Can the proposed post-2027 CAP finance Europe's environmental ambitions for agriculture?

SUSTAINABLE AGRICULTURE
WHO WILL PAY FOR THE GREEN TRANSITION?

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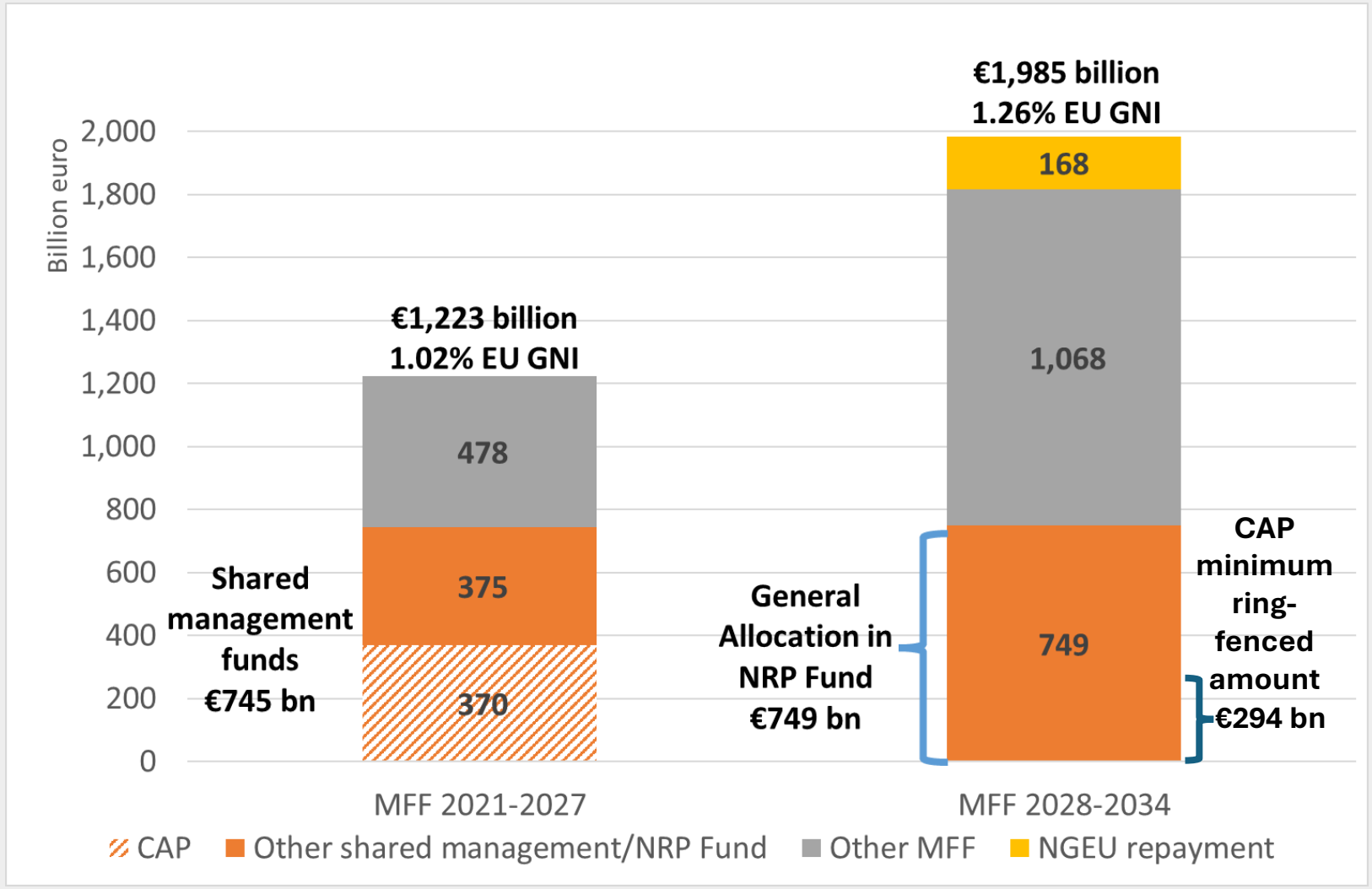
Outline and caveats

- The overall budgetary context
- The extent to which area-based payments contribute to income
- Are there better ways to support farm income and secure greater environmental improvement?

- Not an expert in Czech agriculture !!
- My position is that of a public economist, trying to ensure the best use of taxpayer money

The overall budget context

The Commission's MFF proposal (current prices)



Commission proposal carefully calibrated so that General Allocation in NRPF maintains existing MFF spending on shared management funds including CAP in current prices

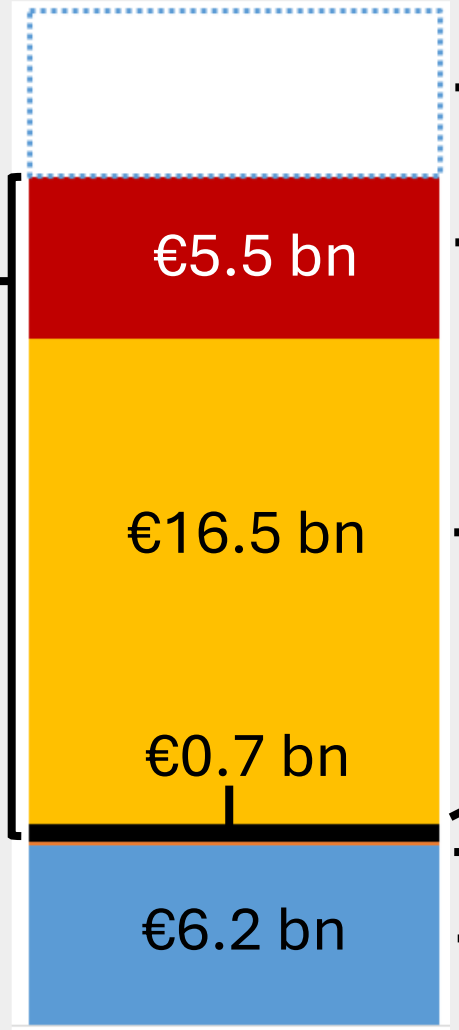
Source: Own elaboration, see https://capreform.eu/the-likely-size-of-the-cap-budget-in-the-next-mff-reprise/

Where will the next MFF 2028-2034 land?

Current prices	Total 2021-27	COM proposal	Cyprus Presidency	Irish Presidency	Change IE Presidency vs. COM
	€ mill.	€ mill.	€ mill.	€ mill.	%
TOTAL	1,245,477	1,984,894	1,947,741	1,825,527	-8.0%
Heading 1 Economic, social and territorial cohesion, agriculture, rural and maritime prosperity and security	819,981	1,062,220	1,057,355	1,025,843	-3.4%
NRPPs	784,807	865,076	863,958	837,330	-3.2%
Ring-fenced CAP income support	282,514	293,699	293,699	293,699	0.0%
Economic, territorial and social cohesion including fisheries and rural communities and tourism	452,964	452,965	458,786	458,786	1.3%
EU Facility + Cushion	28,989	71,933	62,994	36,362	-49.5%
of which: Unity Safety Net	3,132	6,301	6,301	4,411	-30.0%
Heading 2 Competitiveness, Prosperity and Security	220,637	589,594	566,453	514,390	-12.8%
European Competitiveness Fund	163,800	450,508	433,850	403,234	-10.5%
of which: Health, Biotech, Agriculture and Bioeconomy	5,036	22,593	21,674	19,656	-13.0%
Heading 3 Global Europe	119,989	215,203	206,757	177,745	-17.4%
Heading 4 Administration	84,871	117,877	117,177	107,549	-8.8%

Source: The Irish Presidency Negotiating Box, *capreform.eu*, 11 October 2026

Czechia's proposed NRPP allocation €28.2 bn 2028-2034



Potential loan support

Of which: €7.3 bn for less developed regions

Flexibility amount (up to 40% can be used for CAP)

14% of Fund exc. CAP and CFP to be allocated to social objectives

Unallocated amount (mainly cohesion, also available for CAP)

10% of Fund exc. CAP and CFP to be allocated to rural areas

Migration, security & home affairs

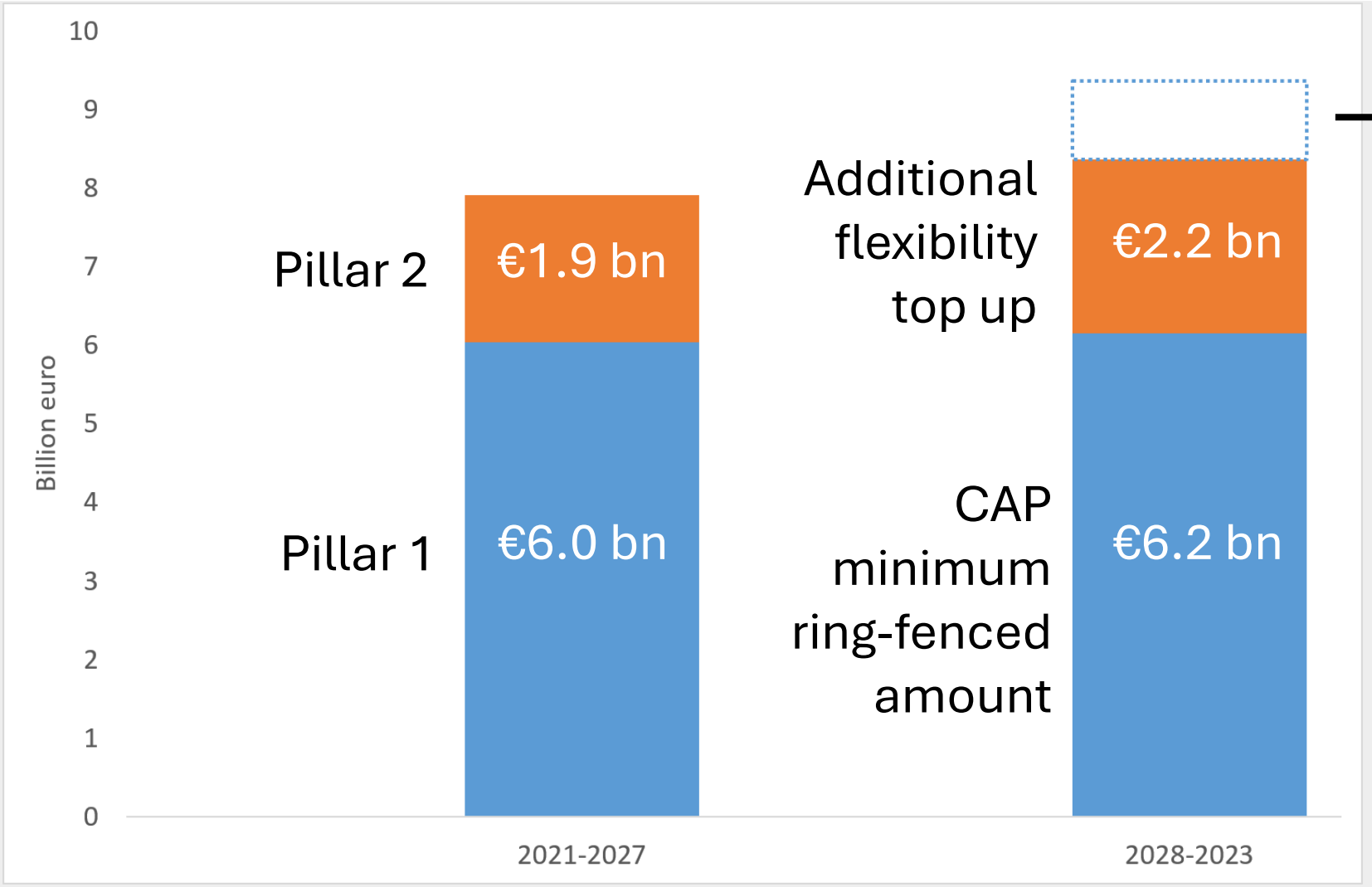
Fisheries

43% of Fund to be allocated to climate and environment

Common Agricultural Policy (min.)

Excluding Social Climate Fund, current prices

CZ CAP budget with full use of flexibility amount



Mandatory CAP interventions plus possible additional voluntary allocation funded from the 'unallocated' NRPP amount
+
National co-financing

Current prices

Funding environmental ambition in the NRPP and CAP

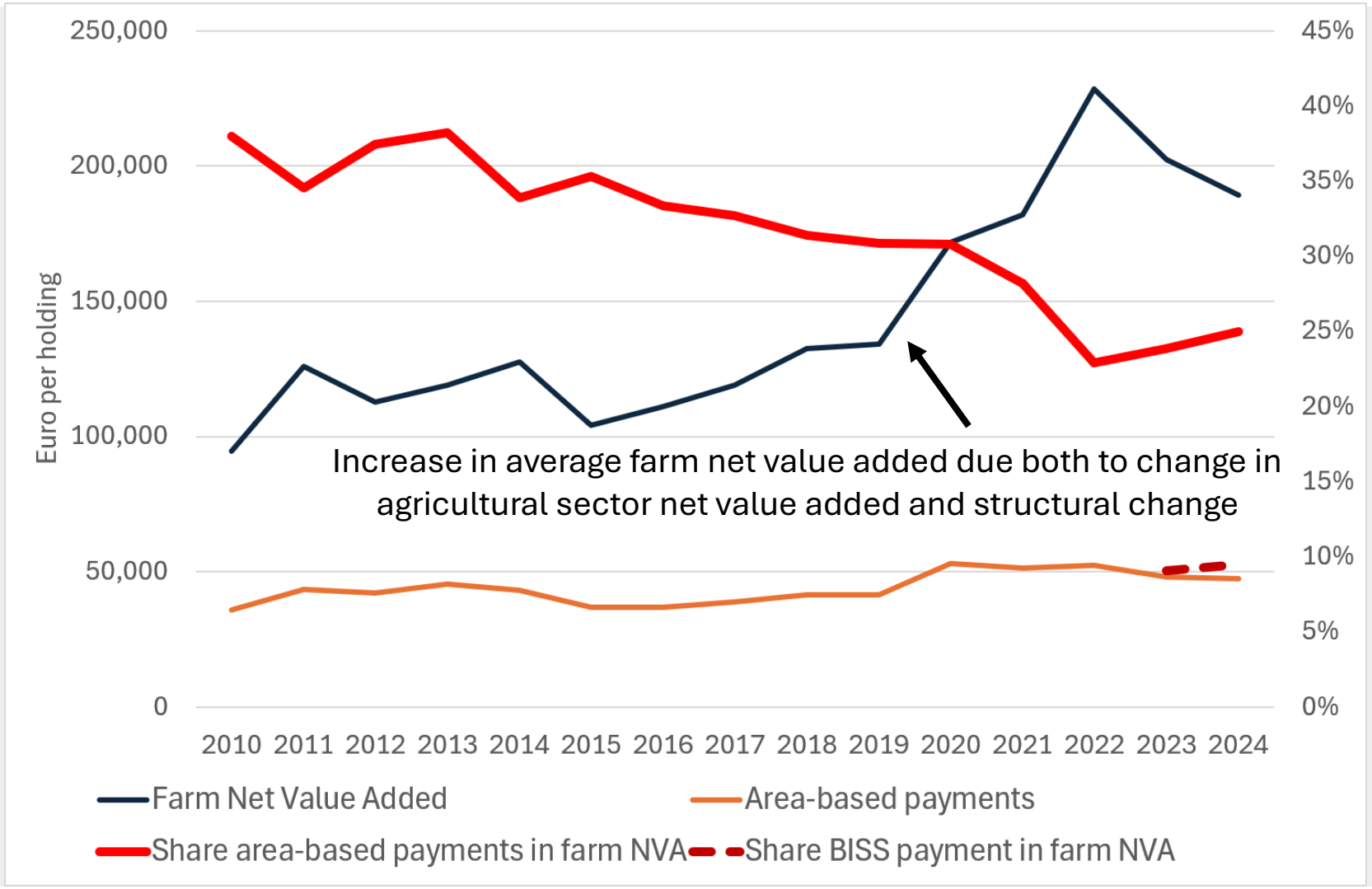
- NRPP funding
  - Agricultural stakeholders often assume they have a weak bargaining position in allocation of NRPP resources
  - But Environment (Nature Restoration Law) and Climate (Effort Sharing and LULUCF Regulations) Ministries cannot meet their legally binding targets without incentivising voluntary action by farmers
- CAP funding
  - Large range for area-based funding in COM proposal (€130 to €240 per ha)
  - Finance Ministry may favour area-based and coupled payments rather than environmental payment because of distorted national co-financing requirements
  - No minimum ring-fencing for environmental payments in CAP proposal

Area-based payments in Irish Presidency 'negotiating box'

- Permitted range for the planned average aid per hectare for area-based income support has been set at between €90 and €240 per hectare
- Instead of degressivity starting at €20,000 with steps of 25%, 50% and 75%, and with capping at €100,000, the draft suggests degressivity should start with a deduction of 15% for amounts between €100,000 and €125,000, a deduction of 25% for amounts between €125,000 and €150,000, and a deduction of 50% for amounts above €150,000
- Capping for large beneficiaries would be introduced at a figure of €300,000, and possibly on a voluntary basis
- Before applying capping and degressivity, Member States may exclude higher area-based income support for young farmers
- Released amounts would not require complementary national contributions when used for other CAP interventions.

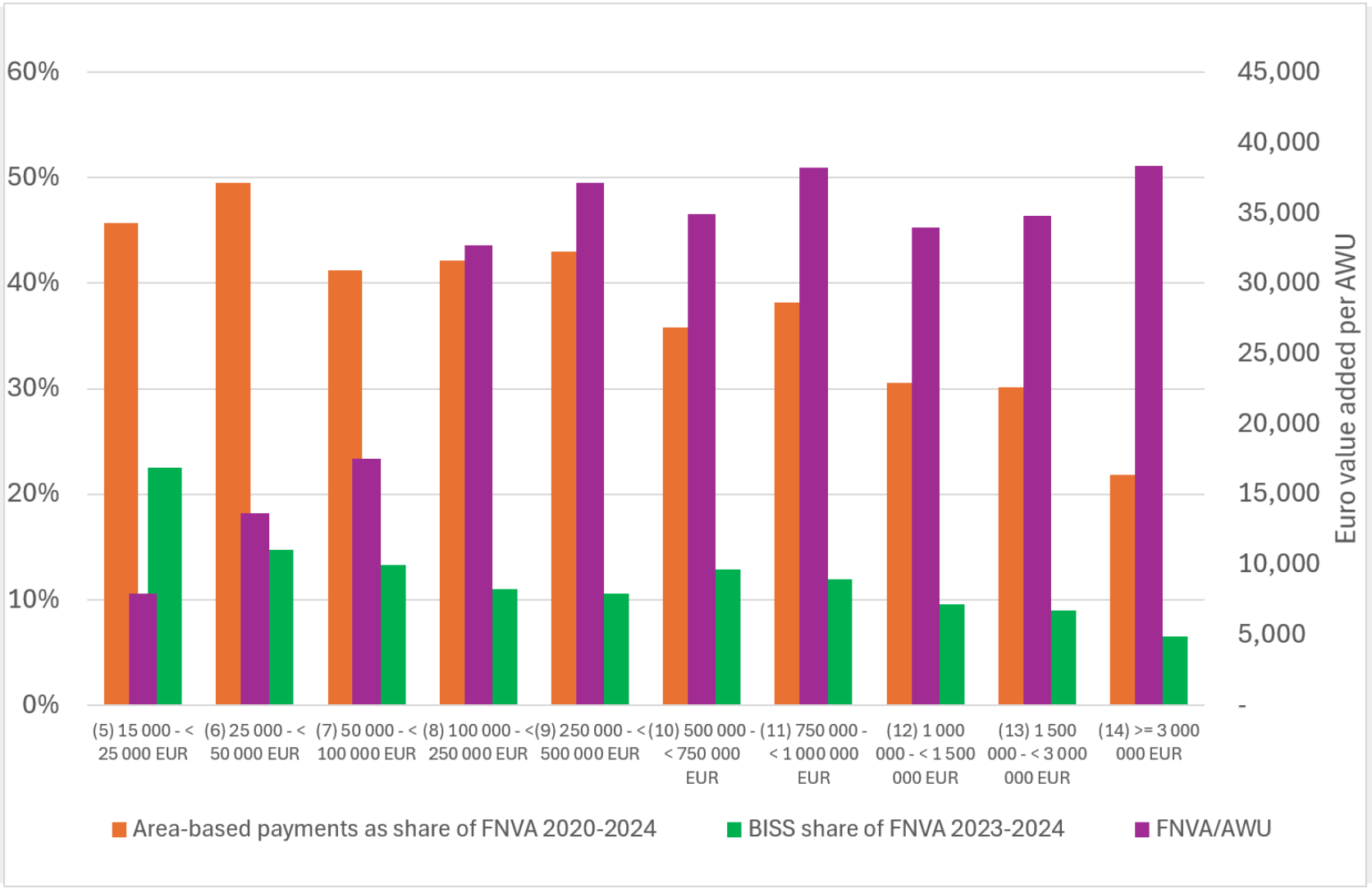
The extent to which area-based payments contribute to income

Importance of area-based payments for average Czech farm



Source: FADN data, SE415 for Farm NVA, SE630 for area-based payments. Prior to 2023, refers to decoupled payments (Single Farm Payment). After 2023, refers to the sum of BISS, CRISS, eco-schemes, young farmer and small farmer payments).

Importance of area-based payments by economic size group



Larger farms are generally less dependent on area-based payments relative to their farm net value added.

The BISS payment does not include the CRISS payment which is deliberately set high in Czechia and would further accentuate the across-size differences.

Note the two share columns are not directly comparable due to different time periods.

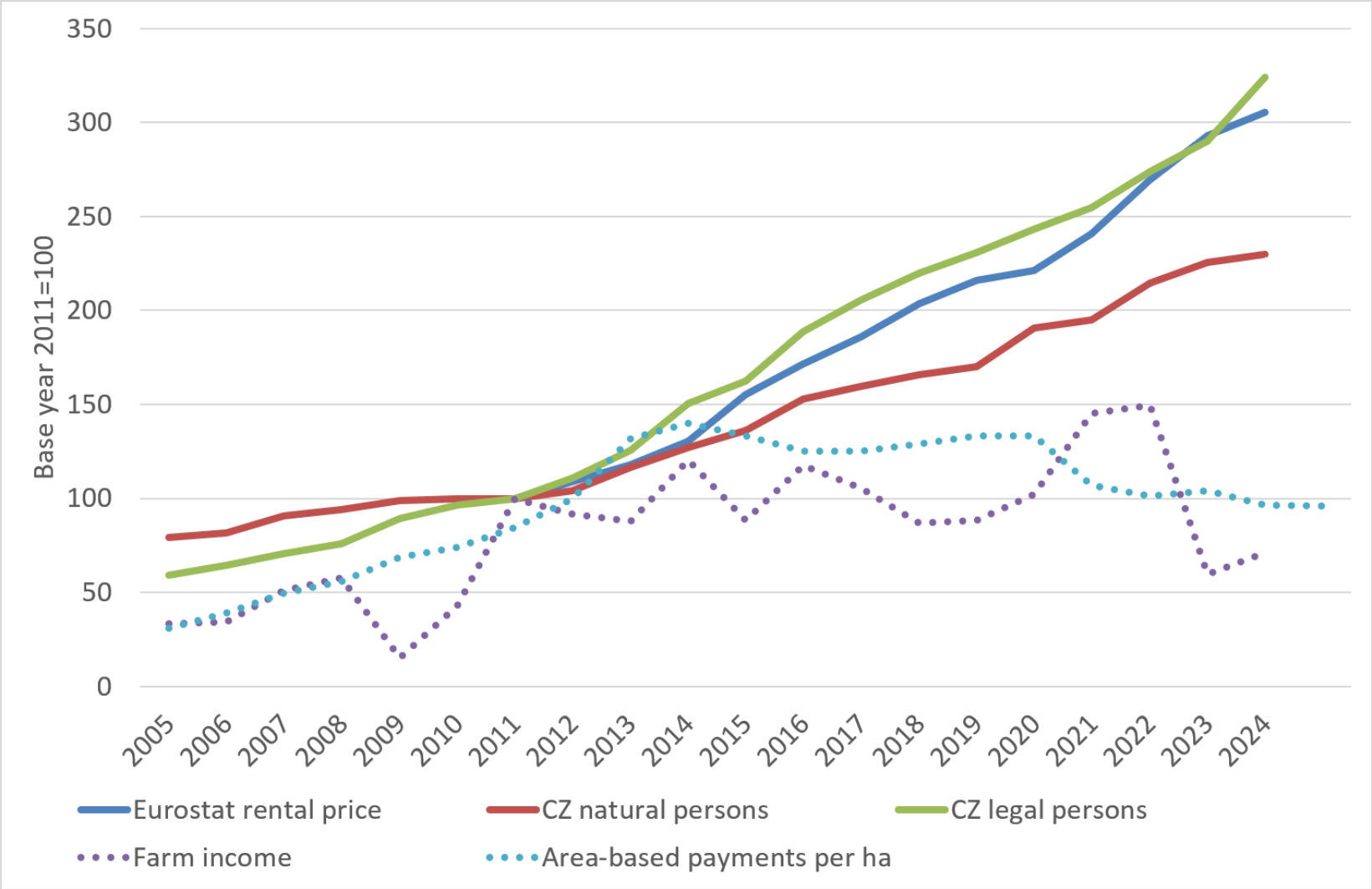
Source: FADN data, FNVA/AWU is SE425.

Are there better ways to support farm income and secure greater environmental improvement?

The fundamental problem

- **Lack of targeting of area-based payments**
  - As income support, they provide public transfers (from many low income households) to businesses and owners who often have significantly higher incomes
  - Decoupled area-based income support payments have a high income transfer efficiency compared to some other support instruments, but there is still considerable leakage to unintended beneficiaries such as landowners
  - Continued income support to smallholders may be justified on grounds of rural vitality, though likely only to slow structural adjustment
  - As productivity payments, they may facilitate investment but they may also diminish incentives for innovation and maintain inefficiency
  - Public payments to larger farms and businesses can be justified where there is a public return, where we are paying for a public good or a service

Area-based payments likely capitalised into land rents

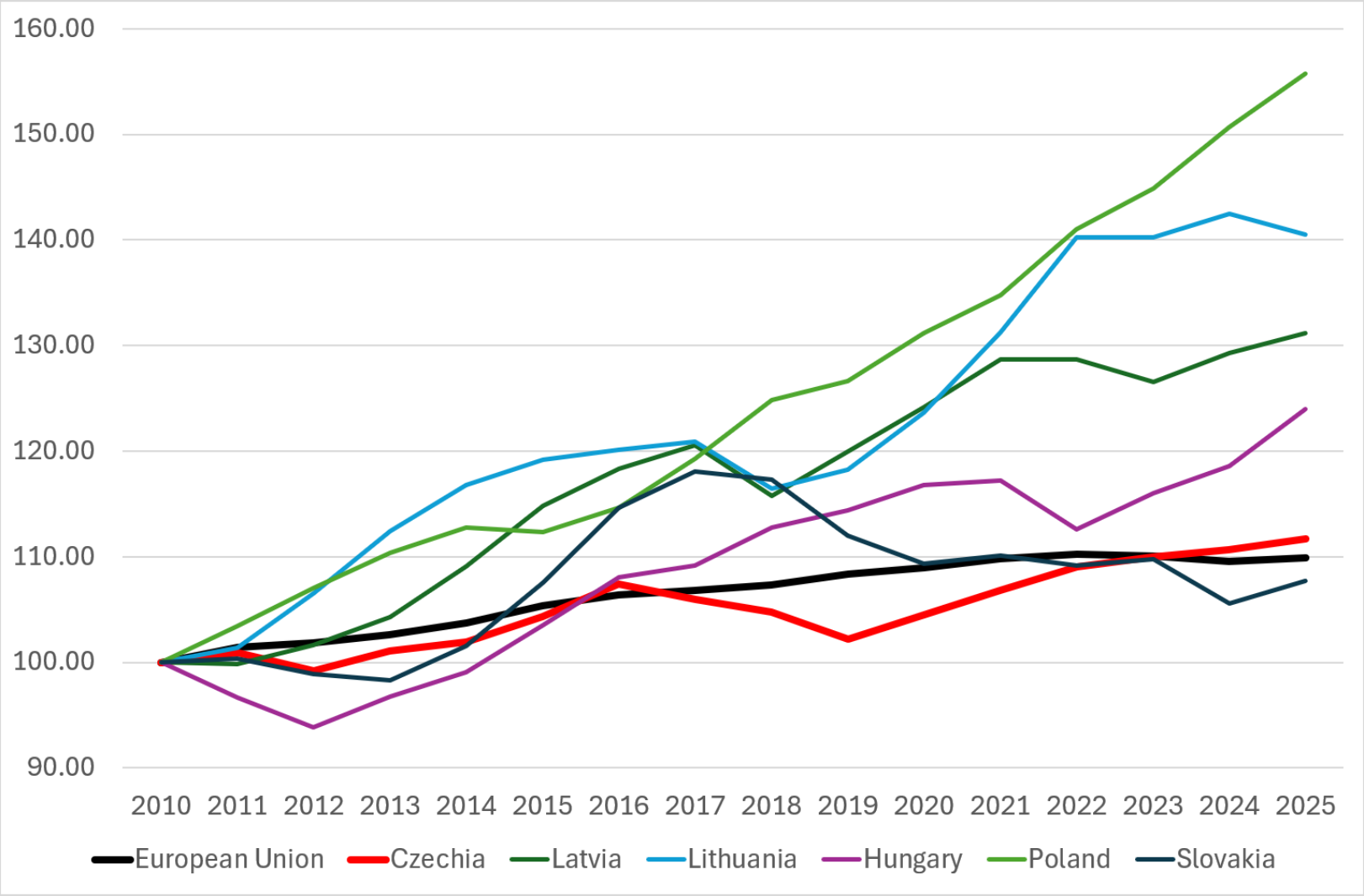


Land rental prices rose in line with farm income and area payments per ha during the accession transition period. They have increasingly diverged from farm income and direct payment trends after 2014.

No direct evidence of causality, but consistent with hypothesis of partial capitalisation of area-based payments into land rental prices

Source: Czech Ministry of Agriculture, Green Reports for 2011, 2015, 2019 and 2025, Eurostat apri-lrnt for Eurostat land rent and aact_eaa01 for entrepreneurial income, area-based payments per ha derived from SYS02, SE630 and SE025 in FADN data base

CZ total factor productivity growth

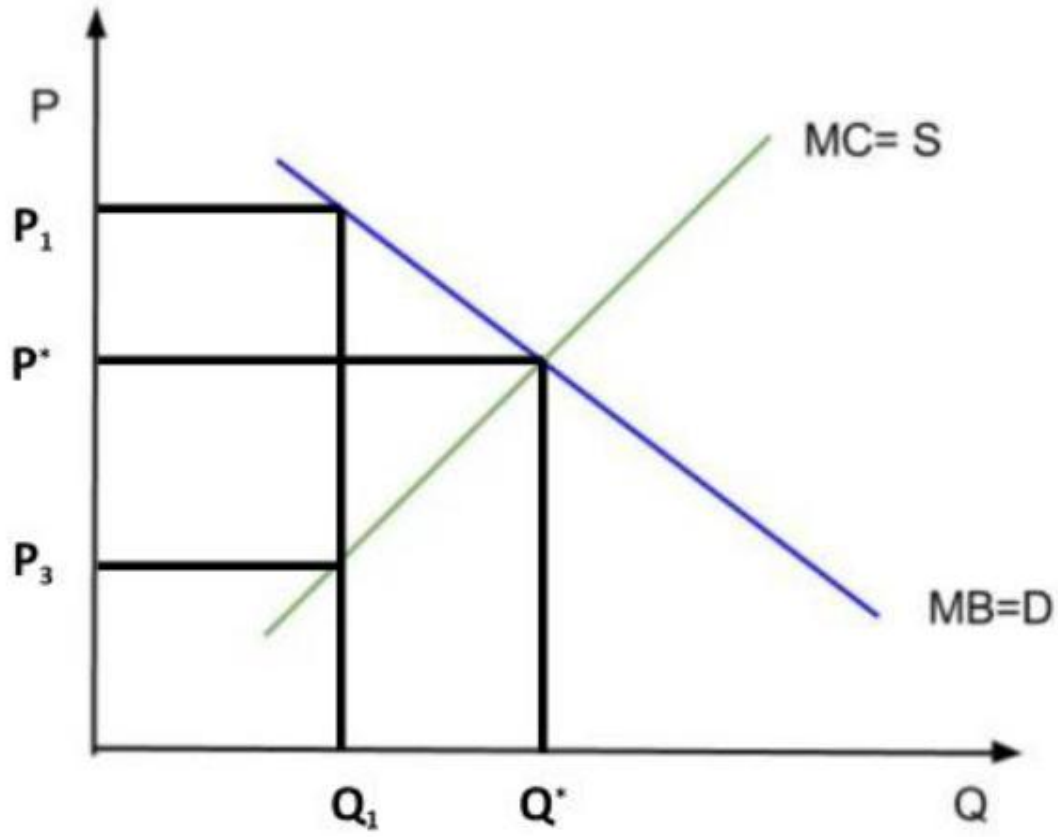


Area-based payments might accelerate productivity growth if they facilitate investment, but they reduce incentives for farmers to maximise efficiency and profits.

As all EU Member States receive direct payments, we cannot identify their impact on productivity through simple cross-country comparisons.

But the chart shows that factors other than payments can also drive faster productivity growth.

Can ecosystem payments support farmer incomes?



Optimal quantity of the ecosystem service:
The optimal quantity occurs where MB = MC

In a private market the price would settle at P*

A farmer's income is the inframarginal rent – the area between the price received and the marginal cost.

When the environmental budget is constrained, government can purchase Q_1 amount by paying P_3 – cost incurred principle – even though a value-derived payment would be P_1.

The more government uses its limited environmental budget to 'top up' the payment, the fewer ecosystem services it can purchase.

The larger the environmental budget, the more attractive the price must be to attract enrolment

Farmer responses to capping (1)

- Often argued that holdings will seek to circumvent capping by dividing the business between formally separate holdings
  - Distinction between a legal ceiling on payments to a beneficiary and the rules for determining who counts as one beneficiary
  - CAP 2023-2027 legislation contains anti-circumvention provisions that permit payment agencies to refuse to recognise artificially divided holdings
  - Proposed CAP legislation goes further by requiring that “In the case of a legal person or groups of legal persons, the capping shall cover all holdings under the control of one legal or natural person” (Art. 6(4)).
  - Effectiveness will depend on how control is identified and verified by paying agency.

Farmer responses to capping (2)

- Large holdings may decide to opt out of area-based payments to avoid conditionality obligations (beyond the statutory minimum requirements)
- To maintain the environmental benefits of conditionality, Member States would need to offer agri-environment-climate (AECA) payments sufficient to induce voluntary enrolment
- Effect would be a *substitution* of AECA payments for area-based payments without any *additional* obligations for those farms – but with advantages for governments and for farmers (much greater flexibility)
- Also possible to make payments to *maintain* environmental benefits as well as generating *additional* benefits
- Alternative payment systems are administratively more complex and can be difficult to realise on rented land, but larger farms have more resources to manage these issues

Final considerations

- Budgets are tight, need to prioritise spending
- Environmental improvements are not just ‘nice to have’, pollution and environmental damage have tangible monetary and health costs
- Degressivity and capping do not mean larger farm businesses are excluded from support
- Support can be provided through agri-environment-climate payments, ANC payments, investment aids, risk management assistance.
- Ultimately, farm income is determined by productivity, which depends in part on the state of agricultural ecosystems.
- It makes more sense for farmers to use government support to underpin productivity and healthy ecosystems than just look for income transfers.

Thank you for listening and I look forward to the discussion