

**The EU's Common Agricultural Policy from 2028 onwards:
Impulse Paper on the Design of the EU Framework¹**

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Summary

The European Union's Common Agricultural Policy (CAP) must be more closely aligned with the societal objectives of climate neutrality as well as the protection of biodiversity and the environment. This is not only important for achieving key sustainability goals, but also for a successful agricultural sector in the EU and the continued existence of the CAP itself. After all, only a clear alignment with societal goals can create public acceptance of the CAP and its budget.

For the funding period starting in 2028, we recommend that the CAP be made more ambitious within the existing implementation model. In particular, 1) the basic payment should be phased out, 2) these funds should be used instead for targeted payments to reward the provision of public services, 3) funds should be aligned with ambitious sustainability targets, but policy implementation should leave flexibility for EU Member States, and 4) the CAP should be financed from a single fund and have Member States co-finance all measures contained in their national strategic plans.

The binding EU sustainability targets on climate and water protection and air pollution control should be supplemented by legally binding biodiversity targets - also beyond protected areas. This will create additional incentives for Member States to use CAP funds in a target-oriented manner.

For an ambitious reform of the CAP, coordination between the Member States is crucial even before negotiations on the multi-annual EU financial framework commence. There needs to be a shared understanding that the CAP must enable farmers to deliver societally desired public goods as part of their economic activity. At the same time, the different starting points of Member States must be considered. Thus, the speed of implementation of a more ambitious CAP may differ, as well as the understanding of public goods without weakening the sustainability goals.

1 Reason for the impulse paper

In its coalition agreement, the German government has announced for "the reliable further development [of the CAP] from 2027 onwards" a concept on "how direct payments can be adequately replaced by rewarding climate and environmental services."

We recommend that this concept be formulated by the summer of 2023 to significantly contribute to the ongoing discussions regarding the future of the CAP at both the European and Member State levels.

The objective of this concept is to advocate for other Member States to support 1) gradually phasing out basic income support, 2) redirecting CAP funds towards rewarding public services, 3) ensuring that the utilization of funds is both ambitious in its goals and flexible in its implementation, and 4) financing the CAP from one fund.

The year 2023 is a pivotal year at the EU level for the debates on the CAP from 2028:

- Starting in the summer of 2023, the parties will draft their election programs for the 2024 EU elections to develop and outline their medium- and long-term perspectives on the CAP.
- After the European Parliament elections in 2024, there will be a new EU Commission. It is expected that the incumbent EU Commission will present initial proposals by the end of 2023 for the CAP's redesign.

The timing is favorable for the German government to develop a concept for realignment:

- The Stakeholder Dialogue on the Future of Agriculture (ZKL) has reached a consensus on the need for a more goal-oriented CAP, emphasizing its role in facilitating a sustainable agricultural and food system within the EU. According to the ZKL, the CAP must "fundamentally contribute to managing the transition to a sustainable agricultural and food system in the EU and enable farmers, also economically, to make the necessary contribution to achieve climate protection, air and water purity, and biodiversity targets, and to protect the environment comprehensively." The ZKL proposes the gradual elimination of area-based direct payments from the CAP's first pillar by 2035, replacing them with payments that incentivize specific services aligned with social objectives.
- The coalition agreement provides a clear mandate for the development of an ambitious concept, and two of the relevant federal ministries (BMEL and BMUV) are under the leadership of the same political party, enhancing coordination and effectiveness in the process.

- The current German government will probably be able to actively participate in the EU-level discussion process even after the new EU Commission takes office and the new EU Parliament convenes in 2024. This is because the German parliamentary elections are scheduled for 2025.

Likewise, the timing is favorable for an ambitious approach to CAP reform to be put forward for discussion at the EU level:

- The EU Green Deal, including the Farm-to-Fork Strategy, will be translated into regulations and directives, such as the Sustainable Food Systems Law, Sustainable Use Regulation, and the Nature Restoration Law by the EU institutions in the coming years. Additionally, EU mitigation targets for GHG emissions in sectors covered by the Effort Sharing Regulation (ESR) and Land Use, Land-Use Change and Forestry (LULUCF) have been strengthened, with new targets for 2040 expected to be set in due course. There are thus increasingly binding EU-wide targets that agriculture can and must contribute to achieving. While regulatory laws are important, meeting these sustainability targets will also require the development of supportive policies that provide economic prospects for farmers to contribute to a more sustainable agricultural and food system. To this end, the CAP plays a crucial role for Member States with limited national resources for agricultural transformation. However, so far the budgetary resources of the CAP have not been utilized effectively and efficiently to achieve key sustainability goals, as repeatedly highlighted by various scientific councils and the European Court of Auditors.
- Considering the goal of achieving EU carbon neutrality by 2050 and the consequent decarbonization of all economic sectors, there is an increasing demand for biomass. As a result, biomass will continue to be a scarce resource in the future, driven by global population and income growth, as well as the growing demands for biomass in the context of the bioeconomy. It is thus crucial to carefully balance agricultural production targets and environmental sustainability goals. Sustainable agriculture that preserves the natural production base contributes to long-term productivity and ensures food security.
- The potential EU accession of Ukraine, a country with a substantial agricultural landmass, would have significant implications for the distribution of area-based payments among Member States. Consequently, prospective accession negotiations are therefore likely to increase interest among certain actors in the targeted utilization of CAP funds.

Even today, CAP regulation at the EU level provides only a framework for the use of funds – granting Member States considerable flexibility in shaping its implementation.

The discussions on i) the design of the EU framework for the CAP from 2028 onwards and ii) its concrete implementation in Germany can therefore be largely separated. Prioritizing the debate on the future CAP in 2023 and 2024 by focusing on the EU framework design offers several advantages. Firstly, it allows for exploring ambitious CAP options at the EU level and building strategic alliances with other Member States in a timely manner. Secondly, this approach enables the mobilization of various stakeholders behind a strategy for increased ambition at the EU level within Germany, without prematurely seeking agreement on the national implementation details. This paper, therefore, outlines proposals for Germany's positioning regarding the design of the EU CAP framework.

The discussion on the further development of the CAP implementation in Germany, both before and from 2028 onwards, should not impede the fundamental debate at the EU level. This is particularly important since crucial preliminary decisions on the CAP are expected to be made in 2025 as part of the EU's multiannual financial framework decisions.

Lastly, the German government should establish the necessary conditions for ambitious and actionable targets in the realm of biodiversity, which should be addressed in future strategic plans. For instance, the development of a comprehensive biodiversity index at a national level that adequately reflects societal goals in biodiversity conservation could be considered as a foundation for binding targets.

2 The current CAP - a strong foundation for the period from 2028 onwards

The current form of the CAP provides Member States with sufficient flexibility to align available funds with socially desired goals, particularly in the areas of environmental and climate protection.

- Up to 25 % of 1st pillar funds (direct payments) can be reallocated to the 2nd pillar, and an additional 15% can be transferred for climate and environment-related measures. This amounts to a total of 40 %.
 - However, Germany has so far only utilized 10-15% of this option.
- Under Pillar 1, a minimum budget of 25% is allocated for the remuneration of public services ("eco-schemes"). This is a minimum, not a maximum percentage.
 - Germany has not exceeded the minimum share and has opted for a reduction of two percentage points, resulting in 23% for Eco-Schemes.

The "new implementation model", which involves programming all CAP measures within the framework of national strategic plans and obtaining EU Commission approval, acknowledges the diverse problem situations in the Member States.

However, it also provides the Member States with excessive opportunities to program with little ambition in terms of target orientation.

While the current CAP allows for a complete alignment with sustainability goals, it does not consistently enforce such an alignment.

Additionally, the historical rationale behind the two-pillar structure of the CAP, with co-financing absent in the first pillar and present in the second pillar, no longer holds strong justification given the future focus on remunerating the provision of public goods from the first pillar funds. Moreover, the one-year timeframe of the first pillar, which necessitates the return of unutilized funds at year-end, proves unsuitable for accommodating eco-schemes.

3 Requirements for the CAP from 2028 onwards

The EU is facing major challenges in the areas of climate change, biodiversity loss, environmental degradation and farm animal welfare. Despite the existence of politically agreed sustainability goals, agriculture and food systems are not adequately contributing to their achievement. In addition to regulatory law, financial support policies must play a role in addressing these challenges and meeting sustainability objectives. The CAP budget is crucial in this regard, and its utilization must be aligned with societal goals to secure future public funding. Against this background, it is recommended that the budget currently allocated to the basic payment of the 1st pillar (“basic income support for sustainability”) be fully redirected in the upcoming financial period towards targeted payments for services that benefit the public good. It is important to recognize that different Member States may possess distinct priorities when it comes to defining and prioritizing public goods due to their specific challenges. For example, certain regions with low-income and small-scale agriculture may aim to mitigate farm structural change and, therefore, choose to implement flat-rate premiums for small farms.

Furthermore, while increasing agricultural productivity remains important, it is essential to consider the scarcity of natural resources (such as water, biodiversity, air quality, and climate) in the productivity equation. Balancing production targets and environmental sustainability goals is crucial in the design of the CAP to ensure the preservation of natural production bases, which ultimately contribute to long-term productivity and food security.

Presently, it is the binding EU sustainability targets defined outside the CAP that primarily drive Member States to utilize CAP funds in a purposed manner: these include water protection, air pollution control and climate protection. It is recommended to complement these targets by legally binding biodiversity targets that extend beyond protected areas.

The upcoming funding period should be used for a gradual and **complete phase-out of the Pillar 1 basic payment** by 2035 for the following reasons:

- The phase-out is essential for effectively achieving EU sustainability goals, as the funds allocated to the basic payment can be better utilized elsewhere to address pressing issues.
- The CAP could transition from a defensive subsidy-focused approach to confidently positioning itself as a mechanism for rewarding public services provided by agriculture.
- Implementing an EU-wide phase-out of the basic payment would address concerns about potential distortions of competition within the EU, providing a more level playing field for all Member States.

It is important to note that the abolition of conditionality, which would accompany the elimination of the basic payment, needs to be carefully managed. This can be achieved through appropriate further development of regulatory laws or through specific interventions, such as incentives or compensation, to ensure that the removal of requirements does not lead to unintended consequences.

The phase-out of the basic payment necessitates the **concurrent introduction of premiums that incentivize farms for delivering public services**. The design of these premiums can be flexible and adapted to the specific needs of each Member State, building upon the current delivery model of the CAP. In this regard, elements from both the current second pillar measures and the eco-schemes under the present first pillar can be taken into consideration.

- To efficiently contribute to the EU's environmental, climate, and animal protection goals, these premiums must be carefully designed. This entails Member States defining targets in advance, implementing evidence-based measures aligned with those targets, including targeted participation rates, and setting premium levels accordingly. The adequacy of premium levels depends on ensuring profitability for participants. As a result, premiums can serve as effective financial incentives for many farms. This aspect should be openly communicated, emphasizing that income can be generated by providing services tailored to societal objectives. In the long run, remuneration for such services offers farmers a greater and more reliable income potential than the current basic payment.
- Given the experience with greening, standardizing these premiums at the EU level does not seem promising. A uniform design would fail to address the regionally diverse action requirements and would dilute the level of ambition.

- Instead, the focus should be on increasing the level of ambition within the current implementation model:
 - Operational criteria for target formulation need to be defined at Member State level. Measures should be science-based and linked to suitable indicators that can quantify the expected and actual contributions to the provision of public goods.
 - It is necessary to improve the data basis for evaluating the long-term effects of measures by enhancing the availability of impact indicators related to environmental conditions. The current development of monitoring systems, such as insect and soil monitoring, is laying important foundations in this regard. The results obtained from these systems should be utilized for independent evaluations.
 - The position of the EU Commission as the guardian of ambitious targets should be strengthened by extending review periods and conducting annual performance reviews. Sanctions should be imposed for non-compliance with milestones outlined in the CAP strategic plans.
 - Different EU co-financing rates should be used depending on the level of ambition of the measures. Additionally, the EU Commission should have the possibility to exclude measures with insufficient ambition.

The CAP should be financed from a single fund to reflect its new orientation. This should involve co-financing of the entire CAP strategic plans implemented by the Member States, although the overall level of previous national co-financing could well be maintained. The existing one-year rule for returning unutilized funds to the EU in the event of non-utilization should be substituted with a multi-year rule. As part of a consistent goal orientation of the entire CAP, a large part of the interventions implemented in the Member States should be multi-annual and there should be an increased orientation towards landscape-level measures coordinated between different stakeholders.

Given new challenges such as the need to adapt to climate change and the complexity of value networks in the bioeconomy, the CAP continues to play an important role in strengthening knowledge and innovation systems.

4 Proposals for the federal government's positioning

At the EU level, the federal government should:

- Advocate for a gradual phase-out of the base premium in the time frame of 2028 to 2035;
- Support an increase in the ambition level of targeted payments to reward the provision of public goods under the current implementation model from 2028-2035;
- Proactively promote these ideas early on and build alliances with other Member States;
- Advocate for ambitious sustainability goals at the EU level;
- Advocate for providing special support to Member States facing administrative challenges in establishing a system of targeted premiums;
- Engage in discussions with other Member States to develop a common understanding regarding the specific conditions under which public funding would be justified for different public services and goods.
 - For example, the possibility could be opened up for Member States to make direct payments to small farms characterized by small-scale agriculture and a significant agricultural employment share, with the aim of addressing social and regional policy objectives.
- Promote an approach that assesses the climate effectiveness of measures based on their actual potential for greenhouse gas reduction, rather than applying a generalized approach, and integrate this into program development;
- Advocate for an independent and ambitious evaluation of the impact of CAP measures according to the objectives of national strategic plans, utilizing existing indicators and developing new ones, such as a biodiversity index.

In the implementation of the current CAP until 2027, the federal government should:

- Take a pioneering role within the EU by further expanding eco-schemes in Germany during the CAP period 2023-2027 or shift additional funds to the second pillar. This will strengthen target achievement within Germany and enhance credibility among Member States. Germany should show that implementation is possible and demonstrate its own conviction for an ambitious design. Finally, such a stepwise approach would prepare farms for the changes in the 2028-2035 funding period and contribute to transparency.
 - New measures and an increase in subsidy rates per hectare should be considered.

- For example: starting in 2024, there could be an annual transfer of an additional 5% from the basic payment to either the second pillar or eco-schemes.
- Conceptually advance the further development of target-based payments within Pillar 2 and Pillar 1 eco-schemes:
 - In principle, options such as measure-based programming (like current eco-schemes and most agri-environmental and climate measures), score systems, or results-based payments can be considered.
 - Implement regional differentiation of payment levels based on landscape and agro-ecological zone.
 - Involve key domestic stakeholders, including agricultural associations, environmental associations and academia in the debate from 2023 onwards.

To build alliances at the EU level, it is important to:

- Be willing to support Member States facing administrative challenges in implementing targeted premiums by providing capacity building and simplified implementation requirements.
- Define an understanding of public goods that considers the diverse challenges faced by Member States while maintaining the target orientation (e.g., flat-rate direct payments to small farms in low-income regions with high shares of agriculture in employment).
- Accept different speeds, allowing e. g. longer transition periods for central and eastern European Member States to transition to target-oriented payments. Justification could be provided by the fact that the need for environmental policy action is higher on average in the old Member States, and the social significance of the basic payment is high in many central and eastern European Member States.
- Facilitate the formation of a reform-oriented majority by balancing interests within the CAP as well as including other policy areas (e.g., environmental, climate and health policy).

5 Conclusion

The current discrepancy between target formulations in EU climate and environmental policies, such as the EU Green Deal and the Farm-to-Fork strategy, and the practical implementation of the CAP threatens the achievement of agreed sustainability goals and jeopardizes the continued existence of the CAP itself. Public acceptance of the CAP and its financial resources critically depends on its alignment with societal goals. A transformation of the CAP in the sense of a complete focus on the provision of public services is therefore urgently needed. This is the only way to put agriculture in a position to make the desired contributions, also in economic terms. Germany as a large Member State should advocate for this transformation at an early stage.