

DISCUSSION PAPER

**FARMER-FOCUSED EU AGRICULTURE: TOWARDS
A COMPETITIVE, CRISIS-PROOF, SUSTAINABLE,
FARMER-FRIENDLY AND KNOWLEDGE-BASED
FUTURE COMMON AGRICULTURAL POLICY**

**INFORMAL MEETING OF AGRICULTURE
MINISTERS**

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FARMER-FOCUSED EU AGRICULTURE: TOWARDS A COMPETITIVE, CRISIS-PROOF, SUSTAINABLE, FARMER-FRIENDLY AND KNOWLEDGE-BASED FUTURE COMMON AGRICULTURAL POLICY

A farmer-focused future EU Common Agricultural Policy (CAP) is one of the horizontal priorities of the Hungarian Presidency of the EU. After the wide range of farmer's protests happened earlier this year, there is a political need to put the interest of farmers back into the centre of EU policy making. European agriculture may have never faced so many challenges than today. Extraordinary weather events caused by climate change, high input costs, new plant pests and emerging animal diseases, the effects of the Russia's war of aggression against Ukraine or increasing imports from third countries in specific regions are putting constant pressure on European farmers. In parallel with that they need to comply with more and more strict regulatory requirements and cope with high administrative burden. Farmers need answers to these challenges at European level, therefore the aim of the Hungarian Presidency is to facilitate discussions within the Council to give guidance to the future new Commission on the post 2027 CAP in a form of conclusions. Besides the work in the Council, there are other ongoing initiatives on the topic, such as the Strategic Dialogue on the future of EU agriculture, which is expected to be concluded by the end of the summer.

The intention of the Hungarian Presidency at the Informal Meeting of Agriculture Ministers is to start the ministerial level political discussions on the future CAP. The Presidency believes that the issue of delivering the payments, the contribution to the environmental and climate objectives and crisis-handling should be scrutinised thoroughly. To facilitate the kick-off debate at the Informal Meeting of Agriculture Ministers, the Presidency summarised the main characteristics and challenges of these three areas in this background document.

1. Delivery of payments

The recent CAP reform introduced the New Delivery Model (NDM), which replaced the previous compliance-based approach with a new performance-based system, including new monitoring and evaluation setting. The common set of objectives have encouraged Member States to think strategically, linking the measures of the two pillars in a joint strategic plan. According to the experience of the implementation of the past two years the new CAP Strategic Plans seem to be an appropriate tool to pursue CAP policy objectives in an integrated way as Member States use them to prepare and deliver responses to the challenges across their territories, while prioritising objectives and using available resources in an effective and efficient way.

However, the implementation of this new approach has created some challenges for farmers and Member States' authorities too. During the planning process, all interventions had to be designed in advance by years at the level of unit amounts,

based on the new performance, monitoring and evaluation framework (PMEF). At the beginning of the implementation, the monitoring system for the current period requires a considerable effort from both Member States and the Commission.

The Report to the European Parliament and the Council about the CAP Strategic Plans for 2023-2027 shows that the CAP financial allocations have continued to be paid through a similar structure and instruments as in the previous programming period, i.e. direct payments (62% of total public funding) in both decoupled and coupled form, rural development measures (35% of total public funding) and sectoral interventions (3% of total public funding). However, there is a stronger focus on support for small and medium-sized farms (11% of direct payments), generational renewal (EUR 6.8 billion of support from EAGF and EAFRD combined), environmental sustainability aspects (24% of direct payments to eco-schemes, and 48% from the EAFRD envelopes devoted to environmental, climate, and animal welfare/AMR), digitalisation and knowledge transfer¹. Although a significant number of interventions were already known from the previous period, the novelty of the eco-schemes, the increasing environmental standards or the use of new technologies (e.g. the Area Monitoring System) also required significant efforts and adaptation.

Since the autumn of 2023, exchanges of views have taken place in different Council and Commission configurations summarizing the experiences from the first year of the NDM. These exchanges made it clear that the majority of Member States are facing the same challenges. The widespread farmer protests in spring 2024 catalysed the common work of Member States and the Commission on legal clarifications, streamlining the process of CAP Strategic Plan modifications, revising the EU methodology for Area Monitoring System Quality Assessment (AMS QA), modifying the requirements linked to geo-tagged photos and a targeted amendment of the basic acts, notably in relation to conditionality. The experiences of the first Annual Performance Report (APR) also highlighted possible points of future developments.

2. Environmental and climate ambition

The CAP is key to secure the future of agriculture and forestry, as well as contributing to the achievement of climate and environmental objectives. It provides essential tools to support the transition of the farming sector towards new sustainable practices and business models, while ensuring a sustainable future for European farmers.

In the 2023-2027 period, higher CAP spending on green objectives is required compared to previous periods. Actions under the CAP are expected to contribute 32% of the overall financial envelope of the CAP to the achievement of climate- and environmental related objectives, with dedicated minimum thresholds for eco-schemes and EAFRD spending.

Member States are in the middle of executing the 2023-2027 CAP Strategic Plans. According to the Commission's document², 24% of all direct support funding and 48%

¹ Mapping and Analysis of CAP Strategic Plans, Assessment of joint efforts for 2023-2027

² <https://agriculture.ec.europa.eu/system/files/2023-06/approved-28-cap-strategic-plans-2023-27.pdf>

of rural development financial resources are dedicated to environmental and climate-focused payments. This is performed through 158 different eco-schemes, 213 different AECCs³ and over 150 other climate, biodiversity and natural resource payments. The entire regime is established on a reinforced system of conditionality that is based on the merger of former cross-compliance and greening requirements. This rather complex and ambitious green architecture of the current CAP comes after the 2014-2022 budgetary period, which was already characterized by mandatory greening in Pillar 1 and a wide range of agri-environmental measures in Pillar 2. Despite the relatively high number of currently available measures mentioned above, Member States are still not capable of appropriately reacting to weather or nature-related crises. On the other hand, there are calls for faster and even more targeted responses to the existing climate and environmental challenges; not to mention those that are foreseen to occur in the future. In the meantime, farmers are facing several challenges and difficulties in meeting ambitious requirements and implementing the new rules, which put pressure on production. Adding to this, they have to cope with high administrative burden and long bureaucratic processes.

In the interest of the EU farming sector, it is of paramount importance to find a reasonable balance between the green objectives, competitiveness and income security of farmers. Economically viable and socially acceptable solutions can pave the way for such a sustainable transition, which does not jeopardize competitiveness, food security and food sovereignty.

3. Handling crises

In the past decade European agricultural markets faced different challenges, which led to frequent crisis situations. The Russian ban on imports of certain agricultural products from the EU, extreme weather events caused by climate change, effects of the COVID pandemic, the impacts of Russia's war of aggression against Ukraine, as well as animal diseases and plant pests, caused severe imbalances in the market.

The current CAP contains different set of measures to prevent, manage and handle risks and crises situations under both Pillars, complemented by a number of private and national measures.

Pillar II of the CAP contains different risk prevention tools such as risk management tools (agricultural insurance, mutual funds or income stabilisation tools), financial instruments (support to on-farm investments, loans, guarantees and working capital), rural development support and other sectoral measures. Member States can decide to assign up to 3% of the direct payments to be paid to a farmer for the farmer's contribution to risk management tools. However, their uptake in the Member States is below the level capable of responding effectively and efficiently to new challenges, with only 15% of EU farms using risk management tools and only 14 Member States have chosen to support risk management in their Strategic Plans⁴. The reasons behind this low uptake are rather complex and diverse, ranging from the stabilising impact of direct

³ Agri-environment-climate commitments financed from Art 70 of the CSP Regulation

⁴ Mapping and Analysis of CAP Strategic Plans, Assessment of joint efforts for 2023-2027

payments, the significance of national risk management schemes to the sometimes too complex and rigid legislative framework.

Market intervention measures such as private storage aid and public intervention are included in Pillar I of the CAP, but the corresponding reference prices have not been revised for a while. Sectorial programmes also contain sector-specific crisis measures such as crisis distillation, green harvest or market withdrawal.

Exceptional measures can be used when a crisis or the threat of a crisis has arisen and a specific response is needed to prevent a sudden drop in prices and/or mitigate its consequences in case of market disturbance (Article 219); a loss of consumer confidence due to public, animal or plant health risks (Article 220); specific problems (Article 221) and severe imbalance in markets (Article 222).

Before 2023 activating the crisis reserve entailed a corresponding reduction in the amounts of direct payments to be paid to farmers. This reserve was used only once in March 2022 to finance exceptional adjustment support for producers affected by the consequences of Russia's war of aggression against Ukraine. In 2023, according to the new CAP an agricultural reserve of at least EUR 450 million was established at the beginning of the year. This reserve has already been activated several times. The amount for the agricultural reserve is entered directly in the EU budget so that funds from the reserve are directly available. Exceptional measures are to be financed from this reserve (together with market intervention measures). The financing rules for the agricultural reserve aim at making the budgetary resources available for exceptional measures more predictable. However, the multiplicity and magnitude of the crisis situations experienced in recent times have highlighted the limitations of the agricultural reserve and the need to strengthen the risk and crisis management tools.

In light of the above, the Hungarian Presidency proposes a targeted discussion on the post 2027 CAP at the Informal Meeting of Agriculture Ministers along the following questions:

- 1) Which elements of the delivery model could be adjusted to increase competitiveness, decrease the administrative burden and to make the policy more farmer-friendly? What should be the main instruments in the two pillars in the period beyond 2027?*
- 2) How can the post 2027 CAP incentivise farmers to further contribute to the green transition to ensure a sustainable European agriculture sector, without jeopardizing its competitiveness?*
- 3) How can crisis situations be better handled and what type of EU-level prevention, risk management and crisis handling measures would be needed to effectively tackle challenges and make the EU agriculture crisis-proof?*

Kindly note that speaking time is limited to a maximum of 3 min. per delegation.