Leibniz-Institut für Agrarentwicklung in Transformationsökonomien

Economic, Societal, and Political Impacts of Capping Direct Payments under the CAP 2028–2034: Insights from Eastern Germany

Alfons Balmann

Conference “Sustainable Agricultural Practices in Harmony with Environmental Protection”, Prague, 21.10.2026

The current EU Common Agricultural Policy

EU Green Deal and Farm-to-Fork Strategy

The use of pesticides in agriculture contributes to pollution of soil, water and air. The Commission will take actions to:

- ✓ **reduce by 50%** the use and risk of chemical pesticides by 2030.
- ✓ **reduce by 50%** the use of more hazardous pesticides by 2030.

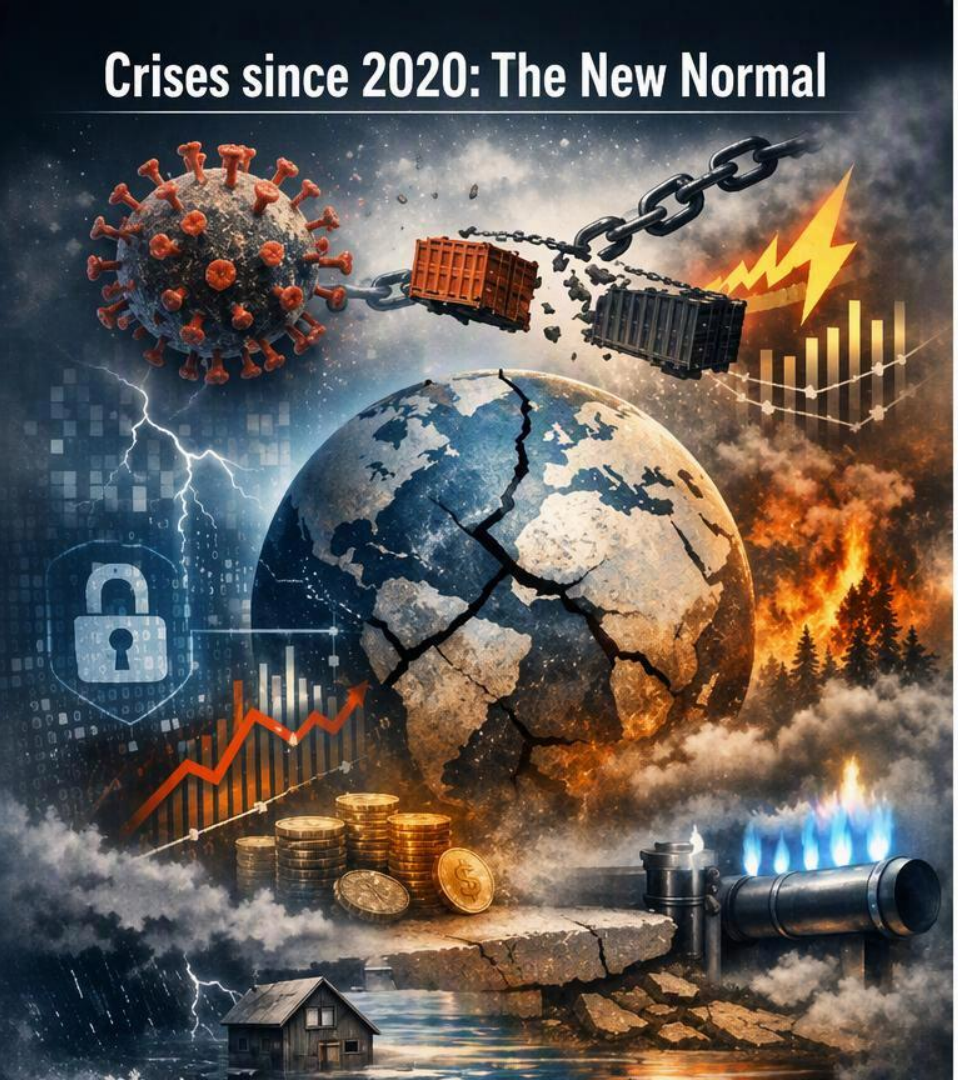
The **excess of nutrients** in the environment is a major source of air, soil and water pollution, negatively impacting biodiversity and climate. The Commission will act to:

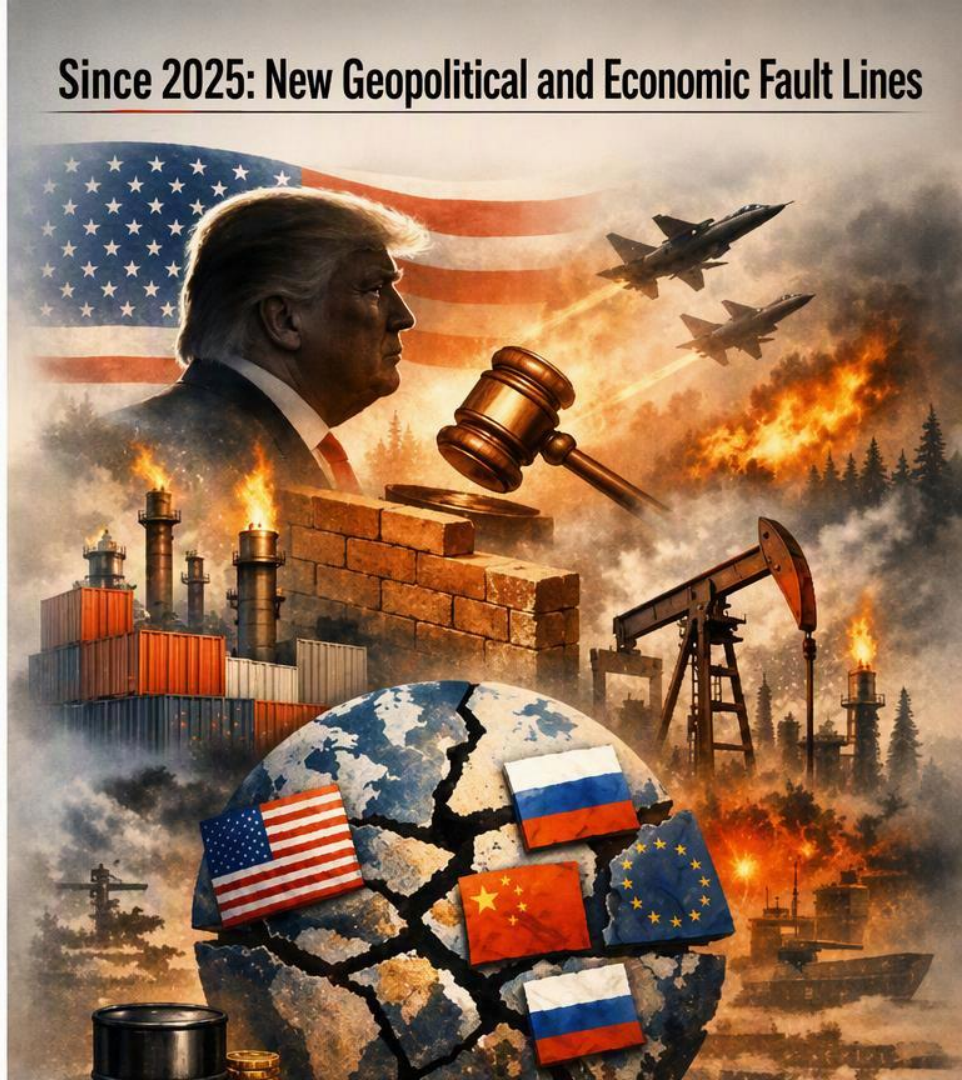
- ✓ **reduce nutrient losses by at least 50%**, while ensuring no deterioration on soil fertility.
- ✓ **reduce fertilizer use by at least 20%** by 2030.

Antimicrobial resistance linked to the use of antimicrobials in animal and human health leads to an estimated 33,000 human deaths in the EU each year. The Commission will **reduce by 50% the sales of antimicrobials for farmed animals and in aquaculture by 2030**.

Organic farming is an environmentally-friendly practice that needs to be further developed. The Commission will boost the development of EU organic farming area with the aim to achieve **25% of total farmland under organic farming by 2030**.

From farm to fork: Our food, our health, our plan (europa.eu)


Crises since 2020: The New Normal


Since 2025: New Geopolitical and Economic Fault Lines

Draghi-Report

Source: https://commission.europa.eu/topics/eu-competitiveness/draghi-report_en

- **Close the innovation gap!**
- **Decarbonize while securing competitiveness!**
- **Increase safety and reduce dependency!**

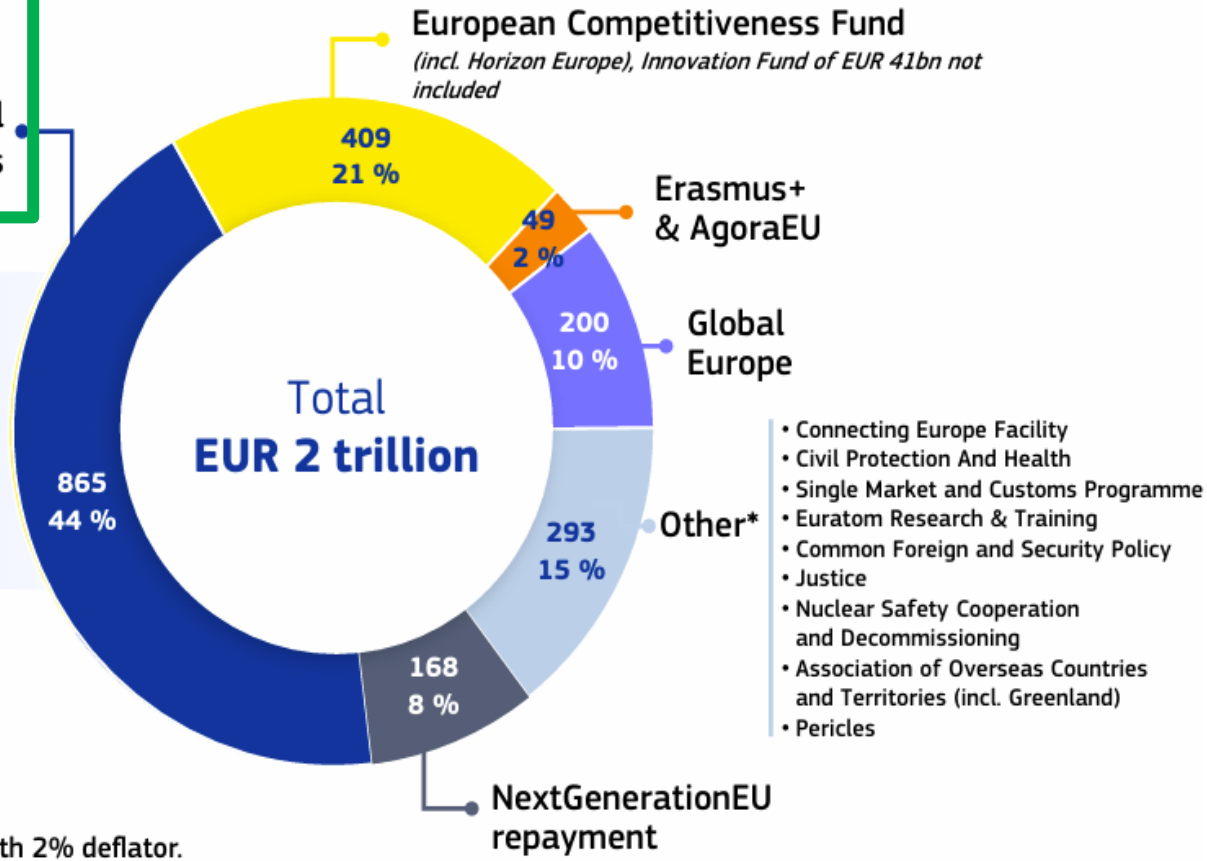
Farmers‘ protests

2023/2024 huge protests of farmers all over Europe

The next MFF 2028-2034

Thereoff 35% ring-fenced for CAP (€296 billion)

- From 52 to **16 programmes**
- **Simpler** for beneficiaries
- **Results** oriented
- More **agile**



All amounts in EUR billion, **current prices,** adjusted with 2% deflator.
*Also includes Administration and decentralised agencies.

The next MFF 2028-2034

Structure of CAP

CAP interventions 2028–2034 (Article 5)	Share EU-financed	
a) Degressive area-based income support (DABIS)	100%	Attractive for member states, no national co-financing requested
b) Coupled income support		
c) Payments for small farmers		
d) Payments for natural or other constraints	70%	Difficult for member states, because national co-financing of 30% requested
e) Support for disadvantages from Natura 2000 or WFD		
f) Agri-environment and climate actions		
h) Risk management tools		
j) Young farmers, new farmers and business start-ups		
k) Support for farm relief services		
l) LEADER		
m) Knowledge exchange & innovation		
n) Cooperation initiatives		
q) EU school scheme (Reg. (EU) No 1308/2013)		
r) Interventions in certain sectors (Reg. (EU) No 1308/2013)		
s) Crisis payments for farmers		

UAE's ruling royal family benefits from more than €71m in EU farming subsidies

Al Nahyans' control over farmland in Europe has meant they receive proportion of payments to farms

Sheikh Mohamed bin Zayed Al Nahyan, leader of Abu Dhabi and president of the UAE, is at the helm of the Al Nahyan family. Photograph: Anadolu/Getty Images

This article is more than **9 years old**

The Queen, aristocrats and Saudi prince among recipients of EU farm subsidies

At least one in five of the top 100 UK recipients of CAP subsidies were for farms owned or run by aristocratic families, say Greenpeace

The top 100 received £87.9m in agricultural subsidies last year. Photograph: Alamy Stock Photo

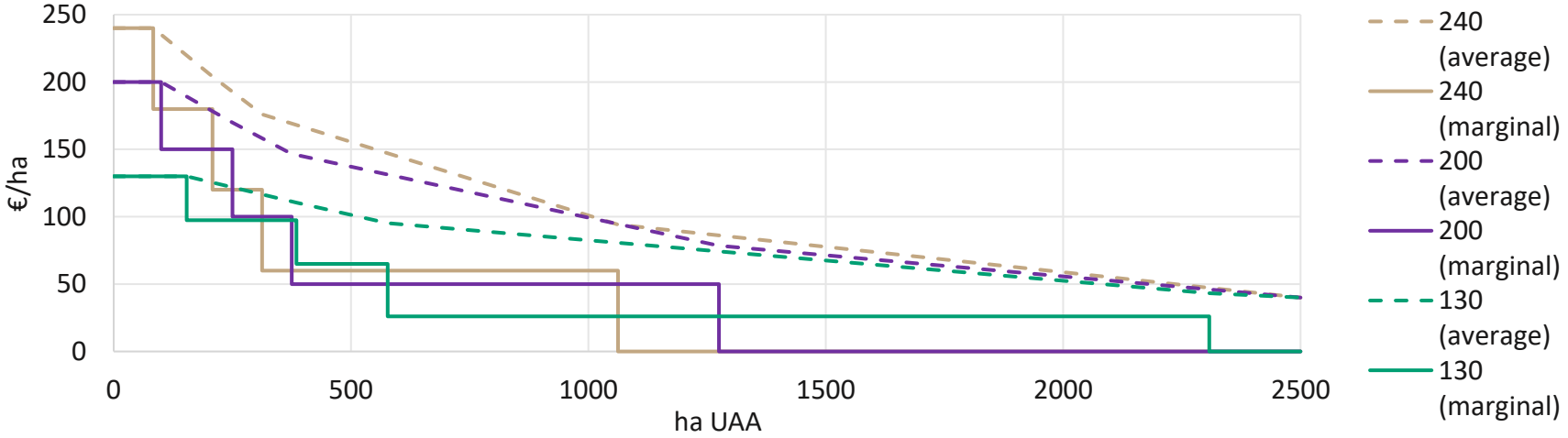
Wealthy aristocrats and a Saudi landowning prince are continuing to reap hundreds of thousands of pounds from the European Union's common agricultural policy (CAP).

The EC proposal for the EU CAP 2028-2034

Degressive Area-Based Income Support (DABIS)

		Assumed payment level: 200 €/ha	
Payment per farm	**Degression**	**Payment**	**Area***
0 – 20k €	100%	200 €/ha	up to 100 ha
20 – 50k €	75%	150 €/ha	100 to 250 ha
50 – 75k €	50%	100 €/ha	250 to 375 ha
75 – 100k €	25%	50 €/ha	375 to 1275 ha
> 100k €	0% (capping)	0 €/ha	above 1275 ha

* Based on the interpretation that reductions e.g. for the range 20-50 k€ and 50-75 k€, occur ex post



Questions

- Is the distribution of EU direct payments really unfair?
- Can ‘capping’ direct payments increase fairness?

Answers need to consider:

- What are the (real) objectives of the EU Common Agricultural Policy (EU CAP)?
  - ➢ Who or what should be supported? And for what?
- Who are the real beneficiaries of EU CAP payments
  - The official recipients?
  - Or other?
- What are the mechanisms determining who the real beneficiaries are?
- Can ‘capping’ fix the problems?

Objectives of the EU Common Agricultural Policy (EU CAP)

Article 33

1. The objectives of the common agricultural policy shall be:

(a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour;

(b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;

(c) to stabilise markets;

(d) to assure the availability of supplies;

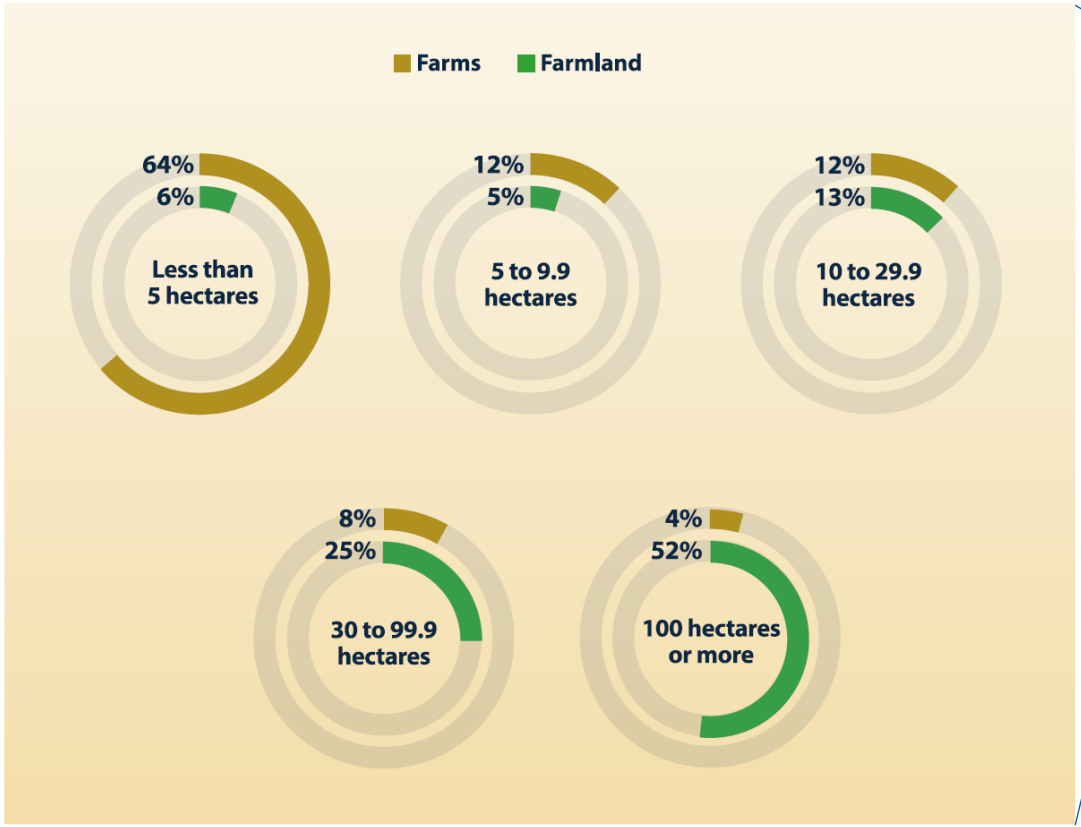
(e) to ensure that supplies reach consumers at reasonable prices.

Questions:
Who are the persons/farmers?
How is a farmer defined?
What about the rural population?

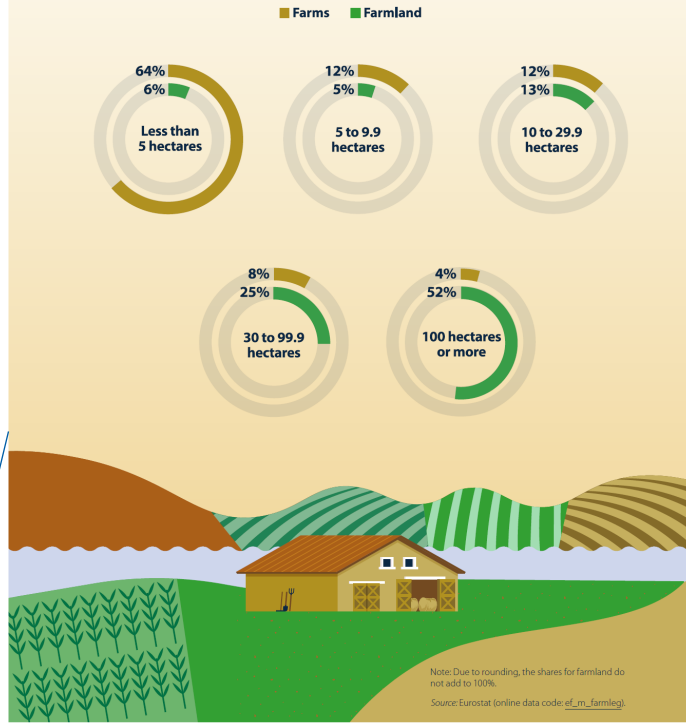
Treaty of Rome (consolidated version 2002) https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:12002E/TXT

Who are the farmers?

The EU perception of farmers



Farms and farmland by farm size
(% share of total, EU, 2020)

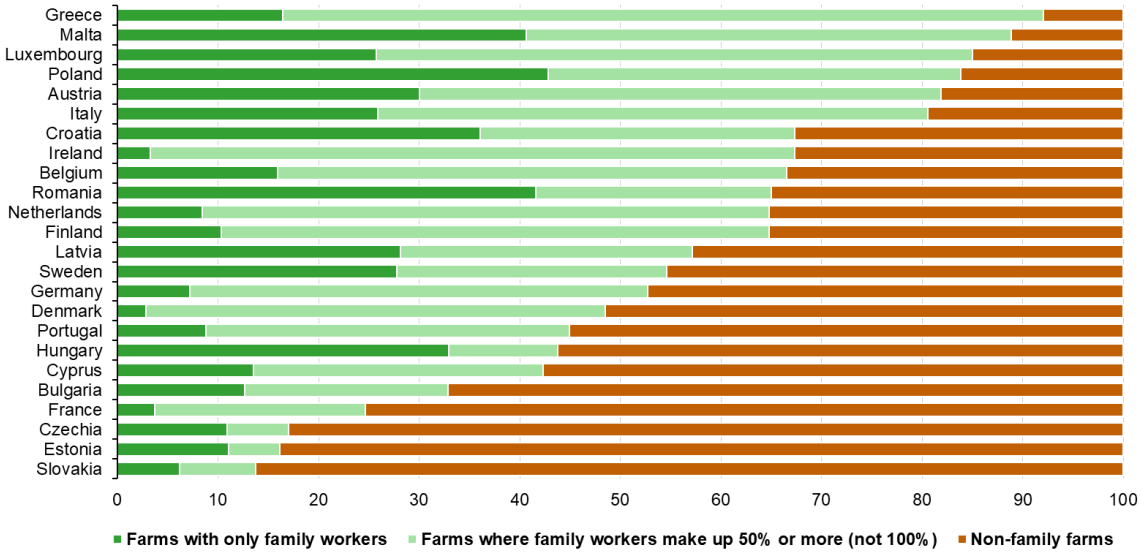


Who are the farmers?

The EU perception of farmers

- Paradigm of family farming dominates CAP
  - Hired labor widely ignored

Distribution of standard output by type of farm, 2020
(% of total standard output)



Note: Data for Spain, Lithuania and Slovenia not comparable with other Member States.
Source: Eurostat (Agricultural Census, 2020)

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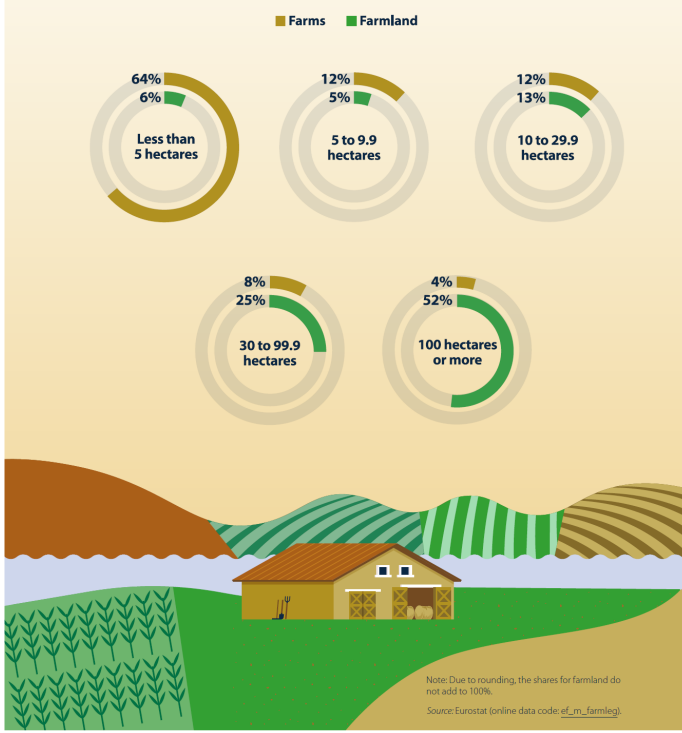
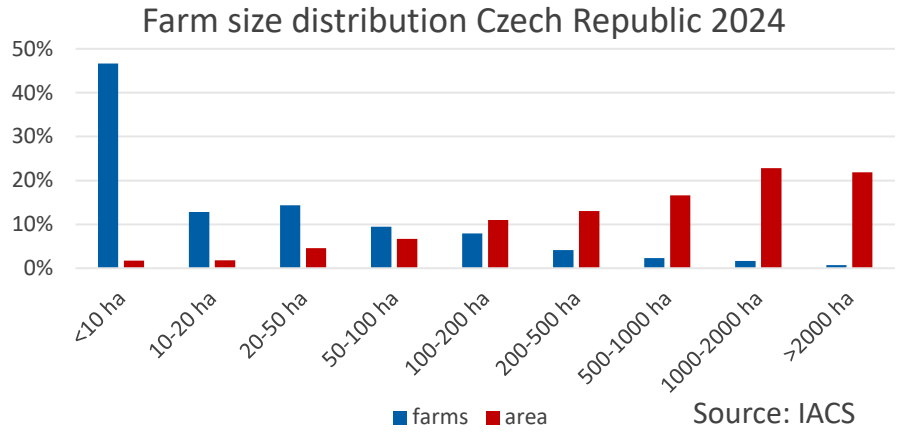
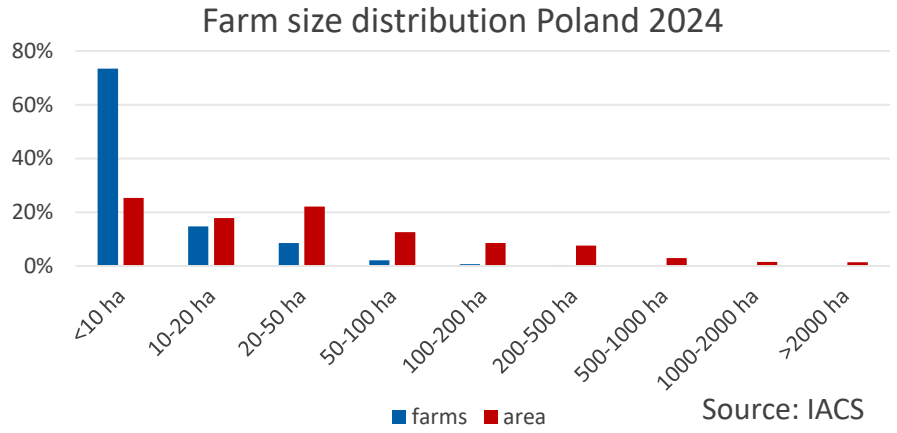
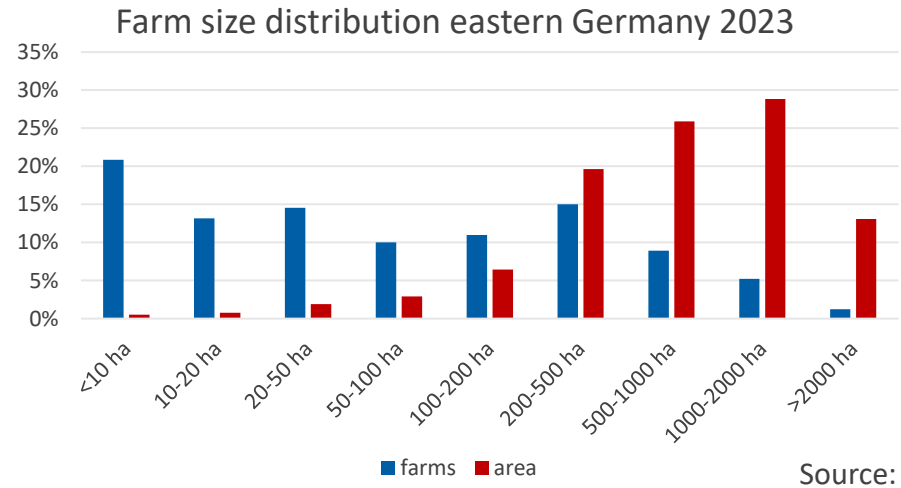
(% share of total, EU, 2020)

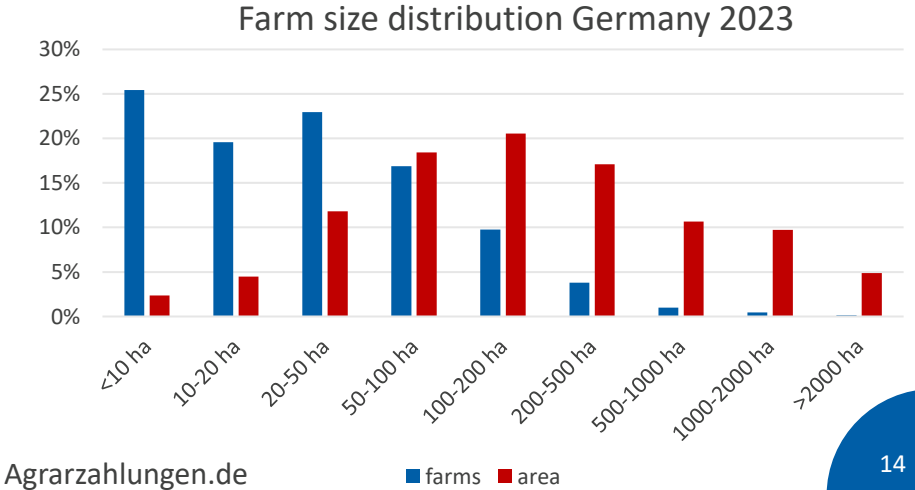


Who are the beneficiaries of the CAP?









Source: Agrarzahlungen.de

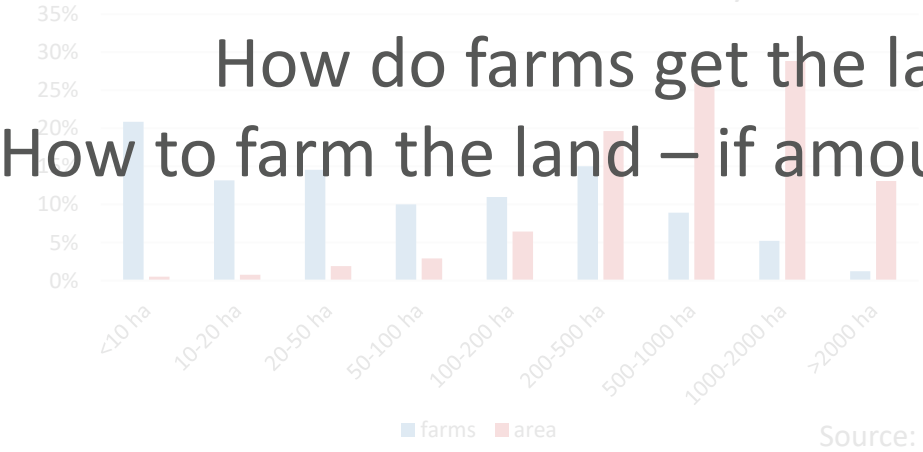
Who are the beneficiaries of the CAP?

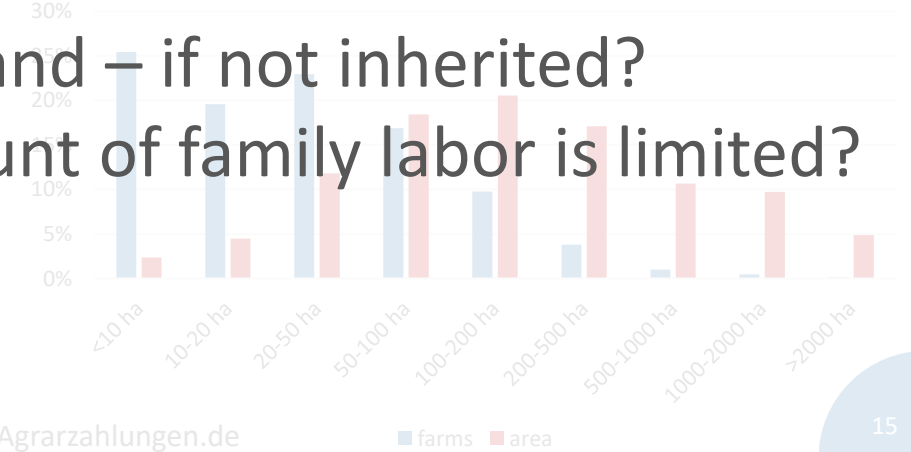
As long as the CAP pays according the land bank,
direct recipients are benefiting according land bank!

But:

How do farms get the land – if not inherited?

How to farm the land – if amount of family labor is limited?



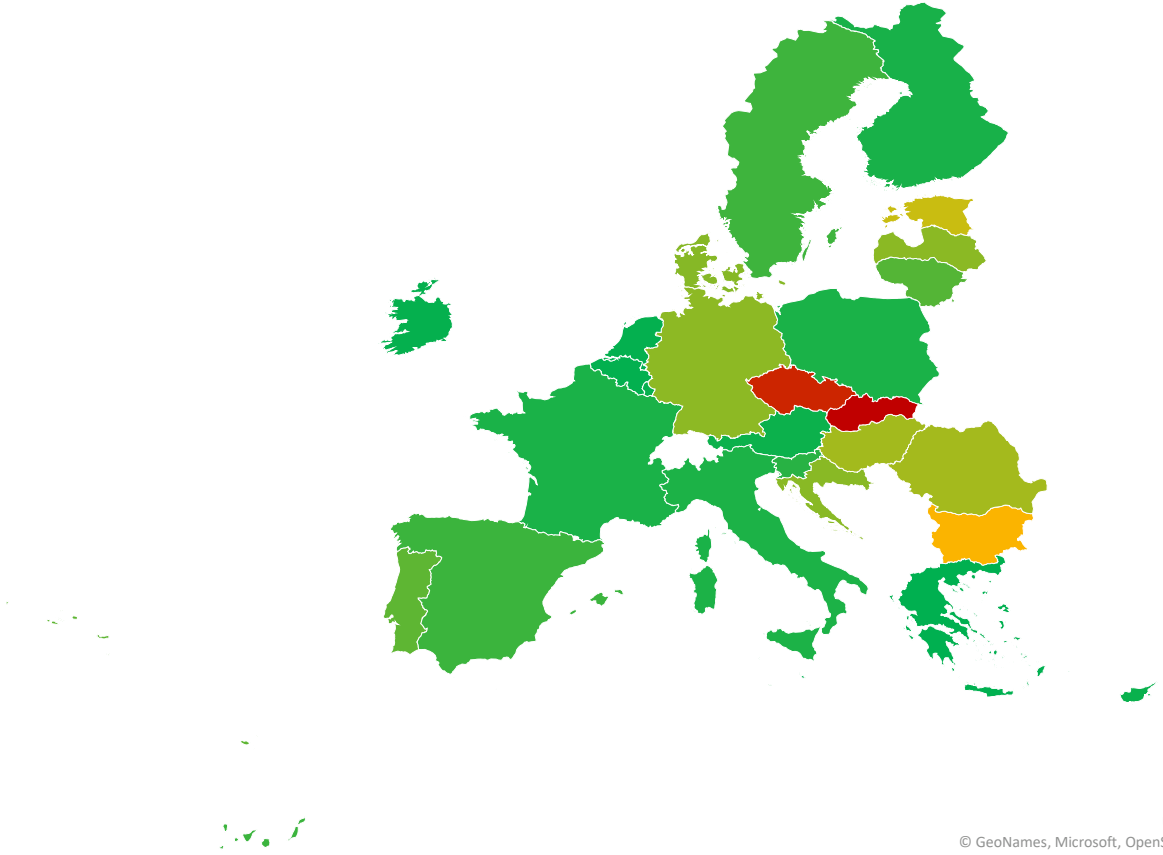


Who are the **real** beneficiaries of the CAP?

In the end, direct payments are
- as all other value-added or factor income -
capitalized into
profit, labor income, interests and land prices!

Capping effects of the EU CAP reform proposal

Share of payments reduced by degression and capping for payment level 150 €/ha



Data source: Agricultural payment databases

Unterstützt von Bing
© GeoNames, Microsoft, OpenStreetMap, TomTom

Capping effects of the EU CAP reform proposal

Proposed DABIS payments for Germany in comparison to income support in 2024

Premium level (€/ha)	130	150	200	240
State	%	%	%	%
Saxony	49	54	64	72
Brandenburg	49	54	64	70
Saxony-Anhalt	48	53	63	69
Mecklenburg-Western Pomerania	49	53	63	69
Thuringia	44	47	56	61
Schleswig-Holstein	62	71	90	105
...				
Bavaria	57	66	87	103
Germany	56	63	80	93
- East	48	53	62	68
- West	59	67	87	103

- Strong payment losses for eastern German states
- Western German states might rather lose because of reduced payment levels

Capping effects of the EU CAP reform proposal

Utilization in the short-term debt service limit

(Saxony, 2023/24 / Payment 200 €/ha / Payment 150 €/ha, in %)

Type of farming\Legal form	All	Legal entities	Partnerships	Full-time
All	70/78/79	75/88/88	40/40/42	59/61/65
- Top 25%	39/42/42	43/48/48	18/19/19	23/23/24
- Bottom 25%	193/238/255	192/292/299	124/126/136	211/225/255
- < 1000 ha UAA		97/112/115		
- 1000-2000 ha UAA		87/107/107		
- > 2000 ha UAA		53/64/64		
Arable farming		60/74/74	24/26/27	41/42/45
- Top 25%		26/29/29		17/17/18
- Lower 25%		194/346/389		760/887/7107
Forage farming		88/102/103	54/55/57	54/57/59
- Top 25%		54/59/59	15/15/15	29/30/31
- Lower 25%		194/279/279	112/116/122	126/125/136
- Dairy farms		89/103/103	53/54/57	54/56/58
- >800 dairy cows		64/75/75		
…				

- Substantial liquidity shocks
  - For underperforming farms, which exist irrespective of farm size!
  - For farms with high shares of hired labor and rented land!

Capping effects of the EU CAP reform proposal

Utilization in the short-term debt service limit

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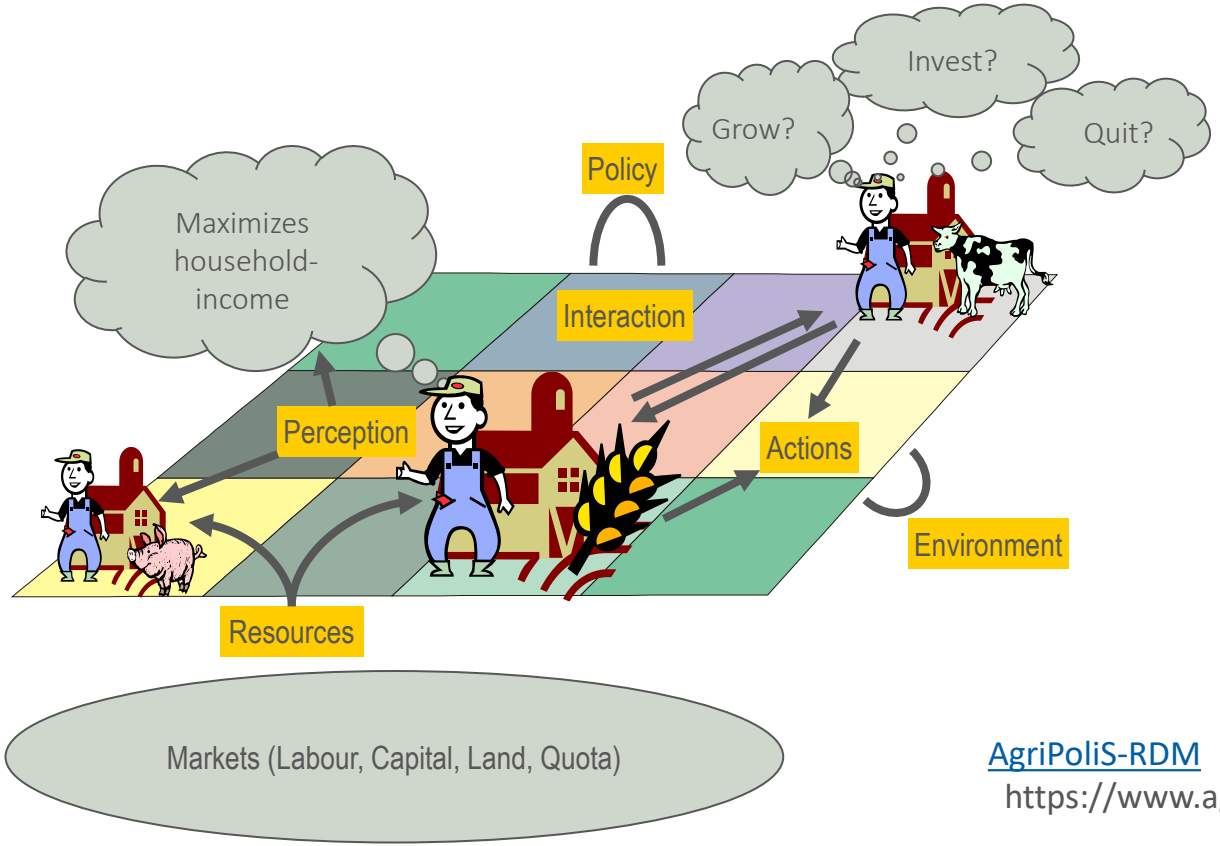
…				

- How can farms react?
- What are the consequences?

} **Simulation experiments with AgriPoliS**

AgriPoliS – Agricultural Policy Simulator



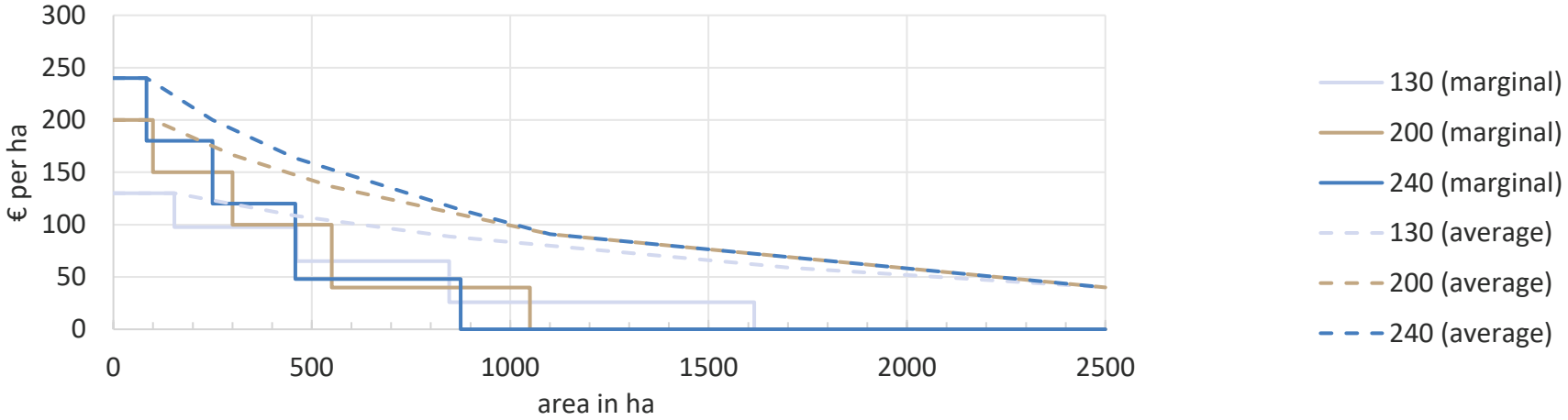
AgriPoliS-RDM
https://www.agripolis.org/

AgriPoliS – Study region

	Altmark
Arable/ grassland	~ 75%/25%
Farm organisation	large cooperatives and corporate farms; family and partnership farms
Main production activities	low intensity: cash crops, dairy, some pigs and poultry biogas
Labor force	~ 15 % family labor ~ 85 % hired labor
Average acreage	> 200 hectares per farm

AgriPoliS – Scenarios

Commission proposal for Degressive Area-Based Income Support (DABIS)



Scenarios

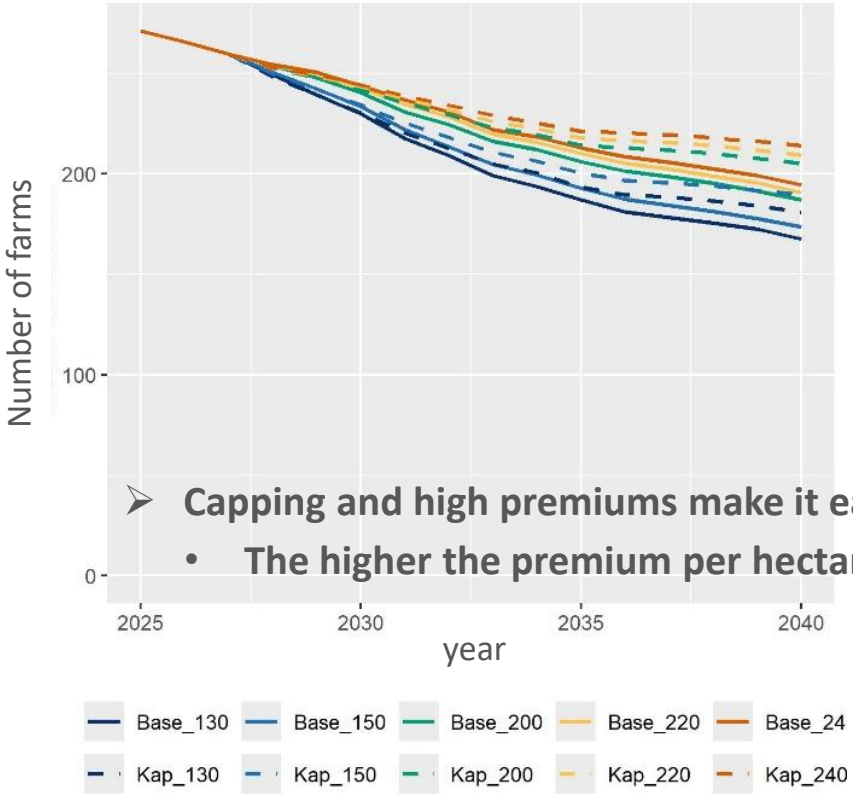
- Without capping: Base_130 Base_150 Base_200 Base_220 Base_240
- With capping: Kap_130 Kap_150 Kap_200 Kap_220 Kap_240

Source: Balmann et al. (2026)

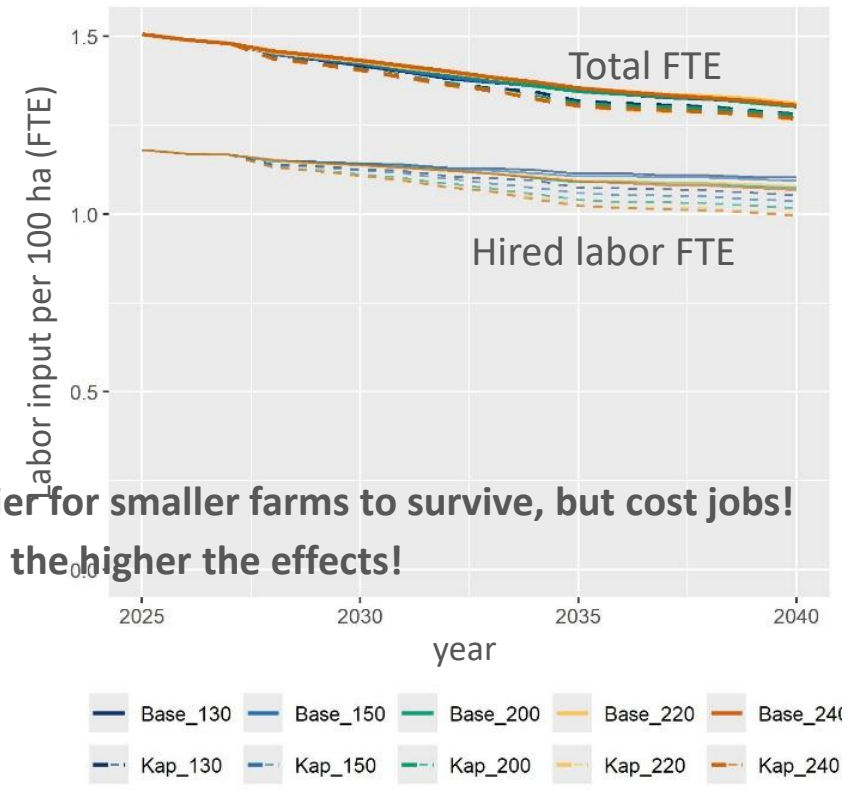
Capping effects of the EU CAP reform proposal

Farm structure effects of capping based on model calculations with AgriPoliS for Altmark

Number of farms



Labor input



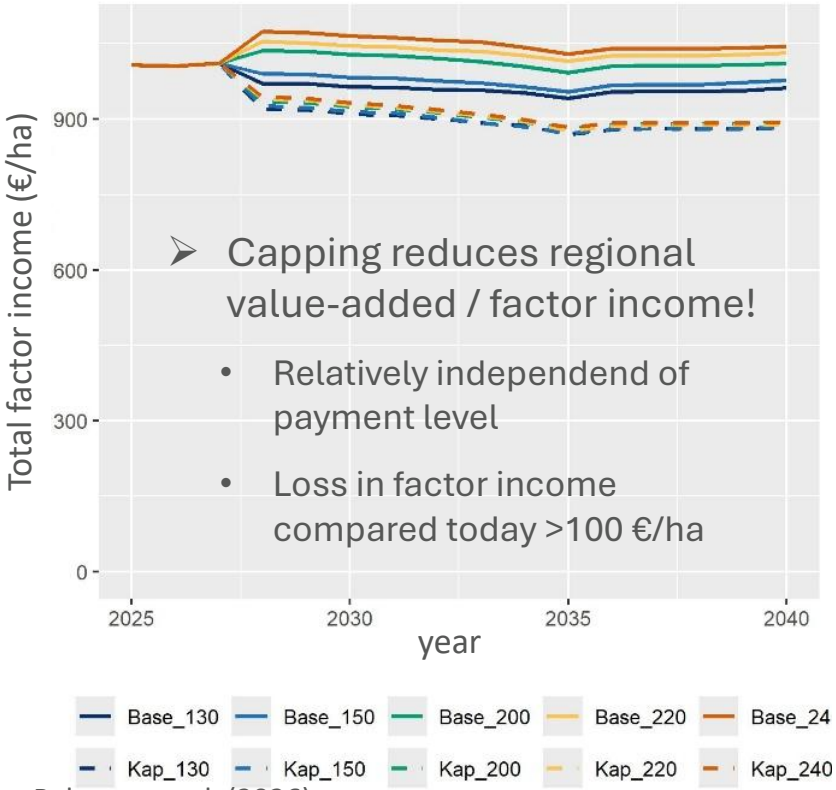
- **Capping and high premiums make it easier for smaller farms to survive, but cost jobs!**
  - **The higher the premium per hectare, the higher the effects!**

Source: Balmann et al. (2026)

Capping effects of the EU CAP reform proposal

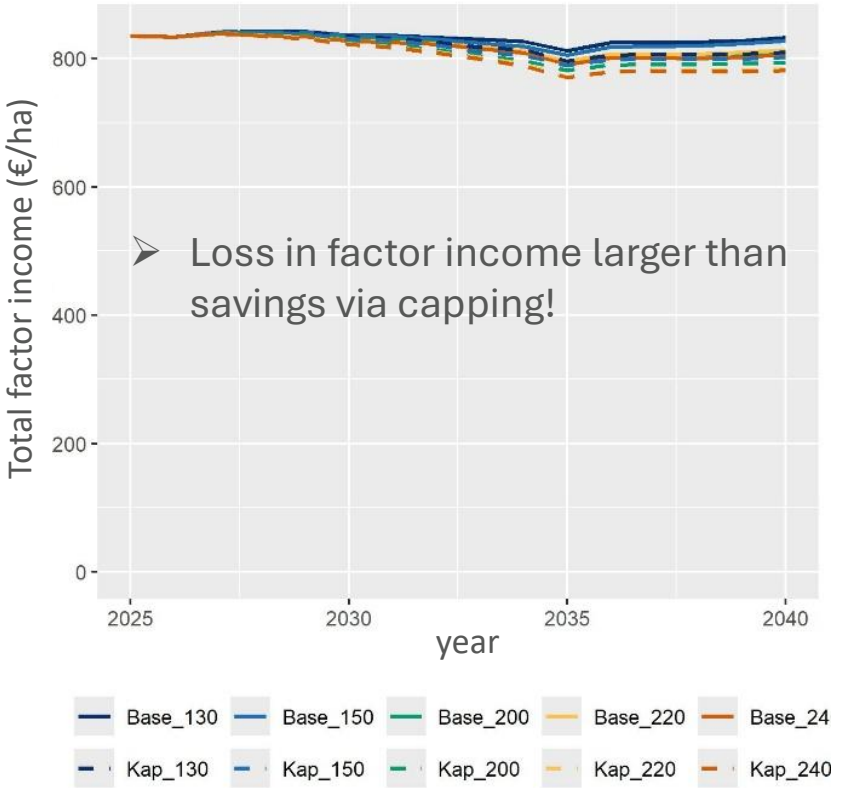
Farm structure effects of capping based on model calculations with AgriPoliS for Altmark

Total factor income



- Capping reduces regional value-added / factor income!
  - Relatively independend of payment level
  - Loss in factor income compared today >100 €/ha

Total factor income without payments

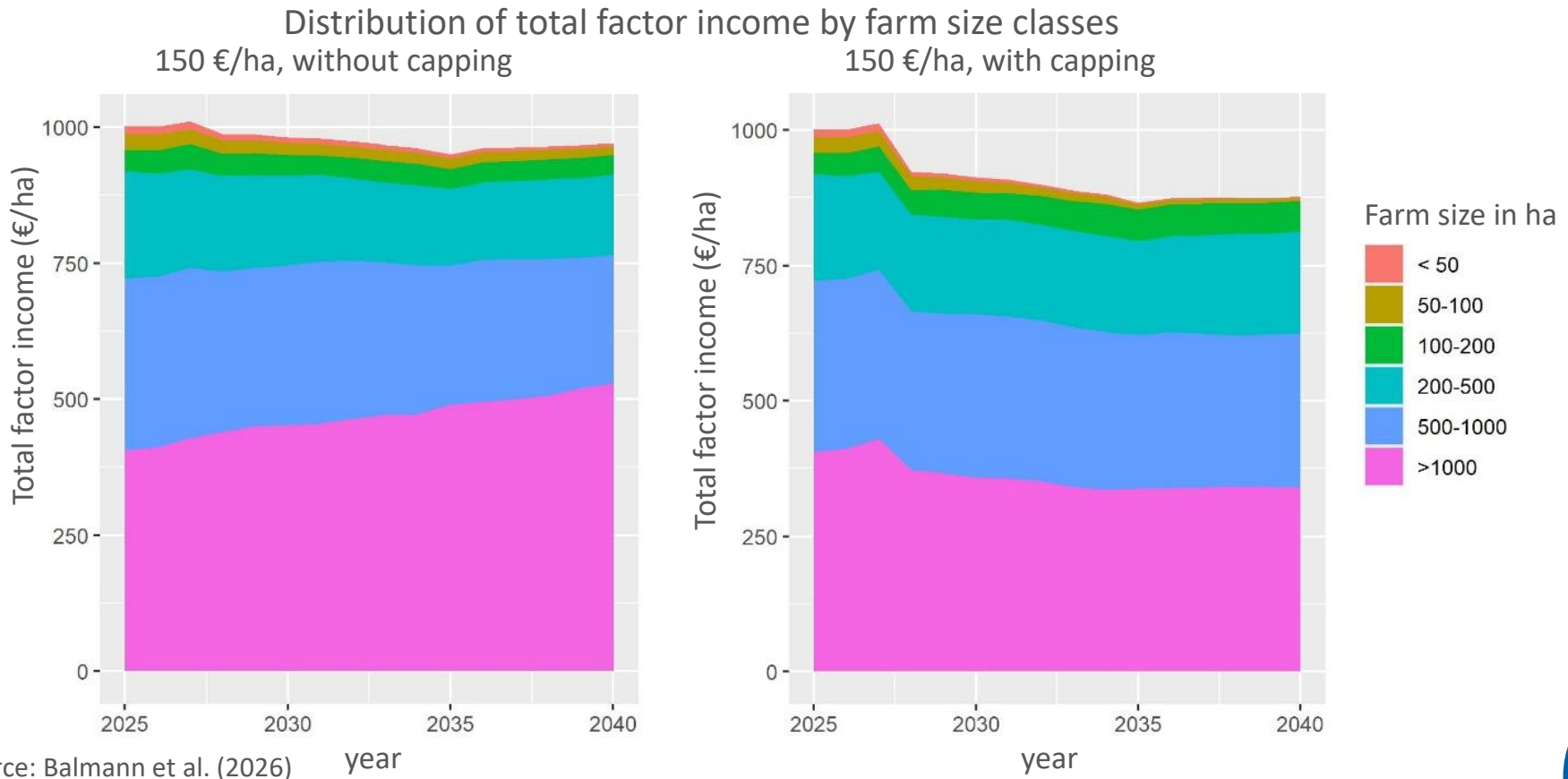


- Loss in factor income larger than savings via capping!

Source: Balmann et al. (2026)

Capping effects of the EU CAP reform proposal

Farm structure effects of capping based on model calculations with AgriPoliS for Altmark

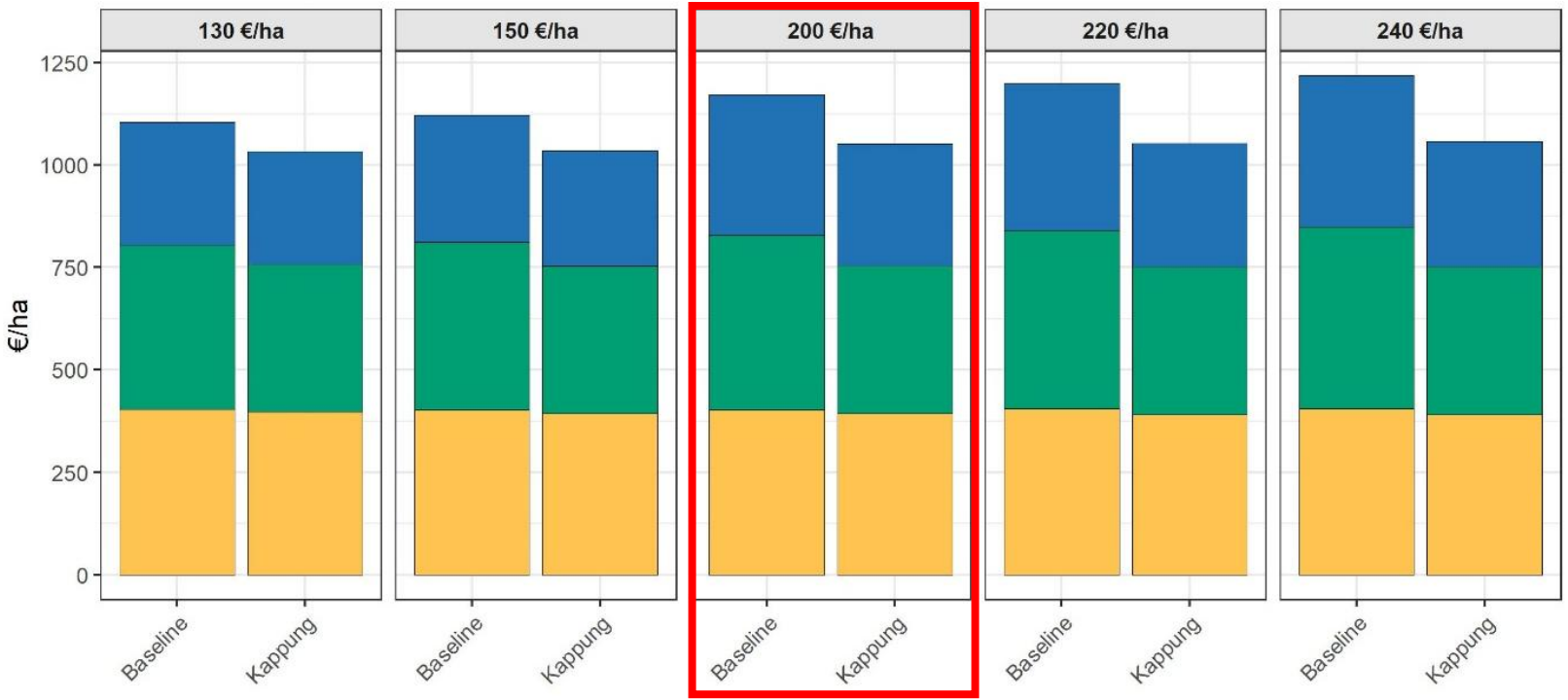


Source: Balmann et al. (2026)

Capping effects of the EU CAP reform proposal

Farm structure effects of capping based on model calculations with AgriPoliS for Altmark

Distribution of total factor income by factors of production in 2034



Source: Balmann et al. (2026)

Capping effects of the EU CAP reform proposal

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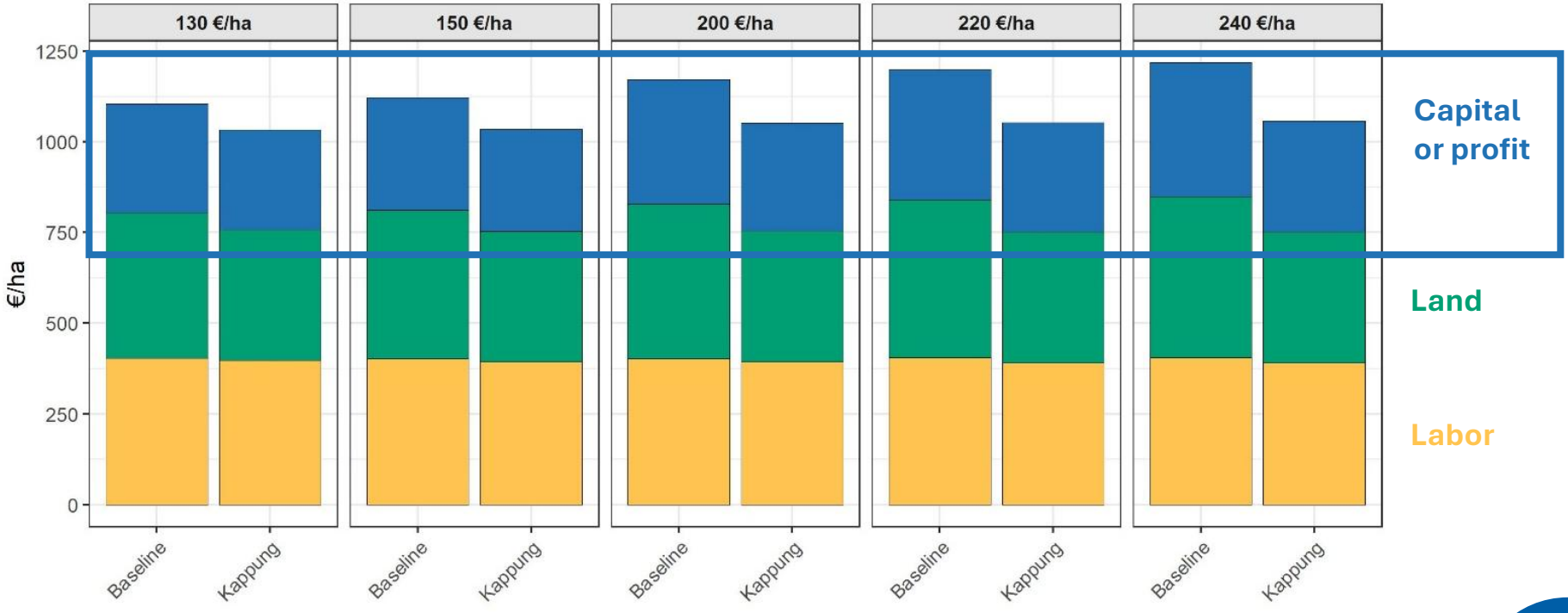


Source: Balmann et al. (2026)

Capping effects of the EU CAP reform proposal

Who would lose profits? -> 10 largest holdings in the state of Saxony

Rank	Holding	Size in ha	Legal form	Owners (type)	Owners (number)
1	MAP Meißener Agrarprodukte AG	11,307	Joint Stock Company	local	>100
2	Budissa Agrarprodukte AG Niederkaina	9,045	Joint Stock Company	local	~1000
3	Bauernland Agrar AG	6,687	Joint Stock Company	local	165
4	Agrarbetrieb Oberlichtenau GmbH	5,151	Limited	local	75
5	Methauer Agro-AG	5,023	Joint Stock Company	local	>300
6	Agraset Agrargenossenschaft Naundorf e.G.	4,830	Cooperative	local	297
7	Agrargenossenschaft Langenchursdorf eG	4,683	Cooperative	local	30-100
8	Agrargenossenschaft "MAVEK" e.G.	4,523	Cooperative	local	>38
9	Prießnitzer Agrar GmbH & Terreco GmbH	4,376	Limited	mainly investment	?
10	Agrargenossenschaft "Heidefarm" Sdier eG	4,349	Cooperative	local	113

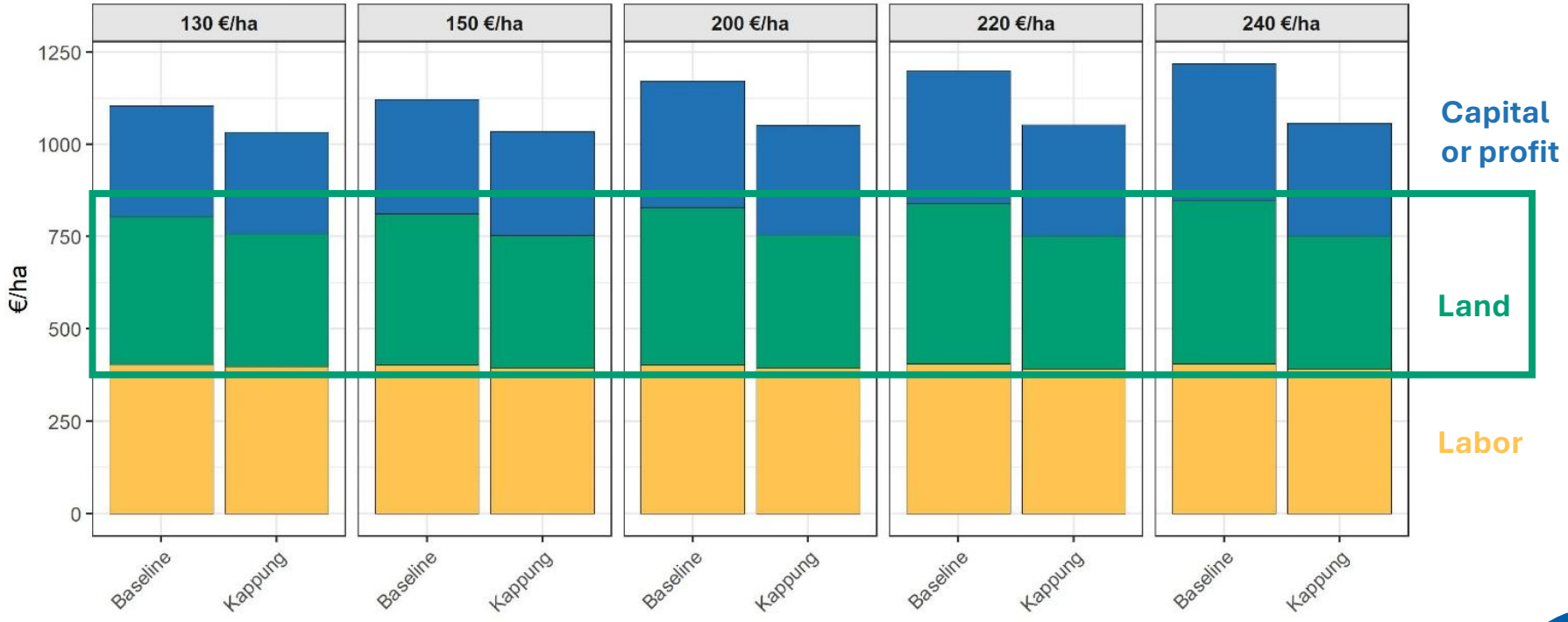
- Broad local ownership!

Source: Balmann et al. (2026), own calculations

Capping effects of the EU CAP reform proposal

Farm structure effects of capping based on model calculations with AgriPoliS for Altmark

Distribution of total factor income by factors of production in 2034



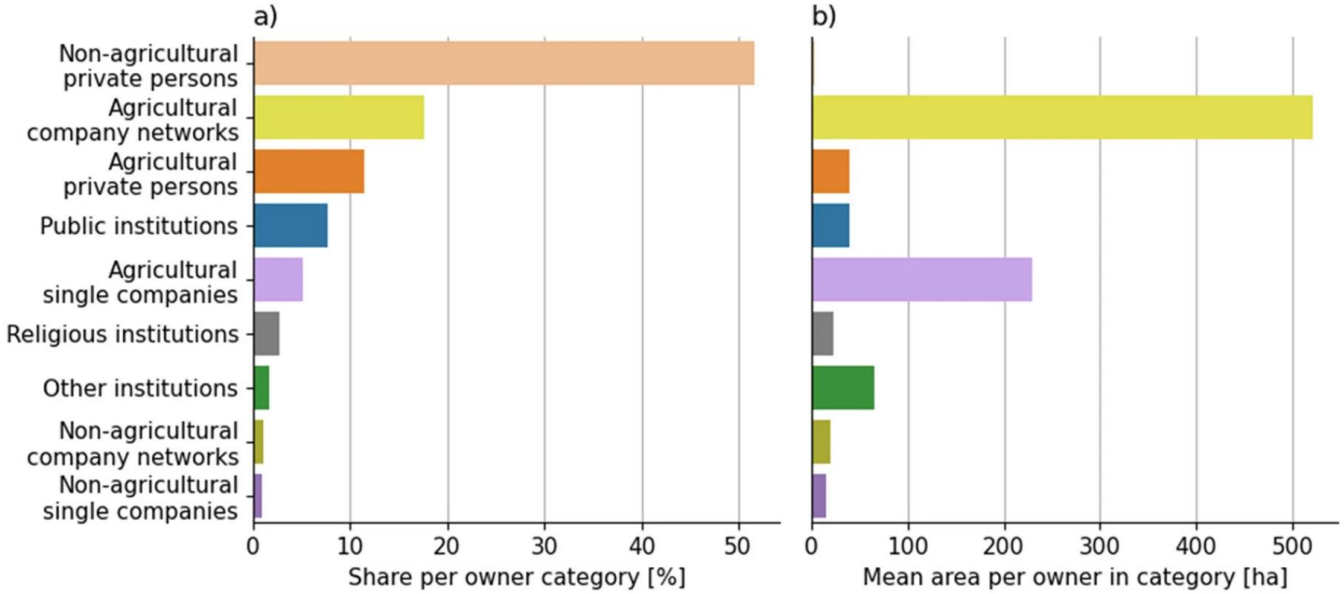
Source: Balmann et al. (2026)

Capping effects of the EU CAP reform proposal

Who will suffer from lower land prices?

-> Ownership of agricultural land in Brandenburg

- 175,000 non-agricultural individuals own 52% of UAA, avg. ~ 4 ha
  - Most of them live close to their land in rural areas!
- Agricultural enterprises own 18%, avg. ~ 520 ha, private farmers own 12%, avg. ~35 ha

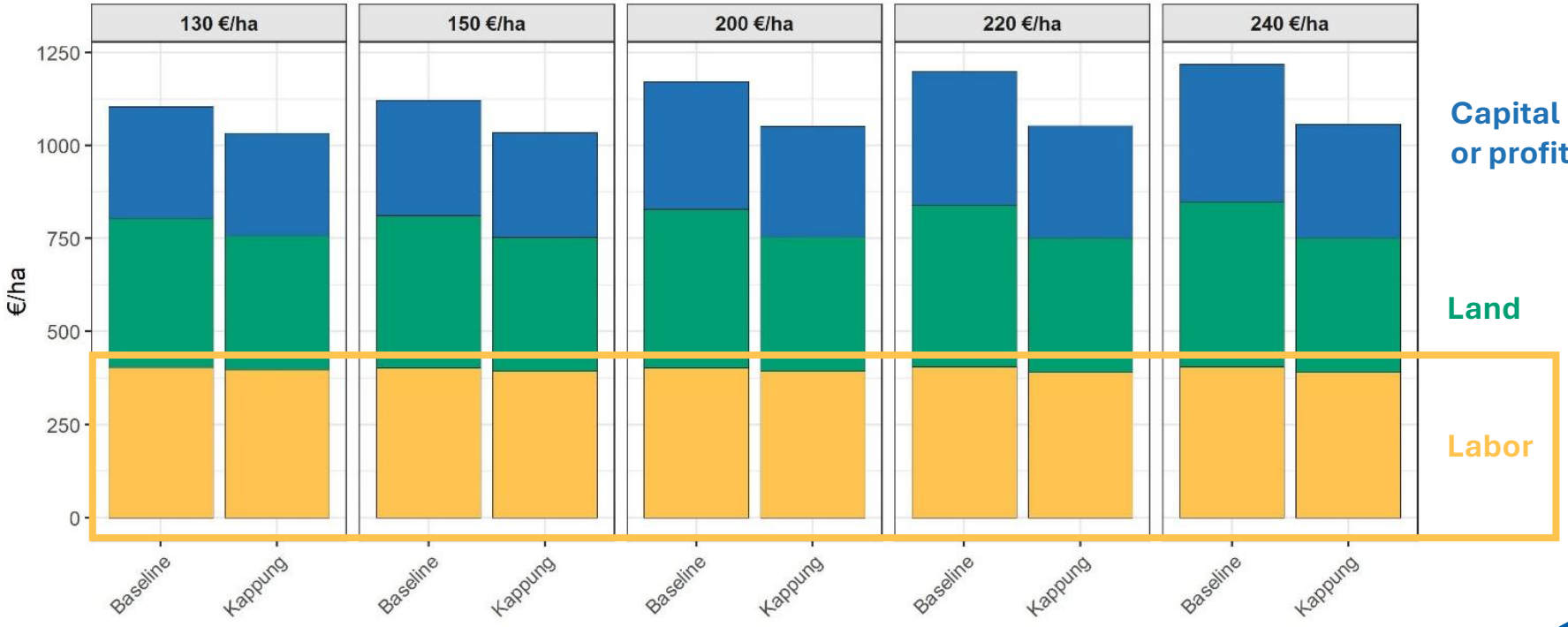


Source: Jänicke & Müller (2025)

Capping effects of the EU CAP reform proposal

Farm structure effects of capping based on model calculations with AgriPoliS for Altmark

Distribution of total factor income by factors of production in 2034



Redistribution from hired to family labor!

Source: Balmann et al. (2026)

Summary of capping effects

- Redistribution
  - Increases with higher premiums per hectare!
  - Germany: East versus West or income versus environment/rural development
- Structural effects become stronger the higher the premium level per hectare!
  - Distortions of competition between regions!
  - Distortions of competition between farms!

  } **Favoring western European farm model!**
  - The adjustment shock would hit “problem farms” hard!
  - ➢ Regional value-added / total factor income losses exceed the savings from capping
    - Lower profits, lower lease prices, reduced employment!
    - Mainly at the cost of local shareholders, local landowners, and employees!

➢ **Is “capping” fair?**

- **Rather “pulling the wool over someone’s eyes” than increasing fairness!**
- **Attempt to legitimize “business as usual” for western European farmers!**

Political challenges

- If CAP proposal would be implemented,
  farmers' dependence on direct payments continues beyond 2034!
  - Budget problem for 2034+
  - Enlargement problems
- East-West problem
  - Even if EU funds remain in the regions, the income disadvantage remains
  - High co-financing requirements affect particularly poor regions
  - ➢ "Rich" countries/regions of the EU are imposing costs of "business as usual" on "poorer" regions
- Target problem
  - What should be funded: farmers or farming/agriculture?
  - If farmers: who actually qualifies as a "farmer"? What about employees and shareholders?
  - ➢ Strong need for an open discussion on the long-term objectives of the CAP!!!
- Communication problem
  - Self-image and presence of East German / East-Central European agriculture on EU stages