum number of livestock units is below that applicable in the previous CAP period, partly to encourage farmers to decrease the number of animals kept. However, given that the 120 LSU limit remains a relatively high ceiling, CIS payments potentially do contribute to keeping livestock levels artificially high (Midler and Pagnon 2022).

Realignment options, benefits and risks

- **Remove & reinvest:** One approach would be to remove CIS eligibility entirely or to restrict it to a much smaller group of farms meeting tighter conditions, switching the funds freed up in this way to a new series of agri-environment schemes which would support appropriate levels of livestock grazing or other forms of management where there was a strong sustainability rationale. More intensive livestock farms would cease to be eligible for CIS support under this model and probably would not be eligible for agri-environment schemes unless they were ready to meet conditions requiring changes in management. Agri-environment schemes would provide a more targeted mechanism for supporting extensive beef herds where these are needed for environmental

[22] Member States can also allocate an extra 2% of their direct payments budget for CIS related to plant-based proteins.

[23] Cattle over 16 months, Sheep, Goats, Veal calves and organic veal calves, Durum wheat, Processed fruit, Starch potatoes, Hops, Hemp, Grass seed, Rice, Small-scale market gardening, Seed legumes, dehydrated fodder legumes or legumes for seed production, Fodder legumes (in lowland and piedmont areas / in mountain areas).

[24] The basic payment is capped at 40 livestock units.

reasons. In some localities there could be a strong case for very targeted support for example where specific production systems are particularly important for environmental and social reasons but where per-hectare payments are not possible (e.g. in extensive pastoral systems grazing common land that is not eligible for per hectare CAP support).

Given that most CIS goes to livestock, removing all (or most) CIS would disproportionately affect this sector. The impact would be felt on a wide range of farms including smaller, less extensive livestock farms receiving CIS. In some localities those who do not receive area-based direct payments (such as pastoralists/ those grazing common land that is not eligible for per hectare CAP support) might be negatively affected, particularly if they were not eligible for alternative agri-environmental schemes. This might lead to a range of responses, including fewer livestock on the farms concerned, diversification, improvements in efficiency, but also in some cases intensification, consolidation of holdings or abandonment of some farm businesses. Much would depend on the extent to which farms would be able to enter alternative agri-environment schemes and find them attractive. Such schemes would be most likely to target more extensive farms, especially those operating on land where grazing is considered vital to maintain grassland and other habitats for biodiversity.

A reduced level of EU livestock production would reduce the EU's agricultural GHG emissions but if production falls and demand is fairly constant it could potentially lead to the displacing of production to non-EU countries. The likely scale of such adjustments is difficult to forecast. However, one study modelling the effect of removing CIS, with various accompanying assumptions, found that about three-quarters of the emissions savings in the EU could be offset by emissions leakage (Jansson et al, 2021). To secure the full GHG emission benefits of any significant reduction of livestock numbers, demand side actions to reduce consumption of meat and or dairy products would be needed.

- **Re-design**: CIS schemes could be modified in various ways, not least by targeting on more specific forms of production, localities and categories of farmer. For example, they could be linked more closely to farms with commitments to meet sustainability targets, such as timebound reductions in GHG emissions or the restoration of grazed habitats by low density grazing regimes that otherwise would not be viable on commercial farms. Conceivably, they could have a role in addressing the problem of excessive livestock production concentrations in certain areas by helping to re-distribute

ruminants to areas where they could play a role in more balanced circular production systems.

Another approach would be to switch the emphasis away from livestock production to focus support more on forms of crop production that are currently underrepresented in European systems because of poor economic returns but would be beneficial for re-balancing agri-food systems within the EU. For example, a greater diversity of less widely grown crops could be beneficial for the establishment of more sustainable crop rotations less dependent on agrichemical inputs. An increase in locally adapted protein crop production for human consumption might form part of a transition strategy to promote the consumption of plant-based products and reduce the share of livestock products in the European diet for reasons of health and environmental sustainability. Increasing thought is being given to the topic of sustainable diets and food systems and this creates a helpful framework for identifying how far, if at all, there is an EU level public interest in incentivising an increase in the production of certain crops. In principle, clarity about the public interest and provision of public goods should underpin the rationale for CIS schemes which favour the production of any specific crop or animal. For example, there is some evidence that repurposing subsidies in line with health objectives, such as increasing subsidies to fruits and vegetables, could potentially reduce public health costs associated with diet-related diseases (Springmann and Freud, 2022).

Realigned coupled support would need to be restricted to measures with a strong sustainability rationale and tied to well formulated agri-environmental requirements that beneficiaries need to comply with to ensure sustainable resource use and limited negative effects, e.g. from fertiliser or pesticide use. Establishing effective conditionalities implies that national and local authorities need to have sufficient capacity to monitor and enforce these rules and these are transparent to the Commission. However, in practice capacity shortfalls are common and this can be a serious limitation on the way that schemes are designed, implemented and monitored, which in turn affects their eventual impact. The trade-off between unrealistic levels of conditionality and control on the one hand and "hands off" approaches which fail to secure the desired outcome on the other hand arises here. Fresh thinking and innovation are needed.

One approach would be to devote more EU funding via the CAP explicitly to build such capacity. For example, in this case a redesigned coupled income support scheme could be complemented by associated payments to those

authorities monitoring the implementation of these schemes (Scown et al, 2020).

3.3 Investment aid measures

Investments on farms and in ancillary enterprises are funded by the EAFRD via aid schemes operated with co-financing from the Member States and may contribute to all ten specific objectives of the CAP. Investment aid measures provide funding for "productive" and "non-productive" investments on farms[25]; Under this CAP classification, non-productive investments are those that aim to address needs that are not directly concerned with the output of the farm. For example, they might include work to stabilise landslips, restore hedges or create habitats for biodiversity, while productive investments include buildings and machinery and on-farm infrastructure, including that for renewable energy. Examples of the type of activities financed though productive and non-productive investment aid are given in Box 2. The former generally aims to increase productivity and/or output and increase farm incomes, which is usually not the case for the latter. Investment aid is the second most heavily funded EAFRD scheme with an overall budget of EUR 31.4 billion for the period 2023 - 2027 (including national co-financing).

Figure 3 below shows the share of aid devoted to investments classified as productive (number of operations supported as expressed through CAP "output indicators" O.20, O.22, and O.24) versus non-productive investments (number of operations supported as expressed through output indicators O.21 and O.23) within the total budget allocated to this type of intervention for the 27 Member States. Except for Ireland, Denmark, and the Netherlands, Member States allocated the majority of their investment aid budgets to productive investments.

[25] On-farm productive investments aim particularly to support technological advance and productivity in agriculture, while non-productive investments bring primarily environmental and climate-related benefits and may for example include the creation and/or restoration of landscape features, such as wetlands, hedges, dry-stone walls and traditional boundaries, or the creation and/or restoration of habitat or landscape elements, such as heathland, species-rich grassland or floristically enhanced grass margins (DG AGRI et al, 2023)

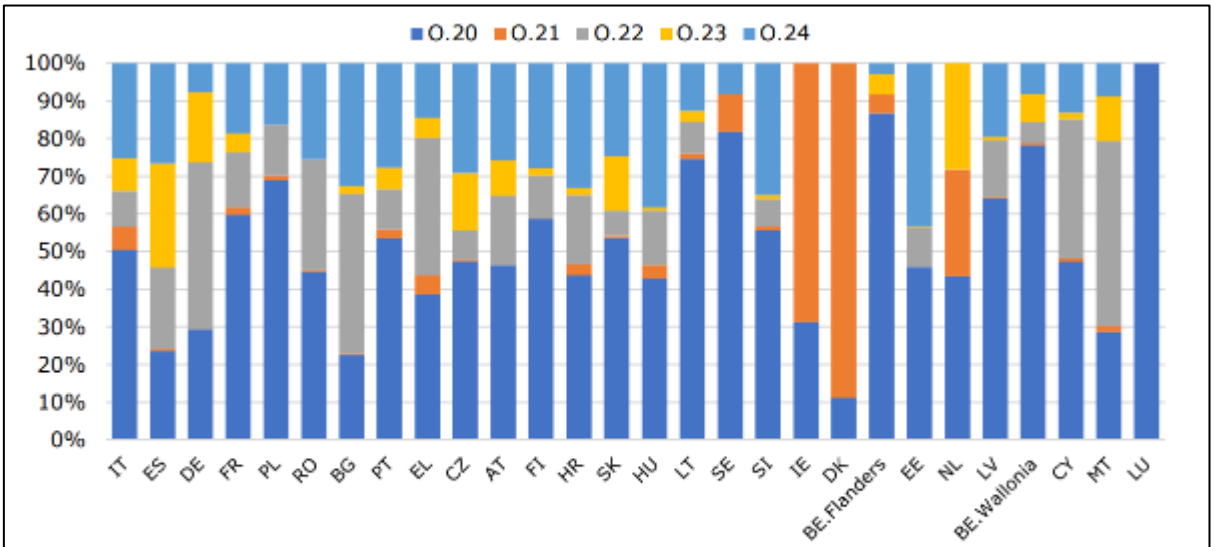
Box 2. Investment aid in Poland

Poland allocated EUR 2.5 billion to 17 different types of farm investment measures in its CSP for the period 2023 – 2027. The funding reserved for on-farm productive investments represents EUR 1.72 billion, equalling 68.8% of the budget for investment, while only EU 35 million is allocated to on-farm non-productive investments.

The objectives of on-farm productive investments include the development of small farms, increased competitiveness, energy efficiency, development of cooperation in the value chain and prevention of the spread of African Swine Fever in pigs. The largest productive investment measure – and the one with the highest overall budget, of over EUR 390 million – is *'Investments in agricultural holdings enhancing competitiveness'*. This measure finances precision farming investments, the construction and modernisation of buildings, the purchase of harvesting machinery and the development of infrastructure to increase storage, cleaning, sorting, calibration and packaging of agricultural products. Actions that can be financed through non-productive investments include the afforestation of agricultural land, creating woods on farmland, establishing agroforestry systems and enhancing biodiversity in private forests.

Despite most investment aid going to productive investments, the Member States' CSPs explicitly describe a significant part of the investments receiving support as contributing to climate objectives, notably through farm modernisation (DG AGRI et al, 2023). For example, 21% of the investment interventions adopted by Member States are reported as aiming to contribute to at least one objective related to climate-change mitigation (SO4), while 18% of them are reported as aiming to contribute to at least one objective related to competitiveness (SO2). However, single interventions may be described as supporting several of the CAP specific objectives, and Member States are not required to provide an estimate of the extent to which an intervention contributes to achieving the different objectives.

Figure 4. Share of financial allocations to INVEST (CAP supported Investment Aid schemes) by categories O.20-O-24 and by Member State, 2023-2027



Note: O.20 – Number of supported on-farm productive investment operations or units; O.21 – Number of supported on-farm non-productive investment operations or units; O.22 – Number of supported infrastructures investment operations or units; O.23 – Number of supported off-farm non-productive investment operations or units; O.24 – Number of supported off-farm productive investment operations or units.

Source : DG AGRI et al, 2023

Analyses show that some of the on-farm productive investments which are considered as contributing to environmental objectives are potentially harmful to the environment and in some cases can lead to an over-exploitation of natural resources, despite safeguards put in place by the current CAP (WWF European Policy Office, 2024). For example, around half of national CSPs provide investment aid for projects reported as increasing irrigation efficiency and infrastructure, considered as 'green' investments. However, their role may not be to reduce water demand and rebuild depleted sources; ultimately some are likely to lead to an expansion in the total area under irrigation relative to what would have occurred without the aid (DG AGRI et al, 2023). While an increase in irrigation efficiency and investments in more effective infrastructure can be beneficial in reducing water use overall, it can be argued that where this leads to an expansion of irrigation and storage any relief in pressure on the resource in that locality may only be temporary, especially in regions where water resources are limited.

Realignment options, benefits and risks

- **Re-design:** As outlined already, investment support involves a range of different types of investments connected to agriculture. Some of these are beneficial for the environment, including some classified in the CAP as

"productive investments" since they support more sustainable farming practices (such as machinery needed for no-till agriculture).

Removing investment aid would not be helpful for building a sustainable farming model or for the development of the agri-food system. Recent analyses convincingly demonstrate that the transition to sustainable farming requires significant upfront investments and aid to support this does not appear to be flowing currently on the required scale from sources within the CAP or the private sector (FoodDrinkEurope, 2023; Moret-Bailly and Muro, 2024).

In terms of realignment, investment aid needs to be appropriately focused and restricted to actions compatible with greater sustainability, whether they are productive or not, implying tighter criteria and conditions and potentially greater variations in prioritisation according to regional requirements. Positive targeting of investment support with sufficiently generous terms could accelerate transitions to more regenerative and organic farming, lower GHG emissions, better soil management, higher animal welfare standards, lower risk of antimicrobial resistance, and related changes where investment is a critical factor.

However, more precise targeting and greater conditionality is not wholly cost free and setting out stricter safeguards might come with an increase in administration both for MS authorities and for farmers wishing to access investment aid. This might ultimately deter some farmers from making useful investments and also deter Member States, some of which might be motivated to introduce their own, less conditional, aid schemes i.e. through state aid if they can do this within EU rules. To counter this, investment aid schemes need to be free of unnecessary rules and delays, supported by effective advisory services able to help farmers with applications and with forward planning. More allocation of CAP budgets to essential administrative capacity and costs associated with targeting within MS also could be considered.

One objection to restricting productive investment support to a more focused and so narrower range of eligible projects at farm level might be concerns about the impact on farm productivity and competitiveness, especially on farms which are on the margins of viability and in regions that have joined the EU more recently and where there has been less

opportunity to develop technically and structurally more advanced forms of farming than in the long standing EU MS in North West Europe. There may be special considerations applying to farms that have difficulty accessing private loans (including in parts of Central and Eastern Europe, young farmers, smaller farms). Questions of equity and cohesion may arise. More generally, clumsy, over-restrictive rules could hamper efforts to make some farms more viable and their production systems more sustainable.

A well-considered strategy for policy reform in this area would address such concerns where they are valid and even introduce some changes faster in certain MS than in others if this was clearly justified. The need for well-planned and targeted investment aid, tailored carefully to regional considerations and longer-term objectives applies throughout the EU. Acknowledging this financing challenge, the recently published final report of the Strategic Dialogue on the Future of EU Agriculture recommended the establishment of a temporary EU 'Just Transition Fund' for agriculture (see Box 3). In principle, this could be established as part of the next EU budget-the MFF.

Box 3. A Just Transition Fund for Agriculture

The report of the Strategic Dialogue on the Future of EU Agriculture (2024) proposes the establishment of a" *temporary Agri-food Just Transition Fund (AJTF) […] outside the CAP to support investments during a limited period that is sufficiently long to the transition over several years. The fund should provide one-of investment support (in the form of loans or grants) to farmers and other food system actors for their sustainability transition. This support should go beyond material investments, including also capacity building" (p.45).*

The proposal to establish this fund as a temporary instrument implies that its primary aim would be to accelerate the pace of transition. It could run for the period up to 2034 or 2040, which would correspond to the end of the next EU seven-year funding period and the timeline for the EU's anticipated climate goals, respectively. A similar proposal was made by IEEP in 2023 (Baldock and Bradley 2023).

Whether the European Commission will pick up the idea, or something like it, remains to be seen and the concept has yet to be converted into a more detailed model ready to apply in practice. A recent briefing (Baldock et al, 2025) argues that in effect there is no current CAP funding line reserved for assisting effective step changes towards sustainability other than organic conversion. It suggests that amongst the things required for transition are acquiring and applying new knowledge, adopting new

practices and systems where needed, the diversification of production and investment in appropriate human resources, equipment and buildings

3.4 Payments for farming in Areas of Natural Constraint

This payment scheme provides annual payments to farmers in:" Areas of Natural Constraint" (ANC), a designation that covers a wide area of land that is farmed in the EU. It is divided into zones designated as facing 'natural' or 'specific' constraints (e.g. mountain and upland areas, remote locations, poor soil conditions or difficult climate). These are areas outside the most productive lowland locations and where farming is more difficult or faces higher costs (to varying degrees). The payments are in principle intended to help maintain the viability of farming in these areas and contribute to preventing land abandonment. These payments are made by the majority of Member States although they are not obliged to do so. The exceptions in the period to 2027 are Estonia, Latvia, Hungary, the Netherlands and Flanders in Belgium.

The scheme takes the form of an annual payment per hectare of agricultural area with MS governments able to vary the payment level significantly within the ANC area, according to the severity of the disadvantage and the type of farming in place. The calculation to determine the level of payments per hectare is based on estimated differences in income and costs between constrained and non-constrained areas. MS may decide to compensate for all or only for a part of these differences.

These designated areas cover 59% of the total EU Utilised Agricultural Area (UAA) and the payments made represent 6% of the total CAP budget. Within this extensive area, the largest component consists of "non-mountain areas"[26], which represent 33% of the UAA, while mountain areas and areas with" specific constraints"[27] represent respectively 17% and 8% of the UAA. The large area of land classified in this way has been the topic of debate and discussion of exactly how

[26] Non-mountain areas are those facing significant natural constraints: based on eight biophysical criteria covering climate, low soil productivity and steep slopes

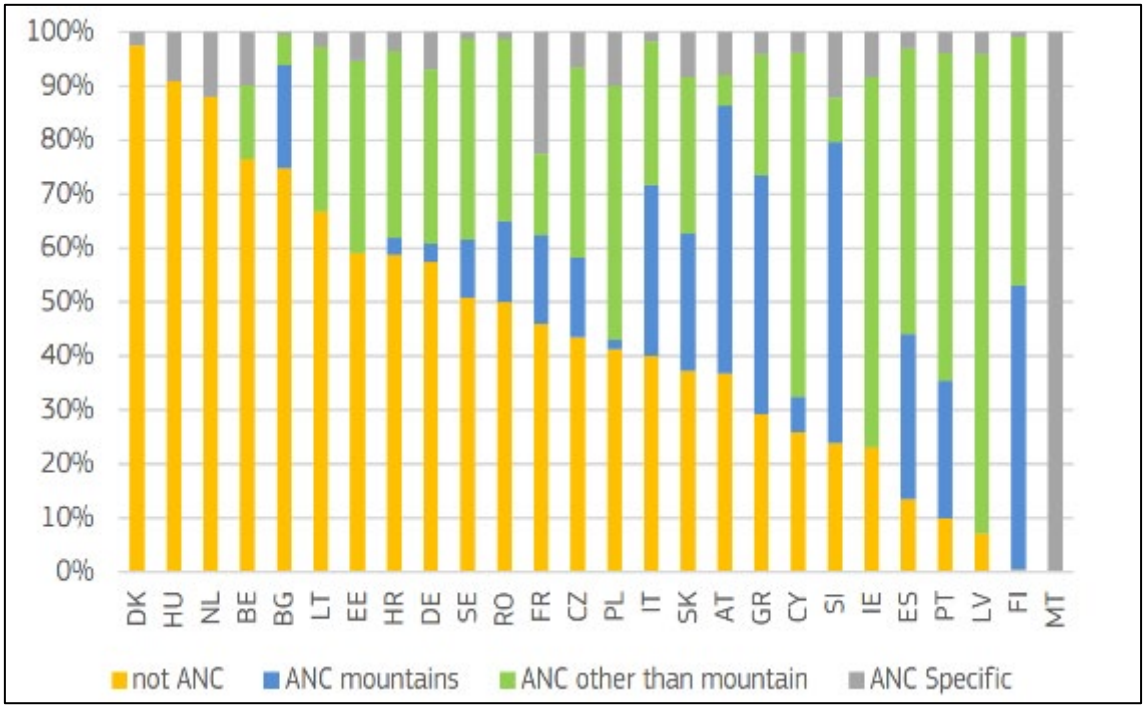
[27] These are areas affected by "specific constraints:" where continued land management is considered by MS authorities to be necessary to conserve the environment and the countryside, or to protect the coastline

disadvantaged some farms within these diverse zones are (see Court of Auditors 2003). It is worth noting that MS have a motive to propose the designation of large areas within the criteria set down by the EU since it allows them to pay additional sums to farmers on a greater scale if they wish to.

ANC payments are not linked to any environmental requirement beyond the conditionality rules set out by the GAECs and SMRs discussed above, and they aim primarily to assist the continuation of farming per se so there is no guarantee that these payments support sustainability objectives. In principle the payments, often not large, help to avoid land abandonment in areas where this is occurring because of the poor economic returns obtainable from farming. This is often regarded as beneficial per se environmentally and socially, especially as agriculture in these areas is on average significantly less intensive than on better land, as would be expected. However, while the continuation of current agricultural management may be beneficial in many cases it will not always be the best option environmentally, especially in locations where nature restoration or greater woodland cover are priorities. Furthermore, there can be issues associated with over-grazing in mountainous areas, such as increasing flood risk and soil erosion. In future, ANC payments could potentially be linked to priorities such as nature restoration or afforestation to support adaptation to climate change impacts or to protect watersheds.

The underlying logic of the payment regime is to promote the continuation of agriculture, rather than reward concrete environmental outcomes. Nonetheless, due to CAP rules, 50% of the budget devoted to ANC payments counts towards the minimum spending on environmental objectives that MS are subject to in the EAFRD. To explain, in their CSPs, Member States are obliged to allocate a minimum of 35% of their overall EAFRD budget to schemes that are classified as supporting environment, biodiversity, and climate-related goals. Certain other CAP support schemes, such as the environment and climate schemes, are deemed to contribute entirely to these goals. The way that ANC payments, which are one of the largest elements of EAFRD spending in many MS, are accounted for in relation to the 35% rule therefore is problematic, watering down its impact as a lever to drive greater environmental ambition in CAP support schemes.

Figure 5. Percentage of designated ANC areas divided by category at Member State level (% of total UAA) in 2021



Source: Reproduced from DG AGRI, 2023d

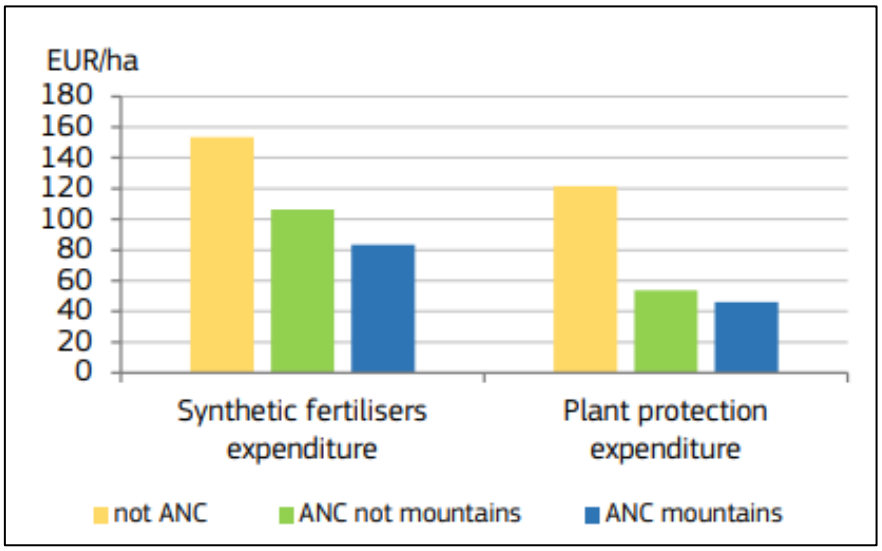
As shown Figure 4, there is significant variation between MS in terms of the use of these payments. For instance, Finland has designated the entirety of its utilised agricultural area (UAA) an ANC, while in Denmark, at the other extreme, less than 5% of agricultural land is considered to fall under this category. This reflects very clear differences in geographical conditions but also is influenced by government decisions.

Given the more challenging physical conditions faced by farms in most of these areas, the majority of farming within ANCs is lower intensity than outside, including below average stocking density, agro-chemical and nutrient input use and labour pe hectare. There are large areas of rough pasture and semi-natural grassland, and grazing densities are well below average (although still too high in some areas). About 80% of the EU's total area of high nature value farmland[28] is found in ANCs, not surprisingly given that the main areas of more extensive management fall within the ANC boundary (DG AGRI, 2023d). Intensive arable and dairy

[28] The concept of High Nature Value farmland (HNV) refers to the causality between certain types of farming activity and corresponding environmental outcomes, including high levels of biodiversity and the presence of environmentally valuable habitats and species. (Eurostat). It is primarily low intensity farming systems, mostly with grazing livestock

farming is less common in these areas and, as highlighted in Figure 5 below, the average use of synthetic fertilisers and pesticides in ANC areas is below that of non-ANC areas.

Figure 6. Average farm expenditure on fertilisers and plant protection products per ha of productive UAA across ANC types, 2018-2020



Source: Reproduced from DG AGRI, 2023d

However, the use of fertilisers and pesticides is far from negligible in these areas and there are localities and farms under fairly intensive management. Since there are no specific environmental requirements for farms to receive these payments, they are not targeted to farms offering sustainability benefits but are widely distributed and more intensive systems within these areas are recipients alongside HNV farms where the danger of abandonment is likely to be greater. Overall, ANC payments are built on a formula related to the economic costs faced by farmers due to certain constraints and are not linked to the actual environmental and socio-economic needs of these farms.

Repurposing options, benefits and risks

- **Remove & reinvest:** ANC payments would contribute more to sustainability if funds were diverted into more targeted schemes with more specific environmental and social objectives tailored to the conditions of areas facing specific constraints. At the same time, it may be useful to review the CAP definition of 'natural constraints' to potentially reduce the area falling under this category and focus funds more on defined outcomes, including viable and sustainable farming systems and alternative uses of land where

this is the best outcome. For instance, nature-based solutions have increasingly been promoted to support climate change adaptation and disaster risk reduction in mountainous areas (IUCN, 2022.

Payment levels could be tuned to this purpose rather than following a generic logic of compensating for poorer production conditions. Tailored schemes could help to build more sustainable and robust farming systems in most of the area, incentivising appropriate stocking levels and management regimes for grazing livestock for example. Phasing out blanket payments would also reduce the barriers to changes in land use, and facilitate nature restoration[29] on a larger scale, where this is the better alternative.

Realigned policy would be phased in over some years and would recognise the particular values of farming in challenging places. It would not involve cutting funding to these areas without new more targeted measures in their place. Removing support could increase the probability of the abandonment of high- nature value farming and grazing systems, more land leaving farming without being taken into sustainable new uses, an increased risk of wildfires where necessary grazing is withdrawn, and some unwelcome socio-cultural changes and declines in investment due to potentially shrinking agricultural activities and communities. These risks could be reduced, for example, by supporting new schemes for landowners that support ecosystem services provided by mountainous and upland areas such as afforestation and reforestation, which could potentially help to reduce the risks of flooding and landslides in some places.

One of the risks of such a policy realignment would be that new more targeted schemes might be more complex to design and administer and/or more expensive to run and this might inhibit the emergence of a new generation of schemes or lead to unsatisfactory versions. New schemes might be less attractive to significant numbers of farmers, for example if payments were too low, application too complex or requirements too onerous. Good scheme design utilising effective engagement with farmers, evidence-based targeting backed up by advice and other support and sufficient payment rates would be necessary. In many locations a

[29] The report of the Strategic Dialogue (2024) calls for the establishment of nature restoration fund (outside the CAP) to support farmers and other land managers to restore and manage natural habitats at the landscape level.

matrix of incentives, including well-designed agri-environment schemes and accompanying support for nature restoration and sustainable, locally appropriate woodland might be required. The trade-off between simplicity and effectiveness arises here, as in other policy areas.

- **Re-design:** Rather than phasing out the ANC regime in favour of more targeted approaches there could be scope for significantly increasing the focus of the current scheme on sustainability and nature restoration. For example, this might include tightening eligibility conditions to exclude more intensive farms, adding supplementary incentives for more ambitious environmental commitments by farmers, integrating new options for nature restoration and well adapted woodland, setting tighter stocking density requirements where needed, providing supplements for the use of local breeds where justified and other means of securing improved outcomes.

  The long-term sustainability of many disadvantaged rural regions could be addressed through multiple related policy initiatives, reducing over reliance on the ANC measure and utilising best practice in different parts of Europe. This could reduce the risks of major changes to the ANC scheme and could involve a range of policies from both within the CAP and from outside it. For example, both retraining initiatives and enhanced transition aid could assist farmers in building alternative sources of income, including pursuing new roles within the sector, such as becoming advisors. Increased aid for cooperative initiatives involving farmers and others, supported by facilitators where helpful, could enhance the environmental and economic effectiveness of current schemes while reducing costs. Support for new entrants and sources of employment could also assist the development of more sustainable communities and farms. Policies steering new integrated supply chain initiatives could help to build new markets for the products of both traditional HNV and organic farming and other ecosystem services. Additionally, governance and engagement issues are a priority when developing new approaches and support schemes. This is especially the case when new schemes lead to broader socio-cultural shifts in rural communities underlining the value of a stronger emphasis on social dialogue and community engagement to foster inclusivity and resilience.

4. NEXT STEPS IN TAKING FORWARD THE CAP

The recent iterations of the CAP have involved greater recognition of the importance of environmental and sustainability issues in agriculture, a revision of specific objectives and a change in the menu of measures, for example with the introduction of eco-schemes in the most recent CAP. However, as noted above in Section 1.2, there has been much less change in environmental outcomes on the ground in so far as these have been measured.

The most recent changes to the CAP, the Spring 2024 simplification package[30], was devised and agreed in a rushed process in response to the previous winter farmer protests. It has weakened the system of environmental conditionality and also further weakened the argument by defenders of direct payments that they contribute significantly to sustainability. In May 2025, these changes were followed by a second simplification package[31] proposing 25 amendments to the CAP legislation. Several of the proposed changes, such as recognising farmers certified under that Organic Regulation as meeting key environmental conditions and permitting non-strategic amendments to CAP Strategic Plans without prior Commission approval represent meaningful steps toward reducing red tape and increasing flexibility. However, some of these changes raise concerns. For example, proposals to allow payments for actions that meet, rather than exceed, basic regulatory requirements risk diluting the environmental ambition of the policy. If environmental conditionality is weakened further, as seems likely at the time of writing, the importance of schemes that provide effective incentives for farmers to adopt more sustainable practices can only increase.

In the next two years, MS are able to modify their current CSPs to adjust to changing conditions and they are free to make significant alterations if they obtain the consent of the Commission. Consequently, they have the opportunity to pursue realignment to some degree, although only within the boundaries of their discretion under CAP rules. However, since there is a limited period of time left before the current CSPs come to an end major changes seem rather unlikely

[30] Regulation (EU) 2024/1468 amending Regulations (EU) 2021/2115 and (EU) 2021/2116 as regards good agricultural and environmental condition standards, schemes for climate, environment and animal welfare, amendment of the CAP Strategic Plans, review of the CAP Strategic Plans and exemptions from controls and penalties

[31] COM(2025) 236 final, Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EU) 2021/2115 as regards the conditionality system, types of intervention in the form of direct payment, types of intervention in certain sectors and rural development and annual performance reports and Regulation (EU) 2021/2116 as regards data and interoperability governance, suspensions of payments annual performance clearance and controls and penalties

in most cases. In terms of significant policy change the focus is therefore on the shape and content of the next version of the CAP which is due to be introduced from January 2028 but has been the topic of growing debate for some time already.

Both the architecture and the details of a reformed CAP need to be agreed well in advance to give time for new regulations to be drawn up and agreed and then for the MS to prepare the schemes and processes that they will put in place, negotiate them with the Commission, adjust delivery and IT systems etc. The process of agreement can take a long period and does not always occur on schedule. It is complicated by the close relationship with parallel negotiations over the overall EU budget, the Multiannual Financial Framework (MFF). A settlement of the MFF has to be arrived at before the CAP for the ensuing seven-year period can be agreed. The MFF includes the distribution of the CAP element of the budget between the MS and also usually includes some decisions on the CAP itself, which could include the level of funding for CAP direct payments for example.

The Commission is expected to publish its first proposals on the next MFF in July 2025 with CAP proposals following shortly afterwards. The proposals will draw on various sources, building on key strategic documents published in recent months, including the results of "Strategic dialogue on the future of EU agriculture" (see section 1.2). The Dialogue, chaired by an independent academic and bringing together a wide range of stakeholders, marked a new approach in the evolution of the CAP. Although informal in the decision-making process, it introduced a fresh space for open debate and reflection on future policy directions. This process laid the groundwork for the Commission's Vision for Agriculture and Food, published in February 2025, which sets out a forward-looking agenda for an agri-food system that is competitive, resilient, fair, and aligned with environmental and climate goals (European Commission, 2025). Both documents clearly acknowledge the need to rethink how support is distributed and to ensure that payments are more effectively aligned with societal expectations and sustainability imperatives. Across all four payment types examined in this report—Direct Payments, Coupled Support, Investment Aid, and ANC payments—there are clear signals of an intent to improve targeting and realignment.

Within these broad visions from the Commission and from stakeholders there is room for policy change and for realignment, whether or not it is the choice of the EU institutions when the final decisions on the next CAP are made. The need to address fundamental sustainability challenges, including significantly reducing the level of GHG emissions from the agriculture sector, will not diminish, whatever policy mix is selected for the 2028-2034 period. Realignment should be given full

consideration in the coming reform. If not, it will be an important opportunity missed but the urgency of the challenge will increase. It is notable that some financial institutions and agri-food businesses are actively stepping up efforts to boost investments in climate resilience and sustainable agriculture. For example, in late 2024, the European Investment Bank approved a €3 billion Pan-European Agricultural Programme. This initiative encompasses agriculture, agribusiness, and the bioeconomy, aiming to use EIB loans and initiatives to drive investments in critical areas that promote climate resilience, innovation, and sustainable practices[32].

5. CONCLUSIONS

This brief review has illustrated the scope for realigning agricultural support schemes under the CAP, considered four major schemes and offered a variety of examples of what realignment might lead to as well as some of the issues that might arise. A simplified version of these cases is brought together in a Table included as an Annex.

It is clear that there is a range of options available and there will be many more not covered here. However, one theme that arises with respect to most of the options is the question of targeting support on more specific sustainability outcomes, reducing expenditure on broad brush support schemes. This significant shift in policy design is needed. However, it may well meet resistance in many ministries and institutions familiar with current schemes on the basis that it may involve greater preparation of policy mechanisms and accompanying research, associated administrative needs, potentially more complex scheme rules in some cases, possibly more time and attention required from farmers to engage in the scheme and its requirements and other changes relative to the current schemes. New land management incentives need to be complemented by robust monitoring systems, advisory services, and training programmes to help farmers adapt their practices or restructure their operations, as well as being designed in a way that is as simple and accessible as possible.

There are solutions to this barrier to change, including investment in gearing up the responsible agencies to the new challenges, building capacity across the farming community and support systems, improving data availability, reflecting farmers transaction costs properly in payment rates, providing more advice and facilitation, deploying new remote technologies and other measures. Moreover,

[32] EIB to support flood recovery projects across the EU and provide new financing for farmers, EIB Press release, 06 November 2024, https://www.eib.org/en/press/all/2024-433-eib-to-support-flood-recovery-projects-across-the-eu-and-provide-new-financing-for-farmers

a focus on options with a positive business case and win-win benefits for public goods, such as measures with economic benefits for clean water provision, flood risk reduction, reducing the risk of antimicrobial resistance, or enhancing public health, may assist with the reform process.

Bringing these priorities into the foreground in the full range of organisations concerned with designing and delivering agricultural support schemes is a necessary step. It does not need to wait for full policy reform. Progress is already being made and now needs to be accelerated.

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7. ANNEX

Realignment options, their benefits, risks and possible mitigation measures

Summary of negative effects on environment and climate of the respective support scheme	Options for realigning support schemes	How would this prevent negative effects/create positive effects for environment and climate?	What are the potential risks/constraints of these options?	What supporting actions need to be in place to minimise/mitigate potential risks?
Basic Income Support for Sustainability - Total financial allocation for 2023 – 2027: EUR 96.7 billion				
Payments are untargeted and tied to compliance with weak environmental conditions, thus enabling continuation of current unsustainable farming systems and practices, including inflated livestock numbers, input consumption, cultivation on drained peatlands and excessive irrigation. This measure dominates the budget but with a low potential to mitigate climate change. Or reverse	**Remove + reinvest** in provision of environment and climate services and investments; phase out over a period of approx. 7 years; potentially retain a smaller, targeted, socio-economic element	Reduce pressures stemming from excessive output/investment' Increases funds for environmental measures and increases incentives to adopt them. Result-focused payment schemes for public goods (e.g. clean water or flood protection) could help resolve the current goal conflict between the competitiveness of agriculture and the provision of public goods	Acceleration of the loss of small and marginal farms, some with higher-than-average environmental performance. Possible reduction of labour on farms drives changes in practice, some with negative consequences. Some farms adopting more intensive methods or larger scale e.g. increased field sizes	Targeted support for farmers in need Attractive and effective environmental schemes with sufficient budgets, creating major new income source Enhanced advice, support, and aid for cooperative initiatives. Improved advice and aid to diversify
	Re-design options include introducing targeted version, increasing conditionality, requiring beneficiaries to enter agri-environment schemes.	Could in principle exclude certain categories/sizes of farm. More tailored conditionality would increase respect of minimum	Difficult to reach consensus on re-design and MS like the relative simplicity of scheme. More conditions/targets add to administration.	Close Commission scrutiny needed. Better enforcement of conditions needs to be put in place and

Summary of negative effects on environment and climate of the respective support scheme	**Options for realigning support schemes**	**How would this prevent negative effects/create positive effects for environment and climate?**	**What are the potential risks/constraints of these options?**	**What supporting actions need to be in place to minimise/mitigate potential risks?**
environmental pressures		requirements that are relevant for the different sectors	Differences between MS, if permitted, could affect level playing field.	careful design to minimise complexity. More environmental monitoring needed e.g. through remote sensing.
Coupled Income Support - Total financial allocation for 2023 – 2027: EUR 23 billion				
Support unsustainable level of livestock production in particular	**Remove + reinvest** in more environmentally focused schemes	Removes incentives for inflated livestock numbers, increases efficiency on claimant farms, potentially less livestock and more land for other uses Reduce GHG emissions May reduce excessive stocking levels in some locations and cut use of concentrated feed. Changes to support may also have co-benefits for public health e.g. supporting increased production of fruits and vegetables.	Sole focus on GHG reduction could lead to intensification; demonstrating the need to multiple outcomes together (e.g. climate, nature and other risks such as AMR). Reduction in livestock numbers/farms may impact HNV/organic producers with small margins. Possible abandonment of land where grazing a good environmental option The emission reduction associated with less important livestock could be partially	Any significant reduction of livestock numbers should be balanced by action on the consumption side, if necessary, to avoid emissions leakage On land where continued grazing is best environmental option support this via ag-environmental schemes incentivising appropriate stocking and management. Alternatively, design incentives for managed afforestation or reforestation rather than land abandonment. Well targeted advice re sustainable options for future

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			cancelled out by emissions leakage	
	Re-design: Strict conditionality on coupled support, restricting it to demonstrable public good provision only, shrinking scope of scheme	If rigorous enough, would reduce inflated production levels and associated environmental costs. Some release of budget for other purposes	Failure to respect strict conditionality at MS and more local levels. Difficult for Commission to monitor remotely. Added admin and risk of limited benefit.	Investment in local agencies with better capacity to oversee targeted measures. More monitoring and reporting.
Investment aid - Total financial allocation for 2023 – 2027: EUR 31.4 billion				
Can contribute to the intensification of land use and to the expansion of systems based on unsustainable levels of e.g. irrigation, oversized machinery etc.	**Re-design:** Restrict investment to those compatible with greater sustainability, target more to areas in need. Strengthen linkages to achieving environmental targets. Increase advice	Reduce level of investment in unsustainable/damaging practices. More targeted investments are needed to implement the transition towards sustainable farming. Possibly increase compliance with environmental legislation.	Poor implementation in MS unsatisfactory results. Too much bureaucracy may deter farmers from making useful investments. Transition could slow down if too much choke on investment. Some MS might be motivated to introduce their own, less conditional, aid schemes i.e. state aids. Some drop in farming profitability	More developed longer term programmes of investment aid for sustainability (including economic and social), with attractive terms and associated advice. Careful design needed to avoid bureaucracy. Clear message to farmers re direction of travel and restricted scope of public sector aid. Enhanced role of private sector transition aid Well aligned and enhanced advice
Areas of natural constraints payments - Total financial allocation for 2023 – 2027: EUR 18.7 billion				
Variable impacts in different areas. Some	**Remove + reinvest**	Less incentives for inappropriate levels of	More abandonment of valued HNV farms and grazing systems,	Replacement with well-designed agri-environment schemes where

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beneficial support for more traditional HNV and organic farms but often increases returns/ farm incomes in areas with more intensive production and environmental costs and reducing movement of land into other (potentially but not necessarily) more sustainable uses e.g. woodland and nature restoration	Divert budget into agri-environment schemes tailored to conditions in less favoured areas Potentially reduce scope of schemes by targeting more, shrinking area of land classed as "less favoured" etc.	production and less danger of over-stocking and excessive retention of land and resources in agriculture relative to other uses. There may be co-benefits for reducing flood risk, soil erosion or the risk of landslides.	poorly managed land where farming ceased, increased danger of fires where necessary grazing is withdrawn. Negative socio-cultural changes as support payments cut. Lack of investment in these areas.	required to reward farmers for ecosystem service delivery at a lower density of grazing Aid for cooperation schemes. Better monitoring and evaluation More advice, (re)training programmes, support for change e.g. producing fewer but more profitable livestock. Accompany structural changes with opportunities for social dialogue/community engagement

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