

Targets and starting points for CAP support post 2027

*Discussion paper following the decision
of the DBV Executive Committee of 7 November 2023*

Critical development of the current CAP reform

In 2023, the first year of the last CAP reform's implementation, it is already obvious that EU support policy has severe flaws, notably in relation to the CAP's "Green Architecture." Because the corresponding measures are not appealing to many farmers, only about 60 % of the funding for the new Eco Schemes was applied for in Germany. Overall, the political promise of a "New Delivery Model" with a stronger focus on results and greater flexibility to implement policy for Member States and farmers has not been realized. Regrettably, the GAEC rules, some of which are incompatible with good farming practice, undermine EU farm competitiveness.

The "Green Architecture" of enhanced conditionality for the basic income support (especially GAEC requirements), the Eco Schemes and Agri-Environmental and Climate Measures (AECMs) is over-structured, unnecessarily complicated and delivers far less than it could. Farmers, governments, and advisors are no longer able to see through it. Bringing all support measures together in a centralised national CAP Strategic Plan is insufficient to address fundamental shortcomings. Changes to the CAP Strategic Plan must be developed in advance and negotiated with professional agricultural representatives. Well-founded proposals and criticisms of agricultural practice must be more carefully considered and implemented.

From 2023 onwards, substantial parts of Germany's Eco Schemes will cannibalise proven Agri-Environmental and Climate Measures of the German federal states. The basic income support will be reduced even further as a result of the greatly enhanced conditionality. As a result, the attractiveness and financial benefit of these direct payments for farmers is diminishing. However, we continue to support the fundamental concept of Eco Schemes as a one-year Agri-Environmental and Climate Measure in addition to proven multi-year measures.

Key points for the further development of CAP support 2028-2035

As DBV, we propose further developing the CAP support policy through:

- Equal importance of the support targets of environmental and climate protection, competitiveness, and rural development/agricultural structure.
- A potential reduction in the basic income support requires a parallel reduction in conditionality (including GAEC).
- Making Agri-Environmental and Climate Measures more attractive for farmers.
- Promoting risk management and generational renewal more strongly and nationwide.

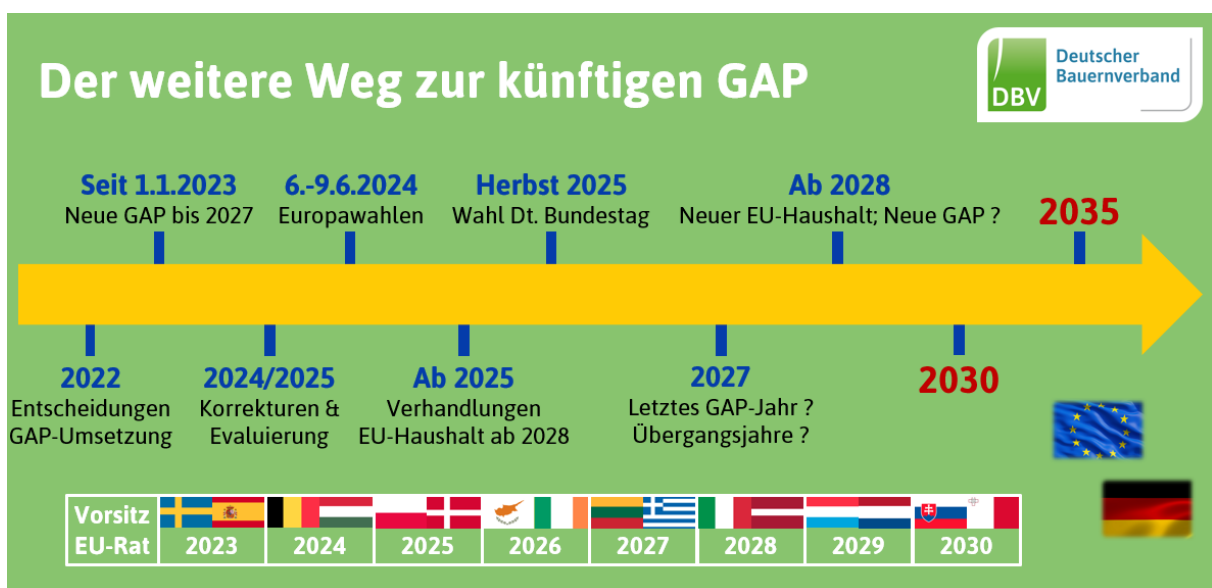
For the transitional phase, farms that do not apply for basic income support should **a)** be able to participate in individual Eco Schemes and Agri-Environmental and Climate Measures and **b)** be exempted from conditionality/GAECs. As a further transitional measure, an individual farm budget for Eco Schemes/Agri-Environmental and Climate Measures can be introduced to give farms a certain financial stability in agricultural support.

1. Recommendations of the “German Commission on the Future of Agriculture”

In June 2021, in Germany the “Commission on the Future of Agriculture (ZKL)” formulated the following recommendations for the further development of CAP support (extract): *“The current area-based direct payments from Pillar 1 of the CAP should be gradually and completely converted over the next two CAP periods, starting in 2023, into payments that make specific services in line with public goals economically attractive. This process must proceed steadily and in clearly defined steps to ensure planning security and avoid disruptions. During a gradual complete conversion of these direct payments, the conditionalities must be reduced accordingly. Instead, farmers should be offered economically attractive programmes that are geared towards achieving the social and ecological transformation goals. (...)”*

Recent years and ongoing developments indicate that the challenges and uncertainties in food supply as a component of global security are increasing. Climate change and the preservation of biodiversity are also linked to this. The resilience of the agricultural and food sectors, as well as food security, must become a top political priority for society once again. This must be considered when considering CAP support post-2027, as well as when implementing the Farm-to-Fork Strategy.

2. Basic considerations for the further development of CAP support post 2027



After the European elections in 2024 and the consequent appointment of the new EU Commission, political deliberation on the next CAP support period framework will begin. According to past experience, the political decision-making process will take around five years before implementation. As a result, further transition years will likely be required following the present CAP period of 2023-2027. This makes it even more important for the agricultural authorities to communicate this at an early stage to give agricultural businesses planning security. Impetus from agricultural practice to overcome conflicts of objectives and functional deficiencies in CAP support is needed now.

In general, the structure of support and funding processing needs to be simplified and clarified. To that end, the possibilities of a "claimless" digital application system 4.0 should be considered. Regional differences in CAP support must be maintained. Coordination of the support system between the German federal and state governments is especially important in this case.

Political and societal expectations for farmers to provide public services are rising significantly, owing in part to the goals of the "Green Deal." Farmers must be able to provide services to society while also making a profit. As a result, the EU agricultural budget and its income effectiveness for farmers must be increased, taking current developments into account, such as inflation and new EU accession countries.

Additional compensation and financing are required for fundamental additional requirements, such as climate protection and animal welfare.

3. Approaches for evolution of an improved CAP support post 2027

3.1 Clear division of CAP support into three functional budget areas

Irrespective of the question of how the current two-pillar structure of CAP support (EAGF Guarantee Fund with 100 % EU funding and EAFRD fund with co-financing) will be organised in the future, we propose structuring the support policy in three functional areas:

- **Functional Area A:** Attractive payment for environmental, climate protection and social services
- **Functional Area B:** Competitiveness & risk management; investment & innovation; young farmers
- **Functional Area C:** Rural development & agricultural structure

Appropriate minimum budgets for the three functional areas must be provided. CAP support should remain focused on ensuring a comprehensive and competitive agricultural sector. Increased funding for the three functional areas from the German federal states and the Joint Task for Agricultural Structure and Coastal Protection (GAK) is still indispensable. Parts of the budget must continue to be funded entirely by the EU. To meet the challenges, additional funding options from other sources may be required.

Support for agriculture in less-favoured areas and the promotion of young farmers must remain important components of CAP support or be expanded (see Chapter 3.4).

Coupled direct payments must be strictly limited and must not distort intra-EU Member State competition.

Overall, this should make Germany's funding structure for farmers and other stakeholders more predictable and standardised than it is now.

3.2 Approaches to make Agri-Environmental and Climate Measures more attractive

Agri-Environmental and Climate Measures within CAP support must be made much more appealing to farmers to be developed into profitable entrepreneurial opportunities. Farmers must be able to provide social benefits in a way that is both feasible and profitable. In the long run, however, a sufficient willingness to pay on the part of society is required, which must be backed up in practice by public funds. A further increase in standards and environmental requirements, on the other hand, is not an appropriate approach and is rejected. Location-specific Agri-Environmental and Climate Programs of Germany's federal states are preferable.

DBV is considering the following starting points to achieve this:

- Further development of existing Agri-Environmental and Climate Measures: Combination of multi-annual and annual measures; abandonment of compensation for disadvantages in favour of payment for special environmental services; effective incentive component; supply-oriented calculation differentiated according to location-related yield capacity; bundle of measures; surcharge for transaction costs.
- Testing of tenders/bidding procedures; need for regionally defined environmental targets; award criteria for operating companies required.
- Testing of results-oriented AECM, as a combination of measure-oriented basic amount and results-oriented bonus.
- Testing the possibilities of operational measure budgets for a predictable participation of farmers and to prevent oversubscription of budgets.
- Enabling regional nature conservation co-operatives based on the Dutch model under the responsibility of agriculture as a supplement to individual applications or, where applicable, at the level of the German federal states; creating the necessary support structures within the agricultural profession.
- Payment for climate services provided by agriculture should be prioritised in a measure-oriented manner from the Climate and Transformation Fund (national/European). Experiences from the DBV-BÖLW humus project should be incorporated.
- To date, payments for CAP Agri-Environmental and Climate Measures can only be granted above the regulatory framework. Exceptions are Natura 2000 areas, where permanent compensation for management restrictions can be paid from CAP funds. It is necessary to examine whether this is still sufficient in view of increasing national and EU requirements outside Natura 2000 areas, particularly in the case of crop protection, fertilisation, and nature conservation requirements. In principle, additional sustainability services provided by farmers for competitive reasons must be paid for separately and permanently.

Agri-Environmental and Climate Measures and Eco Schemes should, in general, focus on production-integrated measures. As DBV, we advocate for the abolition of blanket or percentage area targets for fallow land and set-aside, as such instruments are no longer appropriate for the altered food security and supply policy situation, as well as the growing yield risks caused by climate change. The EU shares responsibility for the global supply situation and must avoid additional imports of agricultural products. This necessitates a long-term increase in the production of food and animal feed, renewable raw materials, and biodiversity. Biodiversity promotion should also be geared toward high land efficiency. The calculation should not be based solely on compensation for disadvantages, but rather on the evaluation and payment of environmental performance.

3.3 Expansion of risk management

In the foreseeable future, CAP direct payments will no longer be able to assume the function of a risk hedge for market crises, crop failures or similar threats. The following points are proposed to stabilise farms in the event of foreseeably higher risks (including weather extremes in climate change and global spread of animal diseases):

- Rapid expansion and development of the promotion of multi-risk crop insurance in Germany. From 2030 onwards, nationally uniform support from CAP funds and from national funds that are no longer required for previous ad-hoc crisis measures.
- Rapid expansion and development of the promotion of animal insurance (strengthening of animal disease funds through additional public funding, yield loss and business interruption insurance) in Germany. From 2030 onwards, nationally uniform support from CAP funds and from national funds.
- Study and testing of revenue hedge based on findings from similar models in the USA (until 2030).

The existing instruments of a "safety net" against extreme price crises must be fundamentally continued and stabilised in the Common Market Organisation (CMO). In terms of taxation, the introduction of a risk profit reserve in Germany remains a priority.

3.4 Support for next generation of farmers in agriculture

Managing generational change in agriculture is a major challenge. 44 % of farm managers in Germany are aged 55 or older (2020). In DBV's view, significantly stronger incentives and support measures for taking over farms, as well as for business start-ups, are required in the future. As DBV, we propose the following solutions:

- Nationwide implementation of an effective farm establishment premium as part of CAP support, as a basic subsidy linked to an economic business model.
- Comprehensive strengthening and further development of increased investment support including innovation and diversification support for young farmers by the federal states in Pillar 2.

Overall, the CAP budget for supporting young farmers should be significantly increased. This must be equally open to all legal forms. An improved funding framework must also include expanding the use of digitalisation and new technologies, reducing bureaucracy in the application process and increasing the motivation of young female entrepreneurs to start farming.

3.5 Strengthening rural development as an anchor of stability for CAP support

Agriculture and rural areas are inextricably linked, including in CAP support. Stable infrastructure, including efficient digital networks and comprehensive land management, is critical for rural areas to be future-proof and vital.

This should be a clear priority for rural development funding in the post 2027 CAP. With limited funds, a predominant and uniformly defined share of Pillar 2 funding must be used explicitly for agri-structural measures with clear, uniform rules in all regions (see section 3.2). This includes, above all, encouraging investments in agriculture and agricultural infrastructure.

For general public services (including services of general interest), funding sources other than the two EU agricultural funds (EAGF and EAFRD) must be identified.

As the demographic development of rural regions in Europe and Germany shifts between growth and shrinkage in the medium and long term, DBV supports directing regional funding policies even more strongly toward rural areas that will require significant structural adjustment in the future.

4. Transitions to a future funding system

The transition from the current support architecture to a future system must be predictable for farmers. The transition must also be practicable and aim to ensure the economic stability and competitiveness of farms. In addition, the EU, federal and state administrations must show a willingness to initiate such a transition in an unbiased manner.

DBV sees the following starting points to initiate this transition:

4.1 Separation of the Eco Schemes and Agri-Environmental and Climate Measures from the basic income support (incl. conditionality/GLÖZ)

With the lower basic income support, further extended conditionality and higher inflation, the internal justification for this CAP subsidy will be lost over time. The net income effect for farmers is shrinking noticeably. At the same time, farmers expect an attractive payment for their environmental services.

Proposal: From 2025, farmers will have the opportunity to participate in individual Agri-Environmental and Climate Measures and Eco Schemes, even if they do not apply for the basic income support. Conditionality/GAEC as a whole-farm obligation will then no longer apply to these farms. At the same time, the GAEC requirements must not be shifted to general specialised and regulatory law.

This would be a first step towards adapting to a future funding philosophy based on performance rather than conditions. To this end, the CAP support amounts must also be increased so that they are attractive across the board, even in favourable locations.

4.2 Operational budget for Agri-Environmental and Climate Measures

Proposal: An individual farm budget for Eco Schemes or for additional multi-annual Agri-Environmental and Climate Measures is introduced for the transition. Such an entitlement to Agri-Environmental and Climate support is initially determined based on the farm's area, possibly with a supplement up to a certain number of hectares. This gives all farms a certain financial stability and perspective in agricultural support and the opportunity to develop a branch of biodiversity services.

It must be ensured that a broad, practicable and at the same time predictable range of Agri-Environmental and Climate Measures is offered. After 2035, such an operational budget can be gradually made more flexible.