The future of direct payments

Presentation to ELO Workshop

Brussels

6 February 2025

Professor Alan Matthews

Trinity College Dublin, Ireland

alan.matthews@tcd.ie

Outline

- The budgetary and policy context
- Background to direct payments
- Targeting direct payments to those in need?
- Direct payments as green payments
- Personal recommendations

Crucial context : the budget for the next CAP

- **The size of the MFF**
  - Limited enthusiasm to increase size of MFF or to grant new own resources
- **Share of the CAP**
  - Multiple expenditure demands on next MFF, including requirement to pay back NGEU funds, absent an increased MFF implies a potential further squeeze on the CAP budget
- **Possible reconfiguration of the MFF**
  - Move from programme-based to policy-based budget (VdL Political Guidelines)
  - A plan for each country linking key reforms with investments targeted to where EU action is most needed (Serafin Mission Letter)
  - Fewer programmes with Commission proposal on a Single Fund with same set of rules applying to investments (leak)

Total planned public expenditure under CSPs at EU level including national co-financing 2023-2027

CAP measure	€ million	Share %
BISS - Basic income support for sustainability	96,697	31%
Eco-scheme – Schemes for the climate, the environment and animal welfare	44,713	15%
CIS – Coupled income support	23,031	7%
CRISS – Complementary redistributive income support for sustainability	20,094	7%
CIS-YF – Complementary income support for young farmers	3,407	1%
Cotton – Crop specific payment for cotton	1,232	0.4%
Total direct payments – EAGF	**189,110**	**62%**
Total sectoral support – EAGF	**9,240**	**3%**
EAFRD support for rural development - EU contribution	65,999	21%
EAFRD support for rural development - national co-financing	43,003	14%
Total support for EAFRD - Rural development	**109,002**	**35%**
Total CAP planned expenditure	**307,351**	**100%**

Source: Commission, Approved 28 CAP Strategic Plans (2023-2027): Summary overview for 27 Member States Facts and figures, 2023

Implications of CAP New Delivery Model

- Traditional focus on influencing the CAP Regulations in order to change role of direct payments
- New Delivery Model gives great flexibility to Member States
  - Ability to shift resources between Pillars
  - Member States can allocate almost entire Pillar 1 budget to payments for public goods
  - Member States can introduce capping and degressivity for payments over €60,000 per annum
  - Member States define their GAEC standards and may set standards additional to those laid down concerning the main objectives in Annex III.
- Argument that common CAP rules avoid distortion of competition within single market (e.g. minimum ring-fencing requirements)
- More important is to ensure high level of ambition/effectiveness
- Policy stability is desirable, much can be achieved by tweaking current rules

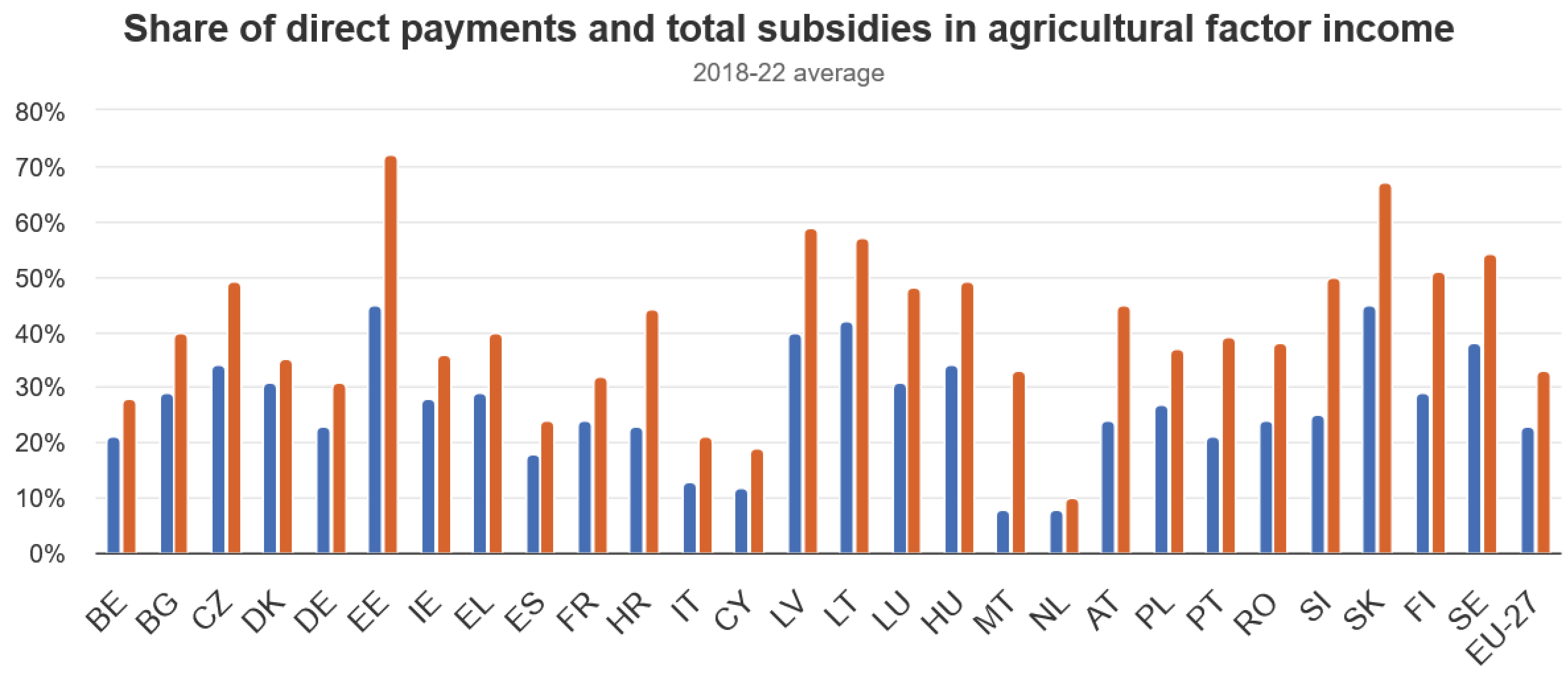
Future role of direct payments

- "Direct payments still make up the bulk of CAP spending: these are not targeted to income and may have unintended consequences in retaining farmers in uncompetitive activities, stifling innovation, slowing structural and generational change, and weakening resilience".

  - *OECD, [Policies for the Future of Farming and Food in the European Union](), 2023*

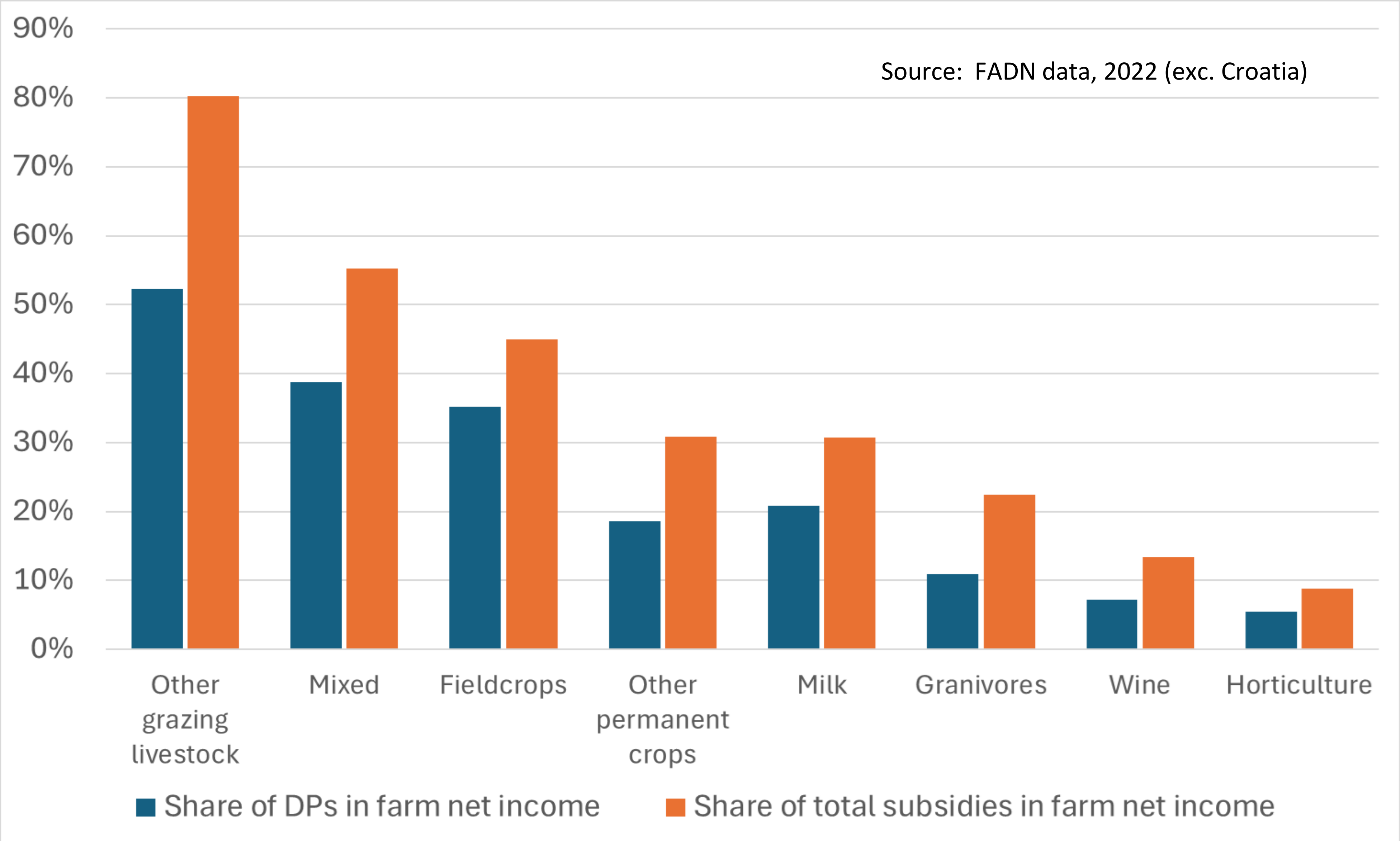
Policy issues around direct payments

- Distribution of payments
- Income support versus environmental objectives
- Targeting and effectiveness
- Economic and social impacts
- Allocation criteria between Member States
- Simplification and administrative burden
- Trade and market distortions
- Innovation and generational renewal
- Public perception and legitimacy

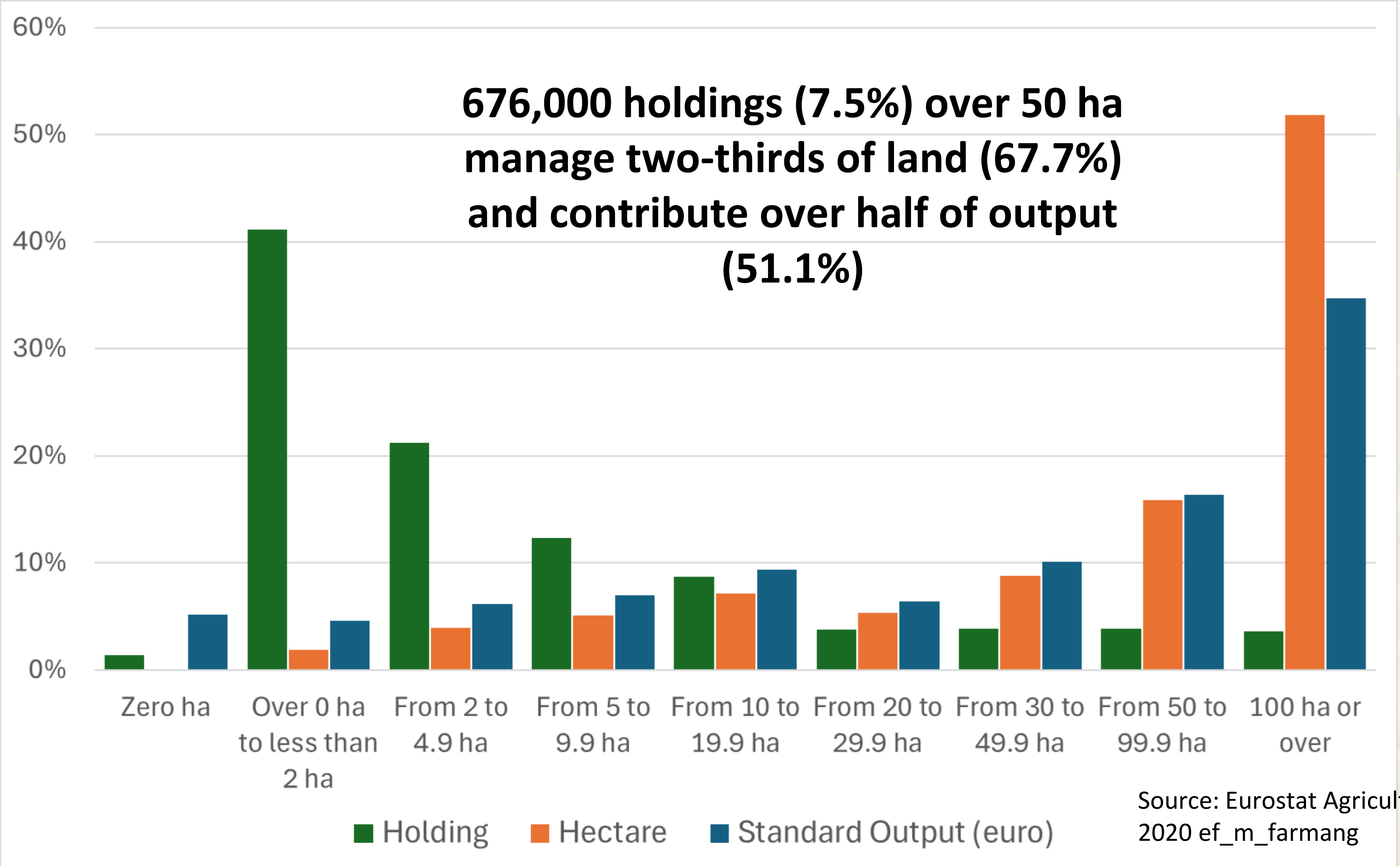


Source: DG AGRI, [CAP expenditure]

Dependence on direct payments by farming system

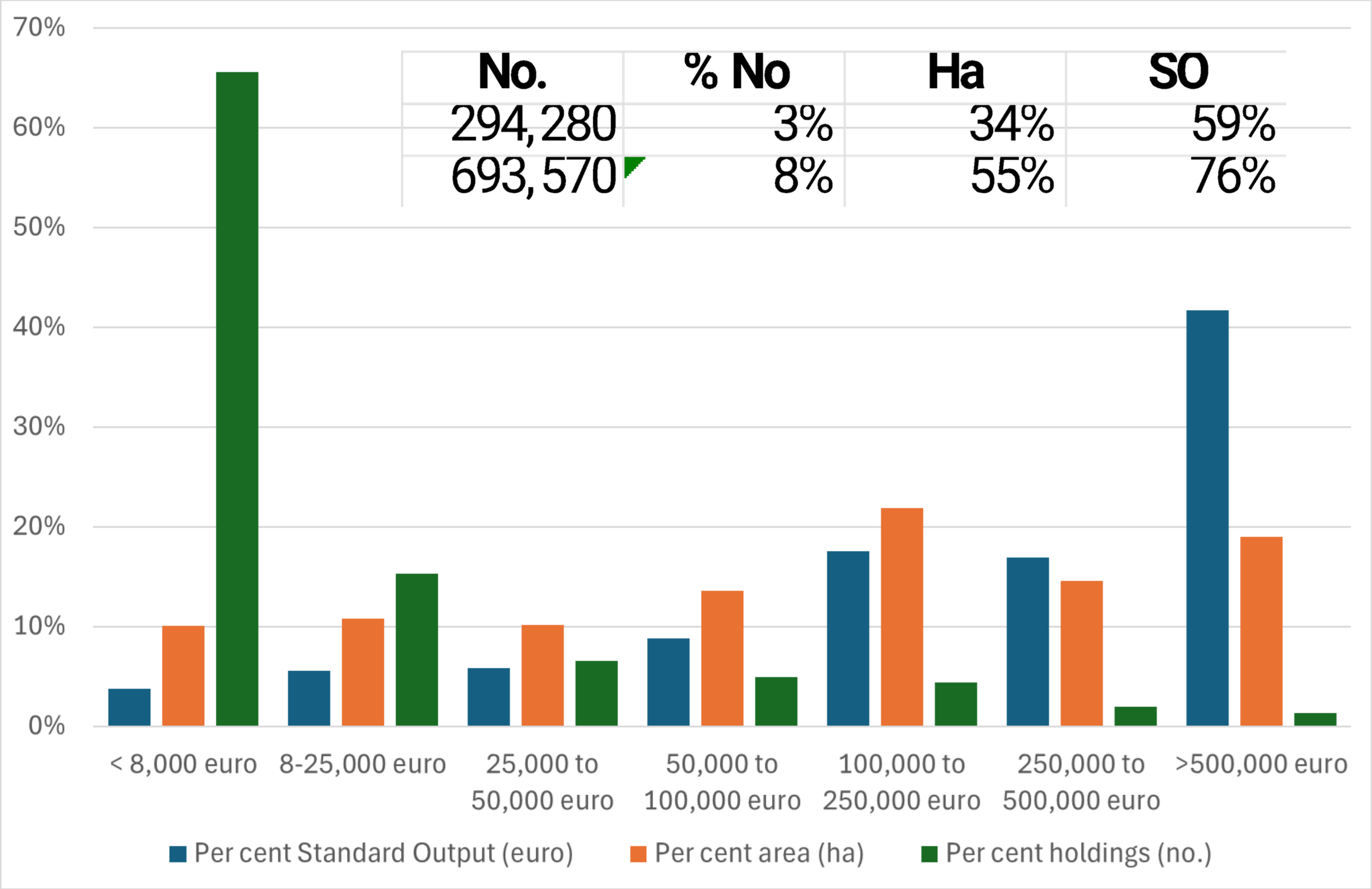


Distribution of farms by UAA size



Source: Eurostat Agricultural Census 2020 ef_m_farmang

Larger farms produce the great majority of output…



9 million holdings in 2020,
just under 700,000 produce 76% of our food

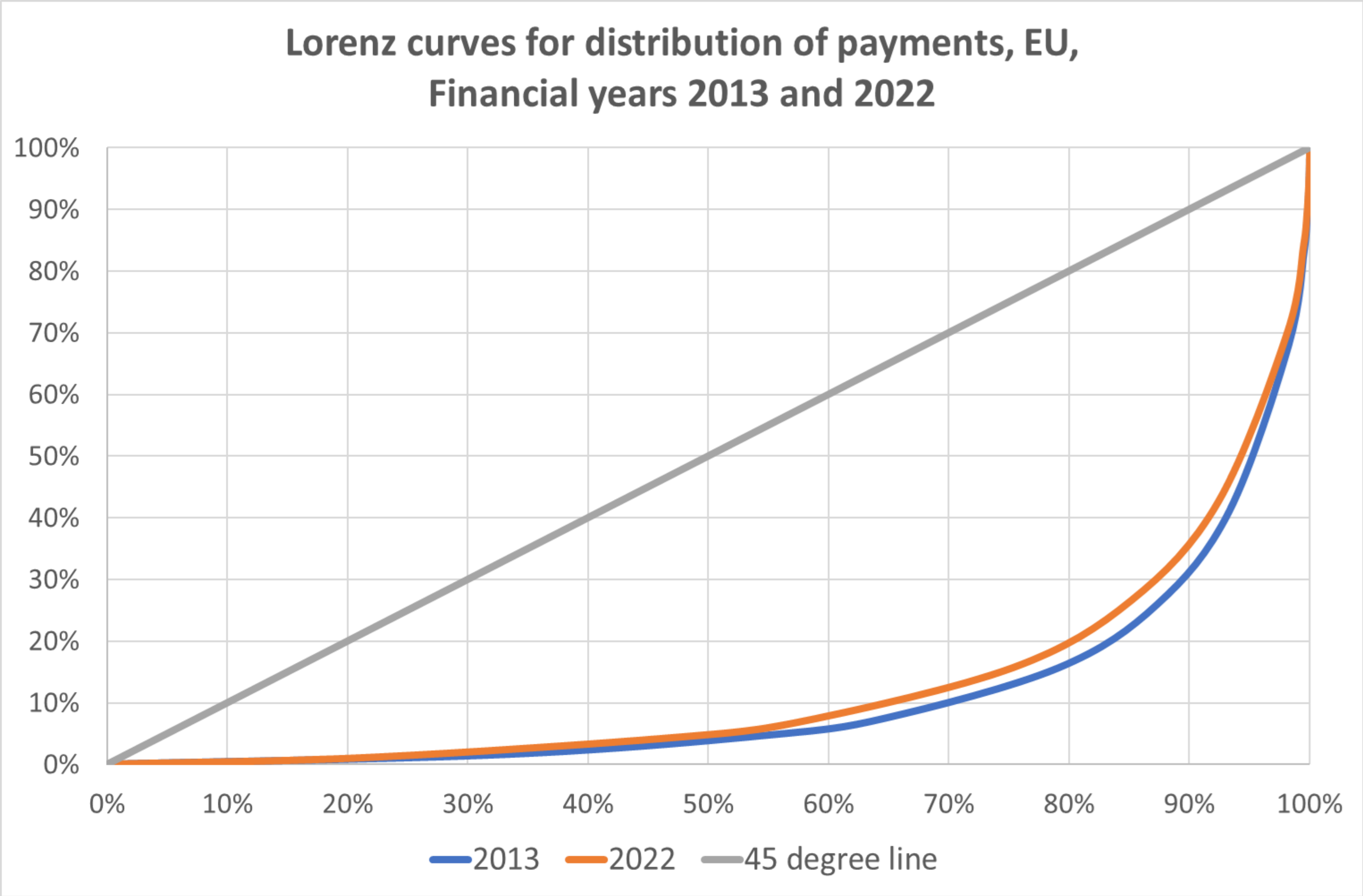
Source: Eurostat, Agricultural Census 2020

… Smaller farms struggle with income

EU farm income by economic size of holding, 2022

Economic Size	Farms represented	Total output (€/farm)	Farm Net Value Added (€/AWU)	Family Farm Income (€/FWU)
(1) 2 000 - < 8 000 EUR	611,202	10,156	4,211	3,751
(2) 8 000 - < 25 000 EUR	1,198,277	23,385	12,066	11,464
(3) 25 000 - < 50 000 EUR	528,821	52,893	20,998	20,380
(4) 50 000 - < 100 000 EUR	474,911	99,810	32,096	33,312
(5) 100 000 - < 500 000 EUR	568,380	303,819	55,968	67,224
(6) >= 500 000 EUR	116,339	1,599,995	73,721	189,401

Source: FADN database, 2022 data (exc. Croatia)

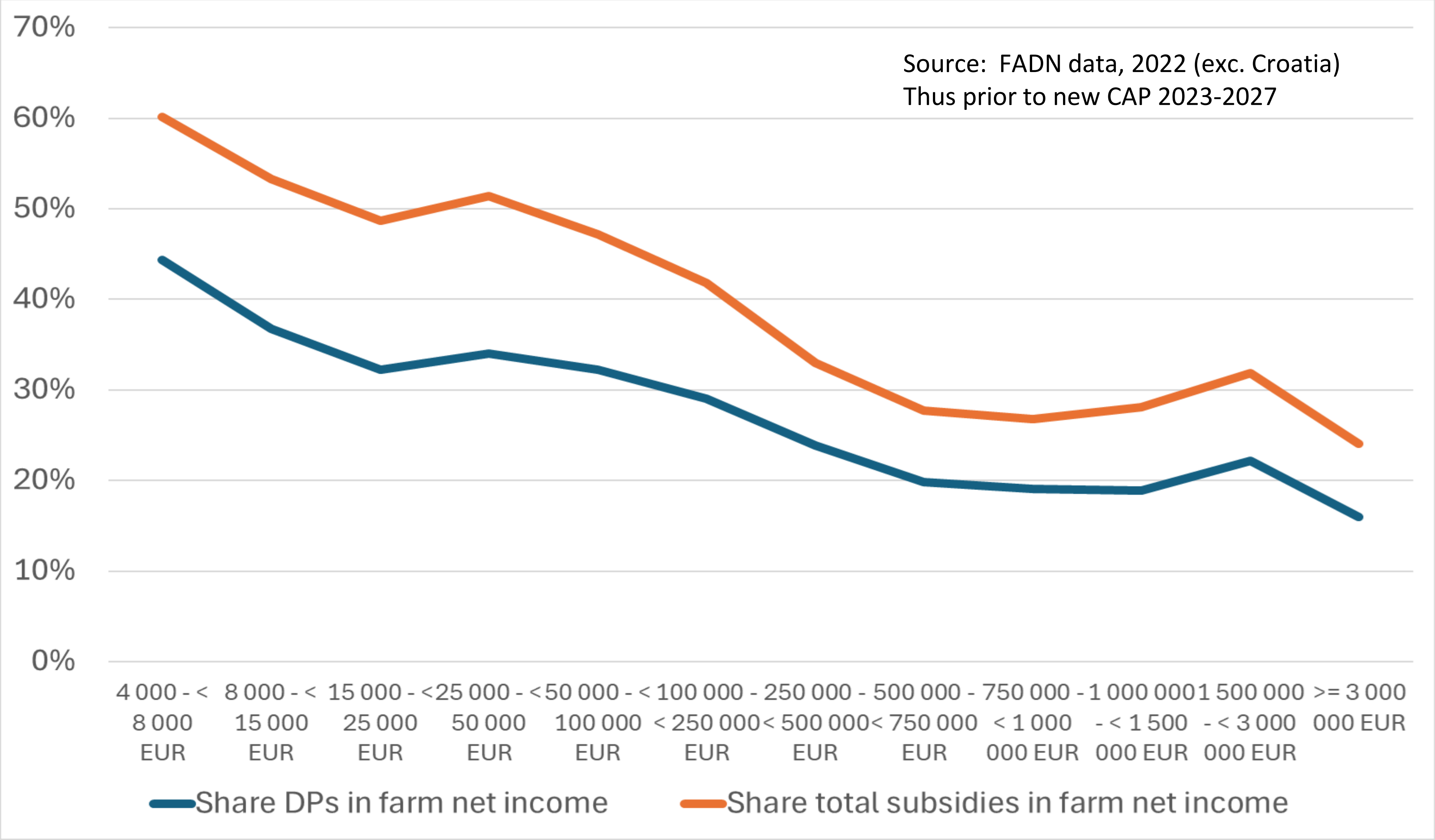


Financial Year figures refer to Claim Years 2012 and 2021.

Changes reflect changes between 2017-2013 CAP and 2014-2022 CAP plus UK exit.

Source: Own calculations based on DG AGRI, Indicative figures on the distribution of aid, by size-class of aid, received in the context of direct aid paid to the producers, 2022 data are the latest available published June 2024.

While most CAP subsidies go to larger farms, they contribute most to income on smaller farms



Income support: the distribution of direct payments

Strategic Dialogue on the Future of Agriculture

- Income support needs to be better targeted at active farmers that need it most… financial public support has to be based on farmers' *(lack of?)* economic viability to be demonstrated by a standardised methodology. A task force should be established to evaluate the most appropriate mechanisms and criteria to better target income payments.

Mission Letter to Commissioner Hansen

- "You will ensure that our future common agricultural policy is fit for purpose in order to provide targeted support to farmers who need it most, notably small-scale farmers, promote positive environmental and social outcomes through rewards and incentives for ecosystem services …. "

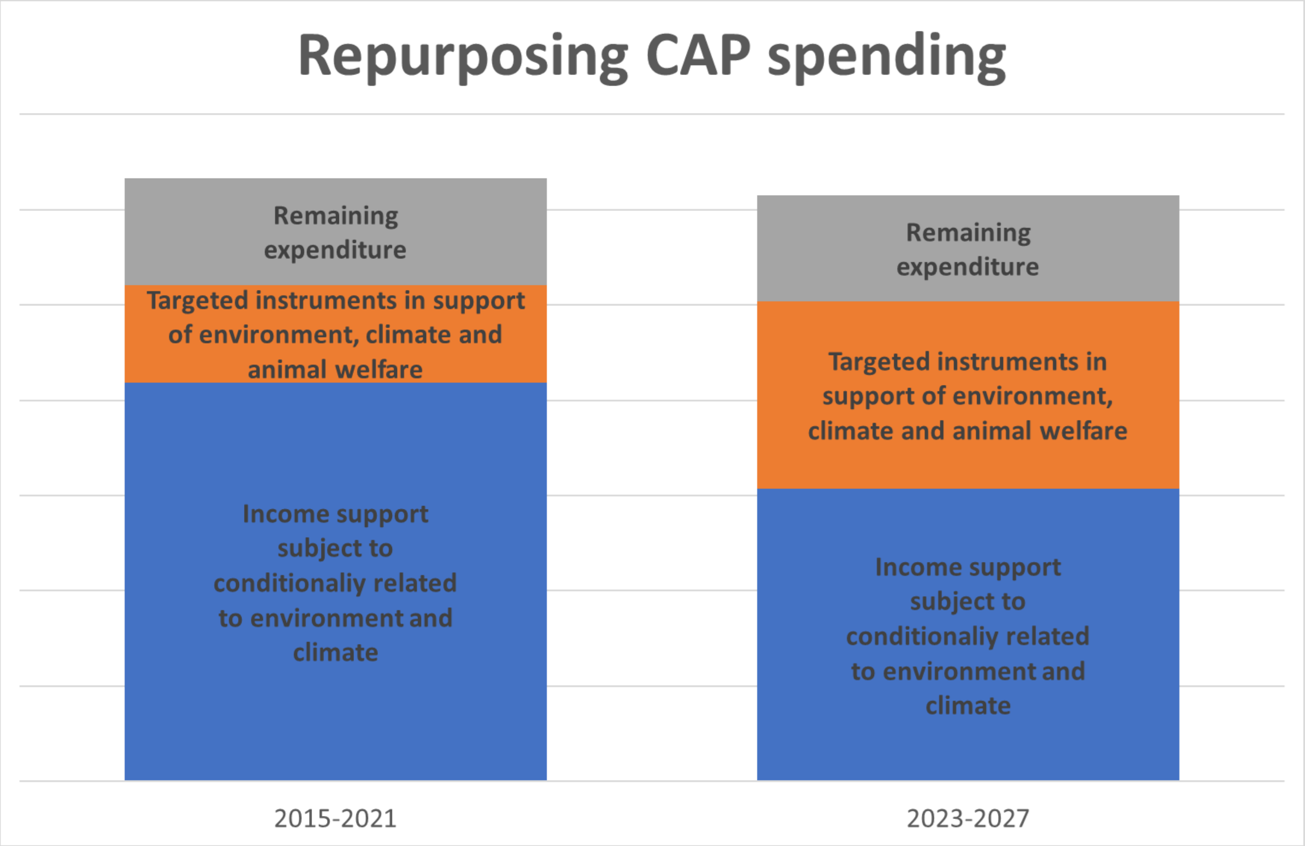
Personal reflections on redistribution

- **Capping – YES**
  - Income support for large farms is not justified but, given they manage significant areas of land, support for the green transition is justified
- **Increase income support payments to smaller farms – NO**
  - Hope that this might slow down exodus of smaller farms is misplaced, cost per job saved is enormous (anything from $40,000 to €300,000 annually, Blomquist and Nordin (2017), Garrone et al (2019), Zimmert and Zorn (2023))
  - Continued structural change while guarding against the well-known drawbacks of industrial farming is necessary to create viable farms…
  - … and also desirable for Europe facing labour shortages in the future
  - Small farm size in area is not a good indicator of need
  - Linking payments to labour units is not a good idea
  - The CAP is not an effective social policy, best left to national systems (excellent Irish examples in Rural Social Scheme and Farm Assist Scheme)

Using direct payments to support the green transition

Innovations in current CAP

- Ring-fencing minimum spending on eco-schemes
- Strengthened conditionality, building on the previous cross-compliance and greening obligations …
- At least 40% of CAP spending should contribute to climate-related objectives
- …but lower budget despite estimated income reduction of 2-4% ([Petsakos et al., 2022](#))



Eco-schemes

- As for agri-environment schemes, eco-schemes are **voluntary** schemes for the climate, the environment and animal welfare
- Eco-schemes are **annual schemes** (some possibility for multi-annual payments)
- Eco-schemes can be **designed** as whole farm approaches, covering a specific farm system, or at parcel level
- Eco-schemes can be **targeted** to particular areas where justified by the SWOT analysis (e.g. Natura 2000 areas, natural reserves, mountain areas, areas at risk of soil erosion)
- Practices funded by eco-schemes **must go beyond conditionality**
- Eco-schemes have **additional payment flexibilities** (top-up as well as costs incurred/income foregone model)
  - Requirement that eco-scheme payments are consistent with WTO Green Box criteria (e.g. payments related to specific crops must be based on costs incurred/income foregone)

Enhanced conditionality

- CAP 2023-2027 introduced one new GAEC and two new SMRs, as well as updating four former greening requirements
- Significant rolling back of higher ambition in 2022-2024 through a series of measures variously justified on food security concerns, a fall in the value of cereals production, and to reduce administrative burden (Simplification Regulation)
- .. not all Member States made use of exemptions (Zwaan, 2025)
- Substitution of mandatory GAEC 8 on non-productive features by voluntary eco-scheme aligns with principle that farmers should be rewarded for undertaking environmental and climate action (Matthews, 2024)

Personal reflections on direct payments and the green transition

- Despite pushbacks against environmental regulation, environmental and climate challenges need to be addressed
- Increased ring-fencing in Pillars 1 (and 2) can help to ensure level playing field for more environmentally-ambitious Member States
- Does it make sense to continue eco-schemes in P1 and AECMs in P2?
- Scope for improving the design of national P1 and P2 agri-environment-climate measures depends on more effective performance-based monitoring
- If income support payments are limited to smaller farmers, GAEC conditionality loses much of its teeth, needs to be complemented by subsidies or SMR regulation

Personal recommendations

Under the New Delivery Model, much can be done to improve targeting and effectiveness of direct payments without significant changes in CAP architecture

1. Cap area-based direct payments to a much lower limit than the current €60,000
2. Do not distribute proceeds to smaller farms but instead use the funds to support farmers, large and small, to make the green transition
3. Some funds will be needed in any case to maintain GAEC practices as conditionality will lose much of its teeth, though national regulations should also take up some of the slack.
4. If additional CAP funds become available, consider implementing the Strategic Dialogue recommendation for an Agricultural Just Transition Fund
5. National and private funding for the green transition should be encouraged
6. Greater effectiveness of direct payments in future depends more on way Member States design their national Strategic Plans than on changes at EU level.