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**COMMISSION STAFF WORKING DOCUMENT**

**EVALUATION**

**of the impact of the CAP measures on the general objective 'viable food production'**

{SWD(2021) 106 final}

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## Glossary

ANC	Areas facing natural constraints
AWU	Annual work unit
BPS	Basic payment scheme
CAP	Common agricultural policy
CATS	Clearance of Accounts Audit Trail System
EAGF	European Agricultural Guarantee Fund
EAFRD	European Agricultural Fund for Rural Development
EIP	European Innovation Partnership
EU	European Union
EUR	Euro, eurozone currency
FADN	Farm Accountancy Data Network
FAO	Food and Agriculture Organization of the United Nations
FNVA	Farm net value added
MTFF	Multiannual financial framework
NGOs	Non-governmental organisations
RDP	Rural development programme
SAPS	Single area payments scheme
SMP	Skimmed milk powder
US/USA	United States of America
USD	US dollar

## 1. INTRODUCTION

The 2013 reform of the common agricultural policy (CAP) set out to improve the targeting, efficiency and coherence of policy instruments, addressing the long-term objectives of (i) viable food production, (ii) sustainable management of natural resources and climate action and (iii) balanced territorial development. These 2014-2020 CAP objectives are set out in Article 110(2) of Regulation (EU) No 1306/2013 (the ‘Horizontal Regulation’)<sup>1</sup>.

The **purpose** of this evaluation is to assess to what extent the relevant policy instruments of the 2014-2020 CAP have helped to achieve the overarching policy objective of viable food production<sup>2</sup>, focusing in particular on the specific objectives of increasing and stabilising agricultural income, increasing the competitiveness of the farm sector and maintaining market stability.

The evaluation is particularly relevant in light of the objectives set out in the farm to fork strategy<sup>3</sup>, which complements the European Green Deal<sup>4</sup>, and in light of the response to the challenges posed by the COVID-19 pandemic. The increased emphasis on agro-environmental targets, combined with the need for a resilient, safe and sustainable food system ensuring food security, results in a demand to produce more and better with less. Addressing this demand will require an EU farm sector that remains viable. As such, the objective of viable food production appears to remain as relevant as ever, and the lessons learned from the evaluation provide important input to address the objective in an effective and efficient manner.

The **measures covered by the evaluation** include the full spectrum of relevant instruments set out in the basic 2014-2020 CAP Regulations on Direct Payments<sup>5</sup>, Rural Development<sup>6</sup>, the Common Market Organisation<sup>7</sup>, and the Horizontal Regulation, which target the specific objectives mentioned above.

The **geographical coverage of the evaluation** encompasses the European Union of 28 Member States, including the United Kingdom as it was a member of the EU at the time of the evaluation<sup>8</sup>.

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1 Regulation (EU) No 1306/2013 of the European Parliament and of the Council of 17 December 2013 on the financing, management and monitoring of the common agricultural policy, OJ L 347, 20.12.2013, p. 549–607.

2 The CAP’s performance in achieving the objectives of ‘sustainable management of natural resources and climate action’ and ‘balanced territorial development’ is dealt with in separate evaluations. The various evaluations will contribute to a report from the Commission to the European Parliament and the Council on the implementation of the Common Monitoring and Evaluation Framework including an assessment of the performance of the Common Agricultural Policy 2014-2020 (in line with the obligation stemming from Article 110.5 of Regulation (EU) 1306/3013).

3 [https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/actions-being-taken-eu/farm-fork\\_en](https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/actions-being-taken-eu/farm-fork_en)

4 [https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal\\_en](https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en)

5 Regulation (EU) No 1307/2013 of the European Parliament and of the Council of 17 December 2013 establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy, OJ L 347, 20.12.2013, p. 608–670.

6 Regulation (EU) No 1305/2013 of the European Parliament and of the Council of 17 December 2013 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD), OJ L 347, 20.12.2013, p. 487–548.

7 Regulation (EU) No 1308/2013 of the European Parliament and of the Council of 17 December 2013 establishing a common organisation of the markets in agricultural products, OJ L 347, 20.12.2013, p. 671–854.

8 For the purposes of the evaluation, which covers the period 2014-2020, the United Kingdom is considered as a member of the European Union (EU-28). To recall, the United Kingdom withdrew from the European Union as of 1 February 2020, entering a transition period until 31 December 2020, during which Union law, with a few limited exceptions, continued to be applicable to and in the United Kingdom.

The **evaluation examines** the implementation period of the 2014-2020 CAP, notably as of 1 January 2015 for direct payments and 1 January 2014 for other measures. For analytical reasons, the analysis includes earlier periods for market measures, as of 2009 and in some cases, comparisons were made with the situation at the start of the 2003 CAP reform, which introduced the shift away from production subsidies to income support<sup>9</sup>. The evaluation covers all **evaluation criteria**, assessing the effectiveness of the measures covered by the evaluation in having an impact on the specific objectives related to agricultural income, competitiveness and market stability, as well as assessing the efficiency, relevance, coherence and EU value added of these measures.

This Commission staff working document is **primarily based on the corresponding external evaluation support study**<sup>10</sup> but also draws on additional analysis based on internal (Commission) and external sources, as well as on complementary data from various sources. In the subsequent chapters, any reference to analyses, interviews, findings, etc. should be interpreted as coming from the support study, unless otherwise indicated and referenced.

The **evaluation support study has already informed policymaking**, with its preliminary results taken into consideration for the 2017 Commission ‘Communication on the modernisation and simplification of the CAP’, and the 2018 Commission proposals on the ‘CAP beyond 2020’, notably the impact assessment accompanying the legislative proposals<sup>11</sup>.

## 2. BACKGROUND TO THE INTERVENTION

### 2.1. Description of the intervention and its objectives

The 2013 CAP reform was designed to address the diverse **challenges facing the EU agri-food sector at that time**, and categorised as follows:

- economic: food security and globalisation, a declining rate of productivity growth, price volatility, high input prices, deteriorating position of farmers in the supply chain;
- environmental: resource efficiency, soil and water quality, threats to habitats and biodiversity;
- territorial: demographic, economic and social developments, challenges facing rural areas.

The 2013 CAP reform took place alongside the discussions on the Europe 2020 strategy<sup>12</sup> and negotiations on the 2014-2020 multiannual financial framework (MFF). Accordingly, **further factors driving the 2013 CAP reform** were to align the 2014-2020 CAP with the goals of the Europe 2020 strategy on smart, sustainable and inclusive growth, and to optimise the targeting and efficiency of CAP measures within the 2014-2020 EU budgetary framework of the MFF. Thus, three **general objectives** were established **for the 2014-2020 CAP**:

- viable food production: with a focus on agricultural income, agricultural productivity and price stability;
- sustainable management of natural resources and climate action: with a focus on greenhouse gas emissions, biodiversity, soil and water;
- balanced territorial development: with a focus on rural employment, growth and poverty in rural areas.

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9 <https://op.europa.eu/en/publication-detail/-/publication/724f1d6c-1151-4ecb-924b-e394d660328c>

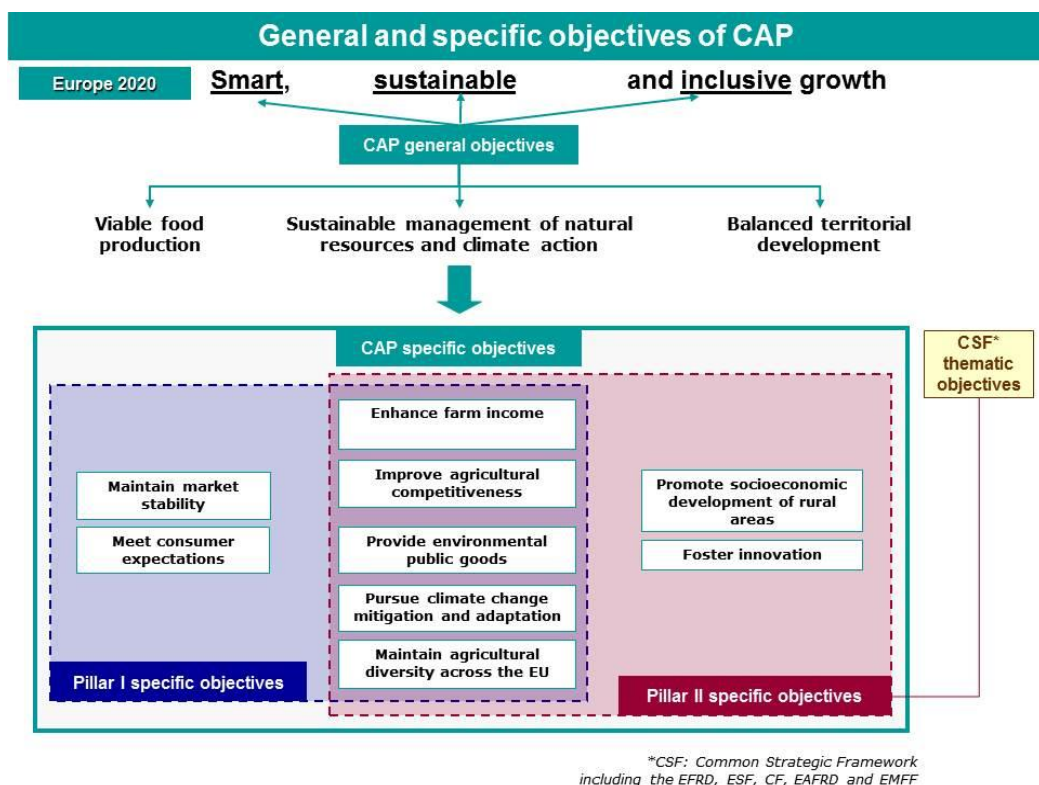
10 [https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/cmef/products-and-markets/impact-cap-measures-towards-general-objective-viable-food-production\\_en](https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/cmef/products-and-markets/impact-cap-measures-towards-general-objective-viable-food-production_en)

11 <https://eur-lex.europa.eu/legal-content/EN/LSU/?uri=COM:2017:713:FIN>  
[https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/future-cap\\_en](https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/future-cap_en)  
<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=SWD:2018:301:FIN>

12 <https://ec.europa.eu/eu2020/pdf/COMPLET%20EN%20BARROSO%20%20%200007%20-%20Europe%202020%20-%20EN%20version.pdf>

The **general objectives and their breakdown into specific objectives** are targeted by the two pillars of the CAP: pillar I on direct payments and market measures, financed by the European Agricultural Guarantee Fund (EAGF), and pillar II on rural development, financed through the European Agricultural Fund for Rural Development (EAFRD).

Figure 1 Overview of the general and specific objectives of the 2014-2020 CAP



Source: evaluation support study

The **specific objectives for viable food production** are identified as those related to ‘market stability’ (addressed by pillar I), ‘farm income’ and ‘agricultural competitiveness’ (the latter two addressed by pillars I and II).

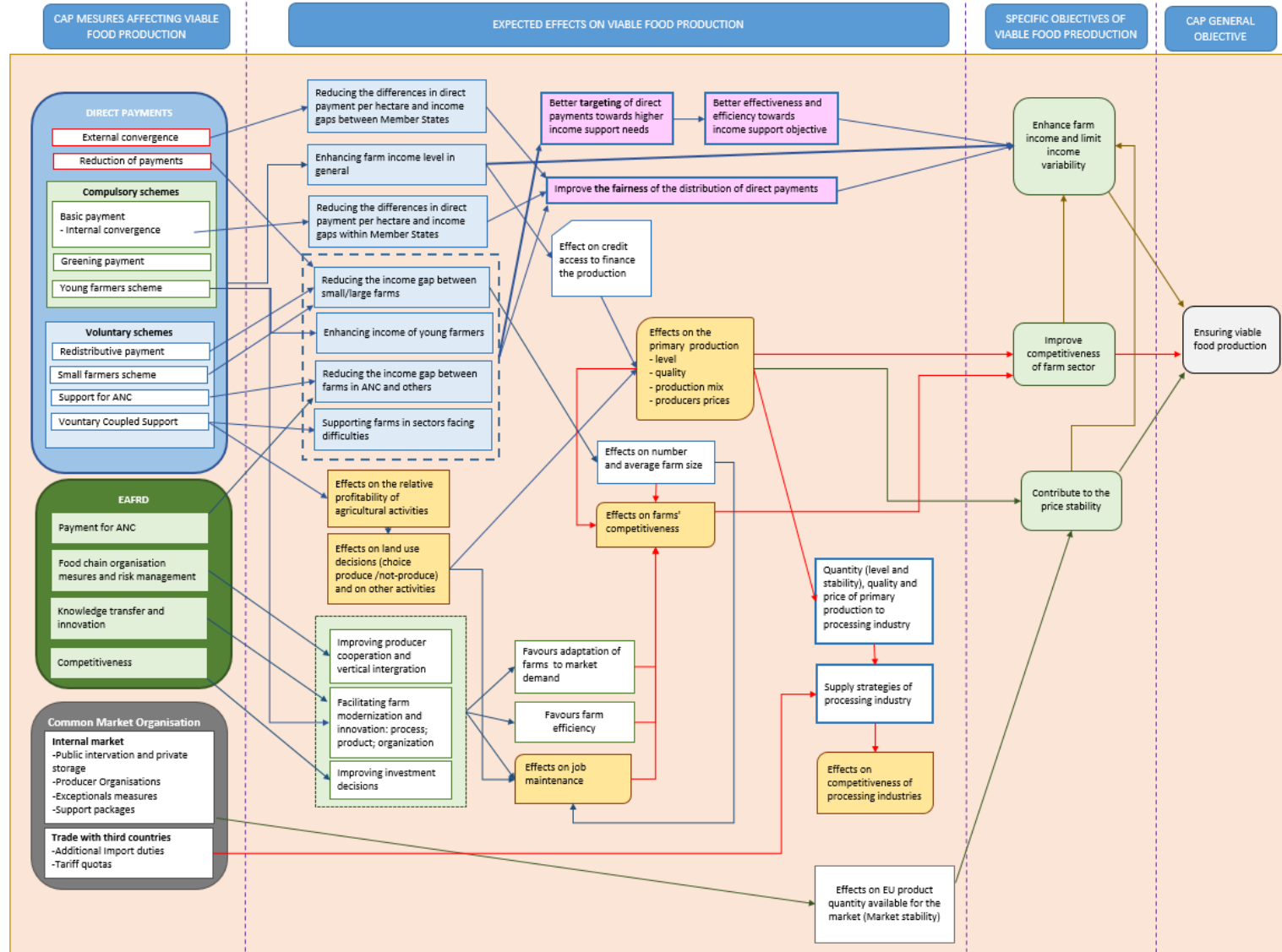
Detailed **pillar I specific objectives contributing to viable food production** are:

- to contribute to farm incomes and limit farm income variability in a minimally trade-distorting manner;
- to improve the competitiveness of the agricultural sector and enhance its share in the food value chain;
- to maintain market stability.

**Pillar II specific objectives contributing to viable food production** (also referred to as ‘priorities for rural development’) include:

- knowledge transfer and innovation (priority 1), with focus areas 1A (fostering innovation, cooperation and the development of the knowledge base in rural areas), 1B (strengthening the links between agriculture, food production and forestry and research and innovation) and 1C (fostering lifelong learning and vocational training in the agricultural and forestry sectors);
- farm viability and competitiveness (priority 2), with focus areas 2A (improving the economic performance of all farms and facilitating farm restructuring and modernisation) and 2B (facilitating the entry of adequately skilled farmers into the agricultural sector and generational renewal);
- food chain organisation and risk management (priority 3), with focus areas 3A (improving competitiveness of primary producers by better integrating them into the agri-food chain) and 3B (supporting farm risk prevention and management).

Figure 2 Intervention logic of the CAP measures in relation to the general objective of viable food production



Source: evaluation support study (adaptation)

Figure 2 presents the intervention logic of the relevant 2014-2020 CAP measures addressing the general objective of viable food production. The measures are described in Chapter 3, along with the state of play for their implementation.

## 2.2. Baseline and points of comparison

The Commission legal proposals for the 2013 CAP reform were accompanied by an impact assessment<sup>13</sup>, which described the situation preceding the reform and included medium-term projections comparing no policy change (status quo / baseline) with policy alternatives.

The situation preceding the reform was characterised by increased volatility in agricultural prices, high prices for inputs used in agriculture and uneven and asymmetric price-transmission along the supply chain. This has led to a deterioration of the terms of trade for agriculture, a declining share of value added for primary producers and a consequent reduced profit margin for farmers. The medium-term projections envisaged a continuation of the strong volatility on EU agricultural markets and increasing costs of production over the 2013-2020 period.

The baseline projections depicted a gradual, albeit modest growth in aggregate EU agricultural income over the 2013-2020 period. The actual outcome of the 2013 CAP reform is best represented by the ‘integration’ scenario of the impact assessment, which assumed an enhanced policy framework geared toward support for competitiveness, development and innovation. This scenario depicted:

- stable incomes, more balanced and equitable redistribution and active targeting of beneficiaries via direct payments, while acknowledging the potential impact of greening costs on short-term competitiveness of farms;
- improved competitiveness and growth through increased funding for innovative actions, encouragement of increased cooperation among farmers and improvements in the functioning of the supply chain;
- better flows of information between stakeholders with the setting up of the European Innovation Partnership (EIP) and the creation of an innovation network;
- an enhanced safety net in response to crises and risk via exceptional market support measures under pillar I, and pillar II support for farm risk prevention and management.

## 3. IMPLEMENTATION / STATE OF PLAY

### 3.1. Description of the current situation

As described in Heading 2.1, the specific objectives relevant to viable food production aim to maintain market stability, enhance farm income and improve agricultural competitiveness.

#### *Budgetary framework*

To recap, the design of the 2014-2020 CAP was influenced by the 2014-2020 MFF, with implications for the implementation of the various CAP instruments, including:

- **external convergence** to reduce the differences in the level of income support per hectare based on historical disparities between Member States;
- **degressivity** to improve the distribution of direct payments by reducing the basic payment above a certain level<sup>14</sup>;
- **flexibility between the two pillars** of the CAP, allowing Member States to better target the available financial resources to match their particular objectives.

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13 <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52011SC1153>

14 Regulation (EU) No 1307/2013 established a compulsory payment reduction, according to which Member States have to reduce annual basic payments by at least 5% for the share of the payment amount exceeding EUR 150 000 (with exceptions for Member States using more than 5% of their annual national ceiling to grant a redistributive payment). The reduction in aid can be mitigated for farms employing paid labour. Member States can opt for any reduction percentage up to 100% (capping). The amount reduced is transferred to pillar II.



On the basis of Member State notifications, the reduction in annual basic payments for the claim years 2015-2019 (i.e. financial years 2016-2020) amounts to EUR 554 million (i.e. EUR 110.7 million per year on average), with Hungary accounting for 62% of the amount and Poland 18%<sup>15</sup>. Member State choices for implementing the flexibility mechanism result in a net transfer of EUR 3.76 billion to pillar II<sup>16</sup>. Table 13 in Annex 4 presents the allocation of CAP funds between direct payments and rural development following external convergence, degressivity and flexibility.

The MFF and 2014-2020 CAP also introduced a **reserve for crises in the agricultural sector** in order to provide sufficient funds to cope with major crises affecting agricultural production or distribution. The reserve can be used for the year or years for which the additional support is required and concerns circumstances that go beyond normal market developments.

### *Pillar I measures targeting the general objective of viable food production*

Pillar I measures include **income support<sup>17</sup> via direct payments**, which is **the core instrument of the CAP contributing to viable food production**. Direct payments under the 2014-2020 CAP came into force on 1 January 2015, after the Member States notified the European Commission of their implementation decisions<sup>18</sup> (see Figure 3 for an overview of how Member States chose to distribute the funds among the direct payment schemes in claim year 2018).

**Basic payments** contribute to viable food production by ensuring basic income support for farmers engaged in agricultural activities, based on a basic payment scheme (BPS) or a single area payment scheme (SAPS). Basic payments are compulsory and account for approximately 50% of the total available support, with variable shares at Member State level (see Figure 3). The 10 Member States (Bulgaria, Czechia, Estonia, Cyprus, Latvia, Lithuania, Hungary, Poland, Romania and Slovakia) applying SAPS until 2014 maintained the scheme until the end of 2020<sup>19</sup>.

A 30% share of the budget for direct payments is provided for farmers applying **agricultural practices beneficial to the climate and the environment**, notably crop diversification, maintenance of existing permanent grassland, and having an area of ecological interest. This **'green payment'** is obligatory for Member States and granted as a flat-rate payment per eligible hectare declared under the SAPS or according to the value of entitlements activated under the BPS.

The **young farmer payment** is a compulsory scheme providing support for farmers up to the age of 40 years who begin their agricultural activities, with an additional 25% of direct payment<sup>20</sup> for a maximum of 5 years. Member States may use up to 2% of their national

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15 Belgium-Wallonia, Germany, France, Croatia, Lithuania and Romania opted not to apply the reduction of payments.

16 As an outcome of 12 Member States (notably Belgium, Czechia, Denmark, Germany, Estonia, Greece, France, Latvia, Lithuania, Netherlands, Romania (until calendar year 2017) and the UK) transferring funds from direct payments to rural development and 5 Member States (Croatia, Hungary, Malta, Poland and Slovakia) shifting from rural development to direct payments, with Poland, Hungary and Croatia transferring the maximum rates applicable (25% for Poland and 15% for Hungary and Croatia).

17 For detailed information on the income support measures of the CAP, see [https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/income-support\\_en](https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/income-support_en)

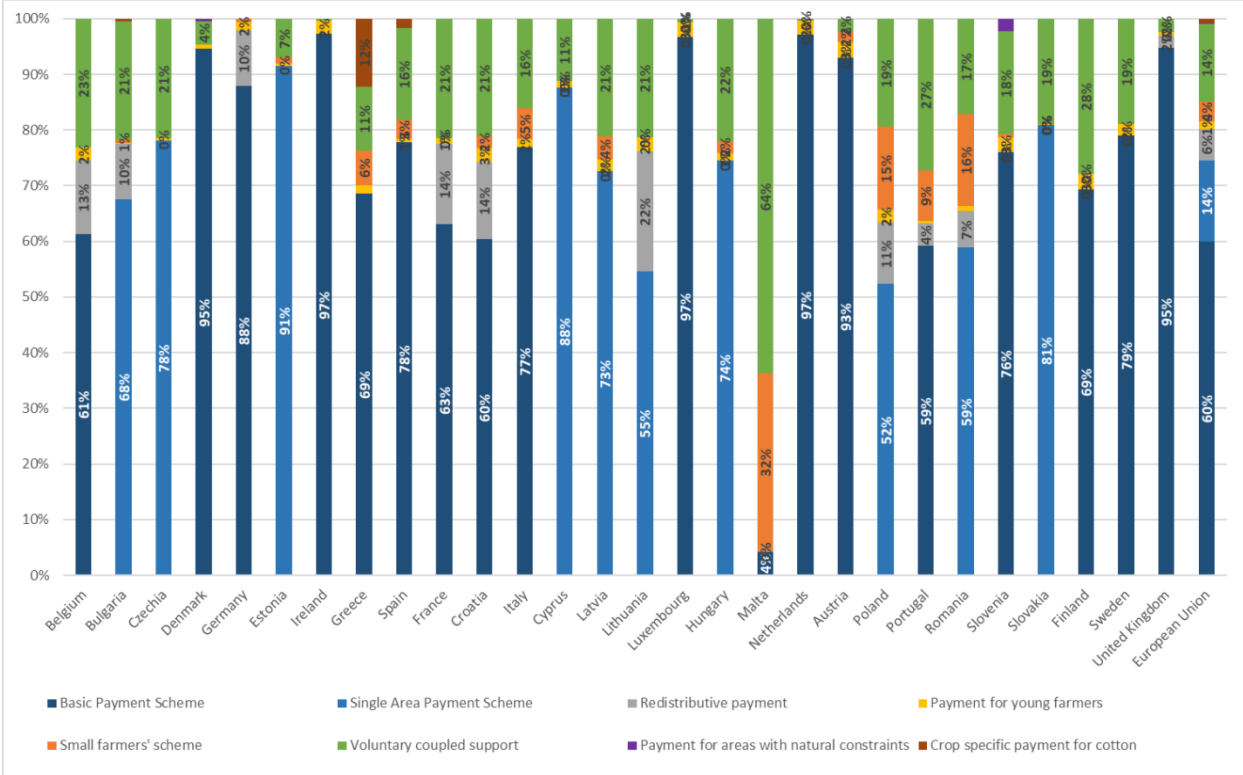
18 The decisions on some payments could be reviewed, in particular the implementation of the redistributive payment and the share of the national ceiling used for the young farmer payment.

19 Member States applying SAPS could grant complementary, voluntary transitional national aid for farmers in the period 2015-2020, in order to avoid an abrupt and important decrease of the transitional aid available until 2014. Croatia could provide complementary national direct payments. Complementary national direct payments could be provided in Bulgaria and Romania in 2015. Bulgaria could also use national direct payments in 2015 to complement payments granted under the crop-specific payment for cotton.

20 The 'Omnibus Regulation' (Regulation (EU) No 2017/2393; O.J. L 350, 29.12.2017, p. 15) allowed Member States to decide from claim year 2018 onwards to increase it up to a maximum of 50% and for a fixed period of 5 years.

allocation to this scheme and most of them have utilised this maximum rate (or close to that). However, 6 Member States assigned a very small share of up to 0.5% of their national allocation to this payment.

Figure 3 Distribution of funds among the direct payment schemes in claim year 2018



Source: European Commission (2020), CAP Output Indicators - Financing the Common Agricultural Policy  
 Note: percentage values provided in Table 16

Member States can also allocate between 8% and 13% of their national ceiling for direct payments to **voluntary coupled support** in certain sectors or regions where specific types of farming or specific agricultural sectors that are particularly important for economic, environmental and/or social reasons face certain difficulties. Funding can be increased by a further 2% to support protein crops in order to maintain the plant protein supply necessary for the feed sector. In 2018, the sectors most supported at EU-28 level were: (i) beef and veal (23 Member States, 40% of the total voluntary coupled support allocation), (ii) milk and dairy products (19 Member States, 20%), (iii) sheep and goat meat (21 Member States, 12%), (iv) protein crops (15 Member States, 10%), (v) fruit and vegetables (19 Member States, 5%), (vi) sugar beets (11 Member States, 4%). Germany is the only Member State not applying voluntary coupled support.

The 2014-2020 CAP introduced a voluntary **redistributive payment**, which allows a higher payment for the first 30 hectares of a farm (or more if the average farm size of a Member State is greater than 30 hectares). Although Member States can use up to 30% of their national ceiling for this payment, the actual uptake ranges from 2% to 15%. 9 Member States/Regions (Belgium-Wallonia, Bulgaria, Germany, France, Croatia, Lithuania, Poland, Romania and UK-Wales) have applied the redistributive payment since 2014/2015 and Portugal since 2017.

Member States could implement a voluntary **scheme for small farmers**, which is a simplified direct payment scheme replacing all other direct payments and exempts beneficiaries from greening obligations and cross-compliance penalties. 16 Member States applied the small farmers' scheme in claim year 2018.

To promote the sustainable development of agriculture, Member States could allocate up to 5% of their national ceiling for an additional voluntary payment to farmers entitled to the basic payment whose holding is located in **areas with natural constraints**. The payment is granted per eligible hectare, in order to offset the additional costs of farming in disadvantaged areas.

Only Denmark opted to implement the areas-with-natural-constraints payment in 2015 and Slovenia as of 2017 within pillar I. The other Member States continued using the scheme targeting these areas in their rural development programmes.

Table 1 Average support per ha for the EU-28 (EUR/ha of total potentially eligible area)

	BPS and SAPS	Redistributive payment	Greening	Young farmers scheme	Voluntary coupled support	Small farmers scheme	ANC	TOTAL
2015	140.1	7.9	72.2	2.1	26.0	6.5	55.5	270.6
2016	137.6	10.2	74.5	2.3	26.5	7.2	56.9	275.4
2017	136.7	10.5	74.7	2.5	27.4	6.5	55.2	275.0
2018	135.6	10.5	74.3	3.8	27.0	5.6	54.7	273.8

Source: European Commission Clearance Audit Trail System (CATS) database

Pillar I instruments and their funding also include **measures under the common organisation of the markets**<sup>21</sup>, which serve a crucial role in the specific objective of maintaining market stability and help to improve agricultural competitiveness and increase farm income.

Within market measures, **public intervention and private storage aid** provide a safety net for farmers by removing surplus products from the market for certain commodities, at pre-determined reference prices or via tender.

The 2013 CAP reform broadened the scope for being recognised as a **producer organisation** or an interbranch organisation to additional sectors and opened the possibility in a number of sectors of negotiating collective contracts (to address exceptional market disturbances), albeit temporarily and subject to specific safeguards.

The common market organisation also provides for **exceptional measures** to address market disruptions or counter threats of market disruptions caused by significant price fluctuations or other events. Moreover, it provides exceptional measures to resolve specific problems via emergency measures and measures related to animal diseases and loss of consumer confidence due to public, animal, or plant health risks.

Beginning in 2014, such tools were used to address crises in the milk, pigmeat and fruit and vegetable sectors. Temporary and exceptional measures were implemented for fruit and vegetable products immediately after the announcement of Russia's ban on imports of certain agricultural products, raw materials and foodstuffs from the EU in 2014<sup>22</sup>, and were renewed in 3 subsequent years with the extension of the Russian ban. Three support packages were adopted for milk and dairy products: (i) in September 2015 in response to the Russian import ban; (ii) in March 2016 authorising producer organisations and interbranch organisations of the dairy sector to enter into voluntary production limiting agreements; and (iii) in July 2016, supporting production reduction and other technical adjustments in particular for the dairy sector.

In addition, the common market organisation includes **measures on trade with non-EU countries**, which can be triggered if safeguard clauses are activated. These measures include: the application of additional import duties and specific (quantitative) import provisions for hemp, hops and wine, and transitional provisions for sugar; the activation of safeguard measures against imports, as well as the suspension of processing or inward/outward processing arrangements for certain products; and the possibility to reactivate export refunds.

21 For detailed information on the market measures of the CAP, see [https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/market-measures/market-measures-explained\\_en](https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/market-measures/market-measures-explained_en)

22 On 6 August 2014 the Russian president signed a decree 'On the application of certain special economic measures to ensure the security of the Russian Federation', prohibiting import into the territory of the Russian Federation of certain agricultural products, raw materials and foodstuffs originating from certain countries. The embargo was initially implemented for one year, but extended in annual steps until 31 December 2020. [https://ec.europa.eu/food/safety/international\\_affairs/eu\\_russia/russian\\_import\\_ban\\_eu\\_products\\_en](https://ec.europa.eu/food/safety/international_affairs/eu_russia/russian_import_ban_eu_products_en)

Finally, the 2013 CAP reform completed the elimination of **production quotas**, which had significant effects on competitiveness and farm income, notably by maintaining production in high-cost farms and guaranteeing comfortable margins to efficient growers.

### ***Pillar II measures targeting the general objective of viable food production***

As introduced in Heading 2.1, the rural development policy of the 2014-2020 CAP includes a number of priorities and focus areas targeting viable food production, with a range of measures funded by the EAFRD, including support to farmers to modernise their farms and become more competitive<sup>23</sup>, especially under priorities 1, 2 and 3. Table 2 offers a synthesis of the most relevant EAFRD measures contributing to viable food production.

*Table 2 Main EAFRD measures contributing to viable food production*

MEASURES	BRIEF DESCRIPTION
M01: Knowledge transfer and information actions	The measure aims to give farmers, forest holders, persons engaged in the food sector and rural small and medium-sized enterprises improved access to technical and economic knowledge and information. It should enhance their competitiveness and environmental performance, etc.
M02: Advisory services	Farm advisory services help farmers and other actors of rural areas to enhance the sustainable management and overall performance of their holding (modernisation, competitiveness, sectoral integration, market orientation, innovation, etc.).
M03: Quality schemes	The measure encourages farmers and groups of farmers to participate in unions or national quality schemes for agricultural products and food. Quality schemes increase the added value of products and the market opportunities.
M04: Investments in physical assets	The investment grant is designed to improve the economic and environmental performance of holdings, notably in a context of short supply chains and local markets. Its support covers investments, which improve the overall performance and sustainability of the farms; enhance the processing, marketing or development of agricultural products; develop, modernise or adapt agriculture; etc.
M05: Risk management	Investment aid for (i) preventive measures designed to reduce the consequences of natural disasters, adverse environmental phenomena and likely catastrophes, and (ii) the restoration of agricultural land and production potential damaged by natural disasters, adverse climatic phenomena and catastrophes.
M06: Farm and business development	The measure's main aims are to encourage the restructuring of the agricultural sector and ensure the viability of new activities through: business start-up aid for young farmers; non-agricultural activities in rural areas and the development of small farms; investments in the creation and development of non-agricultural activities; an annual payment or one-off payment for farmers eligible for the small farmers scheme who transfer their holding to another farmer.
M09: Setting up of producer groups and organisations	Supports producer groups and organisations (qualified as small and medium-sized enterprises) to face market challenges (adapting production to market requirements, placing goods on the market, developing business and marketing skills and organisation, facilitating the innovation processes, etc.).
M10: Agri-environment-climate	This measure aims to preserve and promote 'agricultural practices that make a positive contribution to the environment and climate', by compensating beneficiaries for all or part of the additional costs and income foregone.
M11: Organic farming	The measure provides support to farms that convert to or maintain organic farming, and encourages organic farming practices by groups of farmers through collective contracts or cooperation between farmers.
M12: Natura 2000 & Water Framework Directive	The measure provides annual per hectare compensation payments to farmers and foresters for the additional costs and income foregone when implementing the Birds and Habitats Directives or (for farmers only) the Water Framework Directive.
M13: Payments to areas facing natural or other specific constraints	The measure intends to encourage farming activity in mountain areas and other areas facing natural or other specific constraints (as designated in Article 32 of Regulation (EU) 1305/2013). The support compensates farmers for the additional costs and income foregone because of the constraints of agricultural production.
M14: Animal welfare	This measure aims to encourage farmers to adopt high standards of animal welfare, which go beyond the relevant mandatory standards, via an annual payment compensating farmers for all or part of the additional costs and income foregone.

23 For detailed information on rural development measures of the CAP, see [https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/rural-development\\_en](https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/rural-development_en)

MEASURES	BRIEF DESCRIPTION
M16: Cooperation on innovation	Encourages cooperation involving two entities, the creation of clusters or networks, and the establishment of operational EIP groups. These can, for instance, take the form of pilot projects; the development of new products, practices, processes or technologies; horizontal and vertical cooperation among supply chain actors for the establishment and development of short supply chain and local markets; promotion activities for the development of short supply chain and local markets.
M17: Risk prevention	Support to help overcome the increasing economic and environmental risks, in particular in a context of climate change and increased price volatility. It covers: premiums for crop, animal and plant insurance against economic losses caused by adverse climate events, animal or plant disease, pest infestation or an environmental incident; mutual funds to compensate farmers for losses caused by adverse climate events, animal or plant disease, pest infestation or an environmental incident; an income stabilisation tool granted in the form of financial contributions to mutual funds, to farmers when a severe drop in income occurs.

Source: DG Agriculture and Rural Development, based on the Regulation (EU) No 1305/2013

The rural development policy of the CAP is implemented over a seven-year period through rural development programmes (RDP) designed by national or regional managing authorities. A total of 118 RDPs are implemented in the 28 Member States, with EUR 99.6 billion in funding over the 2014-2020 period. Adding the co-funding by national, regional and private resources, the total amount of funding for the rural development policy of the CAP reaches EUR 161 billion.

*Table 3 Programmed EU public expenditure under priorities 2 (farm viability) and 3 (food chain) (million euro) 2014-2020*

	M01	M02	M03	M04	M05	M06	M09	M10	M11	M12	M13	M14	M16	M17	TOTAL
EU28	190	57	72	6 049	194	2 245	55	8 375	3 359	271	11 143	928	173	682	33 794
Member States	20	15	8	28	11	25	5	28	26	13	25	15	18	8	

Source: DG Agriculture and Rural Development - EAFRD - Monitoring

Table 3 presents the programmed public expenditure under priorities 2 (farm viability) and 3 (food chain) for the EU-28 over the 2014-2020 period, along with the number of Member States programming the particular measures. Investments in physical assets (M04) and agri-environment-climate (M10) measures are programmed in all Member States, and organic farming (M11), farm and business development (M06) and payments to areas facing natural or other specific constraints (M13) are also widely used, with the latter attracting the highest amount. On the other hand, a limited number of Member States have included in their programmes the setting up of producer groups and organisations (M09), quality schemes for agricultural products and foodstuff (M03), risk prevention (M17) and risk management (M05). Table 19 in annex presents the programmed expenditure per Member State.

Table 4 provides an overview of realised expenditure for the relevant measures under priorities 2 and 3 over the period 2014-2018, as a percentage of planned expenditure. Areas facing natural or other specific constraints, animal welfare and risk prevention measures show the highest levels of realised expenditure, while expenditure on advisory services, farm management and farm relief services, and cooperation measures remain well behind the planned payments.

For focus areas 1A and 1B, the 2018 annual implementation report presents a mixed picture on the realisation of targets during 2014-2018, with 12% of targeted expenditure for 1A and 21% for cooperation measures supported under 1B. Under focus area 1C, the realisation of targets has been 87% for the number of participants in information actions, 39% for the number of participants trained, 4% for the number of knowledge transfer operations and 0% for the number of beneficiaries of information actions.

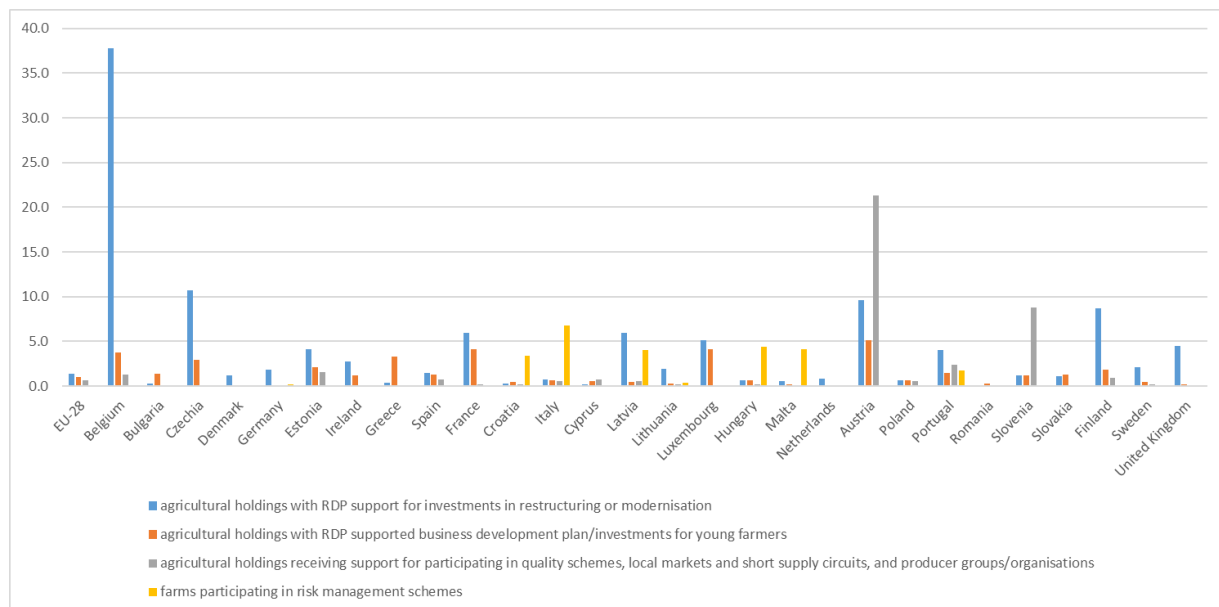
Table 4 Realised expenditure under priorities 2 and 3 (% of planned expenditure) 2014-2018

Measure	Priority 2		Priority 3	
	2A	2B	3A	3B
M01	19.2%	19.9%	16.9%	30.9%
M02	10.6%	8.6%	9.8%	12.0%
M03	21.7%	-	20.5%	-
M04	28.9%	21.3%	20.5%	24.8%
M05	0.0%	-	-	29.1%
M06	19.0%	37.8%	15.8%	-
M09	23.8%	-	5.0%	-
M10	-	-	-	-
M11	-	-	39.2%	-
M12	-	-	-	-
M13	66.1%	-	-	-
M14	38.0%	-	51.0%	-
M16	9.9%	5.6%	8.5%	8.6%
M17	-	-	-	46.3%
<b>TOTAL</b>	<b>27.5%</b>	<b>34.3%</b>	<b>26.5%</b>	<b>38.1%</b>

Source: Annual implementation report 2018

An overview of the proportion of agricultural holdings/farms benefitting from measures (for which data is available) in 2018 reveals that a rather small percentage of EU farmers (1.38%) participate in risk management schemes, and few receive support for investments in modernisation (1.34%), business development plans (0.99%) or participation in quality schemes and short supply chains (0.65%). There are some notable exceptions in Member States, with 38% of Belgian holdings receiving support for modernisation (and around 10% of holdings in Czechia, Austria and Finland), and 21% of Austrian holdings benefitting from support for quality schemes, short supply chains and producer organisations (and 9% in Slovenia). Otherwise, participation is mostly at or below 5% for these measures.

Figure 4 Percentage of holdings/farms benefitting from selected measures (2018)



Source: European Commission. (2020). Result indicators R.01 Percentage of agricultural holdings with RDP support for investments in restructuring or modernisation (focus area 2A), R.03 Percentage of agricultural holdings with RDP-supported business development plan/investments for young farmers (focus area 2B), R.04 Percentage of agricultural holdings receiving support for participating in quality schemes, local markets and short supply circuits, and producer groups/organisations (focus area 3A) and R.05 Percentage of farms participating in risk management schemes (focus area 3B), based on Annual Implementation Report and EUROSTAT Farm Structure Survey.

## 4. METHOD

The evaluation builds on the external support study, complementing it with internal (DG Agriculture and Rural Development) analysis based on more recent data and information, and including relevant findings of available external analyses and assessments of the topic.

Considering the complexity and the wide range of topics under evaluation, the methodological approach of the evaluation support study combines theoretical and empirical approaches and includes a variety of methods, both quantitative and qualitative (presented in greater detail in Annex 3). For the same reason of complexity, as well as other factors, the robustness of the evaluation faces a number of limitations.

### 4.1. Short description of methodology

**The methodology** uses empirical methods, via statistical and modelling tools, as well as qualitative approaches including information and opinions from stakeholders and administrative agents operating in the agri-food supply chain, via literature review and case studies.

#### *Statistical and econometric analysis*

The quantitative assessment uses standard statistical approaches, with the level of analysis, observed time period and geographical coverage adapted to the particular evaluation questions.

**Statistical analysis of the various aspects of viable food production at farm level** is based on individual farm data provided by the Farm Accountancy Data Network (FADN) for the years 2013, 2014 and 2015. The analysis uses a constant sample of farms in 2013 and 2015, which allows observing changes in farm income due to policy changes, market developments and other external factors, and avoids any bias of changes in the sample over time. The sample accounts for 60 818 farms at EU level (i.e. around 75% of the farms of the FADN sample).

Analysis of the competitiveness of the agricultural sector and the implications of the 2014-2020 CAP measures on the sector's evolution is based on secondary data from a wide range of sources, including the European Commission, the FAO, Member States, economic operators, sector organisations, etc. The analysis concerns 28 Member States for the period 2003 onwards.

**Econometric models** are used to estimate the net effect of CAP measures addressing viable food production by disentangling the income effect of the relevant measures from other factors covered by the models. The approach includes an analysis of the effects of the CAP measures on farm income, on the basis of FADN and Eurostat data in the first year of the reform (2015) at the level of (i) EU-28, (ii) farms located in Member States applying SAPS and (iii) farms located in Member States implementing BPS. This analysis was integrated into a **prospective analysis** simulating the full implementation of the 2014-2020 CAP on farm income in 2019, including internal convergence and the redistributive payment.

#### *Stakeholder consultation*

The evaluation benefits from various consultations, including:

- Special Eurobarometer 473: Europeans, Agriculture and the CAP<sup>24</sup>;
- Special Eurobarometer 504: Europeans, Agriculture and the CAP<sup>25</sup>;
- Open public consultation on modernising and simplifying the CAP<sup>26</sup>;
- Consultation of the relevant civil dialogue groups;
- Interviews with stakeholders and agents operating in the agri-food supply chain;
- Consultation with relevant academics and their works.

The synopsis report of the stakeholder consultation is provided in Annex 2.

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24 [https://data.europa.eu/euodp/en/data/dataset/S2161\\_88\\_4\\_473\\_ENG](https://data.europa.eu/euodp/en/data/dataset/S2161_88_4_473_ENG)

25 [https://ec.europa.eu/info/news/sustainability-rural-areas-food-security-commission-publishes-public-opinion-survey-eu-food-and-farming-2020-oct-13\\_en](https://ec.europa.eu/info/news/sustainability-rural-areas-food-security-commission-publishes-public-opinion-survey-eu-food-and-farming-2020-oct-13_en)

26 [https://ec.europa.eu/agriculture/consultations/cap-modernising/2017\\_en](https://ec.europa.eu/agriculture/consultations/cap-modernising/2017_en)

## *Literature review*

A thorough review of existing literature on the subject matter contributes to the analysis of the EU value added of the CAP measures addressing viable food production (see Annex 3).

## *National case studies*

Case studies covering the period 2014-2018 were carried out for Czechia, Denmark, France, Germany, Greece, Hungary, Italy, Lithuania, Poland and Spain, allowing for a balanced geographical representation that took into account the application of BPS, SAPS and voluntary coupled support. The selection also considered the allocation of EAFRD support for rural development priorities and measures, as well as the implementation of market measures relevant for viable food production.

The case studies are useful to verify whether and to what extent the results of the quantitative analysis are biased by factors outside the scope of the evaluation. More than 100 interviews were carried out with stakeholders and agents operating in the agri-food supply chain, notably national authorities, national paying agencies, managing authorities, agricultural producers' unions, agricultural cooperative unions, producer organisations, national processing industry unions, European farmers' organisations and European sector federations.

The case studies also provide more detailed information on certain elements (e.g. risk management tools under pillar II) and enable a closer examination of specific measures (e.g. the implication of rural development measures on the farm sector's competitiveness).

### **4.2. Limitations and robustness of findings**

The robustness of findings is affected by the limited availability of accurate, detailed and homogenous data for the analysis, the limited observation period for the contractor and the constraints of econometric modelling. A comprehensive judgement on the 2014-2020 CAP measures addressing viable food production is difficult due to the variety of choices of implementation by individual Member States, the existence of specific national legislation (e.g. on taxation), as well as the prevalence of external factors 'polluting' the precise identification of the cause and effect of certain developments relevant for the analysis.

The limited availability of data and the narrow observation period weakens the overall robustness of the results of the statistical analysis. The period of analysis of the effects of the measures under the 2014-2020 CAP is rather short, as the first year of implementation of the direct payments scheme was 2015 and the rural development programmes for 2014-2020 were approved by the European Commission between December 2014 and November 2015. Consequently, the evaluation support study could only rely on 2 years (2015-2016) of data from EUROSTAT on land use and production and 1 year (2015) of data from FADN and the Clearance of Audit Trail System (CATS). The information on farm structure of 2016 was not available when the contractor carried out the study.

This limitation is particularly important as the implementation of the 2014-2020 CAP coincided with other events that influenced producers' choices, in particular the sharp decrease of relevant agricultural commodity prices during 2013-2015 and the aforementioned introduction of import restrictions on a range of EU agricultural products by the Russian Federation in 2014. It is therefore difficult to evaluate with certainty the effects of CAP measures on the outcomes of the objectives.

Analyses through econometric modelling are by default constrained by the limitations of the particular tool and conditioned by the assumptions considered for the prospective analysis. Rather than providing 'evidence', their use is beneficial for understanding the possible socio-economic interactions and outcomes of selected variables.

Figure 3, Table 3 and Table 14 (in Annex) show the wide range of implementation choices across Member States, which makes it difficult to assess the individual measures against their desired objectives and in particular at the EU level. Member States might also have independent policy objectives and solutions that can strongly affect outcomes, notably rules on taxation.



Finally, the scaling up of results from case studies at national level to form generalised judgements applicable for the EU as a whole, may depict an inaccurate picture. It was difficult to derive a robust general image from the opinions presented in the case studies, given different situations in the observed Member States, such as on the implementation of measures.

## **5. ANALYSIS AND ANSWERS TO THE EVALUATION QUESTIONS**

The evaluation addresses the effectiveness, efficiency, coherence, relevance, and EU value added of the 2014-2020 CAP measures relevant for viable food production.

### **5.1. Effectiveness**

The evaluation aims at assessing the extent to which the relevant 2014-2020 CAP measures are effective in addressing viable food production. The assessment covers the combined effect of relevant CAP measures on farm income levels and variability, on competitiveness and on jobs, with a specific focus on the effectiveness of income redistribution and new targeting elements, as well as the effectiveness of market measures on market stabilisation and market orientation.

#### *5.1.1. The combined effect of relevant CAP measures on farm income levels and variability*

##### ***The role of CAP measures in supporting farm income***

A statistical analysis at regional level reveals that 2014-2020 CAP measures addressing viable food production play an important role in supporting farm income. The EU average share of direct payments in agricultural factor income in 2014-2018 stood at 26%<sup>27</sup>. The situation differs across Member States, where the share of direct payments on agricultural factor income mostly ranges between 20% and 40% (with some exceptions). Compared to the pre-2013 CAP reform period, in most countries the contribution of direct payments to farm income increased, notably Cyprus, Croatia, Romania, Bulgaria, Estonia, Poland, Finland, Latvia, Germany and Slovakia. No Member State had a significant decrease. Taking all subsidies into account, total public support in agricultural factor income reached 36% of agricultural income on average in the EU<sup>28</sup>.

At the level of individual sectors, direct payments play different roles in contributing to factor income. Available data from FADN suggest that direct payments play the lowest role for intensive sectors with higher value products (such as horticulture, wine and pigs and poultry), with up to 15% of factor income (farm net value added in FADN). By contrast, that ratio was about 50% for area-based and less-intensive field-crop, beef, sheep and mixed farms.

The role of direct payments is highlighted in the impact assessment accompanying the Commission proposal on CAP strategic plans<sup>29</sup>, which included a scenario analysis assuming a 10% reduction in direct payments. This reduction would result in a 6% drop in income for specialised cereal, oilseed and protein crop producers, due to the large share of direct payments in their income<sup>30</sup>.

Coupled direct payments represent around 10% of the overall amount of direct payments in 2018. Indeed, apart from a few Member States, the vast majority of EU countries used the maximum allowed ceiling for voluntary coupled support or a large part of it.

Payments for areas facing natural constraints or other specific constraints (ANCs) compensate for a lower basic income support payment per hectare.<sup>31</sup>

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27 On the basis of entrepreneurial income per family working unit, the share of CAP subsidies is close to 60%.

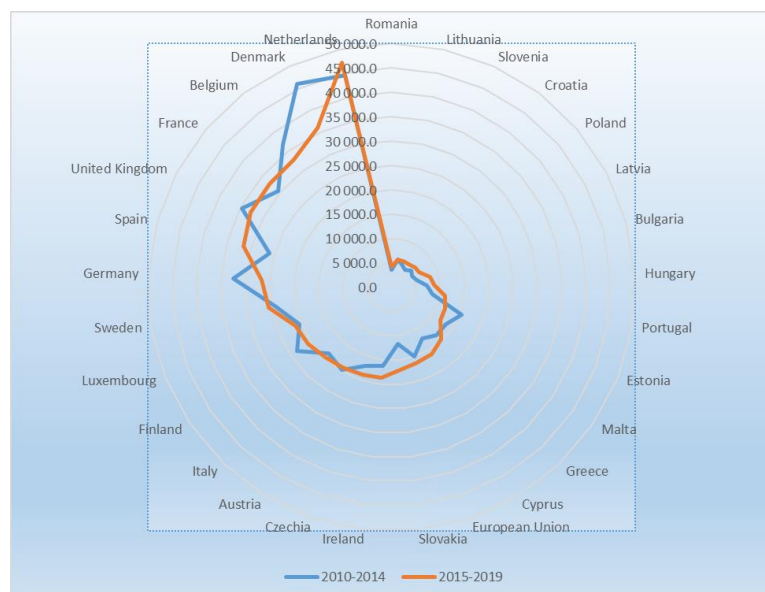
28 [https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/farming/documents/cap-expenditure-graph5\\_en.pdf](https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/farming/documents/cap-expenditure-graph5_en.pdf)

29 SWD(2018) 301 final, see <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=SWD:2018:301:FIN>

30 In comparison, the evaluation support study estimated support elasticities of direct payments of 1.15 and of voluntary coupled support of 0.7.

31 Payments to areas facing natural or other specific constraints account for 6% of all direct payments, including payments on ANC from EAFRD.

Figure 5 Average agricultural factor income across Member States and the EU in 2010-2014 and 2015-2019 (EUR/AWU)



Source: European Commission. (2020). Context indicator 25 Agricultural factor income, based on EUROSTAT Economic Accounts for Agriculture tables aact\_eaa04, aact\_ali01 and aact\_eaa06

Figure 5 presents farm income in 2010-2014 and 2015-2019, expressed in euro per annual work unit (EUR/AWU) for the Member State averages over the respective periods. When compared to the pre-2013 CAP reform, farm income increased in nominal terms in 19 Member States (by 4.5 to 51.7 per cent) and decreased in 9 Member States (by 0.5 to 23.7%). Figure 14 (in Annex 4 Tables and Graphs complementing Chapter 3) presents the changes for all Member States and the EU average.

It is important to stress that this increase or decrease in farm income can only be partially linked to the 2013 CAP reform.

Based on a statistical analysis, the study considers that it was rather the evolution of labour use in agriculture and market price dynamics that drove these changes over the period. However, in view of the observed development of factor income and labour input over 2015-2019, the changes in labour input appear to have had a pronounced and explicit impact in Bulgaria, Cyprus, Portugal, Poland, Greece, France, Sweden and Luxembourg, but not in other Member States, even if the rate of decline was considerable elsewhere (e.g. in Finland, labour input fell by 18%, but could not compensate for the 28% decline in factor income).

The econometric approach used to identify the statistical relationships between income levels and a number of explanatory variables that are expected to influence farm income reveals that CAP support has a direct and positive impact on farm income. Both coupled and decoupled direct payments help to support farm income, but decoupled payments are shown to have a higher transfer efficiency. The approach also highlights that CAP support, and in particular farm investment support under EU rural development policy<sup>32</sup>, has an indirect and positive effect on farm income by increasing the relative amount of capital available within the farm.

Regarding the overall level of EU farm income, the 2015-2019 average factor income per annual work unit exceeded the 2010-2014 average by 9.5%. The following table presents the relative

32 Indeed, when considering the notion of ‘operating subsidies’, which cover not only direct payments but also all rural development measures (that are not investment support, i.e. less favoured areas/areas facing natural constraints, environmental measures and other measures which do not support investments), the importance of CAP support is clearly displayed, also in terms of compensating the gap between farm income and the average wage in the economy (prevalent in most Member States). See: [https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/farming/documents/cap-operating-subsidies\\_en.pdf](https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/farming/documents/cap-operating-subsidies_en.pdf)

evolution of EU farm income since 2010, expressed as an index of the real income of factors in agriculture per annual work unit ('indicator A'), showing a strong, albeit non-linear increase after 2013.

Table 5 Evolution of EU farm income since 2010 in real terms (indicator A index, 2010=100)

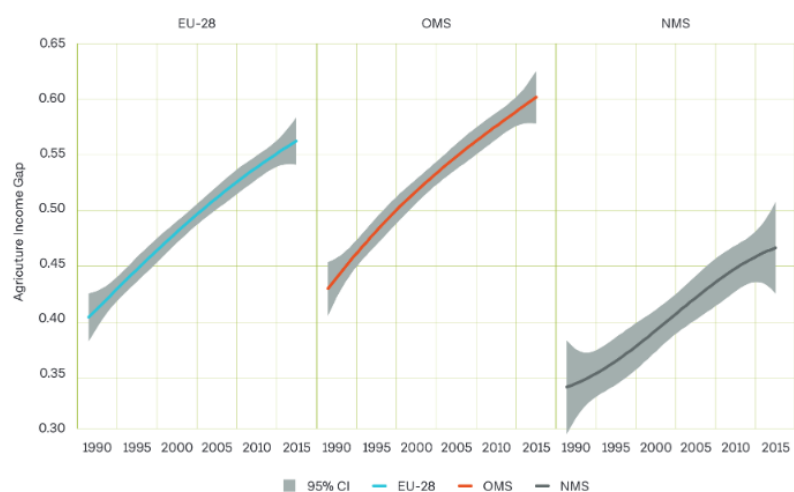
2010	2011	2012	2013	2014	2015	2016	2017	2018	2019e
100.00	108.97	107.65	111.95	113.18	109.37	111.13	125.27	123.09	128.72

Source: Eurostat, Economic accounts for agriculture - agricultural income (aact\_eaa06)

The analysis reveals that the reform's implementation has further increased the level of direct payments in small farms<sup>33</sup>, more than in large farms, confirming that the 2014-2020 CAP increasingly targets support towards small farms, even if the income gap between small and large farms remains considerable.

Furthermore, despite a gradual and continuous improvement, the gap between agricultural and non-agricultural income remains considerable (see Figure 6)<sup>34</sup>. According to the analysis, only 8.8% of small farms and 30.5% of large farms earned the average income of the national economy in 2015, whereas 91.2% of small farms and 69.5% of large farms did not reach this benchmark, even with CAP support.

Figure 6 Agricultural income gap with non-agriculture



Notes: The figures show the evolution of the (smoothed) average agricultural income gap measured as the ratio between agricultural value added per worker and non-agricultural value added per worker. The 95% confidence interval 'CI' (computed using Stata's command for local polynomial smooth plots with confidence interval). 'OMS' refers to the pre-2004 accession EU-15 and 'NMS' to Member States that joined since 2004.

Source: World Bank Report on the European Union – Thinking CAP 'Supporting Agricultural Jobs and Incomes in the EU', 2017 on the basis of Eurostat and Cambridge Econometrics.

### ***The role of CAP measures in reducing farm income variability***

The support study includes an analysis carried out at regional level using EAA and CATS data for the period 2010-2015. The analysis shows that direct income support allows farmers to cope better with the negative income effects caused by drops in agricultural prices and therefore strongly contributes to the stability of farm income (albeit at different levels across Member States).

33 In 2015 EU farmers below the average EU farm size were benefitting from an average direct payment per ha of 5.2% and in 2017 of 6.3% above the average. The change is more pronounced in Member States applying the redistributive payment (e.g. for France: 4% higher in 2015 and 8% higher in 2017).

34 In a study of the European Central Bank it was found that the same economic performance earns far less in the agricultural sector than in the other sectors. ECB Working Paper 1022, Understanding inter-industry wage structures in the Euro area, Frankfurt am Main, March 2009.

The analysis looked at the contribution of direct payments in reducing farm income variability over 2010-2015, by comparing income variability of farms with and without direct payments. Direct payments were considered for the analysis, as they are the CAP measure more directly aimed at enhancing and stabilising farm income.

The results show that direct payments contribute to the stability of farm income. Without CAP support, income instability would have increased in all Member States. Furthermore, the income stabilising effect of direct payments is correlated with their relative importance on average farm income and therefore it differs in magnitude among Member States. Furthermore, as identified in a research study for the AGRI Committee of the European Parliament, direct payments may help to stabilise farm income but do not reduce the variance of agricultural market income, nor do they solve the price variability problem, and are not well targeted as they are not focused on farms facing the highest level of income variability<sup>35</sup>.

Although being a complementary part of the policy mix, direct payments cannot be regarded as a targeted tool to manage risk or to be the only intervention to address farm income variability: insurance and mutual funds, supported by the CAP rural development funds, play a more important role when the focus lies on smoothening income<sup>36</sup>.

### *5.1.2. The combined effect of relevant CAP measures on competitiveness*

For the evaluation, competitiveness is defined as a system's ability to offer goods and services on a specific market under such conditions that buyers prefer them to the goods and services offered by competitors. Consequently, competitiveness (of a sector or product) is a relative concept, and its assessment is possible through the comparison with similar entities.

The evaluation support study observes market developments from 2005 and looks in particular at the years of implementation of the 2014-2020 CAP to understand the effects of specific measures under examination, in particular direct payments and certain rural development measures.

#### ***The competitive position of the European farm sector***

The EU farm sector's competitive position is analysed both in the internal market and in the international market. The analysis does not look at total agri-food trade but focuses on products whose raw materials are produced in the European Union and are therefore influenced by the CAP measures that are subject to the evaluation.

To measure the EU farm sector's competitive position in the internal market, the share of EU imports of selected agri-food products in the EU apparent consumption ('import penetration') in value is calculated for the period 2003-2016. The analysis shows a progressive increase in import penetration, as EU consumption is satisfied to a growing extent by imports over the period.

The evolution of the ratio between imports and apparent consumption of the Union in value, over 2005-2016, reveals that import penetration accelerated in the first 2 years of implementation of the 2014-2020 CAP, increasing by almost two percentage points at overall level (from 13.2% for 2013-2014 to 15.1% for 2015-2016). This acceleration is observed in all sectors analysed<sup>37</sup> (albeit at different levels).

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35 European Parliament Directorate-general for Internal Policies: Research for AGRI Committee – CAP reform post-2020 – Challenges in Agriculture, October 2016.

36 Study on risk management in EU Agriculture – Ecorys and Wageningen Economic Research – October 2017 – European Commission.  
<https://op.europa.eu/en/publication-detail/-/publication/b3eda3b0-af75-11e8-99ee-01aa75ed71a1/language-en/format-PDF>

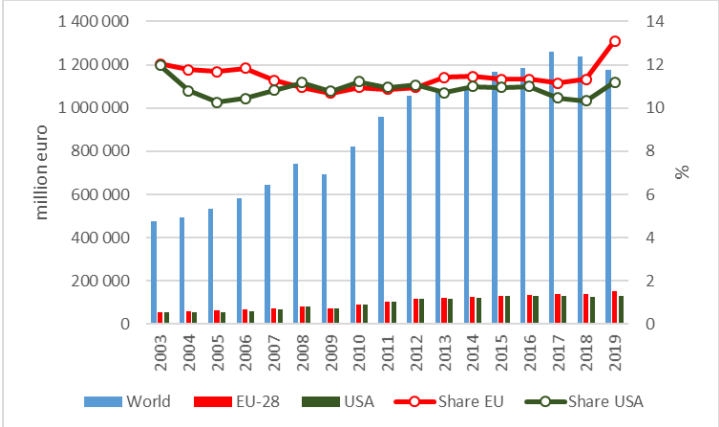
37 Notably (harmonised system nomenclature code) cereals (10), oilseeds (12), raw tobacco (2401), sugar (1701), edible vegetables (07), edible fruits and nuts (08), wine (2204, 2205, 2209), olive oil (1509, 1510), live trees and flowers (06) and animal products (01, 02, 0401).

While the development of import penetration could suggest that the EU farm sector’s competitive position in the internal market gradually weakened over 2003-2016, with an accelerated deterioration in 2015-2016, the analysis is limited in fully comparing the categories of products in terms of composition and prices; therefore the results need to be treated with caution.

Furthermore, these developments have taken place in the context of distinguished EU trade and development policy objectives that have led to improved market orientation and the opening of EU markets via free trade and everything but arms agreements. Accordingly, the developments are not necessarily signs of a weakening competitiveness, but the implications of reduced market protection (implying already existing limitations in competitiveness). It is also important to emphasise that for certain products, the trend is driven by the EU’s focus on exploiting its competitive advantages and/or maximising revenues by importing low value-added commodities that are not produced competitively in the Union and by its focus on producing high value-added products and/or high-yielding products. The prime example is the import of oilseeds to feed the profitable EU livestock production and produce much higher yielding wheat.

To assess the competitiveness of the EU farm sector on the international market, trends in global, EU and US exports (in value), as well as the evolution of respective market shares are compared for the 2003-2019 period. As depicted in Figure 7, there has been a significant and regular growth in the value of international trade from 2003 to 2017, followed by a decline in most recent years. The evolution of EU and US exports followed the direction of the global evolution in exports until 2017, but at slower rates. Accordingly, market shares of both EU and the US declined somewhat, highlighting the increasing role of other international competitors (China, India, Brazil, etc.)<sup>38</sup>.

Figure 7 Export trends of EU, US and world

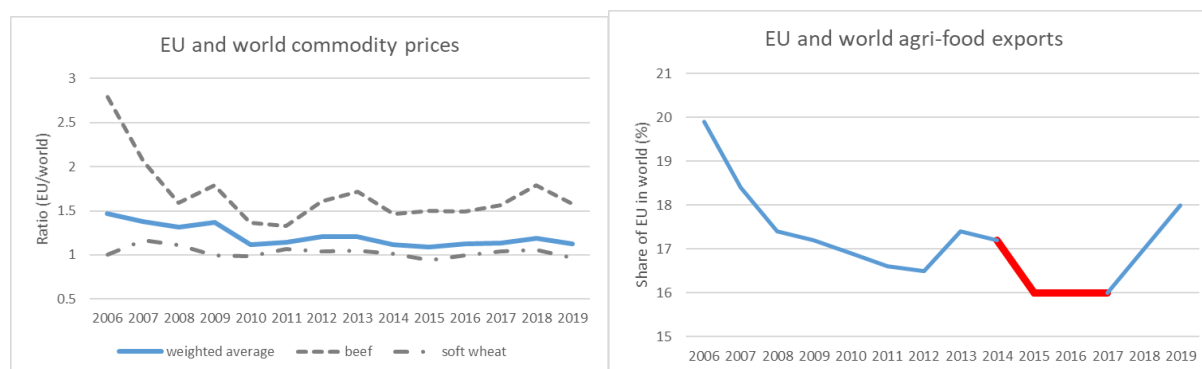


Source: DG AGRI, based on COMTRADE

Compared to its main international competitor (the US), the EU’s competitive position weakened between 2008 and 2012 but has strengthened since. This was notably the case between 2018 and 2019, when the EU recaptured its global market share with continued strong exports while global trade contracted. The reversal of the declining share of EU exports, paired with an improved trade balance, has occurred despite relatively higher (albeit fluctuating) EU prices, as presented in Figure 8.

38 The support study analysed the competitive position of the EU farm sector on the international market over 2003-2016, using a set of products whose raw materials are also produced in the EU, thus excluding all products whose production is not fully affected by the CAP measures under evaluation (e.g. chocolate/cacao). The analysis produced similar findings to the comparison of trade in all agri-food products.

Figure 8 EU and world prices and exports (data for EU-28)



Note: red line indicates the period of the Russian ban

Source: European Commission (2020), CAP Indicators – Market Orientation<sup>39</sup> RPI\_08 EU vs World prices and RPI\_04 EU agricultural trade

It therefore appears that while the ‘competitive position’ of the EU in terms of market share followed a slightly downward path through most of the period observed (even if the value of EU exports increased over the period analysed), the more recent developments indicate a revitalisation of the EU’s competitive position<sup>40</sup>.

EU exports are oriented towards high value-added products, for which the EU share in global exports has held quite stable over time, with a small increase after the implementation of the 2014-2020 CAP. This has important implications for EU policies, as high value-added products and low value-added products require different export strategies; for high value-added products this means focusing on obtaining a higher price position (compared to international competition) by improving product quality.

### ***The role of CAP measures in improving the quality of EU agricultural products***

To assess the extent to which CAP measures help to improve product quality, the analysis, using proxies for technical quality such as carcass weight, protein and sugar content, looks at the effects that relevant CAP measures have had on the beef, cow milk and sugar beet sectors (due to the availability of quality parameters), comparing figures for 2013-2014 with 2015-2016.

The decoupled nature of CAP farm support can be expected to play a role in driving agri-food producers towards a more market-oriented approach, making them more attentive to market signals and therefore to the demand for higher product quality (with better price prospects). However, the analysis does not find such a straightforward cause-and-effect relationship between direct payments and the evolution of the technical quality of products, as the latter is rather driven by long-term improvement processes unrelated to changes in the system of CAP income support (e.g. genetic improvement of (milk) cow herd, earlier policy changes including changes on milk protein content or the 2006 sugar reform).

Overall, the support study analysis concludes that the implementation of the 2014-2020 CAP did not stimulate a noticeable and/or demonstrable effect on the quality of the products studied. However, a study on the economic value of EU quality schemes<sup>41</sup>, geographical indications and traditional specialities guaranteed found that the sale value of a product with a protected name is on average double that of similar products that do not have a certification. Such products

39 [https://agridata.ec.europa.eu/extensions/DashboardIndicators/Market.html?select=EU-28\\_FLAG,1](https://agridata.ec.europa.eu/extensions/DashboardIndicators/Market.html?select=EU-28_FLAG,1)

40 As substantiated in the 4th Annual Report on the Implementation of the European Union’s Trade Agreements in 2019 <https://trade.ec.europa.eu/doclib/press/index.cfm?id=2211>

41 Economic value of EU quality schemes, geographical indications (GIs) and traditional specialities guaranteed (TSGs); financed by the European Commission and carried out by AND International and Ecorys Brussels. [https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/cmef/products-and-markets/economic-value-eu-quality-schemes-geographical-indications-gis-and-traditional-specialities-guaranteed-tsgs\\_en](https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/cmef/products-and-markets/economic-value-eu-quality-schemes-geographical-indications-gis-and-traditional-specialities-guaranteed-tsgs_en)

represent a sales value of EUR 77.2 billion, of which over one fifth results from exports outside the European Union; with geographical indications representing 33% of the sales value of agri-food products. According to the study, there is a clear economic benefit for producers in terms of marketing and an increase of sales thanks to the high quality and reputation of these products, and the willingness of consumers to pay more for the authentic product.

### ***The effects of voluntary coupled support on the competitiveness of supported sectors***

Coupled support is in contradiction with a market-oriented policy, as it can potentially trigger market distortion and delay farmers' adaptation to market signals. It is, however, deemed beneficial to maintain the possibility of providing aid to some sectors/productions, in particular to prevent any worsening of the difficulties they undergo and the related consequences (abandonment of production, desertification of rural areas...). Besides, its inherent potential risks are mitigated by the various conditions and limits (list of sectors covered; budgetary limit at Member State level; production-limiting requirements) attached to that type of support.

Coupled support influences competitiveness when the support prevents gains in productivity that could have otherwise been achieved from structural adjustments. Such implications occur when Member States prioritise the social dimension of the support at the expense of the broader economic and/or environmental dimension, because they want to keep employment in the related sector (both production and processing).

Given the different relative levels of payments within various commodity groups, if singled out, voluntary coupled support could risk introducing elements of unfair competition between Member States applying the support and Member States not applying it. As such, it may risk the attainment of the underlying objective of helping non-competitive sectors / Member States to safeguard their market position and/or maintain employment<sup>42</sup>.

By comparing sectoral results in Member States implementing voluntary coupled support with Member States not implementing voluntary coupled support (using average values for 2013-2016), the support study suggests that coupled support could have influenced land use and production in certain sectors such as oilseeds, protein crops, sugar beet and livestock breeding (notably bovines for slaughter).

The analysis behind the impact assessment accompanying the legislative proposals for the CAP post 2020<sup>43</sup> concluded that coupled support could address specific issues that the decoupled payment would otherwise leave unresolved; but it also pointed out that coupled support could risk introducing elements of unfair competition between Member States<sup>44</sup>. In the sugar sector, the aid granted in 2015 ranged from EUR 100 per hectare in Finland to EUR 800 per hectare in Romania, which are substantial differences in aid levels. The results of an economic analysis (using the CAPRI model) show that without support, production in Romania would have been 53% less<sup>45</sup>.

However, the picture is blurred by the fact that a number of Member States have been applying *partial* decoupling in certain sectors following the 2003 CAP reform, and/or some Member States have been implementing 'Article 68 measures' (provided under Regulation (EC) No

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42 This observation on unfair competition between Member States should be interpreted with caution, as it disregards the implications of other forms of support available to the beneficiaries in the targeted sectors per Member State (i.e. under both pillars and possibly also national aids). These should be considered when assessing the impacts of coupled support in order to create a more realistic context and thus improve the reliability of the analysis.

43 See footnote 29.

44 See footnote 42.

45 Chapter 1.3 of Annex 5 presents a more elaborate analysis by DG AGRI on the impact of voluntary coupled support on competition.

73/2009<sup>46</sup>) to support farmers facing specific disadvantages in identified economically vulnerable or environmentally sensitive sectors. As such, while it appears that voluntary coupled support has influenced farmers' decisions and agricultural production in a generally limited way (albeit to different degrees across sectors), it is not possible with these considerations on partial decoupling and Article 68 measures to judge the net effect that voluntary coupled support has had on competitiveness<sup>47</sup>.

The stakeholder consultation carried out through in-depth interviews with national agricultural producers' unions and authorities as part of the support study also shows that in some Member States, the political decision of distributing the resources allocated to voluntary coupled support on a large number of sectors limits the tool's effectiveness (and efficiency) in improving competitiveness. On the contrary, in Member States where the resources allocated to voluntary coupled support are concentrated in sectors considered strategic (e.g. protein crops in Ireland, beef and veal in Sweden, Belgium, Austria and France), the implementation of voluntary coupled support had positive effects on production and relative competitiveness. Nevertheless, despite the identification of targeting strategies, in some cases a high share of hectares or heads is eligible, questioning the targeting strategy and its effectiveness.

### ***The effects of voluntary coupled support on the competitiveness of the processing industry***

The results of the analysis undertaken in the support study do not provide an unequivocal conclusion on the role voluntary coupled support played on the competitiveness of the processing industry.

The evolution of production shares shows that changes in production shares of Member States applying voluntary coupled support (as a group) compared to Member States not applying voluntary coupled support are very limited and even contradictory; the group implementing voluntary coupled support increased their production share for seed crushing, beef and tomato but lost shares for sugar, rice, sheep meat and dairy. Nevertheless, the analysis reveals that Germany has lost production shares in all processing sectors in which it operates (seed crushing industry, dairy industry, sugar industry, slaughtering industry), implying a decrease in production competitiveness. This finding is interesting, as Germany is the only Member State that did not implement voluntary coupled support in any agricultural sector, making it a possible counterfactual for future analysis following a longer period of observation.

An analysis of the global competitive position (given by the combination of the competitive production position and the competitive price position) of the two groups of Member States does not provide clear findings either. However, the overall position of Member States applying voluntary coupled support seems to have slightly improved in the dairy and slaughtering sector (for beef), whereas their competitive position in the rice sector seems to have slightly worsened.

These findings of the support study are complemented by implications derived from an econometric modelling carried out by the Joint Research Centre (JRC) using the CAPRI model. The modelling focuses on the dairy, beef and sugar beet sectors and looks in particular at the impact on production, productivity and prices when coupled support is removed (in isolation from other changes) compared to a baseline where such support is included. Table 6 shows that price and production change when coupled support is removed from direct payments, thus confirming that when voluntary coupled support is included, the production of beef and sugar beet in the EU goes up.

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46 Council Regulation (EC) No 73/2009 of 19 January 2009 establishing common rules for direct support schemes for farmers under the common agricultural policy and establishing certain support schemes for farmers; OJ L 30, 31.1.2009, p. 16–99.

47 Changes in surface areas and production volumes are not the ideal indicators of competitiveness, as they say little about buyers' preferences, especially if the changes are generated by coupled support.



Table 6 Impact of removing voluntary coupled support (relative change, EU)

	Hectares or herd size	Yield	Supply	Price
<b>Dairy</b>	-0.7%	1.5%	0.7%	1.4%
<b>Beef</b>	-2.5%	0.2%	-2.4%	3.2%
<b>Sugar Beet</b>	-4.9%	2.2%	-2.8%	3.9%

Source: JRC, CAPRI

The JRC analysis also confirms that voluntary coupled support limits efficiency gains and production development, while keeping higher levels of production over a wider area.

Following the abolition of sugar production quotas in 2017, the area cultivated with sugar beet increased by 20% and production by 21% on average in Member States not applying voluntary coupled support, compared to a 9% increase in area but a 5% decline in production in Member States granting support. This development might indicate an overall lower competitiveness of the sector in most Member States granting voluntary coupled support.

### *The effects of EAFRD measures on the competitiveness of the agricultural sector*

Using output and result indicators transmitted with annual implementation reports in June 2017, the support study analysed the effects of the EAFRD measures supporting knowledge, advisory services and cooperation on the competitiveness of the agricultural sector. The analysis found that the low level of results achieved after the first 2 years of implementation does not make it possible to draw a clear picture of or conclusions on the role of the measures supporting knowledge (measure 1), advisory services (measure 2) and cooperation (measure 16) on the competitiveness of the agricultural sector. An assessment of the role of priority 2 (farm viability and competitiveness) measures on competitiveness is also inconclusive.

Based on the information reported under annual implementation reports in 2019, the European Evaluation Helpdesk for rural development has produced a synthesis of the main findings of the achievements and impacts of rural development programmes reported by managing authorities, based on evaluations conducted by functionally independent evaluators<sup>48</sup>. The synthesis, complemented with recent data on indicators where available, reveals the following:

- Priority 2 ‘Farm viability and competitiveness’ is among the three focus areas where the most progress was made by 2018 at aggregate EU-28 level in realising expenditures (i.e. above 20% of the planned budget for 2014-2020) and in achieving the target percentage of agricultural holdings with rural development support for investments in restructuring or modernisation (i.e. almost 50% of the planned values for 2023) ;
- For 2014-2020, the EU-28 planned EUR 32.5 billion in public expenditure to achieve priority 2, which corresponds to 21% of the total rural development planned public expenditure. Up to 2018, the EU-28 realised 29% of priority 2’s planned public expenditure;
- Managing authorities reported achievements in (i) improving the economic performance of farms, (ii) modernising and restructuring farms, (iii) supporting the entry of adequately skilled farmers in the agricultural sector, and (iv) increasing the share of adequately skilled young farmers in the agricultural sector.

48 European Commission – Directorate-General for Agriculture and Rural Development – Unit C.4 (2019): Synthesis of the evaluation components of the enhanced AIR 2019: Chapter 7. Summary Report. Brussels [https://enrd.ec.europa.eu/sites/enrd/files/evaluation\\_publications/air2019\\_report\\_chapter\\_7\\_december2019.pdf](https://enrd.ec.europa.eu/sites/enrd/files/evaluation_publications/air2019_report_chapter_7_december2019.pdf)

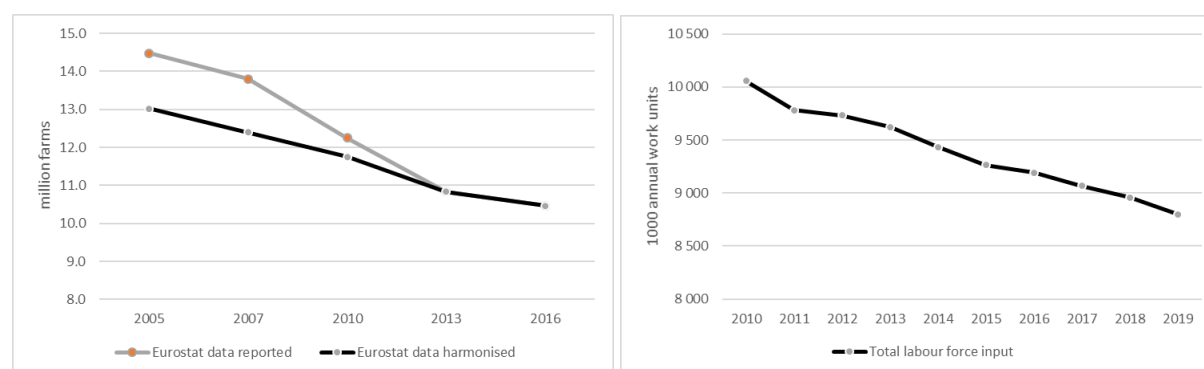
Although its focus is not on assessing competitiveness as such, a World Bank report finds that pillar II payments contribute to agricultural productivity growth<sup>49</sup>, which plays an important role in increasing competitiveness<sup>50</sup>.

### 5.1.3. The combined effect of CAP measures on jobs

Even though the CAP objective of viable food production does not contain job creation as a specific objective, the evaluation examines whether and to what extent the CAP measures under analysis have influenced demand for labour in the farm sector and downstream in the supply chain, in particular processing.

Eurostat data show a decrease in EU farm numbers from 14.5 million in 2005 to 10.5 million in 2016, i.e. a loss of 4 million farms over 12 years, or -2.3% per year. This change is influenced by changes in the statistical practices and thresholds adapted by Member States for the scope of the survey, mainly concerning farms below 2 hectares (where the decrease in the number of farms reported by Eurostat is the biggest). When correcting the data for earlier years to harmonise the datasets, the change over 12 years becomes less pronounced, with a loss of 2.6 million farms, or -1.6% per year<sup>51</sup>. Total labour force input has also declined, by 12.5% from 2010 to 2019. However, over the same period, total labour productivity in agriculture increased by almost 50%. Over a comparable period (2010 to 2016), the number of farms declined by 11% and labour input by 9%, while labour productivity increased by approximately 30% (albeit without leading to a proportional increase in agricultural income per capita).

Figure 9 Trends in number of farms and farm employment, EU-28



Source: Eurostat farm structure survey and agricultural labour input statistics

It is obvious from Heading 5.1.1 on farm income that labour is an important factor in the evaluation of the role of CAP measures on farm income, given that the level of income per annual unit of work (AWU) and its evolution over time depends on both the level of income and the number of AWUs. The following points based on evidence produced in the support study should be considered with respect to jobs and the measures addressing viable food production, notably income support:

- Considering that structural dynamics and labour dynamics are closely linked to each other, and that labour intensity is generally higher in small farms compared to large farms, all implementation choices aimed at increasing the income of small farms tend to

49 World Bank Group: EU regular economic report 4 – Thinking CAP, Supporting Agricultural Jobs and Income in the EU.

50 As explained in 'CAP specific objectives ...explained – Brief No 2 on Increasing competitiveness: the role of productivity'.  
[https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/key\\_policies/documents/cap-briefs-2-productivity\\_en.pdf](https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/key_policies/documents/cap-briefs-2-productivity_en.pdf)

51 The changes in statistical practices and the estimation of their impacts of changes on previous years (2005, 2007, 2010) are explained in Eurostat's 'Overview of survey coverage changes between 2007 and 2013'  
[https://ec.europa.eu/eurostat/statistics-explained/index.php/Farm\\_structure\\_survey\\_-\\_survey\\_coverage](https://ec.europa.eu/eurostat/statistics-explained/index.php/Farm_structure_survey_-_survey_coverage)

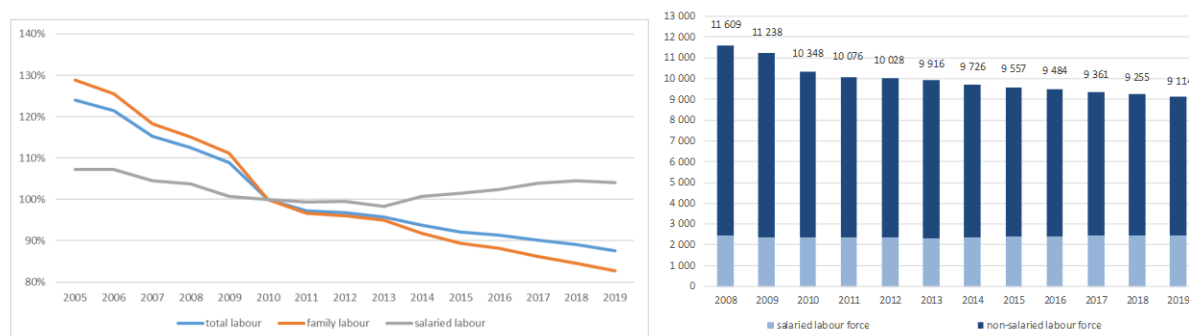
slow down structural adjustment, and therefore (in theory) to positively influence job maintenance (in particular of unpaid family labour).

- On the contrary, the reduction and capping of direct payments can lead to a reduction in labour (paid labour in particular) on large farms because of the adoption of labour-saving strategies when labour costs are not subtracted from the calculation of the reduction (degressivity)<sup>52</sup>. Vice versa, labour can increase when labour costs are subtracted from the calculation of the reduction, through the substitution of contract work with new paid labour (internalisation of labour costs).
- Furthermore, coupled direct payments have a direct effect on farmers' decisions on land use and/or the composition of livestock, according to the changes in the relative profitability of production activities. These activities may require different labour volumes, and therefore coupled support may have effects on farm labour, depending on the expansion/reduction of farm size and on the type of land use change.

### *The role of CAP measures on job maintenance and/or creation in the farm sector*

In a situation where EU farm labour is on a long-term downward trend, a regional analysis highlights a process of substitution of non-salaried labour with salaried labour, with this process accelerating after the 2013 CAP reform.

Figure 10 Agricultural labour input (2010=100% and absolute levels, EU-27)



Source: Eurostat ALI and FSS

The support study finds that the effect of substitution of non-salaried labour with salaried labour is stronger in Member States implementing the subtraction of wage costs from the reduction of the payments (degressivity). This suggests that the possibility of subtracting wage costs from the reduction of the payments contributes to an increase in salaried labour. However, given the small number of Member States applying capping and the subtraction of wages, combined with the short observation period, the robustness of the finding is questionable. It is likely that other factors also contribute to this phenomenon, such as the increase in non-farm activities by family members of the farmer, an increase in farm size, and/or the availability of cheap salaried labour.

The analysis at farm level shows that the increase of salaried labour is observed only in the sectors with high labour intensity (horticulture, wine, permanent crops). The increase of salaried labour is also achieved through the simultaneous decrease in contract work, and therefore through a strategy of internalising labour costs.

As far as the relation between the changes in total labour force and direct payments is concerned, the support study indicates in a farm-level analysis that the role of direct payments, and in particular of coupled payments, on total farm labour differs according to the sector and to the related ongoing trends (increase or decrease) in the use of labour. However, as the analysis covered a very short observation period (changes from 2013 to 2015), it cannot be considered conclusive.

Also as a result of the limited observation period, the support study was inconclusive about the effectiveness of EAFRD measures on job maintenance/creation.

<sup>52</sup> See footnote 14.

The support study's analysis of job maintenance and/or creation in the farm sector is complemented with findings from the evaluation support study on the impact of the CAP on generational renewal, local development and jobs in rural areas<sup>53</sup>. The latter study focuses on CAP instruments and measures that have both direct and indirect impacts on generational renewal in rural areas, and it assesses the impact of:

- young farmer payments under pillar 1 and young farmer business start-up aid in pillar II (measure M6.1),
- pillar II investment measures when modulated in favour of young farmers (e.g. M4.1), and supporting measures which are tailored to accompany them (e.g. M1 training, M2 advice, M16 cooperation), etc.

As such, there is a considerable overlap with the measures and instruments covered by the present evaluation on viable food.

As demonstrated in the evaluation support study on generational renewal, the CAP measures on generational renewal make a difference in the performance of farm businesses, their resilience and the secure transfer of farms from an older to a younger generation. Rather than encouraging farm succession, these measures are more likely to increase the socio-economic sustainability of farm businesses after young farmers set up. However, particularly in marginal or remote areas, their impact may be dwarfed by negative influences, including socio-cultural and wider economic disincentives to farm or live in rural areas. In addition, they will often be insufficient, on their own, in addressing the main entry barriers to farming: access to land, capital and knowledge.

Overall, it appears appropriate to conclude that the CAP plays a role in alleviating some of the unemployment and poverty pressures on rural areas. Indeed, this finding is supported by the World Bank study<sup>54</sup> that demonstrated the positive role played by the common agricultural policy in reducing poverty and helping passing through its benefits to the wider economy of rural areas, especially through the positive effects of decoupled payments and rural development measures. In particular, the World Bank study argues that:

- the CAP is associated with the reduction of poverty and the creation of better jobs for farmers across the EU; and
- improvements in agricultural productivity and employment go hand in hand when supported by decoupled CAP payments.

However, an extensive literature review carried out as part of a study for the AGRI Committee of the European Parliament on EU farming employment<sup>55</sup> points towards the prevalence of opposite conclusions in available studies on the CAP's impact on agricultural employment. This is explained by the CAP's complexity, the heterogeneity of the farming systems across Member States, as well as the variety of scientific methods applied by researchers. More explicitly, '[i]n general, studies indicating a positive impact of the CAP on agricultural and rural employment suggest that policy supports for farm income, training and investments are likely to have helped the creation and retention of rural jobs. ... On the other hand, there is an argument that the CAP may have encouraged farms to adopt more intensive and mechanized agriculture that reduced their need for on-farm labour. ... Finally, it is worth noting, that some studies do not find any significant impact of the different CAP interventions on agricultural and rural employment. ... Overall, the majority of empirical studies have indicated a negative impact of the CAP on agricultural and rural employment levels.'

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53 Evaluation support study on the impact of the CAP on generational renewal, local development and jobs in rural areas; financed by the European Commission and carried out by CCRI, OIR and ADE S.A.  
[https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/cmef/rural-areas/impact-common-agricultural-policy-generational-renewal-local-development-and-jobs-rural-areas\\_en](https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/cmef/rural-areas/impact-common-agricultural-policy-generational-renewal-local-development-and-jobs-rural-areas_en)

54 See footnote 49.

55 European Parliament (2019); The EU farming employment: current challenges and future prospects.

As such, it is difficult to establish a conclusive assessment of the role of CAP measures on job maintenance and/or creation in the farm sector.

### ***The role of voluntary coupled support on job maintenance and/or creation in the processing industry***

According to an analysis of the meat, dairy and sugar industries, which compares Member States applying the voluntary coupled scheme in agricultural sectors directly related to the processing industry with those that do not, voluntary coupled support does not seem to have had any noticeable effect on the structural changes and labour force of processing industries.

This finding contradicts the opinion of numerous stakeholders, such as cooperative unions, farmers' organisations, producers' organisations, national processing industry unions, who claim that voluntary coupled support has beneficial effects on the maintenance of agricultural production that favours the maintenance of the processing industry in terms of structure and labour. The aforementioned CAPRI model scenario analysis for the impact assessment accompanying the CAP post-2020 proposal also implies that coupled support has an impact on labour, even if indirectly. As indicated, the analysis shows a significant reduction in sugar production in Romania when there is no voluntary coupled support, which would lead to a reduction in labour.

A comparative analysis differentiating Member States based on the intensity of voluntary coupled support expenditure does not find differences in terms of changes in the number of firms and on labour. However, the analysis shows that situations are uneven at Member State level, more or less independently from the implementation of voluntary coupled support, implying that developments are influenced by other factors.

#### ***5.1.4. Effectiveness of the redistribution of direct income support and the new targeting elements***

The evaluation assesses the extent to which the redistribution of direct income support via external and internal convergence, and the new targeting elements, notably the redistributive payment, active farmer clause and young farmer payment, have been effective.

### ***Effects of the 2013 CAP reform on the distribution of direct income support***

A simulation of the evolution of national ceilings from 2014 to 2020, carried out in the context of the support study, shows that the present disparities in the average level of direct payment support per unit of land among Member States will decline by almost 20% over this period (on average for EU-28). Hence, external convergence appears to be effective in shifting direct income support towards Member States with relatively lower levels of support compared to the EU average. This is confirmed by the research study prepared for the European Parliament<sup>56</sup>, which claims that while external convergence brought about a limited but unprecedented redistribution of CAP pillar I resources between Member States, it did not alter the relative ranking of countries and maintained significant differences in per hectare payment levels<sup>57</sup>. The same study also found that degressivity/capping has made hardly any impact on the distribution of payments between farms<sup>58</sup>.

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56 See footnote 35.

57 However, it should also be considered that there are differences in average farm income and average standard of living between Member States.

58 The main goal of reduction and capping is predominantly about fairness (reducing support for the biggest beneficiaries).

In Member States applying the basic payment scheme, internal convergence is generally effective in reducing disparities of direct support per hectare between farmers, and only a few Member States experienced an increase in disparity<sup>59</sup>. In the Member States applying SAPS, a small increase of the disparity of direct payments per unit of land is observed, explained in part by the introduction of voluntary coupled support that differs according to sectors.

An internal analysis by the Directorate-General for Agriculture and Rural Development based on observed developments in the distribution of direct income support between 2013 and 2018<sup>60</sup> reveals that:

- the concentration of direct payments (and the so-called ‘80-20 ratio’) shows disparities across Member States, highlighting differences in the level of fragmentation (a more or less high number of very small beneficiaries and few very large beneficiaries) and the diversity of sectors (arable farming vs. livestock and permanent crops activities), and this concentration of direct payments (being almost entirely area-based) is mainly driven by the distribution of land;
- the decline in the number of beneficiaries receiving a small amount of direct payments (mainly due to structural adjustment, changes in national law and increased minimum requirements for receiving direct payments) has played a role in reducing the concentration of direct payments, which in 2018 appear to be even less concentrated than land;
- the introduction of the redistributive payment, certain options of the small farmer scheme (lump-sum or rounding up) and, in certain conditions, internal convergence may also have helped in decreasing the concentration of direct payments (although they are not applied in all Member States, and not at the same scale);
- an effective capping (100% reduction of payments) and the provision of a lump-sum payment to beneficiaries of small amounts (higher than what they would have been eligible for in the standard system) could potentially have a positive impact on reducing the concentration of direct payments<sup>61</sup>, depending on the implementation choices by Member States (with limited ambition thus far).

### *The role of the new targeting elements on the farm income*

The farm-level analysis based on FADN data carried out under the support study shows that in the Member States applying the redistributive payment, small farms have experienced a higher increase in the amount of direct income support relative to larger farms, suggesting that the **redistributive payment** has favoured the income of small farms.

According to interviews conducted for the support study, the **active farmer clause** is not effective in targeting support, as the number of beneficiaries excluded from direct income support due to the active farmer clause is said to be small. This is supported by replies from Member States to a survey conducted by DG Agriculture and Rural Development, which found that less than 1% of claimants applying for direct payments in 2015 qualify as non-active (at the EU-28 level, with a range of 0% to 6.3% in individual Member States)<sup>62</sup>. However, it is

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59 The magnitude of the effect of internal convergence depends on i) the convergence model (including whether it is done at regional level) and ii) the budget allocation to other schemes (beside the basic payment scheme). Internal convergence reduces disparities of the basic income support per hectare and improves the fairness of the distribution of direct payments by reducing the link to old historic references. However, as it does not apply to all schemes, the impact at the level of total direct support per hectare can differ.

60 See Annex 5 Analysis complementing Chapter 5, headings 0, 0 and 0.

61 Also see SWD(2018)301 final (footnote 29) for an analysis of capping under different scenarios.

62 Following concerns raised by some Member States on the difficulties and the administrative costs of implementing the active farmer clause that outweigh the benefit of excluding a very limited number of non-active beneficiaries from the direct support schemes, the Commission has proposed to modify the rules, which resulted in the Omnibus Regulation (footnote 20). Member States had to notify by 31 March 2018 their decisions regarding the possible implementation from claim year 2018 of the new rules of the active farmer clause.

impossible to estimate with precision the number of non-active farmers that did not submit applications because of the active farmer clause.

The level of the **minimum requirements** a beneficiary must comply with to receive direct support is set at a relatively low level depending on the Member State. Nevertheless, in the EU, 40% of holdings do not receive direct payments<sup>63</sup> (mostly in Romania). At EU level, on average half of the beneficiaries of direct payments receive less than EUR 1 250 per year (around EUR 100/month), corresponding to 4% of the total direct payments allocation. It could not be established to what extent a payment of EUR 100 or EUR 200 per month can make an efficient contribution to the annual income of a farmer.

Based on a comparison of the age of the farm holders between 2013 and 2015, the support study observes that the **young farmer payment** has played a limited role at EU level in favouring the passing down of farm management to the younger generation. However, there are several cases where the measure appears successful at national level (e.g. Austria, Slovenia, Luxembourg, the Netherlands, Finland, Poland and Croatia). The evaluation support study on the impact of the CAP on generational renewal, local development and jobs in rural areas<sup>64</sup> provides a different perspective, according to which:

- Pillar I young farmers aids may enable generational renewal when the amount of aid offered is significant and the conditions of the offer are attractive (albeit with big differences in Member States' implementation decisions, such as the calculation method of the top-up and the maximum number of hectares paid and the generally limited amount of rural development funds dedicated<sup>65</sup>).
- Pillar II young farmers aids are effective, but low additional benefit was found in cases where advisory services were insufficient.

The study on generational renewal caters for additional considerations, with its findings that:

- CAP generational renewal measures from both pillars I and II (i.e. including the young farmer payment) have a positive impact on generational renewal in agriculture and employment (helping to foster local development and jobs in rural areas).
- Where CAP resources were focused on non-farm generational renewal, principally through pillar II measures that included the LEADER programme and non-farm elements of the 'farm and business development' measure, significant positive impacts were found at local level. Evidence from case studies suggests that CAP generational renewal measures have a limited, but mainly positive direct and indirect impact on generational renewal.

Finally, with respect to the **small farmer scheme**, the lessons learned within DG Agriculture and Rural Development from the first years of implementation show that the scheme is mostly limited to an administrative simplification for small farmers (no cross-compliance controls and no greening). However, it is very complicated to implement for administrations (application and financing), and the objective to provide eligible farms with a lump sum to help boost their development has almost (if not completely) disappeared. It is mostly due to the fact that only few of the Member States who implemented the scheme chose the lump-sum approach. Instead they took the 'payment due by 2015' and the 'payment equivalent to the yearly direct payment support' options which were more complex administratively and have less potential impact in terms of redistribution<sup>66</sup>.

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63 Also due to the exclusion of many farms in certain sectors from receiving direct payments. (e.g pigmeat or poultry historically not covered by direct payments and thus not covered in certain Member States using entitlements).

64 See footnote 53.

65 The changes implemented with the Omnibus Regulation (footnote 20) offered Member States the possibility of doubling the aid level for young farmers.

66 DG Agriculture and Rural development (2017); 'Modernising and Simplifying the CAP – economic challenges facing EU agriculture'.

### 5.1.5. Effectiveness of market measures on market stabilisation

The evaluation examines the effectiveness of the instruments under the common market organisation in managing market instability, including their timeliness to address threats of market disturbance. For the purpose of the evaluation, market stabilisation is considered to be a reduction of price fluctuations (volatility) due to external factors (international markets) or internal factors (over/under production due to natural, economic or other events within the EU).

In general, the volatility of prices in the EU for products concerned by market measures are linked to the evolution of international prices and the EUR/USD exchange rate, to the degree displayed in Table 7.

Table 7 Impact of international prices and the EUR/USD exchange rate on EU prices

	very closely related	medium related	less related
Relationship between EU prices and international prices	soft wheat, maize, SMP, butter		
			barley, sugar, beef meat, pigmeat, cheese
Relationship between EU price variations and EUR/USD exchange rate	meat		
		cereals, sugar	
			dairy products

Source: evaluation support study (adaptation)

A comparison of the coefficient of variation of monthly prices of products concerned by market measures over the periods 2008-2013 and 2014-2019 reveals that the volatility of domestic EU prices is lower than that of international prices for almost all products and over both periods. Notable exceptions include soft wheat (higher EU volatility over 2010-2014 and 2018-2019), barley (2012-2014, 2017), maize (2009-2010, 2018-2019), sugar (2012, 2014-2015, 2019), butter (2018-2019) and SMP (2018-2019)<sup>67</sup>.

The period covered by the support study (2014-2017) was characterised by a decrease in world prices (in USD), a considerable (20%) decrease in the EUR/USD exchange rate and the implementation of the Russian import ban on a wide range of agri-food commodities<sup>68</sup>. During this period, EU domestic prices of the main commodities decreased, and in some cases (SMP and pigmeat) fell below the reference price established by the common market organisation. The European Commission implemented market measures for both storable products (butter, SMP, cheese, pigmeat) and non-storable products of the fruit and vegetables sector.

The evaluation support study includes a quantitative analysis (based on data provided by DG Agricultural and Rural Development) and a qualitative analysis (based on interviews of national authorities and agricultural producers) of the market measures, looking at the volumes covered by the measures and the timing of their implementation. The study finds that the intervention measures have been effective in halting price drops over 2014-2017.

67 Source: CAP Indicators – Market Orientation.

68 [https://ec.europa.eu/food/safety/international\\_affairs/eu\\_russia/russian\\_import\\_ban\\_eu\\_products\\_en](https://ec.europa.eu/food/safety/international_affairs/eu_russia/russian_import_ban_eu_products_en)



Table 8 Overview of the effectiveness and timeliness of measures

Category	Product	Volume	Timeliness	Effectiveness
Storable products	Butter	not relevant	rapid	good
	SMP <sup>69</sup>	adequate	rapid	sufficient
	Cheese	adequate	rapid	very good
	Pigmeat	adequate	rapid	very good
Fruits and vegetables	Fruits and citrus	adequate	rapid/neutral	good
	Vegetables	adequate	rapid	very good

Source: evaluation support study and own findings (adaptation)

The effectiveness of market intervention measures differs among sectors.

In the case of **butter**, private storage aid was rapidly implemented in 2014, right after the introduction of the Russian import ban.

Butter prices remained at least 20% above the intervention price throughout the crisis (except for a short dip in March 2016), raising the question whether private storage aid for butter was needed at all or if it nevertheless helped to partly smoothen the price evolution.

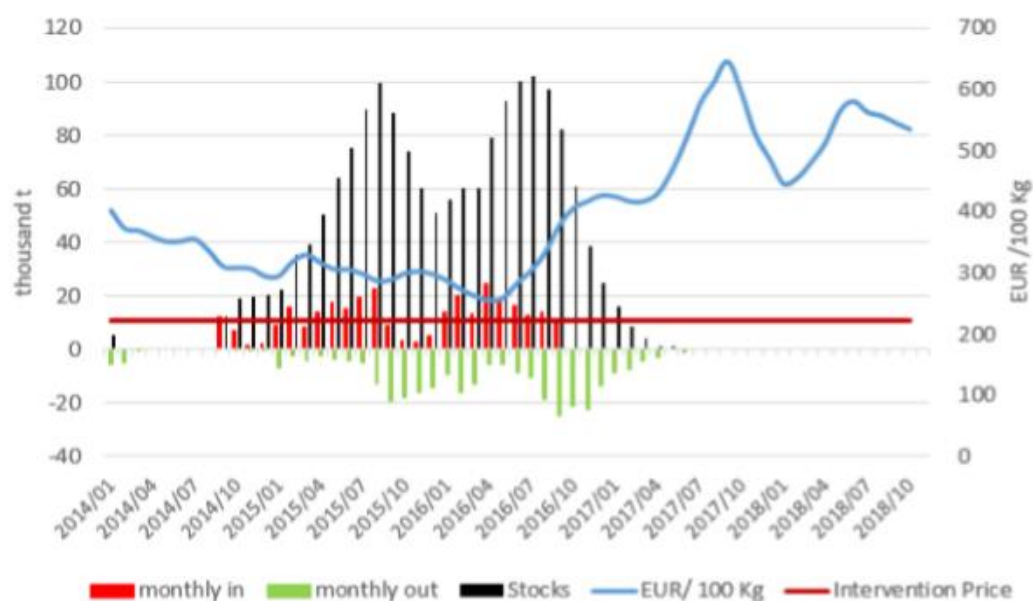
In the first case, operators would have used private storage aid to finance their usual stock management (building stocks during spring when milk production is the highest and destocking when milk production is the lowest), and this would have had a deadweight effect.

In the second case, private storage aid would have prevented the prices from dropping excessively.

Whatever the case, as from spring 2016, a different and more structural dynamic seems to have rendered private storage aid for butter unnecessary.

A similar effect could be observed for the exceptional ‘private storage aid for **cheese**’.

Figure 11 Evolution of EU butter prices and stocks benefitting from private storage aid



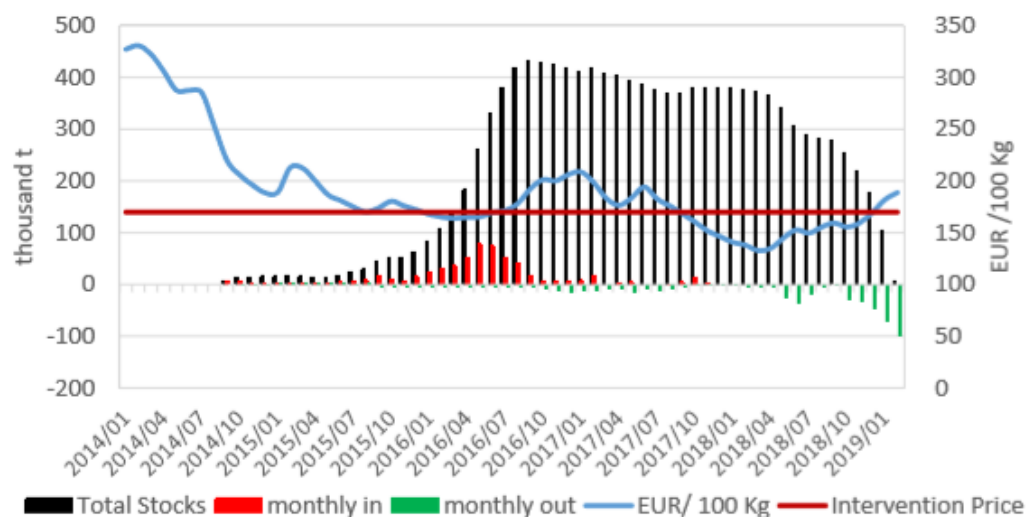
Source: DG Agriculture and Rural Development

In the case of **SMP**, private storage aid was rapidly implemented in 2014, right after the introduction of the Russian import ban. However, it was not sufficient to halt the price decline,

69 The findings for SMP are based on DG AGRI’s assessment based on a longer observation period (see Heading 5.4 under Annex 5 analysis complementing Chapter 5). The support study established its findings in 2018, before the release of SMP stocks on the market in 2019.

given the magnitude of the market imbalance in 2014 (production increase in Europe and worldwide, loss of the Russian market and slowdown of Chinese imports) and the high levels dairy prices were coming from. When public intervention purchases kicked in, EU and world SMP prices stopped their fall at around the level of the EU intervention price and remained around that level while public stocks were increasing. The high quantities bought in under public intervention managed to smoothen the price decline but weighed on the SMP market balance and contributed to delaying its price recovery<sup>70</sup>. Stocks were sold back to the market in 2018/2019 in a relatively short time, once milk prices had recovered and specific market conditions during this time allowed this operation to be conducted smoothly and efficiently.

Figure 12 Evolution of EU SMP prices, public and aided private stocks



Source: DG Agriculture and Rural Development

In the case of **fruits and vegetables**, the exceptional measures (withdrawals) were appropriate and sufficient in 2014.

For some products, stakeholders criticised the slow implementation of the measures (after the production period). While market withdrawals are seen to have a short-term positive impact on domestic markets, they do not address the structural issue of overproduction, and could delay the structural adjustment needed. For example, the surpluses had a more structural character in the case of nectarines where already 2% of the marketed production was withdrawn in 2010-2013 and 5% after the year of the introduction of the Russian ban (2015-2016)<sup>71</sup>.

In the case of **pig meat**, private storage was effective and timely: the market price rose above the reference price, and the stored products found an outlet on Asian markets.

The support study found that the **milk production reduction scheme** (October 2016-February 2017) contributed to the recovery of the dairy products market (raw milk, dairy commodities and cheeses), with a net effect of the scheme amounting to a 1.36% reduction in milk production at EU-28 level, but at significantly higher level in some Member States (Ireland, Bulgaria, Portugal, Lithuania). However, a thorough analysis by DG Agriculture and Rural Development of the broad range of measures<sup>72</sup>, based on data on milk collection, shows that with the timing of the measure it is not possible to state to what extent it has had an impact on reducing production, as this reduction was already underway when the measure was introduced. Whatever the case, the scheme provided support only to the farmers contributing to the reduction in production and

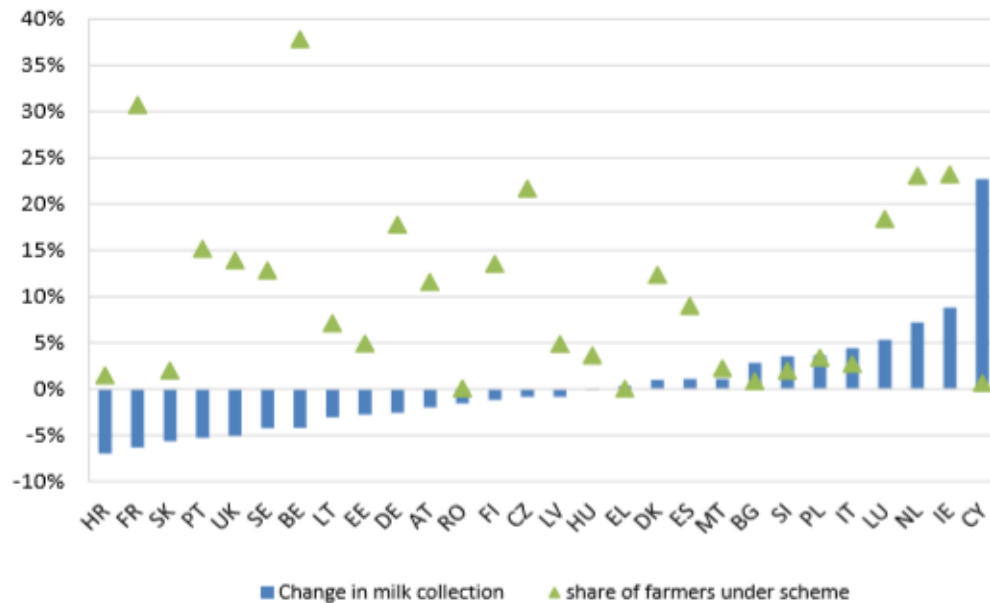
70 This finding is echoed in the research study for the European Parliament (refer to footnote 35), which considers the response to the Russian import embargo for dairy as an illustration of a recurrent conflict in the CAP, where the short run ‘emergency’ approach in addressing adverse income situations comes at the cost of fuelling further long-run or delayed disturbances.

71 See Heading 5.4 under Annex 5 Analysis complementing Chapter 5.

72 See Heading 5.4 under Annex 5 Analysis complementing Chapter 5.

thus to price recovery. In addition, it seems to be regarded by the farming community as the most effective of all the measures implemented during the crisis.

Figure 13 Evolution in cow milk collection (4th quarter 2016 compared to average 2014-2015) and share of dairy farmers under the milk production reduction aid scheme



Source: DG Agriculture and Rural Development

Overall, according to the analysis, market measures helped reducing the volatility of domestic prices of most agricultural products by limiting the decline in prices. It is important to highlight that the objective of price stabilisation is directly linked to the objective of income stabilisation, and therefore the market measures under scrutiny can also be assessed in view of their contribution to income, complementing the findings in Heading 5.1.1.

#### 5.1.6. Effectiveness of market measures on market orientation

The results of the analysis, which used the relation between stock levels and production to show the effect of market measures on the behaviours of economic operators, suggest that, in general, market measures did not generate structural surpluses because farmers had a ‘non-market oriented’ behaviour.

However, in the case of the dairy sector, the existence of a safety net may have induced milk processors to adopt behaviours less attentive to market signs, given the availability of a market outlet at a predictable price (and preferable to that of the market price). This in turn determined demand for milk products and might have led to the observed differences in the production growth between SMP-producing countries and non-producer countries.

Furthermore, in a few cases, the economic conditions offered by market measures were more favourable than market prices. In the case of the cow milk sector, milk prices (as well as production costs) are highly differentiated at Member State level, while the intervention price is the same for all EU producers, and therefore:

- the raw milk price is always higher than the milk price equivalent of the intervention prices for butter and SMP (except for a few months in the Baltic States);
- the intervention price appears more favourable for the Baltic countries and Poland and very unattractive for all the Scandinavian countries;
- taking into account transaction costs, the intervention price could appear favourable and stimulate an increase in production in Belgium, Germany and Poland.

Concerning the fruit and vegetable sector, the analysis of the withdrawal measures comparing market prices with support prices conclude that:

- The withdrawal price and support for sorting and packaging costs is highly attractive for

apples (Poland and Germany), plums (Bulgaria, Romania, Czechia), clementines (Greece), peppers (the Netherlands, Portugal) and carrots (Portugal, Poland, the Netherlands). Accordingly, in these cases, the economic conditions offered by market measures may have generated systematic opportunistic behaviours.

- The withdrawal price and support for sorting and packaging costs is occasionally attractive for pears (Belgium, the Netherlands, Poland), peaches/nectarines (Spain and Italy), cauliflowers (Spain), cucumbers (Spain, Poland) and tomatoes (Portugal, Romania). In these cases, the economic conditions offered by market measures may have generated opportunistic behaviours in the short term.
- The withdrawal price for oranges is always attractive if sorting and packaging costs are included and never attractive without it (Portugal, Spain, Greece).

## 5.2. Efficiency

The evaluation assesses the efficiency of CAP support in achieving the general objective of viable food production, in particular, the targeting of appropriate recipients and administrative costs and management related to the implementation of 2014-2020 CAP measures.

Regarding the targeting of appropriate recipients, CAP measures (notably direct payments and other forms of annual support) are deemed efficient if they support the income of farmers who are in actual need of the specific support. In this respect, CAP measures should provide enough support to farms that are unable to reach a certain level of income per labour unit (equivalent to the average national labour productivity), while avoiding overcompensating farms that are able to reach this income level without CAP support.

### *Efficiency of direct payments in targeting the appropriate recipients*

The analysis of farm-level data over 2013-2015 calculates the percentage of farms with income (expressed as farm net value added divided by annual work units - FNVA/AWU<sup>73</sup>) higher or lower than national labour productivity in the total economy (calculated as the value added of the overall economy per AWU), with and without CAP support.

The analysis suggests that, overall, the 2014-2020 CAP displayed a slight increase in efficiency of direct payments, but a large part of expenditure could be saved or redistributed more efficiently. The share of overcompensated farms (receiving support that creates an income per unit of labour higher than the average national labour productivity) decreased from 29% in 2013 to 26% in 2015. Overcompensation is mainly prevalent among large farms (with respect to farm income), corresponding to about 34% of total support, against 8% of total support for small farms. The analysis found at the same time substantial under-compensation: 73.9% of farms (70.6% in 2013) did not earn the benchmark of average productivity in the economy (the number was 69.5% for large farms, 91.2% for small farms). The analysis also reveals that the efficiency of expenditure varies according to price movements and according to the different levels of national labour productivity<sup>74</sup>. Between 2013 and 2015, the share of farms with an income above the 'added value of the economy/AWU', and the share of expenditure surplus of the CAP support decreased due to the role played by the decrease in prices on income formation.

Moreover, the fieldwork has shown that in some Member States (in particular where an important share of agricultural land is rented and owned by non-agricultural investors), the basic

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73 Farm net value added (FNVA) is obtained by deducting total intermediate consumption (farm-specific costs and overheads) and depreciation from farm receipts (total output and public support). When expressed per annual work unit (AWU), it takes into account differences in the labour force to be remunerated per holding.

74 Due to their income effects, negative price movements decrease overcompensation and increase under-compensation. When the labour productivity of the total economy is lower, overcompensation is ceteris paribus higher and under-compensation lower, which does not permit the measurement of the total effect on the efficiency of direct payments. As different agricultural sectors have different levels of productivity and/or different price movements, efficiency of direct payments also fluctuates by agricultural sector.

payment generates unintended effects, in particular a rise in land rents where a part of the support would be captured by land owners and not fully retained by the tenant farmers. The research study for the AGRI Committee of the European Parliament<sup>75</sup> also found that the land value augmenting effect of direct payments according to discounted cash flow calculus reduces the benefits of direct payments for existing farmers and raise the costs of entry and growth for younger and expanding farmers. Acquiring enough land to generate a break even result may thus become too costly for farmers.

Furthermore, this issue has been explored in a number of studies<sup>76</sup>, which show that direct payments can be more or less capitalised into land prices according to different factors, with the drivers of land values being numerous and not exclusive to CAP support. These factors include agricultural commodity prices and agricultural productivity, urban pressure, different national land market regulations, duration of rental contracts, different levels of land taxes, etc. According to Swinnen et al. (2008), 'CAP subsidies have an impact on land values but the impact varies importantly across countries and appears relatively modest compared to other factors, in particular where land prices are high'. Like land values, land rents differ widely between the Member States. The degree of correlation between land values and land rents is difficult to determine, given the multitude of other factors. Economic theory implies that land rents may absorb direct payments more than land prices and quicker<sup>77</sup>. The highest land rents are reported in the Netherlands and Denmark and the lowest in the Baltic States. Smaller Member States with a high population density, such as Malta and Cyprus, have among the highest land values, but the average land rents in these Member States are at or below the EU average. High land value is not necessarily exclusively driven by the high productivity of the land itself but rather also by competition from other use than for agricultural purposes<sup>78</sup>.

It is also shown that SAPS is more capitalised into land values than the single payment scheme (79% and 43% respectively<sup>79</sup>). It is less capitalised in Member States applying the basic payment scheme, especially where there are less entitlements than land, and where entitlements can easily be traded without land. Briefly, the flatter the payment, the more easily it can be capitalised into land values. The more differentiated the payment according to the farmer, the less is the potential of capitalisation into land values.

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75 Refer to footnote 35.

76 Notably:

Ciaian et al. (2016). The Impact of the 2013 CAP Reform on the Decoupled Payments' Capitalization into Land Values in the EU. JRC-report.

Swinnen J. Ciaian P, Kancs d'A., Van Herck K., Vranken L. (2013). Possible effects on EU land markets of new CAP direct payments. European Parliament study.

Swinnen J. Ciaian P, Kancs d'A. (2008). Study on the functioning of land markets in the EU Member States under the influence of measures applied under the Common Agricultural Policy. Final report. Centre for European Policy Studies (CEPS).

77 On average half of the EU farmers rent their land. According to classical economic theory landowners will use the earliest occasion to absorb extra revenue or productivity through higher rents, in this case generated by the direct payments. Of course they can only do this as far as there is a surplus, which explains that the transmission of direct payments into rents found in empirical research is in the order of only 0.3-0.4. See e.g. Adam Smith, An inquiry into the Nature and Causes of the Wealth of Nations, London, 1776, Book 1, Chapter XI 'Of the rent of land'; USDA, Decoupled Payments in a Changing Policy Setting, Agricultural Economic Report 838, Washington, 2004, Chapter 6 'Effects of Government Payments on land rents', p. 49-54; P. Ciaian, d'A. Kancs, M.Espinosa, The impact of the 2013 CAP reform on the Decoupled Payments' Capitalisation into Land Values, Journal of Agricultural Economics, Vol.69, Issue 2, June 2018.

78 [https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/farming/documents/agricultural-capital-land-value\\_en.pdf](https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/farming/documents/agricultural-capital-land-value_en.pdf)

79 Ciaian et al. (2016).

## *Efficiency of the administrative procedures*

Stakeholder interviews conducted as part of the support study examined the efficiency of the administrative costs and management related to the implementation of the 2014-2020 CAP as did a recent study analysing the administrative burden arising from the CAP<sup>80</sup>.

For most of the interviewees, the benefits achieved are higher than the costs. However, some provisions seem to have an inefficient correlation between their administrative burden and their final results, namely, measures with few beneficiaries, certain on-the-spot-checks rules for area-related measures (notably environmental and climate measures and organic farming), greening payment management and the active farmer clause management. The latter two are considered burdensome in administrative terms while their benefits were limited.

On the basis of interviews conducted with stakeholders (national authorities, paying agencies and farmers unions)<sup>81</sup>, the analysis claims that the management of the active farmer condition has increased the costs incurred by farmers and public administrations, while not helping to better target direct income support. However, it was not possible to estimate how far non-active farmers were discouraged from applying for direct payment support. Only those who submitted an application and were excluded were visible.

The support study concludes that overall the CAP is efficient, albeit with a deteriorating level of efficiency compared to the period before the 2013 reform of the CAP, due to the higher complexity of CAP measures and the limited number of beneficiaries of certain measures, for which management and control require a disproportionate use of resources. In comparison, the specific study on administrative burden provides the following findings:

- the administrative costs of the CAP are comparable to those of other policies;
- the 2013 CAP reform increased administrative costs for public authorities but avoided increasing the burden for farmers;
- the CAP administrative burden for most farmers is at a reasonable level;
- data on administrative costs arising from the CAP are limited and inconsistent.

According to the specific study analysing the administrative burden arising from the CAP, administrative costs (linked to the integrated administrative control system) are estimated to represent around 3% of the annual CAP budget for administrations, while for farmers, the share of the administrative burden, excluding compliance costs, accounts for about 2% of the total aid received.

### **5.3. Coherence**

The evaluation assesses how CAP measures work together in addressing the specific objectives of viable food production, by analysing whether 2014-2020 CAP measures and instruments are consistent and complement each other, or whether there are conflicting objectives and/or incentives within the CAP (internal coherence) and/or with respect to other EU or national policies (external coherence) that may compromise the effectiveness and/or efficiency of the relevant measures under evaluation.

#### *5.3.1. Internal coherence of the CAP in addressing viable food production*

The evaluation assesses the internal coherence of 2014-2020 CAP measures contributing to the general objective of viable food production, focusing on the changes introduced with the 2013

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80 Analysis of administrative burden arising from the CAP; financed by the European Commission and carried out by Ecorys.

[https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/cmef/regulation-and-simplification/analysis-administrative-burden-arising-common-agricultural-policy\\_en](https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/cmef/regulation-and-simplification/analysis-administrative-burden-arising-common-agricultural-policy_en)

81 The interviews reflect the situation before the entry into force of the 'Omnibus Regulation' (footnote 20) leading to more flexibility in the implementation of the active farmer instrument. [https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/key\\_policies/documents/active-farmer-ms-decsions-omnibus-regulation\\_en.pdf](https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/key_policies/documents/active-farmer-ms-decsions-omnibus-regulation_en.pdf)

CAP reform. The policy framework of the 2014-2020 CAP integrates under the general objective of viable food production three specific objectives addressing income support, market stabilisation and competitiveness. The CAP allows Member States a considerable degree of flexibility in implementing CAP measures designed to address the various CAP objectives, which leads to policy designs that may partially compromise the effectiveness and efficiency of individual measures.

As such, the assessment of the overall internal coherence of measures addressing viable food production should acknowledge that the multitude of general and specific CAP objectives and national needs might result, if balanced trade-offs among these aims are not found, in an inherent degree of incoherence.

The prime examples for such potential risk of incoherence, due to the nature of their aims, are:

- the redistributive payment, which helps to maintain farms and jobs, potentially to the detriment of competitiveness;
- the green payment, which has environmental and climate goals could represent a constraint for farm economics (although a 2017 evaluation study by Alliance Environment on payments for agricultural practices beneficial for the climate and the environment does not confirm the theory that green measures undermine farmers' income and competitiveness<sup>82</sup>).

At sector level, the analysis of the expected impacts of individual CAP measures aiming at viable food production displayed conflicting effects of the milk reduction scheme implemented as an exceptional measure in the wake of the Russian import embargo and coupled support (applicable at that time). However, the amendments introduced by the Omnibus Regulation<sup>83</sup> seem to have overcome this conflict, establishing that 'in order to ensure the greatest possible consistency between Union schemes targeting sectors that, in certain years, are marked by structural market imbalances, the Commission should be empowered to adopt delegated acts allowing Member States to decide that voluntary coupled support can continue to be paid until 2020 on the basis of the production units for which such support was granted in a past reference period'.

Furthermore, certain perceived inconsistencies are refuted by other analysis, such as the World Bank report, which found that 'the results [of its analysis] suggest that there may not be a trade-off between employing people in agriculture and supporting increases in agricultural productivity'<sup>84</sup>.

### 5.3.2. *Coherence of the CAP in addressing viable food production with other CAP objectives and broader EU and national policy objectives*

#### ***Coherence with the other general objectives of the CAP***

The evaluation examines the overall coherence of the CAP and more specifically the coherence between measures towards the objective of viable food production and the other two general objectives of the 2014-2020 CAP: sustainable management of natural resources and climate action, and balanced territorial development.

The results show that there is coherence of the CAP measures targeting the general objective of viable food production and the other two general objectives of the CAP, albeit with certain trade-offs.

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82 [https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/evaluation-policy-measures/sustainability/payments-agricultural-practices-beneficial-climate-and-environment\\_en](https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/evaluation-policy-measures/sustainability/payments-agricultural-practices-beneficial-climate-and-environment_en)

83 Refer to footnote 20.

84 Refer to footnote 49.

Table 9 Coherence matrix of CAP measures targeting viable food production and other CAP objectives

		CAP GENERAL OBJECTIVE Sustainable management of natural resources and climate action		CAP GENERAL OBJECTIVE Balanced territorial development		
		Provide environmental public goods such as biodiversity	Pursue climate change mitigation and adaptation	Encourage socio- economic development	Maintain a diverse agriculture across the EU	
MEASURES TARGETING VIABLE FOOD PRODUCTION	Direct payments	BPS	Coherent	Coherent	Coherent	Coherent
		Greening	Synergic	Synergic	Neutral	Neutral
		Voluntary coupled support	Coherent/Inconsistent	Coherent/Inconsistent	Synergic	Synergic
		Young farmer payment	Coherent/Inconsistent	Coherent/Inconsistent	Synergic	Synergic
		Small farmer scheme	Neutral	Neutral	Synergic	Synergic
		Redistributive payment	Coherent/Inconsistent	Coherent/Inconsistent	Synergic	Synergic
		ANC	Coherent/Inconsistent	Coherent	Synergic	Synergic
	Rural development	M01	Coherent	Coherent	Coherent	Coherent
		M02	Coherent	Coherent	Coherent	Coherent
		M03	Coherent/Inconsistent	Coherent/Inconsistent	Coherent	Coherent
		M04	Coherent/Inconsistent	Coherent/Inconsistent	Coherent/Inconsistent	Coherent
		M06	Coherent/Inconsistent	Coherent/Inconsistent	Synergic	Synergic
		M09	Neutral	Neutral	Coherent	Coherent
		M11	Synergic	Synergic	Coherent	Coherent
		M13	Coherent	Coherent	Synergic	Synergic
		M14	Coherent	Coherent	Neutral	Neutral
		M16	Coherent	Coherent	Coherent	Coherent
	M17	Neutral	Neutral	Coherent	Coherent	
	Market measures		Neutral	Coherent	Neutral	Neutral

Note: Coherent/Inconsistent = Coherent or inconsistent depending on implementation; Synergic = mutually reinforcing; Neutral = no link

Source: evaluation support study (adaptation)

The viable food production objective seeks to reach an economically viable and competitive form of agriculture, therefore maintaining/creating important economic activities in rural areas and contributing to employment and general economic welfare (poverty reduction) in coherence with the general objective of balanced territorial development. The latter is highlighted by the World Bank report mentioned earlier, which argues that the CAP is associated with the reduction of poverty and the creation of better jobs for farmers across the EU, and notably that ‘the association between per capita decoupled payments and poverty reduction is particularly strong’<sup>85</sup>.

As depicted in Table 9, summarising the analysis of coherence with other CAP objectives, a large number of measures targeting viable food production also benefit and even reinforce the general objectives of the CAP of achieving the sustainable management of natural resources and climate action, and balanced territorial development<sup>86</sup>. However, coherence ultimately depends on the implementation choices of Member States under both CAP pillars<sup>87</sup>.

85 See footnote 49.

86 See Heading 5.4 of Annex 5 analysis complementing chapter 5 for details.

87 The ongoing ‘Evaluation of the impact of the CAP on climate change and greenhouse gas emissions’ should provide a detailed assessment of implementation choices of the CAP-relevant measures.



## Coherence with other EU policies

The evaluation analyses the coherence of CAP measures targeting viable food production with relevant objectives of other EU policies, notably food safety, development, environment, climate, regions, competition and trade. It should be noted that the latter have a broad set of objectives themselves, of which only a limited part is relevant for the purposes of the evaluation<sup>88</sup>.

The analysis shows that the CAP measures which target viable food production can be neutral in their effects, or even appear to be coherent with some of the analysed EU policies, occasionally producing synergistic effects. For example, a number of viable food production measures work in parallel to reach the targets of the EU 2020 climate & energy package, such as cross-compliance and the greening payment. Another synergy should exist with the EU competition policy objective of protecting competition to improve consumer welfare and to ensure the efficient functioning of markets in the EU.

The analysis of stakeholder interviews (national authorities and farmers unions) in case studies reveals controversial results concerning bilateral agreements under EU trade policy, including often a wide range of products/services (not only agricultural products) and, opening the EU market to products that are not subject to the same EU quality standards that are compulsory for EU farmers.

Table 10 Coherence matrix of CAP measures targeting viable food production and other EU policies

		Viable food production measures		
		Direct payments	Rural development	CMO
Food safety policy	Guarantee a high level of protection of human life and health and the protection of consumers' interests, fair practices in food trade	Coherent	Synergic	Synergic
	Ensure free movement of food and feed manufactured and marketed in the EU	Neutral	Neutral	Coherent
	Facilitate global trade of safe feed and safe wholesome food	Coherent	Coherent	Synergic
Development policy	Foster the sustainable development of developing countries, with the primary aim of eradicating poverty <sup>89</sup>	Coherent	Neutral	Synergic
	Enhance support to sectors that can have a high impact on development outcomes, such as sustainable agriculture and energy, incl. natural resources	Neutral	Neutral	Synergic
Climate policy	20% cut in greenhouse gas emissions; 20% of total energy consumption from renewable energy; 20% increase in energy efficiency <sup>90</sup>	Coherent / Inconsistent	Coherent	Coherent

88 The evaluation does not assess the impact of climate change on the CAP objective of viable food production, nor the impact of the CAP on greenhouse gas emissions, or the EU geopolitical security implications of the CAP (see e.g. Ingrid Jansen, Use agriculture in geopolitics, NRC, 6 August 2019).

89 Changes introduced with the 2013 CAP reform improved the coherence between market measures and EU development policy, notably the elimination of export refunds and the limiting of market intervention to market crises.

90 Coherence is subject to implementation choices by Member States (see Heading 0 of Annex 5 Analysis complementing Chapter 5). The ongoing 'Evaluation of the impact of the CAP on climate change and greenhouse gas emissions' points towards inconsistency with respect to coupled payments to livestock.

		Viable food production measures		
		Direct payments	Rural development	CMO
<b>Regional policy</b>	Strengthening research, technological development and innovation	Coherent	Synergic	Coherent
	Enhancing the competitiveness of SMEs	Coherent	Synergic	Coherent
	Promoting sustainable and quality employment and labour mobility	Coherent	Synergic	Coherent
	Promote social inclusion, combating poverty and any discrimination	Coherent	Synergic	Coherent
<b>Competition policy</b>	Enhance consumer welfare and efficiently functioning markets in the EU by protecting competition	Coherent/ Inconsistent	Synergic	Neutral
	Contribute to smart, sustainable and inclusive growth	Coherent	Coherent	Coherent
<b>Trade policy</b>	Create a global system for fair and open trade	Neutral	Neutral	Coherent
	Creating opportunities for European companies and their workers	Synergic	Synergic	Coherent
	Making sure others play by the rules	Neutral	Neutral	Neutral
	Open up markets with key partner countries	Neutral	Neutral	Coherent

Note: Coherent/Inconsistent = Coherent or inconsistent depending on implementation; Synergic = mutually reinforcing; Neutral = no link

Source: evaluation support study

### 5.3.3. *Coherence between coupled direct payments and level playing field between Member States*

The evaluation assesses whether and to what extent, for each sector concerned, voluntary coupled support (not applied by all Member States) has created artificial competitive advantages in farm sectors and in processing industry sectors and therefore contributed to a distortion of competition between farm sectors and between firms of different Member States.

As indicated earlier, the results of the quantitative analysis of the *effects of voluntary coupled support on the competitiveness of supported sectors* depict a limited influence of voluntary coupled support on farmers' decisions, and therefore on the changes of the European production assets. The only exceptions concern protein crops, oilseeds, sugar beets and cattle for slaughtering. These results are confirmed in the stakeholder interviews. As such, it can be established that the observed effects of voluntary coupled support on farmers' decisions and agricultural production have not generated distortions of competition, with limited exceptions.

Regarding the possible implications of voluntary coupled support on competition across the different country systems, the majority of stakeholders indicated that coupled support had little or no influence on the different aspects (raw material supply costs, production costs, sales prices of processed products, supply strategies). The role of voluntary coupled support on the changes of the processing industry's competitive balance has been mentioned by a limited number of stakeholders, mainly concerning the meat and sugar industries<sup>91</sup>.

<sup>91</sup> Also, see findings presented in Heading 5.1.2 The combined effect of relevant CAP measures on competitiveness.

## 5.4. Relevance

Relevance is the extent to which the objectives of an intervention are pertinent to needs, problems and issues. The evaluation assesses the relevance of the general objective of viable food production and the relevance of CAP measures targeting the general objective.

### 5.4.1. *Relevance of the CAP objective of viable food production*

The evaluation assesses to what extent the specific objectives related to the CAP general objective of viable food production are relevant to the actual needs within the EU. For this, the evaluation uses the results of the quantitative analyses and case studies of the support study, which conclude that the policy approach via the specific objectives is relevant and is justified by a broad set of needs, more or less homogeneous and shared according to the different contexts of the Member States and/or sectors.

The statistical analysis<sup>92</sup> of the disparities between agricultural income and non-agricultural income and the increase of the number of holdings with negative income reveal that the specific objective of ‘enhancing farm income’ was relevant before and after the 2013 CAP reform.

On the basis of statistical analysis<sup>93</sup>, the evaluation finds that the specific objective of ‘improving competitiveness’ is relevant concerning external competitiveness, as highlighted in the wake of unfavourable conditions on the international market due to the Russian import ban and the drop of main commodity world prices. With regard to internal competitiveness, the relevance of the specific objective depends on the situations of the different sectors. This refers to production efficiency (e.g. yields of alternative crops) and adaptation to the market (e.g. to meet consumer expectations on quality, safety, etc.) and on the different context conditions of Member States (e.g. labour or land use costs), which is confirmed by the qualitative analysis.

Besides, field missions have shown that, in general, national authorities and stakeholders are well aware that internal and external competitiveness, both in terms of higher production efficiency and in terms of better adaptation of products/services to market demand is an evolving factor, and therefore its improvement is key to ensure the maintenance of the EU farm sector.

The quantitative analysis reveals that the variability of the price index of agricultural goods is always much higher compared to the variability of the price index of non-agricultural goods both before and after the 2013 CAP reform. In addition, it has been highlighted that price instability determines agricultural supply instability, which tends to intensify market instability over time. The analysis concludes that the specific objective of ‘maintaining market stability’ was relevant before and after the 2013 CAP reform. However, the support study finds that the objective of market/price stability is to some extent contrary to the choices of a greater opening of the EU market<sup>94</sup>.

In the 2017 open public consultation on modernising and simplifying the CAP, the greatest challenge perceived by all participants is a ‘fair standard of living for farmers’ (27%) followed by the ‘pressures on the environment and on natural resources’ (23%). The 2020 EU-wide Eurobarometer survey depicts a favourable public perception of the CAP, with 75% agreeing that the CAP benefits all European citizens (+14pp from 2017)<sup>95</sup> and 51% considering that ensuring a fair standard of living for farmers should be among the main objectives of the CAP (+3pp).

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92 See Heading 5.1.1

93 See Heading 5.1.2

94 See Chapter 8.1.2 of the support study, in particular table 48.

95 See footnote 25.

#### 5.4.2. *Relevance of CAP measures addressing viable food production*

The evaluation assesses the hierarchy of relevance regarding the measures targeting the objectives and the flexibility in the implementation of measures.

According to the analysis of stakeholder interviews (national authorities, farmers unions, producer cooperation, producer organisations), the most relevant measures targeting the farm income objective are basic income payments (BPS/SAPS), voluntary coupled support and the investment support measures under pillar II, while the other direct payment measures (i.e. young farmer payment, greening payment, etc.) are of lesser importance.

The most relevant measures targeting the competitiveness objective are those pillar II measures that have a direct function (investments, measures encouraging innovation) or indirect function (measure for young farmers, knowledge and training, advice measures) towards the objective. Voluntary coupled support is considered to be relevant, although in some cases its role is judged more relevant for the specific objective related to farm income.

The stakeholder interviews also reveal that safety net and crisis/risk management tools under the common market organisation and pillar II are considered relevant for the market stability objective, along with pillar II measures that stimulate agro-industrial relations (i.e. contract negotiations, supply chain agreements between agricultural and downstream operators, etc.) and especially if implemented by agricultural associations (producer organisations, cooperatives). However, there is a widespread conviction that pillar I tools (safety net and crisis management measures) are not able to limit price volatility, as they have a bottom threshold (intervention or withdrawal price) but not an upper threshold. Therefore, they cannot limit price volatility when prices grow.

However, there is no homogeneous hierarchy of the measures across Member States, which points to the complexity of the various contexts and why the different measures may appear more or less functional and therefore relevant. This represents a premise to the conclusions concerning the extent to which the flexibility in implementing the measures is relevant. The results reveal an overall positive assessment of this aspect, indeed, flexibility allowed responding more effectively to the specific needs of the different contexts. This is also demonstrated by the wide range of motivations (needs) behind the choices regarding where and how to implement the voluntary coupled support in the different Member States.

In the 2017 open public consultation, the tool most preferred by all participants was ‘support for rural development environment & climate actions in agriculture and rural areas’ (23%), followed by ‘support for rural development investments in physical/human capital in agriculture and rural areas’. According to the 2020 EU-wide Eurobarometer survey, 47% of respondents consider that the support provided to farmers is ‘about right’ (+2% from 2017) and 39% consider it ‘too low’ (+13%). People are also more likely to think that the EU should spend more of its budget to support farmers – 56%, which is an increase of 12% since 2017 and 27% since 2007.

## 5.5. EU added value

EU added value is considered to be the value resulting from applying policy measures at EU level, which is additional to the value that would have resulted from public authorities applying similar measures at the regional or national level. It is widely understood to be a multifaceted concept with different meanings and including an economic and a social or political dimension:

- The economic dimension focuses on EU public goods and the efficiency of their delivery through a collective EU approach, the attainment of economies of scale, and addressing positive and negative externalities.
- The political or social dimension includes legal certainty (objectives and priorities set out under EU policies), coordination gains and complementarities between actions<sup>96</sup>.

In the context of this evaluation, EU added value means the increase in the viability of EU food production that would not have been achieved if the Member States acted completely on their own without the support of CAP measures.

The 2014-2020 MFF, including the budget for the 2014-2020 CAP, has been designed with the clear ambition of maximising EU added value, which remains at the core of discussion on the future of the EU budget, as confirmed by the 28 June 2017 *Reflection paper on the future of EU finances* (COM(2017)358)<sup>97</sup>.

The literature review indicates that the CAP creates EU value added in responding to the political objectives of the Treaty and of the Europe 2020 strategy. The analysis based on this literature review and interviews with national authorities and stakeholders shows that the CAP measures addressing viable food production are consistent with such common objectives and work towards their achievement.

CAP measures ensure a stable, safe and healthy food supply; therefore they contribute to the delivery of EU public goods. Stakeholders (national authorities and farmers unions) are convinced that this would not have been possible if agricultural policies had only been national ones. Also in case of EU-wide diseases and loss of consumer confidence it is clear that a national approach would lead to a situation where one Member State would export its problem to the other while no common solution could be reached. These insights are confirmed by the 2017 open public consultation on the CAP<sup>98</sup> and the two latest EU-wide Eurobarometer surveys<sup>99</sup>, with large majorities of participants thinking that the CAP is fulfilling its role in securing a stable supply of food in the EU (80% in 2020 and 72% in 2017) and ensuring a sustainable way to produce food (67% in 2020 and 52% in 2017).

CAP measures create EU value added from an economic perspective in supporting a fair standard of living for farmers, and consequently contributing to social cohesion. There is a positive EU added value in terms of forming and developing a single market for agricultural and food products within the EU. In particular, the analysis shows the EU added value of EU action addressing market regulations, especially mechanisms dealing with market uncertainty.

## 6. CONCLUSIONS

The 2013 reform of the common agricultural policy (CAP) aims to improve the targeting, efficiency and coherence of policy instruments to address the long-term objectives of viable food production, sustainable management of natural resources and climate action, and balanced territorial development. In addition to the diverse challenges (economic, environmental and territorial) facing the EU agri-food sector, there were also other major challenges facing the

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<sup>96</sup> Commission staff working paper on *The added value of the EU budget*, accompanying the 29 June 2011 Commission Communication on A budget for Europe 2020, SEC(2011)867.

<sup>97</sup> [https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-eu-finances\\_en.pdf](https://ec.europa.eu/commission/sites/beta-political/files/reflection-paper-eu-finances_en.pdf)

<sup>98</sup> See footnote 26

<sup>99</sup> See footnotes 24 and 25

2013 CAP reform: (i) the aftermath of the financial and commodity crisis of 2008, (ii) discussions on the Europe 2020 strategy and (iii) the 2014-2020 multiannual financial framework, which further framed the objectives and eventual design of the 2014-2020 CAP.

The purpose of the evaluation is to assess how the relevant instruments of the 2014-2020 CAP have performed in terms of achieving the general objective of viable food production and its specific objectives of enhancing and stabilising agricultural income, increasing the competitiveness of the farm sector and maintaining market stability<sup>100</sup>. The measures covered by the evaluation study are the relevant instruments set out in the basic regulations of the 2014-2020 CAP, i.e. the Regulations on Direct Payments, Rural Development, the Common Market Organisation, and the Horizontal Regulation.

Considering the complexity and the wide range of topics under evaluation, the methodological approach combines empirical methods (statistical and prospective analyses) with qualitative analysis (case studies, interviews and literature review).

Given the considerable limitations of the evaluation support study in having accurate, detailed and homogenous data in the very narrow observation period it covers (2014-2017) and given the resulting constraints of econometric modelling used for the analysis, the evaluation incorporates the findings of complementary analysis from external sources and internal Commission work.

An additional difficulty in arriving at a comprehensive and conclusive judgement on the 2014-2020 CAP measures addressing viable food production, stems from the variety of implementation choices by individual Member States, the existence of particular legislation at national level (e.g. taxation), and the prevalence of external factors ‘polluting’ the precise identification of the cause and effect of certain developments relevant for the analysis (such as the Russian import ban).

## **6.1. Effectiveness**

### ***Farm income***

The evaluation concludes that measures under the 2014-2020 CAP play an important role in supporting farm income. Statistical analysis shows that basic income support allows farmers to cope better with negative income effects caused by falls in agricultural prices and therefore strongly contributes to stabilising farm income, albeit at different levels across Member States (with direct payments broadly representing 20% to 40% of factor income across Member States over 2014-2018). Both pillars play an important role:

- direct payments (decoupled and coupled) help to support farm income, with decoupled payments displaying a higher transfer efficiency;
- payments for areas facing natural or other specific constraints compensate for a lower basic income support per hectare;
- farm investment support has an indirect and positive effect on farm income by increasing the relative amount of capital available within the farm and thus boosting competitiveness;
- risk management tools can help farmers to mitigate negative impacts on income.

Regarding the targeting of measures:

- external convergence is effective in shifting direct income support to Member States with lower levels of support compared to the EU average;

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<sup>100</sup> The CAP’s performance regarding achieving the objectives of ‘sustainable management of natural resources and climate action’ and ‘balanced territorial development’ are dealt with in separate evaluations. The various evaluations will contribute to a report from the Commission to the European Parliament and the Council on the implementation of the Common Monitoring and Evaluation Framework including an assessment of the performance of the Common Agricultural Policy 2014-2020 (in line with the obligation stemming from Article 110.5 of Regulation (EU) 1306/2013).

- internal convergence is generally effective in reducing disparities between farmers in Member States applying the basic payment scheme, but has no relevant impact on the concentration of direct income support overall;
- the reduction of payments (degressivity), particularly the capping of basic payments, has played a role in reducing the concentration of direct income support where the implementation choices by Member States were sufficiently ambitious;
- the young farmer payment appears successful in a number of cases at national level, in particular when the amount and the conditions of the aid offered are seen as sufficiently important, but played a limited role at the EU level in favouring the turning over of farm management to the younger generation;
- coupled support represents around 10% of the overall amount of direct payments (in 2018), with the vast majority of Member States using the maximum rate or a large part of the allowed ceiling for voluntary coupled support;
- the redistributive payment has been effective in favouring the income of small farms;
- the effectiveness of the active farmer clause in targeting support is not demonstrated, as the number of beneficiaries excluded from direct income support is found to be negligible (less than 1% of claimants applying for direct payments in 2015), but it cannot be determined if the non-active farmers were simply discouraged from applying;
- the level of minimum requirements for receiving direct payments is set at a relatively low level (with half of the recipients receiving less than EUR 1 250 per year);
- the small farmers scheme is mostly limited to an administrative simplification for small farmers, driven by the implementation choices of Member States (the majority of Member States has not chosen the option of an attractive lump sum);
- the prospective analysis simulating the full implementation of the 2013 CAP reform depicts a further increase of direct payments in small farms, confirming the hypothesis that the 2014-2020 CAP increasingly targets support towards small farms. However, the income gap between small and large farms would remain significant at the end of the simulated implementation period (2019).

The evaluation is inconclusive about the role of CAP measures on job maintenance and/or creation in the farm sector, given the prevalence of opposite conclusions in available studies (noting that the specific objectives on viable food production do not include an explicit target as such).

### ***Competitiveness***

The development of trade between 2003 and 2019 shows a gradual weakening in the competitive position of the EU farm sector in the internal and external markets over most of the period. This is depicted by the growth in import penetration within EU domestic consumption and a decrease of the EU market share in world exports (even if the value of EU exports increased over this period). However, this period covers the turbulence after the financial and commodity crisis of 2008 and the Russian import ban, both of which weighed on the EU's export potential. Furthermore, developments since 2017 indicate a revitalisation in the competitive position of the EU, with a rebound in the share of EU in world exports, despite a relative increase in EU prices.

EU exports are oriented towards high value-added products, for which the EU share in global exports holds quite stable over time with a small increase after the implementation of the 2014-2020 CAP. Although the support study concludes that the implementation of the 2014-2020 CAP did not stimulate a noticeable and/or demonstrable effect on the quality of products, a

recent study on the economic value of EU quality schemes<sup>101</sup> shows a clear economic benefit for producers in terms of marketing and increase of sales thanks to the high quality and reputation of products protected under the EU quality schemes.

The support study could not derive clear conclusions on the implications of EAFRD measures on competitiveness. However, a recent report from the World Bank finds that pillar II payments contribute to agricultural productivity growth<sup>102</sup>, which plays an important role in increasing competitiveness. The support study could not formulate a judgement on the net effect of the implementation of voluntary coupled support, but it is established that the observed effects of voluntary coupled support on farmers' decisions and agricultural production have not generated distortions of competition, with limited exceptions.

### ***Market stabilisation***

Overall, market measures helped to limit the volatility of the domestic prices of most agricultural products and were effective in favouring price recovery in all the analysed sectors. The volatility of domestic EU prices has been lower than that of international prices for almost all products over the period observed, but butter and SMP prices depicted higher variability in the EU over the most recent years. The effectiveness of market measures differs across sectors and Member States.

It is important to highlight that the objective of price stabilisation is directly linked to the objective of income stabilisation and therefore the market measures relevant for maintaining market stability also contribute to the specific objective of farm income stability.

## **6.2. Efficiency**

The support study finds the CAP to be efficient, but altogether there is a decline in the level of efficiency compared to the period before the 2013 reform of the CAP. This is due to the higher complexity of the CAP measures introduced with the reform and the limited number of beneficiaries of certain measures, for which management and control require a disproportionate use of resources. A recent study on administrative burden arising from the CAP<sup>103</sup> concludes that the 2013 CAP reform increased administrative costs for public authorities but avoided increasing the burden for farmers. Overall it is comparable to the administrative costs of other policies.

Management of the active farmer condition has increased the costs incurred by farmers and public administrations, while methodological limits made it impossible to identify any noteworthy effects on targeting direct income support. Stakeholders consider the green payment to have a high level of administrative burden. In Member States where an important share of agricultural land is rented and owned by non-agricultural investors, the basic income support may generate undesired effects, including higher land rents and partial capitalisation of direct payments into land prices. Such a rent increase reduces the benefits of direct payments for existing farmers and the increased land prices raise the costs of entry and growth for younger and expanding farmers. The analysis also finds that a large proportion of direct payments could be redistributed more efficiently, although the 2014-2020 CAP displayed a slight increase in efficiency.

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101 Economic value of EU quality schemes, geographical indications (GIs) and traditional specialities guaranteed (TSGs); financed by the European Commission and carried out by AND International and Ecorys Brussels. [https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/cmef/products-and-markets/economic-value-eu-quality-schemes-geographical-indications-gis-and-traditional-specialities-guaranteed-tsgs\\_en](https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/cmef/products-and-markets/economic-value-eu-quality-schemes-geographical-indications-gis-and-traditional-specialities-guaranteed-tsgs_en)

102 World Bank Group: EU regular economic report 4 – Thinking CAP, Supporting Agricultural Jobs and Income in the EU.

103 Analysis of administrative burden arising from the CAP; financed by the European Commission and carried out by Ecorys. [https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/cmef/regulation-and-simplification/analysis-administrative-burden-arising-common-agricultural-policy\\_en](https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/cmef/regulation-and-simplification/analysis-administrative-burden-arising-common-agricultural-policy_en)



### **6.3. Coherence**

The evaluation of the internal coherence of CAP measures addressing viable food production acknowledges the possibility for an inherent incoherence of the 2014-2020 CAP due to the multitude of general and specific CAP objectives and national needs when it comes to policy design and implementation choices. Nonetheless, the analysis finds a general coherence of CAP measures targeting the general objective of viable food production with the other general objectives of the CAP on the sustainable management of natural resources and climate action, and balanced territorial development.

Regarding coherence with broader Union policies, notably on food safety, development, climate, regions, competition and trade, the analysis shows that, at the level of objectives, the CAP measures targeting viable food production can be assessed neutral to fully coherent with other EU policies, occasionally producing synergistic effects (e.g. cross-compliance and green payment helping to reach targets of the EU 2020 climate & energy package). However, there are also instances of possible incoherence (trade-offs and/or negative effects on other EU policies), such as the trade policy objective on opening the EU market to products that are not subject to the same EU quality standards.

### **6.4. Relevance**

The evaluation considers the three specific objectives related to farm income, competitiveness and market stability as relevant both before and after the 2013 CAP reform. However, the analysis does not identify a homogeneous hierarchy of relevant measures across the Member States, which justifies the flexibility allowed in the CAP to respond more effectively to the specific needs of Member States in the different socio-economic contexts, which has been well reflected in the proposal for strategic plans under the future CAP.

The most relevant measures targeting the farm income objective are basic payments, voluntary coupled support and the investment support measures under pillar II.

The specific objective of ‘improving competitiveness’ is particularly relevant for external competitiveness, as highlighted in the wake of unfavourable conditions on the international market due to the Russian import ban and the drop in world prices of main commodities. With regard to internal competitiveness, the relevance of the specific objective depends on the situations of the different sectors and on the different conditions of Member States. The most relevant measures targeting the competitiveness objective are the pillar II measures that have a direct function (investments, measures encouraging innovation) or indirect function (measure for young farmers, knowledge and training, advice measures) in achieving the objective. Voluntary coupled support is considered to be relevant, although in some cases its role is judged more relevant for the specific objective related to farm income (its primary goal).

Safety net and crisis management tools under the common market organisation and pillar II are considered relevant for the market stability objective, along with pillar II measures stimulating agro-industrial relations (i.e. contract negotiations, supply chain agreements, etc.) and especially if implemented by agricultural associations (producer organisations, cooperatives).

### **6.5. EU added value**

CAP measures create EU value added from an economic perspective in supporting a fair standard of living for farmers, and consequently contributing to social cohesion. There is a positive EU added value in terms of forming and developing a single market for agricultural and food products within the EU. In particular, the analysis highlights the EU added value of EU action addressing market regulations, especially of mechanisms dealing with market uncertainty.

## 6.6. Lessons learned

The conclusions mentioned above are transposed into ‘lessons learned’, as follows:

- direct income support strongly contributes to stabilising farm income, with both pillars of the CAP playing an important role through various measures and instruments addressing different needs and challenges;
- targeting of measures has improved under the 2014-2020 CAP, but depends on the implementation choices of Member States;
- external convergence is effective in reducing disparities between Member States;
- internal convergence is generally effective in reducing disparities between farmers in Member States, but the implementation of the internal convergence and the reduction of payments (degressivity) has been limited and has not always led to a noticeable reduction in the concentration of direct income support overall, despite the fact that the redistributive payment has been effective in targeting small farms;
- the effectiveness of the young farmer payment to reach its primary objective depends on the ambitions of particular Member States;
- Member States’ choices determine the effectiveness of the active farmer clause, minimum requirements and small farmers scheme.
- in Member States where a significant share of agricultural land is rented and owned by non-agricultural investors, basic income support may generate higher land rents and/or capitalisation of direct payments into land prices, raising the costs of entry and growth for younger and expanding farmers;
- market measures, EU quality schemes and various EAFRD measures contributing to productivity growth play a role in supporting farm income by limiting downward price volatility and improving competitiveness;
- higher complexity of CAP measures introduced with the 2013 CAP reform and the limited number of beneficiaries of certain measures have resulted in a perception of increased administrative costs;
- the measures contributing to the viable food objective are relevant, overall coherent and consistent with other CAP and EU policy objectives and generate an EU value added. Nonetheless, the coherence within the CAP and with other EU policies requires close monitoring, in particular regarding the increased flexibility in implementation under the CAP proposal and the objectives under the Green Deal on farm to fork and biodiversity<sup>104</sup>.

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104 It is already envisaged that the Commission will verify the coherence with the targets set under the Green Deal when approving strategic plans and that the evaluation framework proposed for the future CAP will be used to monitor progress towards Green Deal targets at Member State level.

## ANNEX 1: PROCEDURAL INFORMATION

### 1. Lead DG, Decide Planning/CWP references

Lead DG: Directorate-General Agriculture and Rural Development

Decide planning reference: PLAN/2016/526

### 2. Organisation and timing

This was a policy evaluation project included in the Directorate-General for Agriculture and Rural Development 2016-2020 evaluation plan. It followed the Better Regulation Guidelines for evaluations. The evaluation work was carried out through an external evaluation study, contracted through a service request under a framework contract, conducted in line with the internal procedure of the Directorate-General for the organisation and management of policy evaluations carried out by external contractors. The project was supervised under the technical and contractual management of unit C.4 - Monitoring and Evaluation, with the involvement of 12 units of the Directorate-General as members of an inter-service steering group.

The inter-service steering group was set up by the Commission in January 2017 with a mandate to provide information, prepare the terms of reference, monitor the work of the external study team, discuss and give advice on the approval of the final report and comment on the draft evaluation staff working document.

The inter-service steering group included members of the Secretariat-General of the Commission, the Joint Research Centre and Directorates-General for trade, competition, environment, climate action, research and innovation, regional and urban policy, budget, economic and financial affairs, as well as internal market, industry, entrepreneurship and SMEs. The steering group held its kick-off meeting in January 2017 and held eight meetings throughout the project.

The evaluation roadmap was published on 14 February 2017 and set out the context, scope and aim of the exercise. The roadmap presented the questions to be addressed under the five evaluation categories of effectiveness, efficiency, relevance, coherence and EU added value. During the public consultation period, no feedback was received on the roadmap.

The evaluation project carried out by the external contractor started in April 2017. The final deliverable was received on 4 September 2018. The external evaluation support study provided the basis for this staff working document.

### 3. Exceptions to the Better Regulation Guidelines

There was an exception to the need to organise a dedicated open public consultation as part of this evaluation, since the large open public consultation on modernising and simplifying the common agricultural policy (CAP) covering the necessary issues had just been held<sup>105</sup>. That public consultation was held between 7 February and 2 May 2017 with a very successful response rate: 322 912 replies received with a good spread of different categories of respondents (individual farmers, public authorities, non-governmental organisations (NGOs), and farmers' professional organisations at EU, national, regional and local level).

The highest contribution came from citizens (47.7%), followed by farmers (36.5%) and organisations (15.8%). The majority of the position papers were submitted by organisations (61.5%), followed by citizens (21.6%) and farmers (16.9%).

### 4. Evidence, sources and quality

An external and independent evaluation support study provides the basis for the evaluation, as presented in this document. The study was carried out by Agrosynergie (the contractor),

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105 [https://ec.europa.eu/agriculture/consultations/cap-modernising/2017\\_en](https://ec.europa.eu/agriculture/consultations/cap-modernising/2017_en)

following the signature of the contract on 27 April 2017 and concluded on 4 September 2018 with the receipt of the final deliverable.

The contractor exploited the available data sources, including revisions to statistical analyses when new data became available during the course of the contract (e.g. revision of calculations when new FADN data came in after evaluation question 1 had already been answered) and crosschecked the use of data when requested by the steering group (e.g. on trade data).

Nonetheless, the analysis was considerably limited by the lack of accurate, detailed and homogenous data and by the particularities of the FADN system. From the start of this evaluation, it was clear that the availability of data on implementation would be limited, given the short period in which the reformed CAP policy had been in place and the time it takes before FADN data become available.

It is worth pointing out that the evaluation period saw significant changes to the way in which direct payments worked. The methodological approach designed for each has had to consider these factors to enable as deep an analysis as possible within the limitations faced.

The limitations are clearly explained in Chapter 4 – methodology.

The evaluation support study is based on the following data sources, which are clearly specified and referenced in the relevant chapters of the evaluation support study.

1. The analysis at regional (NUTS 1) level relies on data from EUROSTAT (Economic Accounts for Agriculture and Agricultural labour input statistics - release 15.11.2017) and the CATS database (Clearance of Audit Trail System, provided by DG Agriculture and Rural Development), giving detailed data on CAP payments (EAGF and EAFRD). The evolution of agricultural prices was analysed using EUROSTAT price indices.
2. The analysis at farm level is based on individual farm data provided by the Farm Accountancy Data Network (FADN) for the years 2013, 2014 and 2015. The analysis uses a constant sample of farms in 2013 and 2015, i.e. a sample consisting of the same farms in the 2 years analysed. 2013 was preferred to 2014 as baseline, assuming that at that time farmers' behaviour was not yet affected by the debate on the CAP reform. The use of a constant sample is motivated by the fact that it allows changes to be observed in farm income due to policy changes, market developments and other external factors, avoiding the influence of changes in the sample over time. All results reported by groups of farms are weighted averages based on the variable 'farms represented' provided for each sampled FADN farm in 2013. The overall EU constant sample accounts for 60 818 farms (i.e. around 75% of the total number of farms of the FADN sample), and it is sufficiently large for analysis at national level.

The analysis at farm level allowed for an in-depth study, classifying farms according to the dominant farming activities (8 types of farming<sup>106</sup>) and farm economic size (small and large farms, threshold EUR 25 000 of Standard Output). Groups (Member States/sectors/economic size) with less than 15 farms are not discussed and are excluded from the computation of aggregated variables<sup>107</sup>. The FADN variable used to express the time worked by total labour units on the farm are annual work units (AWU) expressed in hours standardised across regions. In the FADN database, work units are calculated based on different numbers of hours of labour per year across the EU, which makes it difficult to compare across the Member States. It seemed therefore necessary to standardise the computation of both paid and unpaid AWU by dividing the total amount

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106 Field crops; Horticulture; Wine; Other permanent crops; Milk; Other grazing livestock; Granivores; Mixed farms.

107 FADN consistency rules require excluding groups with less than 15 farms.

of worked hours by 1 800 in each examined sample (equivalent to full-time employment of one labour unit per year).

The same sources, laps of time and approaches have been used for the analysis of labour, in quantity and composition.

3. The analysis of the changes in the competitiveness of the agricultural sector and relationships between these changes and the 2014-2020 CAP measures is based on secondary data provided by DG Agriculture and Rural Development, EUROSTAT, COMTRADE, COMEXT, Agriview, the FAO, national payment agencies, and other sources, e.g. processing industry, sector organisations. The analysis uses classic tools of descriptive statistics and is carried out across the EU-28 Member States for the observation period corresponding to the years 2003 onwards, with a focus on the years 2015 onwards, according to data availability. Moreover, the analysis of the role of EAFRD measures supporting knowledge, advisory services and cooperation on the competitiveness of the agricultural sector is based on data generated at RDP level in accordance with the common monitoring and evaluation system for rural development within the Common Monitoring and Evaluation Framework of the CAP. Specifically, the data used refer to the common output and result indicators presented by Member States/Regions in the 2017 Annual Implementation Report, including indicators that have been used to set quantified targets in relation to rural development focus areas within rural development programmes.
4. Finally, the databases of EUROSTAT, DG Agriculture and Rural Development, Agriview, the FAO, the World Bank and the Chicago Mercantile Exchange & Chicago Board Trade group provided data on production characteristics (volumes, prices, public and private storages) in the different sectors and Member States for assessing the effectiveness of market measures carried out for the years 2009 onwards. A review of the implementation of ordinary and exceptional measures adopted by the Commission to face market crises was carried out by product, distinguishing the periods before and after entry into force of Regulation (EU) 1308/2013. This was done in order to identify: the nature of the problem; the period of intervention and the measure of the use of the instruments provided for by the Regulation; as well as the effects from the use of tools.

The inter-service steering group for the external evaluation study carried out a quality assessment of the external report by the contractor of this evaluation, examining in particular the quality of the methodology, the reliability of the data and the robustness of the analysis and findings. It judged that the report could be approved, as it complied fully with the conditions of the contract and relevant professional evaluation standards. It concluded that, when complemented with more recent observations and complementary analysis, the support study provides a good basis for the staff working document concluding the evaluation of the impact of the CAP measures towards the general objective 'viable food production'.

Accordingly, and in order to ensure that the evaluation incorporates all relevant findings and analysis of available studies and the most up-to-date data on the implementation of CAP measures and instruments, as well as market developments, the evaluation draws on a broad range of additional sources, which have been referenced throughout the document. As such, the evaluation addresses some of the limitations of the evaluation support study, notably related to its limited observation period for the implementation of various CAP measures and instruments.

## ANNEX 2: PUBLIC CONSULTATION

A wide range of consultation methods and activities were carried out for this evaluation. They can be grouped in the following manner:

1. The consultation actions of the European Commission: Special Eurobarometer 473<sup>108</sup>, Special Eurobarometer 504<sup>109</sup>, the open public consultation on modernising and simplifying the CAP<sup>110</sup> as well as the consultation of the relevant Civil Dialogue Groups.
2. The consultation action of the contractor of the external evaluation study: For the 10 case studies, the following stakeholders were consulted through interviews: national authorities, national agricultural production unions, national agricultural cooperative unions, producer organisations and national processing unions. Academics studying agricultural policy and their works were also consulted.

It should be noted that for this evaluation of stakeholders, no additional open public consultation was carried out, given that the large open public consultation on modernising and simplifying the common agricultural policy (CAP) covering the necessary issues had just been held<sup>111</sup>. This was done in particular to avoid stakeholder consultation fatigue and public confusion.

Stakeholders who are interested in evaluations are often the same organisations, individuals (e.g.: public authorities in EU Member States, farmers and farmers' organisations, academia, experts or NGOs mainly working in agriculture, environment and/or animal health domains).

Given the forthcoming CAP post-2020 impact assessment, the Commission CAP policy proposals and the next multiannual financial framework, any misunderstanding with stakeholders had to be avoided where possible.

The 2017 open public consultation on the CAP addressed many different CAP-related subjects, and it fully covered matters that are relevant for the viable food production evaluation.

In addition, the contributions were received from all main categories of stakeholders. Following the analysis, the highest number of contributions (27 893) came from citizens. Given that they were received only half a year before the evaluation, the participants would most likely not amend their responses drastically. The information obtained seems to clearly and fully express the views of citizens. In addition, the key stakeholders for the viable food production evaluation are the farmers as well as organisations (e.g.: food chain actors, public authorities, NGOs/civil society bodies) and they are subject to several targeted consultations.

A survey (December 2017) showed that EU citizens still consider the CAP to be an important result of the EU in terms of public goods. **Special Eurobarometer 473**, an independent survey carried out in the 28 Member States and involving 28 000 participants (report published in February 2018), indicates that the majority of respondents (75%) believe that the CAP is fulfilling its roles, particularly of ensuring a stable, safe and healthy food supply.

This finding is confirmed in the more recent **Special Eurobarometer 504** carried out between 3 August and 15 September 2020 in the 27 Member States of the Union (i.e. without the UK, following its withdrawal from the EU on 1 February 2020) and involving 27 237 EU citizens. Eight in ten EU citizens (+8 percentage points since 2017) consider that the CAP is fulfilling its role in 'securing a stable supply of food in the EU' and slightly more than six in ten share this opinion about 'ensuring a fair standard of living for farmers' (+6pp).

There is a consensus on the EU value added of the CAP, with a majority of respondents thinking that the CAP benefits all European citizens and not just farmers (76% in Eurobarometer 504, up by 15 percentage points from Eurobarometer 473).

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108 See footnote 24

109 See footnote 25

110 See footnote 26

111 See footnote 26

The outcome of an **open public consultation on modernising and simplifying the CAP** launched by DG Agriculture and Rural Development and open to all citizens goes more or less in the same direction. The need to guarantee a level playing field within the single market and the existence of cross-border challenges like food security, environment or climate change (with a positive reply of more than 90% of the respondents) emerge as key reasons that justify an agricultural policy commonly managed at EU level. Other justifications include the need to have a common position at international level, the need to maintain economic, social and territorial cohesion across the EU as well as the need for a common framework for sharing best practices. For the statement ‘A common budget as it is more efficient’, the respondents most frequently selected the option ‘partially agree’.

The two surveys also investigate another important question of the EU added value, i.e. the governance level. In line with the subsidiarity principle, the issue was whether CAP governance should be executed on a regional, national or European level and to what extent.

The results of the Eurobarometer survey indicate that the European level is considered the best decision-making level to ensure agricultural products are of good quality, healthy and safe (51% vs 34% who think this should be managed at a national level), securing food supply (48% vs 37%), and ensuring a fair standard of living for farmers (44% vs 40%).

Opinions are divided on ensuring reasonable food prices for consumers: 42% think this should be dealt with at European level, and 42% think this should be dealt with at national level. There has generally been little change in opinions since 2009, the most notable is a shift towards national level in the case of securing food supply (+4%).

The responses to the DG Agriculture and Rural Development public consultation on the CAP identify the EU level as the most appropriate for tackling environmental issues. Analysis of the results by group of respondents<sup>112</sup> shows for two main issues linked to viable food production (ensuring a fair standard of living for farmers and securing food supply at reasonable prices) a diverse opinion between farmers (mostly agree on EU level) and stakeholders (mostly agree on national level).

Which level should deal with these objectives?	EU level	National level	Regional level
Ensuring a fair standard of living for farmers	43	42	12
Addressing market uncertainties	67	21	6
Foster competitiveness and innovation of agriculture	48	35	11
Securing food supply at reasonable prices for consumers	43	36	15
Encouraging the supply of healthy and quality products	62	25	12
Contributing to a high level of environmental protection	73	12	11
Mitigating and adapting to the impact of climate change	85	8	4
Developing rural areas	28	32	38
Achieving a balanced territorial development	27	39	30

Source: Ecorys and DG Agriculture and Rural Development

Furthermore, stakeholders’ positions differ on the specific allocation of responsibilities between the EU and the Member States: while some stakeholders call for more flexibility at national/regional level in order to adapt policy implementation to their specific local needs, other organisations would like stronger action at EU level in order to guarantee a level playing field.

### **The 2017 open public consultation on modernising and simplifying the CAP, in more detail**

In spring 2017 the Commission carried out the broad open internet-based public consultation on modernising and simplifying the CAP. This open public consultation harvested a very high number of opinions from a wide spectrum of stakeholders.

The interest of the stakeholders was very high, with 322 912 replies received via online contributions and 1 417 position papers submitted (after identification of campaigns and exclusion of duplicates, there were still 58 520 online contributions and 693 position papers).

112 <https://ec.europa.eu/agriculture/sites/agriculture/files/consultations/cap-modernising/summary-public-consul.pdf>

The following stakeholder groups participated:

- Citizens – individuals who are not involved in farming;
- Farmers – individuals involved in any type of farming, and organisations. Most of them come from family farms (76.1%) as well as other legal structures (10.2%) or others/does not know (13.7%);
- Organisations:
  - by type of organisation: private enterprises (66.8%), trade, business or professional organisations (11.1%), NGOs, platforms or networks (7.3%), public authorities (4.4%), research and academia (2.4%), other organisations (8.1%);
  - by sector, most of the responses come from organisations in the agriculture & forestry sector (81.5%) and then civil society & environmental protection organisations (4.5%), agri-food (3.3%), rural development (2.9%), trade unions (1.8%) and other sector organisations (6%) follow them.

The highest contribution comes from citizens (47.7%), followed by farmers (36.5%) and organisations (15.8%). The majority of the position papers was submitted by organisations (61.5%), followed by citizens (21.6%) and farmers (16.9%).

**The answers to the open public consultation questions that are relevant for the evaluation on viable food are summarised as follows** (including the most important contribution(s) for each category of stakeholders identified, in order to demonstrate their preferences):

**Q1: Which are the most important challenges for EU agriculture and rural areas?**

*[Select up to three challenges among six options: 1. Fair standard of living for farmers; 2. Adaptation to trends in consumer/societal demands; 3. Pressures on the environment and on natural resources; 4. Climate change (mitigation and adaptation); 5. Lack of jobs and growth in rural areas; 6. Uneven territorial development throughout the EU.]*

Overall, the challenges ‘fair standard of living for farmers’ (27%) followed by the ‘pressures on the environment and on natural resources’ (23%) are the ones most chosen by the respondents as a whole. However, when they are divided by group of stakeholders, it becomes visible that the challenge most frequently selected by the farmers group is ‘fair standard of living for farmers’ (32%) (focus on economic aspects).

Whereas, the challenge most frequently selected for the citizens group is ‘pressures on the environment and on natural resources’ (32%) followed by ‘climate change (mitigation and adaptation)’ (23%) and only then ‘fair standard of living for farmers’ (22%) (clear focus on environmental aspects). The answers given by respondents from organisations vary according to the sector and type of organisation, for example ‘lack of jobs and growth in rural areas’ is the challenge most frequently selected by trade unions (52%).

**Q2: Which of the current CAP policy tools are best suited to meet the challenges identified above?**

*[Select up to five tools among nine options: 1. Decoupled payments to farmers; 2. Coupled support; 3. Support for rural development environment and climate actions in agriculture and rural areas; 4. Support for rural development investments in physical and human capital in agriculture and rural areas; 5. Trade measures; 6. Market safety nets (e.g. market intervention); 7. Risk management schemes; 8. Support for producers' organisations; 9. Regulatory approaches (such as standards and rules).]*

Overall, the tool most chosen by the respondents as a whole is ‘Support for RD environment & climate actions in agriculture and rural areas’ (23%). It is also the tool most frequently selected by farmers (18%) and by citizens (30%), although with different magnitude. It is followed by another tool ‘Support for RD investments in physical/ human capital in agriculture and rural areas’ that is important for farmers (18%) and citizens (16%). The tool ‘Support for RD investments in physical/ human capital in agriculture and rural areas’ (with 19%) is the tool most frequently selected by organisations.



**Q3: To what extent does the current CAP successfully address these challenges?**

*[Select one option among five possibilities: 1. Don't know; 2. To a large extent; 3. To a fairly good extent; 4. To some extent only; 5. Not at all.]*

Overall, a large majority of the respondents (57% of the total) consider that the current CAP successfully addresses these challenges 'To some extent only'. There is no significant difference between the answers provided by farmers (62%), citizens (51%) and organisations (61%).

**Q4: Which of the following do you think are the most important contributions of farmers in our society?**

*[Select up to three choices among eight options: 1. Ensuring that enough food is available; 2. Supplying healthy, safe and diversified products; 3. Protecting the environment and landscapes; 4. Addressing climate change; 5. Contributing to renewable energy; 6. Maintaining economic activity and employment in rural areas; 7. Contributing to EU trade performance; 8. Ensuring the health and welfare of farm animals.]*

Overall, the aspect of 'Supplying healthy, safe and diversified products (quality food)' is considered the most important. However, whereas for both farmers and organisations, it is the first choice (with 28% and 27% respectively), for citizens although it is also significant (27%), the first choice is 'Protecting the environment and landscapes' (28%).

**Q5: To what extent do you agree with the following statement: 1. Farm income is still significantly lower than the EU average; 2. EU farmers face stricter requirements than non-EU ones for coupled support; 3. Farmers get a limited share of the prices consumers pay; 4. Farmers need to make heavy investments for their business.**

Overall, a very large majority of respondents agreed that 'Farmers get a limited share of the prices consumers pay' (80% largely agree and 17% partially agree). There is no significant differences between the answers provided by farmers (85%), citizens (71%) and organisations (78%). The respondents also largely agreed with the other three statements (53 to 59% largely agree and 24 to 35% partially agree).

**Q19: Do you agree with the following statements: 1. Farmers need direct income support; 2. Other policies can have a strong impact on agricultural income (e.g. heritage/tax law, social and pension systems); 3. Agricultural policy should deliver more benefits for environment and climate change; 4. Targeted investments to foster restructuring and innovation should be supported; 5. Improving farmers' position in value chains (including addressing unfair trading practices)**

A large majority of respondents (80%) largely agree with the statement 'Improving farmers' position in value chains'. The opinion is shared by farmers (88%), citizens (72%) and organisations (86%). For the other options, the opinion expressed by farmers and citizens differ. For example, 60% of the farmers largely agree with the statement 'Other policies can have a strong impact on agricultural income (e.g. heritage/tax law, social and pension systems)'. Whereas, 80% of the citizens largely agree with the statement 'Agricultural policy should deliver more benefits for environment and climate change'.

**Q20: Do you think that the following actions under the CAP could improve the competitiveness of farmers? 1. Supporting the development of futures markets; 2. Enhancing transparency in the agricultural markets; 3. Supporting the integration of farmers in producer organisations; 4. Support for research & innovation; 5. Simplifying administrative procedures.**

A majority of the respondents agree (largely or partially) with the actions most proposed. However, with the action 'Supporting the development of futures markets' a majority of respondents did not agree. 72% of respondents (85% of the farmers, citizens – 58%,

organisations - 86%) largely agreed with the action ‘Simplifying administrative procedures’. A majority of the respondents (55% of farmers, 57% of citizens, 54% of organisations) largely agree with the action ‘Enhancing transparency in the agricultural markets’.

**Q21: Which of the following criteria are most relevant when allocating direct support?**

*[Select up to five choices among ten options: 1. Specific products and/or sectors; 2. Risk management tools; 3. Compensation to farming activities in Areas with Natural Constraints/ High Nature Value Areas; 4. Territories with higher agricultural potential; 5. Practices with the highest environmental/climate benefits; 6. Linkage to standards (e.g. food safety, labour); 7. An equal level of support for farmers within the same territory; 8. Small producers; 9. Limit in support for large beneficiaries (capping); 10. Young Farmers]*

Overall, respondents selected as first ‘Compensation to farming activities in Areas with Natural Constraints/ High Nature Value Areas’ (17%), followed by ‘Limit in support for large beneficiaries (capping)’ (15%) and ‘Practices with the highest environmental/climate benefits’ (14%). For the farmers who participated in the consultation, the first choice selected is ‘Compensation to farming activities in Areas with Natural Constraints/ High Nature Value Areas’ (18%), followed by ‘Limit in support for large beneficiaries’ (14%) and ‘Young Farmers’ (14%). Whereas for citizens, the first option selected is ‘Practices with the highest environmental/climate benefits’ (19%) followed by ‘Small producers’ and ‘Compensation to farming activities in Areas with Natural Constraints/ High Nature Value Areas’ (17%). For respondents from organisations, the answers vary according to the type and sector of the organisation.

**Q22: Which actions could further improve the EU’s export performance?**

*[Select up to three choices among six options: 1. Export promotion; 2. Export credits; 3. Specific action on geographical indications; 4. Further trade liberalisation; 5. Address non-tariff barriers; 6. No action needed]*

Overall, the first option respondents selected was ‘No action needed’ (24%). Later, the options ‘Export promotion’ (21%) and ‘Specific action on Geographical Indications’ (20%) were selected. As for farmers, their first choice was ‘Export promotion’ (26%), followed by ‘address non-tariff barriers’ (21%) and ‘Specific action on geographical indications’ (21%). For citizens, the first option selected was ‘No action needed’ (41%) followed by ‘Specific action on geographical indications’ (20%). For respondents from organisations, the first choice selected was ‘Export promotion’ (27%), followed by ‘Address non-tariff barriers’ (22%) and ‘Specific action on geographical indications’ (19%).

**Q23: Considering consumer and wider societal demands, where can the linkage between CAP and standards be improved?**

*[Select up to three choices among nine options: 1. Food safety standards; 2. Human nutrition standards and guidelines; 3. Standards for fair trade products; 4. Standards for organic products; 5. Environmental and climate standards; 6. Standards for the use of antimicrobials/pesticides; 7. Animal and plant health standards; 8. Animal welfare standards; 9. Labour standards]*

Overall, respondents selected as first ‘Environmental and climate standards’ (16%), followed by ‘Standards for organic products’ (15%) and ‘Standards for fair trade products’ (13%). For farmers, the first choice selected is ‘Food safety standards’ (17%), followed by ‘Standards for fair trade products’ (16%) and ‘Environmental and climate standards’ (13%). For citizens, the first option selected is ‘Environmental and climate standards’ (19%) followed by ‘Animal and plant health standards’ (18%) and ‘Animal welfare standards’ (14%). For respondents from organisations, the answers vary according to the type and sector of the organisations with, for example, a majority for ‘Labour standards’ for respondents from trade unions, and for ‘Environmental and climate standards’ for respondents from civil society & Environmental Protection organisations.

**Q24: When it comes to meeting higher production standards, do you agree with the following statements?**

*[Select one option among five possibilities (Don't know, EU level, national level, regional/ local level) on each of the following statement: 1. Enhanced results can be achieved with financial incentives on a voluntary basis, without increasing mandatory levels; 2. If mandatory levels are increased, farmers need support; 3. Farmers have to respect stricter rules without specific financial support; 4. Awareness campaigns are needed to raise the willingness of consumers to pay more for farmers' respect of stricter standards]*

With the following statement 'Awareness campaigns are needed to raise the willingness of consumers to pay more for farmers' respect of stricter standards', a large majority of respondents (73% of farmers and 69% of citizens, 70% of organisations) agreed. A majority of the respondents agree with these two statements: 'If mandatory levels are increased, farmers need support' (largely agree: 73% of farmers and 71% of organisations but only 30% of citizens) and 'Enhanced results can be achieved with financial incentives on a voluntary basis, without increasing mandatory levels' (largely agree: 57% of farmers and 55% of organisations but only 24% of citizens). The largest difference between the answers from farmers and citizens is for the statement: 'Farmers have to respect stricter rules without specific financial support' (60% of farmers largely disagree while only 25% of other citizens largely agree).

### ANNEX 3: METHODOLOGY

The methodological approach to the evaluation combined quantitative and qualitative analysis and included literature review, econometric analysis, surveys and interviews and case studies, primarily as part of the external and independent evaluation support study carried out by Agrosynergie, and complemented by additional analysis (using up-to-date statistics) and synthesis of newly available literature by DG Agriculture and Rural Development. The consultation methods and activities carried out for this evaluation are described in Annex 2.

The viable food production evaluation was based on evaluation questions linked to the five criteria defined by the Better Regulation Guidelines. As part of the support study, these evaluation questions were broken down into sub-questions and developed as operational questions appropriate for stakeholder responses. The analysis of the criteria built on the intervention logic developed for the evaluation support study and the policy outcomes of the 2013 CAP reform were assessed against the baseline results of 2013.

#### **National case studies**

The national case studies used in the support study integrate the statistical analysis with a more qualitative approach that can help to explain the effects observed through the quantitative assessment. Qualitative data helped to improve triangulation of quantitative results and ensured a more coherent formulation of the results.

The case study countries are Czechia, Denmark, France, Germany, Greece, Hungary, Italy, Lithuania, Poland and Spain. This selection ensures a balanced geographical representation (EU13/EU15) and a balanced representation of policy implementation choices, notably BPS/SAPS, and of the application of voluntary coupled support. In addition, the level of 2014-2020 rural development expenditure for the priorities/measures under analysis (i.e. viable food production) was taken in account. Finally, with the list of countries it is possible to gain a deeper insight into market interventions, in particular the dairy sector.

Given the evaluation's scope, the case study approach is particularly useful for two aspects:

1. Disentangling CAP effects from other drivers. Various types of external factors can influence the CAP measures reaching the specific objectives related to ensuring viable food production<sup>113</sup>. With national case studies it was possible to collect information and points of views from stakeholders and agents operating in the farm sector and in the supply chains: national authorities, national paying agencies, managing rural development authorities, agricultural producers' unions, agricultural cooperative unions, producer organisations, national processing industry unions. European farmers' organisations and European sector federations were also consulted. More than one 100 interviews in 10 different Member States were carried out. This information was useful in verifying whether and to what extent the results of the quantitative analysis were due to other factors besides the CAP measures under analysis.
2. Relying on more detailed information. National case studies enabled a complete examination of some topics for a selection of Member States, with special attention being paid to the EAFRD measures related to the farm sector's competitiveness. To this end, answers to the evaluation questions on the focus areas which were included in the annual implementation reports submitted in June 2017 were attentively considered. National case studies were also used to collect information about the risk management tools implemented for EAFRD support.

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113 For example, agricultural production is influenced by natural factors (meteorological, pest occurrences), political factors (e.g. the Russian ban on some EU agricultural products) and macroeconomic variables (e.g. increase in agricultural input prices).

## Statistical analysis

The quantitative assessment performed for the support study uses standard statistical approaches. The level of the analysis, the time period and the geographical coverage are, however, different according to the evaluation questions.

Overall, the limited availability of data for the years after the implementation of the 2013 CAP was a limitation, and the period of analysis of the effects of the 2014-2020 CAP measures was rather short: the first year of implementation of the direct payments scheme was 2015 and, for EAFRD support, the first 2014-2020 rural development programmes were approved by the European Commission on December 2014 and the last ones in November 2015. This meant that the support study could only rely on 2 years of information (i.e. 2015 and 2016) from EUROSTAT data and 1 year of information (i.e. 2015) from FADN and CATS databases. The support study is therefore complemented with findings based on more recent data that became available after the support study analysis was completed.

At regional (NUTS 1) level<sup>114</sup>, the analysis relies on data from EUROSTAT (Economic Accounts for Agriculture and Agricultural Labour Input statistics - release 15.11.2017) and from the CATS database (Clearance of Audit Trail System, giving detailed data on EAGF and EAFRD payments). The evolution of agricultural prices has been analysed using EUROSTAT price indices.

The analysis at farm level is based on individual farm data provided by FADN for the years 2013, 2014 and 2015. The analysis uses a constant sample of farms in 2013 and 2015, i.e. a sample consisting of the same farms in the two analysed years. 2013 was preferred to 2014 as baseline, assuming that at that time farmers' behaviour was not yet affected by the debate on the CAP reform. The use of a constant sample is motivated by the fact that with such a sample it is possible to observe changes in farm income due to policy changes, market developments and other external factors, avoiding the influence of changes in the sample over time.

All results reported by groups of farms are weighted averages based on the variable 'Farms represented' provided for each sampled FADN farm in 2013. The overall EU constant sample accounts for 60 818 farms (i.e. around 75% of the total number of farms of the FADN sample), and it is sufficiently large for analysis at national level.

The analysis at farm level allowed for an in-depth study, classifying farms according to the dominant farming activities (8 types of farming<sup>115</sup>) and farm economic size (small and large farms, 25 000 euro threshold for standard output). Groups (Member States/sectors/economic size) with less than 15 farms are not discussed and are therefore excluded from the computation of aggregated variables<sup>116</sup>.

The same sources, lapses of time and approaches have been used for the analysis of labour, in quantity and composition.

The analysis of the changes in the agricultural sector's competitiveness and the relationships between these changes and the 2014-2020 CAP measures is based on secondary data provided by DG Agriculture and Rural Development, EUROSTAT, COMTRADE, COMEXT, Agriview, FAO, National Payment Agencies, and other sources, e.g. the processing industry,

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114 These regions can be (combinations of) provinces (e.g. Belgium and the Netherlands), states of federations (e.g. Germany), countries (e.g. Denmark) or other regions (e.g. Bulgaria).

115 Field crops; Horticulture; Wine; other permanent crops; Milk; other grazing livestock; Granivores; mixed farms.

116 In accordance with FADN consistency rules, groups with less than 15 farms have to be excluded.

sector organisations. The analysis uses the classic tools of descriptive statistics and is carried out across the EU-28 Member States for the observation period corresponding to the years 2003 onwards, with a focus on the years 2015 onwards, according to data availability.

### Econometric analysis

With the econometric approach followed in the evaluation it was possible to identify the statistical relationships between farm income level and farm capital level (dependent variables) and a number of explanatory variables expected to influence them, including the level of agricultural products and inputs. The results could be used to reach a sound analytical assessment of the income effects of CAP measures, by taking into account not only the possible effects of policy support but also the impact of a number of farm characteristics (e.g. labour, capital, production orientation, size) and economic factors related to the environment in which the farms operate that could affect the analysed dependent variables (e.g., income).

Three different models were developed and estimated. Models 1 and 2 were used to estimate the direct and indirect income effects of CAP measures. Model 1bis was an additional model used to distinguish the role of the different types of annual payments on farm income. They are specified as:

$$Y_i = \alpha_0 + \alpha_1 \text{TAP}_i + \alpha_2 \text{K/L}_i + \dots + \alpha_n \text{X}_{ni} + \varepsilon_i \quad (1)$$

$$Y_i = \beta_0 + \beta_1 \text{CDP}_i + \beta_2 \text{DDP}_i + \beta_3 \text{RDP}_{a_i} + \beta_4 \text{K/L}_i + \dots + \beta_n \text{X}_{ni} + \theta_i \quad (1\text{bis})$$

$$\text{K/L}_i = \gamma_0 + \gamma_1 \text{TAP}_i + \gamma_2 \text{RDP}_{o_i} + \dots + \gamma_n \text{Z}_{ni} + \eta_i \quad (2)$$

Where:

- subscript  $i$  refers to the generic  $i$ -th farm.
- $Y_i$  refers to the farm income, i.e. farm net value added (FNVA) per annual work unit (AWU) = (FNVA/AWU).
- $\text{TAP}_i$  refers to the total amount of annual payments deriving from both the first and second pillar, i.e. direct payments and annual payments provided by rural development measures. TAP and all other variables referring to CAP support are calculated per unit of labour (i.e., AWU).
- $\text{RDP}_{o_i}$  refers to the amount of non-annual rural development support (e.g. support for farm investments) in the considered year plus the previous 2 years (i.e. 2015, 2014, 2013).
- CDP refers to the amount of EU-funded coupled direct payments.
- DDP refers to the amount of EU-funded decoupled direct payments (direct payments net of coupled direct payments).
- $\text{K/L}_i$  is the ratio of available capital per unit of labour.
- $\text{X}_{ni}$  and  $\text{Z}_{ni}$  are the control variables used within models (1) and (2) respectively.
- $\varepsilon_i$  and  $\eta_i$  are the errors terms.
- $\alpha$ ,  $\beta$  and  $\gamma$  (in 1, 1bis and 2) are parameters to be estimated by means of ordinary least squares (OLS) showing what is the impact of an additional euro of support on farm income, keeping all other variables constant.

Econometric models play an important role in analysing the main factors affecting income, because they help us to better understand the causes of income evolution, given that with these models it is possible to estimate the net effect of CAP measures addressing the general objective of viable food production. With such an approach, it is possible to disentangle the income effect of measures relevant for viable food production from the effect of other factors included in the models influencing income. Such models are developed based on individual FADN data (complemented by EUROSTAT data for each single EU Member State) in the first year of the reform (2015) for three levels of geographical aggregation: farms of all EU-28, farms in Member States applying SAPS and farms in Member States implementing the BPS.

### Estimation of the full implementation of the direct payments system in 2019

The analysis of the effects of the CAP measures on farm income levels has been integrated with a prospective analysis simulating the full implementation of the 2014-2020 CAP in 2019 (FADN, individual farm data, baseline 2015). Income levels have been estimated for each individual farm by applying to the 2015 FNVA (net of 2015 CAP support) the direct payment measures and other mechanisms valid when the reform was fully implemented, as defined by Regulation (EU) 1307/2013. FADN sub-variables available from 2015 onwards made it possible to distinguish EU financial support (object of the prospective analysis) from national and co-financed support (kept constant).

The simulation of the internal convergence<sup>117</sup> considers also the effects of the tunnel model based on the decisions taken by each Member State and reported in the European Commission documents (2016). The national unit values have been calculated for each country and, when possible, for each region within countries, based on the national ceilings and the amount of entitlements. The values of payment entitlements in 2019 take into account the different variants of the tunnel model as applied. For each farm of the sample, the level of the initial unit value had to be calculated on the basis of direct support in 2014, adjusted to the proportion of BPS in 2015 and to the national ceiling, and this level had to be compared with the target value. The analysis accounts for the level of the redistributive payment simulated for 2019: the changes simulated for 2019 were in some cases not negligible (e.g., France shifts from 5% in 2015 to 20% in 2019).

The 2019 simulation has some limitations that should be kept in mind when analysing the results.

- Simulations are based on the hypothesis that all structural and production characteristics of each single farm of the sample remain constant between 2015 and 2019 (e.g. number of entitlements, number of ha, number of livestock units, number of AWU, etc.).
- In the Member States applying the ‘tunnel’ model, the overall impact depends also on the relative number of farms in two groups: those with an initial unit value lower and those with an initial unit value higher than the national unit value.
- Minimum requirements to be eligible for direct payments have not been considered because of a lack of information. The FADN database does not represent farms below a given size. Regarding the active farmer clause, by using the constant sample 2013-2015 it is possible to consider farms that have direct payments equal to zero<sup>118</sup> in 2015.
- Annual RDP payments are applied linearly according to the changes of the national

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117 The Member States that applied SAPS and some other Member States had already implemented a flat-rate payment by 2015. Other Member States that implemented the historical model of the SPS had to move towards more similar levels of the basic payment per hectare. They could choose between different options:

- Flat rate by 2019: In this model, the objective is to reach a uniform amount per hectare in maximum 5 steps. Member States differentiate initially the values of payment entitlements, which converge progressively until reaching a uniform value by 2019. The starting point is the Initial Unit initial unit value calculated on the basis of the direct support the farmer was entitled to in 2014, adjusted to the proportion of BPS in 2015 and to the national ceiling.
- Partial convergence (‘tunnel’ model): in this model, the rules for the starting point and the transition between the starting and the ending points are the same as in the ‘flat rate by 2019’ model. The difference is in the definition of the ending point. The target value is a percentage of the 2019 average (National Unit national unit value, NUV) which can be set by the Member States between 90% and 100% of the 2019 average. Member States have a margin of discretion define for defining their ‘tunnel’ mechanisms.

118 Payment entitlements are allocated to 2013 farmers who are active in 2015.

ceilings between 2015 and 2019. Therefore, it is assumed that there are no relevant changes in the participation in such measures. Similar considerations apply also to voluntary coupled support.

- The analysis does not consider the regionalisation of BPS in Spain due to a lack of data. This is because it has not been possible to have the list of the NUTS codes for the 50 Spanish regions. It was understood from the literature and consultations with Spanish experts of agricultural policy that there is not a unique correspondence between ‘comarcas agrarias’ and the BPS regions. Every municipality is in a single ‘comarca agraria’, but these are in different BPS regions depending on the crop or activity. This means that the impact of the regionalisation of BPS is not assessed in Spain. However, all other elements of the CAP reform have been taken into account.

## **Literature review**

The analysis of the EU value added of the CAP measures has been done through literature review (list of references plus background readings and other material not cited) and through interviews with national authorities and stakeholders.

The literature analysed as part of the support study can be found below:

- G. Anania, M. R. Pupo d’Andrea (2015). The 2013 reform of the CAP, in The political economy of the 2014-2020 Common Agricultural Policy: An imperfect storm, Centre for European Policy Studies
- Coffey International Development (2016). Evaluation study of the implementation of the European Innovation Partnership (EIP). Study for European Commission, DG Agriculture and Rural Development
- ECORYS (2017). Modernizing and simplifying the Common Agricultural CAP: Summary of the results of the Public Consultation. Analysis for European Commission, DG Agriculture and Rural Development
- EC (2018). Special Eurobarometer 473: Europeans, Agriculture and the CAP. Survey requested by the European Commission, DG Agriculture and Rural Development and coordinated by the DG Communication
- EC (2017). Reflection paper on the future of EU finances
- EC (2015). Commission staff working document: Examples of EU added value. Accompanying the document Report from the Commission to the European Parliament and the Council on the evaluation of the Union's finances based on the results achieved
- EC (2011). CAP Towards 2020 - Impact Assessment - Direct Payments. DG Agriculture and Rural Development
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The complementary analysis by DG Agriculture and Rural Development included additional sources, as referenced throughout the staff working document.

## ANNEX 4 TABLES AND GRAPHS COMPLEMENTING CHAPTER 3

*Table 11 Flexibility between pillars - From direct payments to rural development in % of national ceilings (max percentage 15%)*

Financial year	2015	2016	2017	2018	2019	2020
Claim year	2014	2015	2016	2017	2018	2019
France	3.0%	3.3%	3.3%	3.3%	7.5%	7.5%
Latvia	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
United Kingdom	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%
Belgium		2.3%	3.5%	3.5%	4.6%	4.6%
Czechia		3.4%	3.4%	3.4%	1.3%	1.3%
Denmark		5.0%	6.0%	7.0%	7.0%	7.0%
Germany		4.5%	4.5%	4.5%	4.5%	4.5%
Estonia		6.1%	14.3%	15.0%	14.9%	15.0%
Greece		5.0%	5.0%	5.0%	5.0%	5.0%
Netherlands		4.0%	4.1%	4.2%	8.3%	8.4%
Romania		1.8%	2.3%	2.2%	0.0%	0.0%
Lithuania					3.4%	6.5%

Source: DG Agriculture and Rural Development. Direct payments 2015-2020 - Decisions taken by Member States: State of play as from December 2018, based on Member State notifications via ISAMM

*Table 12 Flexibility between pillars - From rural development to direct payments in % of national ceilings (max percentage 15% or 25% for some Member States)*

Financial year	2015	2016	2017	2018	2019	2020
Claim year	2014	2015	2016	2017	2018	2019
Croatia	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Malta	0.0%	0.8%	1.6%	2.4%	3.1%	3.8%
Poland	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Slovakia	21.3%	21.3%	21.3%	21.3%	21.3%	21.3%
Hungary		15.0%	15.0%	15.0%	15.0%	15.0%

Source: DG Agriculture and Rural Development. Direct payments 2015-2020 - Decisions taken by Member States: State of play as from December 2018, based on Member State notifications via ISAMM

Table 13 National ceiling available for direct payments in 2015-2020 and rural development budget 2014-2020

	<b>Direct Payments - EAGF (Annex II Reg. 1307/2013)</b>	<b>Rural Development - EAFRD (Annex I Reg. 1305/2013)</b>
<b>Belgium</b>	3 050 394 000	647 797 759
<b>Bulgaria</b>	4 540 080 000	2 366 716 966
<b>Czechia</b>	5 130 806 000	2 305 673 996
<b>Denmark</b>	5 129 830 000	918 803 690
<b>Germany</b>	29 432 394 000	9 445 920 050
<b>Estonia</b>	740 563 000	823 341 558
<b>Ireland</b>	7 279 467 000	2 190 592 153
<b>Greece</b>	11 434 733 000	4 718 291 793
<b>Spain</b>	29 168 134 000	8 297 388 821
<b>France</b>	42 948 599 000	12 010 643 249
<b>Croatia</b>	1 388 760 000	2 026 222 500
<b>Italy</b>	22 962 052 000	10 444 380 767
<b>Cyprus</b>	299 817 000	132 244 377
<b>Latvia</b>	1 308 964 000	1 075 603 782
<b>Lithuania</b>	2 679 695 000	1 663 526 240
<b>Luxembourg</b>	201 191 000	100 574 600
<b>Hungary</b>	7 992 004 000	3 430 664 493
<b>Malta</b>	31 451 000	97 326 898
<b>Netherlands</b>	4 357 322 000	825 285 360
<b>Austria</b>	4 154 440 000	3 937 551 997
<b>Poland</b>	20 429 389 000	8 697 556 814
<b>Portugal</b>	3 469 555 000	4 058 460 374
<b>Romania</b>	10 378 344 000	8 127 996 402
<b>Slovenia</b>	819 386 000	837 849 803
<b>Slovakia</b>	2 659 342 000	1 559 691 844
<b>Finland</b>	3 142 188 000	2 380 408 338
<b>Sweden</b>	4 186 841 000	1 763 565 250
<b>United Kingdom</b>	19 107 321 000	5 195 417 491

Note: Allocation of CAP funds between direct payments and rural development following external convergence, degressivity and flexibility; source: European Commission Regulations in force on 21 August 2020<sup>119</sup>

119 Consolidated text: Regulation (EU) No 1305/2013 of the European Parliament and of the Council of 17 December 2013 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) and repealing Council Regulation (EC) No 1698/2005

<https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1598014443070&uri=CELEX:02013R1305-20200626>

Consolidated text: Regulation (EU) No 1307/2013 of the European Parliament and of the Council of 17 December 2013 establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy and repealing Council Regulation (EC) No 637/2008 and Council Regulation (EC) No 73/2009

<https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1598014368972&uri=CELEX:02013R1307-20200201>

Table 14 Overview of main policy decisions from calendar year 2018

	SAPS	Regionalised BPS in accordance with Article 23	Redistributive Payment	No reduction of payment	Payment for areas with natural	Voluntary Coupled Support	Small Farmers Scheme
Belgium			x	x		x	
Bulgaria	x		x			x	x
Czechia	x					x	
Denmark					x	x	
Germany		x	x	x			x
Estonia	x					x	x
Ireland						x	
Greece		x				x	x
Spain		x				x	x
France		x	x	x		x	
Croatia			x	x		x	x
Italy						x	x
Cyprus	x					x	
Latvia	x					x	x
Lithuania	x		x	x		x	
Luxembourg						x	
Hungary	x					x	x
Malta						x	x
Netherlands						x	
Austria						x	x
Poland	x		x			x	x
Portugal			x			x	x
Romania	x		x	x		x	x
Slovenia					x	x	x
Slovakia	x					x	
Finland		x				x	
Sweden						x	
United Kingdom		x	x			x	
<b>TOTAL</b>	<b>10</b>	<b>6</b>	<b>10</b>	<b>6</b>	<b>2</b>	<b>27</b>	<b>15</b>

Source: DG Agriculture and Rural Development. Direct payments 2015-2020 - Decisions taken by Member States: State of play as from December 2018

Table 15 Average support per ha in 2018 (EUR/ha of potentially eligible area)

	BPS and SAPS	Redistributive Payment	Greening	Young Farmers Scheme	Voluntary Coupled Support	Small Farmers Scheme	Areas with Natural Constraints	TOTAL
Belgium	153.9	33.9	105.8	8.0	59.2	0.0	12.3	362.4
Bulgaria	98.7	14.4	61.7	0.5	31.6	0.6	58.9	217.6
Czechia	131.6	0.0	72.7	2.0	36.4	0.0	62.9	278.4
Denmark	209.1	0.0	96.1	5.8	9.4	0.0	65.4	321.4
Germany	175.0	19.8	85.2	4.0	0.0	1.1	34.2	293.3
Estonia	89.9	0.0	41.3	0.9	6.4	1.0	0.0	139.4
Ireland	176.3	0.0	77.6	4.5	0.6	0.0	47.4	280.7
Greece	253.0	0.0	136.3	8.6	91.4	21.0	81.6	556.5
Spain	130.0	0.0	67.4	2.5	30.4	4.2	22.2	239.3
France	110.0	25.7	76.3	3.0	38.2	0.0	134.9	282.4
Croatia	111.4	25.3	77.5	5.1	39.2	3.4	111.1	310.1
Italy	191.9	0.0	99.2	9.5	39.7	9.6	68.7	364.5
Cyprus	217.7	0.0	105.4	3.9	28.1	0.0	36.3	378.4
Latvia	75.2	0.0	43.4	2.8	22.2	3.6	32.9	175.4
Lithuania	63.0	24.8	48.9	3.2	24.7	0.0	31.5	176.5
Luxembourg	183.2	0.0	81.3	5.7	1.2	0.0	34.6	302.9
Hungary	146.3	0.0	80.0	2.5	40.5	2.9	38.7	273.5
Malta	26.6	0.0	71.4	0.4	391.1	187.6	250.0	942.5
Netherlands	261.7	0.0	112.3	19.8	1.4	0.0	0.0	395.2
Austria	179.4	0.0	80.2	8.7	4.5	2.6	84.3	324.3
Poland	93.8	19.6	62.7	4.5	34.2	24.0	28.1	252.4
Portugal	86.4	5.8	57.4	0.7	38.2	11.7	75.5	243.2
Romania	89.6	9.7	50.8	1.7	24.1	20.6	43.8	220.1
Slovenia	158.7	0.0	88.2	5.9	38.5	0.8	91.2	366.7
Slovakia	139.8	0.0	72.1	0.5	31.3	0.0	45.5	271.9
Finland	115.5	0.0	69.8	4.7	45.1	0.0	44.1	277.8
Sweden	129.8	0.0	70.1	3.6	30.5	0.0	44.3	251.1
United Kingdom	138.9	4.3	63.6	1.1	3.6	0.0	23.8	216.0
EU28	135.6	10.5	74.3	3.8	27.0	5.6	54.7	273.8

Source: European Commission Clearance Audit Trail System (CATS) database

Table 16 Distribution of funds among the direct payment schemes in claim year 2018

	Basic Payment Scheme	Single Area Payment Scheme	Redistributive payment	Payment for young farmers	Small farmers' scheme	Voluntary coupled support	Payment for areas with natural constraints	Crop specific payment for cotton
Belgium	61%	0%	13%	2%	0%	23%	0%	0%
Bulgaria	0%	68%	10%	0%	1%	21%	0%	0%
Czechia	0%	78%	0%	0%	0%	21%	0%	0%
Denmark	95%	0%	0%	1%	0%	4%	0%	0%
Germany	88%	0%	10%	2%	1%	0%	0%	0%
Estonia	0%	91%	0%	0%	1%	7%	0%	0%
Ireland	97%	0%	0%	2%	0%	0%	0%	0%
Greece	69%	0%	0%	1%	6%	11%	0%	12%
Spain	78%	0%	0%	1%	3%	16%	0%	2%
France	63%	0%	14%	1%	0%	21%	0%	0%
Croatia	60%	0%	14%	3%	2%	21%	0%	0%
Italy	77%	0%	0%	2%	5%	16%	0%	0%
Cyprus	0%	88%	0%	1%	0%	11%	0%	0%
Latvia	0%	73%	0%	2%	4%	21%	0%	0%
Lithuania	0%	55%	22%	2%	0%	21%	0%	0%
Luxembourg	97%	0%	0%	3%	0%	1%	0%	0%
Hungary	0%	74%	0%	1%	2%	22%	0%	0%
Malta	4%	0%	0%	0%	32%	64%	0%	0%
Netherlands	97%	0%	0%	2%	0%	0%	0%	0%
Austria	93%	0%	0%	3%	2%	2%	0%	0%
Poland	0%	52%	11%	2%	15%	19%	0%	0%
Portugal	59%	0%	4%	0%	9%	27%	0%	0%
Romania	0%	59%	7%	1%	16%	17%	0%	0%
Slovenia	76%	0%	0%	3%	1%	18%	2%	0%
Slovakia	0%	81%	0%	0%	0%	19%	0%	0%
Finland	69%	0%	0%	3%	0%	28%	0%	0%
Sweden	79%	0%	0%	2%	0%	19%	0%	0%
United Kingdom	95%	0%	2%	1%	0%	2%	0%	0%
<b>TOTAL</b>	<b>60%</b>	<b>14%</b>	<b>6%</b>	<b>1%</b>	<b>4%</b>	<b>14%</b>	<b>0%</b>	<b>1%</b>

Source: European Commission (2020), CAP Output Indicators - Financing the Common Agricultural Policy

Table 17 Programmed expenditure under priorities 2 and 3 (billion euro)

	Priority 2		Priority 3		TOTAL
	2A	2B	3A	3B	
<b>Belgium</b>	62	20	1	0	<b>84</b>
<b>Bulgaria</b>	112	72	41	0	<b>225</b>
<b>Czechia</b>	109	9	64	0	<b>182</b>
<b>Denmark</b>	37	0	0	0	<b>37</b>
<b>Germany</b>	363	1	58	107	<b>528</b>
<b>Estonia</b>	105	9	32	1	<b>147</b>
<b>Ireland</b>	30	25	9	6	<b>70</b>
<b>Greece</b>	103	222	53	0	<b>377</b>
<b>Spain</b>	277	259	219	2	<b>757</b>
<b>France</b>	387	272	88	308	<b>1 055</b>
<b>Croatia</b>	208	21	29	57	<b>316</b>
<b>Italy</b>	351	217	271	292	<b>1 131</b>
<b>Cyprus</b>	2	3	1	0	<b>5</b>
<b>Latvia</b>	165	7	11	8	<b>190</b>
<b>Lithuania</b>	272	20	27	3	<b>322</b>
<b>Luxembourg</b>	6	1	0	0	<b>7</b>
<b>Hungary</b>	79	65	110	36	<b>291</b>
<b>Malta</b>	7	1	0	0	<b>8</b>
<b>Netherlands</b>	36	0	0	19	<b>55</b>
<b>Austria</b>	152	26	119	0	<b>297</b>
<b>Poland</b>	327	106	110	2	<b>545</b>
<b>Portugal</b>	601	64	9	38	<b>712</b>
<b>Romania</b>	536	323	426	0	<b>1 285</b>
<b>Slovenia</b>	42	17	19	0	<b>78</b>
<b>Slovakia</b>	49	9	89	0	<b>147</b>
<b>Finland</b>	70	12	124	0	<b>206</b>
<b>Sweden</b>	42	2	38	0	<b>82</b>
<b>United Kingdom</b>	159	6	38	10	<b>213</b>
<b>EU28</b>	<b>4 689</b>	<b>1 789</b>	<b>1 986</b>	<b>889</b>	<b>9 352</b>

Source: DG Agriculture and Rural Development - EAFRD - Monitoring

Table 18 Programmed expenditure for relevant measures under priorities 2 and 3 (billion euro)

Measure	Priority 2		Priority 3		TOTAL
	2A	2B	3A	3B	
M01	71	12	13	8	105
M02	21	2	2	1	27
M03	7	0	66	0	72
M04	3 796	176	878	1	4 851
M05	0	0	0	194	194
M06	337	1 597	1	0	1 936
M09	0	0	55	0	55
M10	0	0	0	0	0
M11	0	0	3	0	3
M12	0	0	0	0	0
M13	258	0	0	0	258
M14	3	0	925	0	928
M16	64	0	40	2	106
M17	0	0	0	682	682
<b>TOTAL</b>	<b>4 558</b>	<b>1 789</b>	<b>1 984</b>	<b>888</b>	<b>9 218</b>

Source: DG Agriculture and Rural Development - EAFRD – Monitoring

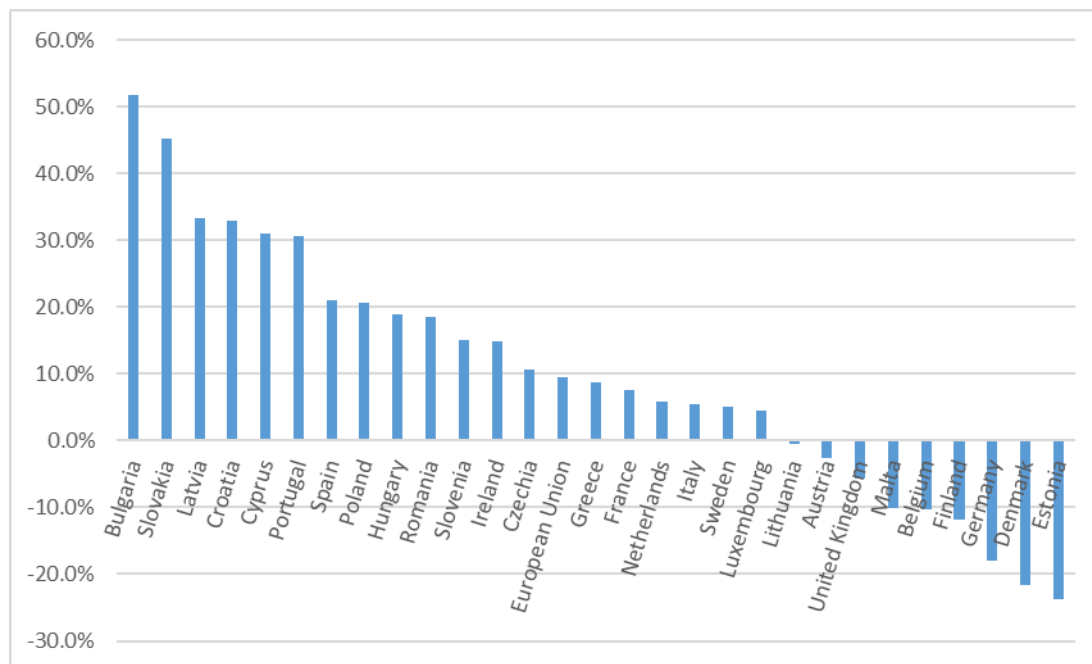
Table 19 Programmed EU public expenditure under priorities 2 (farm viability) and 3 (food chain) (million euro) 2014-2020

	M01	M02	M03	M04	M05	M06	M09	M10	M11	M12	M13	M14	M16	M17	TOTAL
Belgium	8	1	0	79	0	17	0	62	21	4	16	0	1	0	210
Bulgaria	0	5	0	160	0	69	0	85	63	52	102	2	0	0	538
Czechia	0	0	0	132	0	15	0	382	156	1	244	37	11	0	978
Denmark	9	0	0	82	0	0	0	56	77	0	0	0	10	0	233
Germany	15	13	0	395	107	9	0	1 021	602	31	632	39	30	0	2 891
Estonia	3	2	0	108	1	48	2	84	34	14	0	20	3	0	319
Ireland	30	1	0	69	0	0	0	600	12	31	527	9	3	0	1 282
Greece	9	0	1	237	0	246	0	89	269	0	688	0	0	0	1 538
Spain	12	3	14	566	2	257	1	407	277	8	309	3	19	0	1 879
France	22	0	7	514	1	275	0	453	181	0	3 434	0	21	303	5 210
Croatia	1	2	0	141	48	44	0	9	66	0	124	0	0	10	446
Italy	12	3	15	612	11	147	0	485	517	8	483	87	16	280	2 675
Cyprus	0	0	0	6	0	2	0	10	3	0	15	0	0	0	37
Latvia	2	0	0	164	2	28	0	30	86	9	198	0	0	6	525
Lithuania	1	1	1	285	0	35	0	21	91	8	207	0	1	3	654
Luxembourg	0	0	0	6	0	1	0	18	1	0	20	0	0	0	46
Hungary	8	0	0	145	3	68	5	280	44	78	24	70	0	34	759
Malta	0	0	0	15	0	1	0	2	0	0	5	0	0	0	22
Netherlands	0	0	7	38	0	0	0	142	0	0	0	0	1	19	207
Austria	15	3	22	175	0	33	0	714	257	0	598	73	10	0	1 901
Poland	0	0	5	305	2	210	42	384	141	0	693	0	0	0	1 783
Portugal	4	1	0	563	9	63	0	463	91	27	599	0	13	29	1 861
Romania	1	0	0	656	0	561	4	313	80	0	814	389	1	0	2 818
Slovenia	1	1	0	38	0	28	0	84	27	0	121	11	0	0	310
Slovakia	0	0	0	130	0	23	0	40	38	2	233	50	1	0	517
Finland	14	6	0	89	0	40	0	530	88	0	563	102	16	0	1 448
Sweden	10	2	0	43	0	9	0	220	118	0	240	35	4	0	680
United Kingdom	13	14	0	296	9	16	0	1 391	21	0	252	2	14	0	2 027
<b>EU28</b>	<b>190</b>	<b>57</b>	<b>72</b>	<b>6 049</b>	<b>194</b>	<b>2 245</b>	<b>55</b>	<b>8 375</b>	<b>3 359</b>	<b>271</b>	<b>11 143</b>	<b>928</b>	<b>173</b>	<b>682</b>	<b>33 794</b>

Source: DG Agriculture and Rural Development - EAFRD - Monitoring



Figure 14 Factor income per AWU: 2015-2019 average compared to 2010-2014 average



Source: European Commission (2020), Context indicator C.25 Agricultural factor income, based on Eurostat - Economic Accounts for Agriculture, tables aact\_eaa04, aact\_ali01 and aact\_eaa06

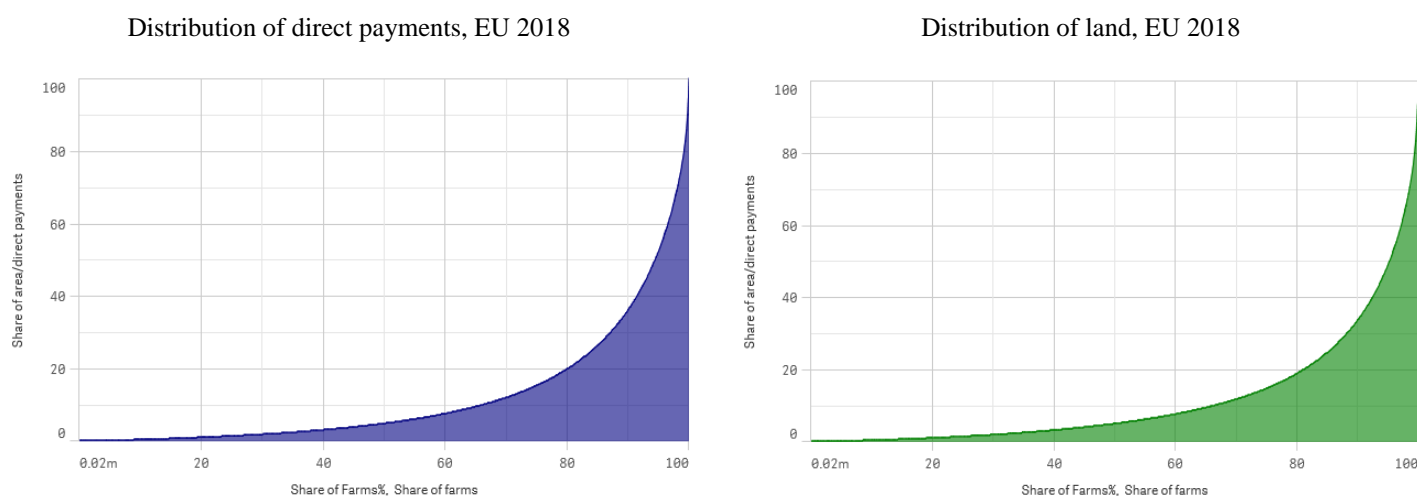
## ANNEX 5 ANALYSIS COMPLEMENTING CHAPTER 5

### *Annex 5-1 The concentration of direct payments per beneficiary*

#### The distribution of payments follows the distribution of land

Being almost entirely area-based, direct payments are mainly distributed according to the distribution of land. In 2018, the 20% biggest beneficiaries received 80% of total direct payments. Land is as concentrated as direct payments: 20% of the largest beneficiaries (in physical size) concentrate 80% of agricultural land (see Figure 15).

*Figure 15 Distribution of direct payments and land in the EU*



Source: CATS – DG AGRI.

In the CAP, support to farmers has always been linked in one way or another to the extent of the agricultural activity. Price support was linked to the quantity and type of products produced. Coupled direct payments are linked to the number of hectares of a certain crop or to the number of heads of certain animals in the year. Decoupled direct payments are linked to the number of hectares (in production or in maintenance), and if based on entitlements, on a historical productive reference. The successive decoupling of direct payments helped to increase market orientation and encouraged the internal convergence to move away from past productive references.

#### Half of beneficiaries are very small beneficiaries

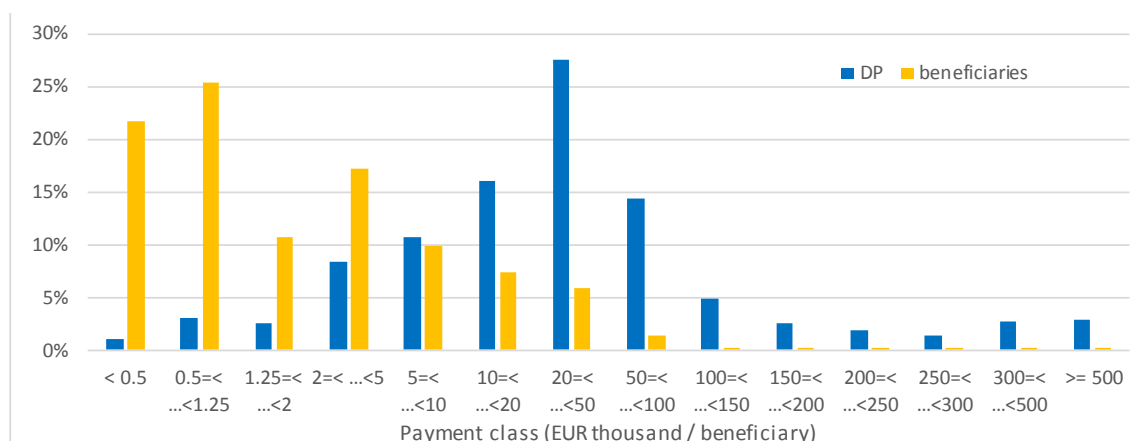
The 80/20 ratio reflects the very **'inclusive'** nature of direct payments rather than **'exclusive'** nature, as **about half of all beneficiaries are very small ones**, with less than 5 hectares or receiving less than EUR 1 250 per year. Without farms below EUR 1 250 of direct payments per year (i.e. about EUR 100 per month), the ratio would become 70/20: the 20% biggest beneficiaries would receive 70% of direct payments instead of 80%.

Regarding the very small beneficiaries, one could question the efficiency<sup>120</sup> of allocating small amounts to beneficiaries whose economic size does not allow them to live mainly on agriculture.

120 Efficiency considers the relationship between the resources used by an intervention and the changes generated by the intervention (which may be positive or negative).

[https://ec.europa.eu/info/sites/info/files/file\\_import/better-regulation-toolbox-47\\_en\\_0.pdf](https://ec.europa.eu/info/sites/info/files/file_import/better-regulation-toolbox-47_en_0.pdf)

Figure 16 Share of direct payment (DP) beneficiaries by payment class (claim year 2018)

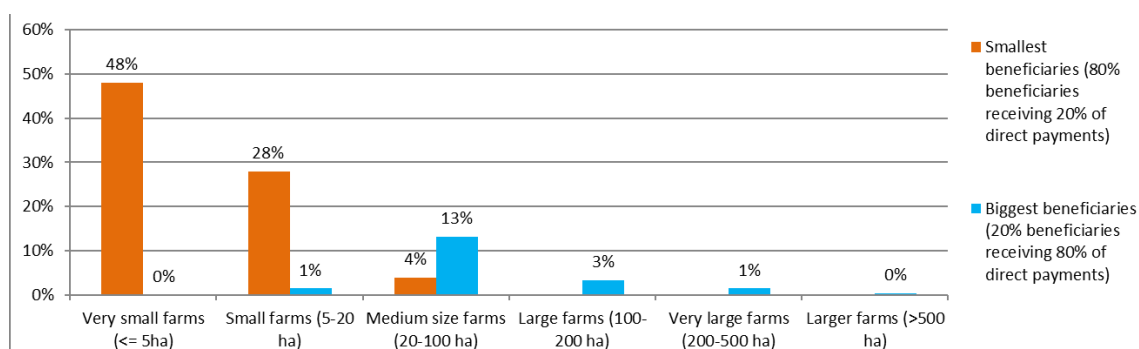


Source: CATS financial data, financial year 2019 (claim year 2018)

The ‘big beneficiaries’ are mainly middle-size ‘family’ farms

The 20% biggest beneficiaries are those who receive more than (roughly) EUR 7 500. **The majority of them have between 20 and 100 hectares**, and few have more than 500 hectares. The majority of the biggest beneficiaries are thus ‘family’ farms, and only a minority are large ‘industrial farms’.

Figure 17 Share of farms by physical size and category of beneficiary (%)



Source: CATS 2018

In 2018 professional family farms managing between 5 and 250 hectares represented 50.6% of the beneficiaries. They managed 67.3% of the farmland and received 71.5% of the direct aid. The very small beneficiaries with less than five hectares represented about 48.2% of the beneficiaries. They managed 4.6% of farmland and received 5.5% of direct payments.

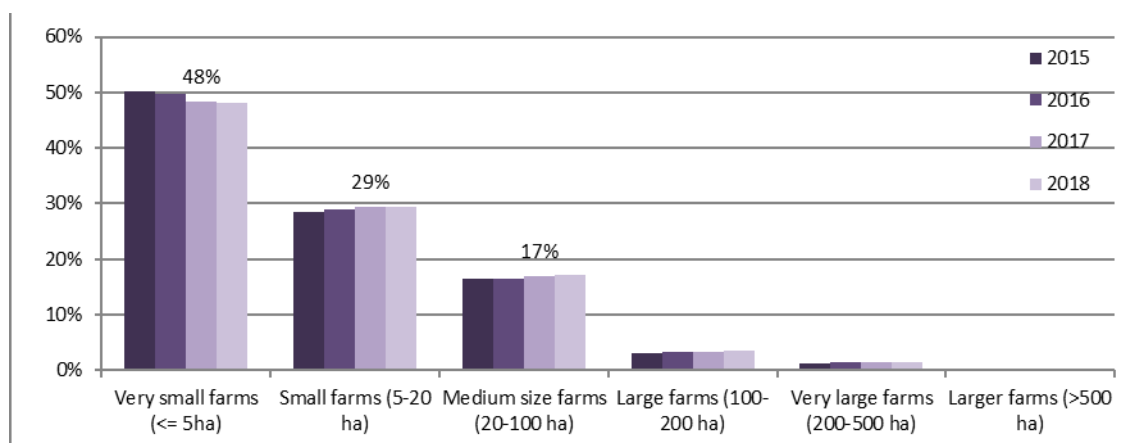
Table 20 Shares of beneficiaries, area and direct payments according to farm size class (%)

Farm size class	% Beneficiaries	% Area	% Direct Payments
<=5ha	48.2%	4.6%	5.5%
5< <=250ha	50.6%	67.3%	71.5%
>250ha	1.3%	28.2%	23.0%

Source: CATS control data - DG AGRI

The share of beneficiaries by farm physical size has been relatively stable since 2015, with a slight decreasing trend in the number of smallest farms below 5 ha, partially compensated by a small increase in small and medium-sized farms.

Figure 18 Share of beneficiaries by farm physical size (%)

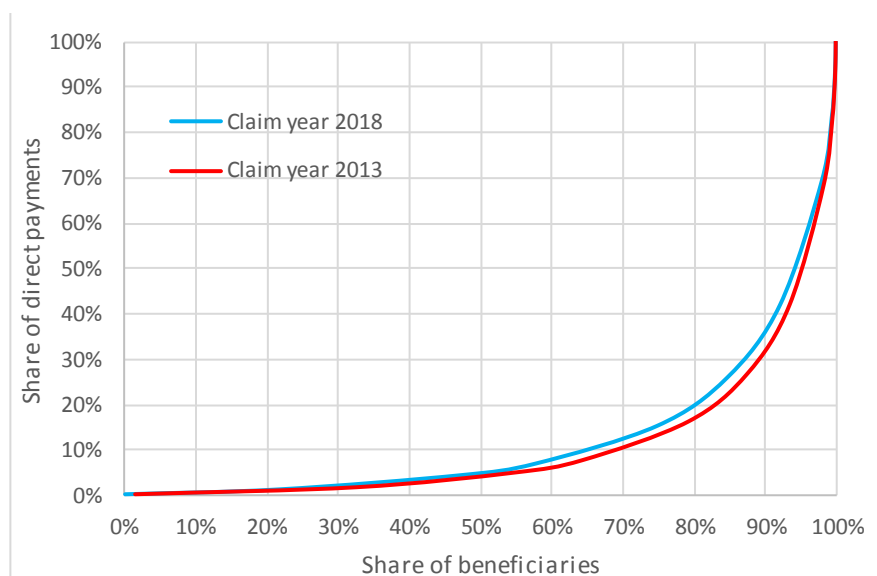


Source: CATS control data - DG AGRI

### A slightly decreasing concentration of direct payments per beneficiary

The ratio (80-20) is similar to that of previous years, but with a slight downward trend between 2013 and 2018: see Figure 19, as can be seen in Figure 19 below, the curve representing the share of direct payments against the share of beneficiaries (Lorenz curve) is progressively moving towards the diagonal (which represents perfect equality in DP distribution per beneficiary). This trend is very slow, but regular according to the data of intermediate years (not shown on the graph).

Figure 19 Distribution of direct payments in EU-28



Source: CATS financial data for claim years 2013 and 2018

In 2018, direct payments even tend to be slightly less concentrated than land. The decrease in the number of small beneficiaries<sup>121</sup> (receiving a small amount of direct payments) appears to be a main driver of this trend. The number of farms receiving less than EUR 500 of direct payments decreased by 25% between 2015 and 2018. This was due essentially to structural adjustment<sup>122</sup>, but it can also be related to the progressive increase in minimum requirements<sup>123</sup>

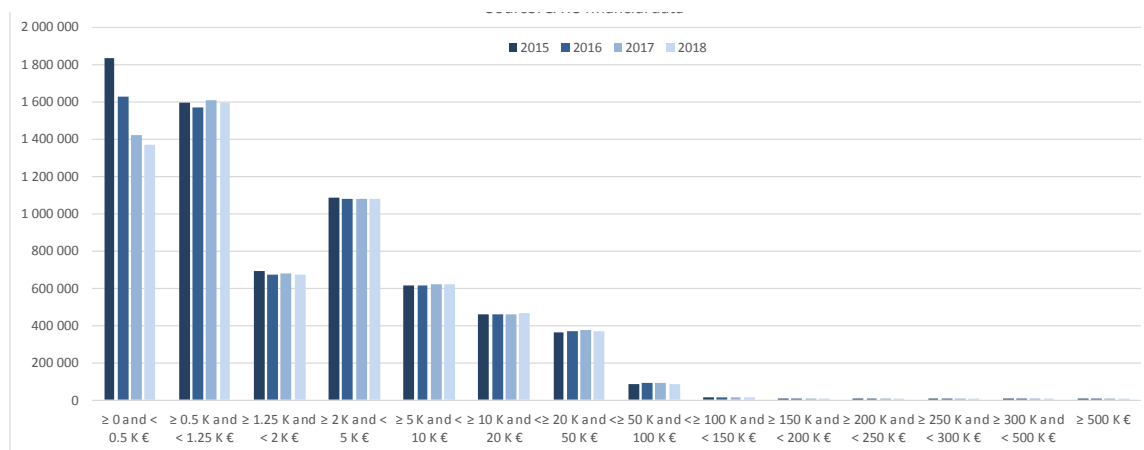
121 The total number of beneficiaries has also been steadily decreasing (on average -3% per year since 2015).

122 We observe a general downward trend in the total number of farms (not only CAP beneficiaries), but with a relatively stable total area: land from small farms stopping business is integrated by remaining farms.

applied in several countries for receiving direct payments<sup>124</sup>. The number of beneficiaries in the other categories has been relatively stable over the years.

The redistributive payment, certain options of the small farmer scheme (lump sum<sup>125</sup> or rounding up) and in certain conditions internal convergence<sup>126</sup> may also have helped in decreasing the concentration of direct payments. However, they are not applied in all Member States, and not on the same scale.

Figure 20 Number of beneficiaries by direct payment amount



Source: CATS financial data

### Differences in concentration among Member States

The distribution of direct payments shows disparities **across Member States** (see Figure 21), highlighting differences in the level of **fragmentation** (generally a lot of very small beneficiaries and not many very large beneficiaries) and the diversity of **sectors** (arable farming vs. livestock and permanent crops activities). Direct payments are more concentrated in Slovakia, Czechia, Estonia, Portugal, Romania, Hungary, Latvia and Bulgaria. They are less concentrated in Luxembourg, France, the Netherlands, Belgium, Ireland, Austria and Finland. In Bulgaria, Spain, and Lithuania, land is more concentrated than direct payments due to the implementation choices for direct payments. In Ireland, Italy, Malta and Slovenia, direct payments are significantly more concentrated than land. In the other Member States, the concentration is similar.

Some trends can be observed (see Table 21) *Table 21*), but they should be confirmed when a longer period is available:

- Slightly decreasing concentration of direct payments in France and also Greece, Spain and the Netherlands; for Greece, Spain and France land is also getting less concentrated, which is probably the main driver.

123 Direct payments are not granted where the amount of direct payments to be granted is less than an amount between EUR 100 and EUR 500 and/or where the claimed eligible area is less than an area ranging from 0.3 ha to 5 ha, depending on Member States' decisions.

124 For example, Spain raised the minimum requirements progressively from EUR 100 in 2015, EUR 200 in 2016 and EUR 300 from 2017. The number of beneficiaries has decreased by 18% between 2015 and 2018. In Italy the minimum requirements have been increased from EUR 100 to EUR 250 from 2015. The number of beneficiaries has decreased by 21% between 2015 and 2018.

125 Portugal introduced the redistributive payment and increased the amount of the SFS lump-sum from EUR 500 to EUR 600 in 2017. However, the 80-20 ratio remained stable (85-20).

126 In Member States where land is less concentrated than direct payments, internal convergence would help to decrease the concentration of direct payments. However, the implementation of regionalisation can interfere in this respect.

- Slightly increasing concentration in Latvia, in parallel with a slightly increasing concentration of land.

On the other hand, Portugal introduced the redistributive payment and increased the amount of the small farmer scheme lump sum from EUR 500 to EUR 600 in 2017. However, the 80-20 ratio remained stable (85-20).

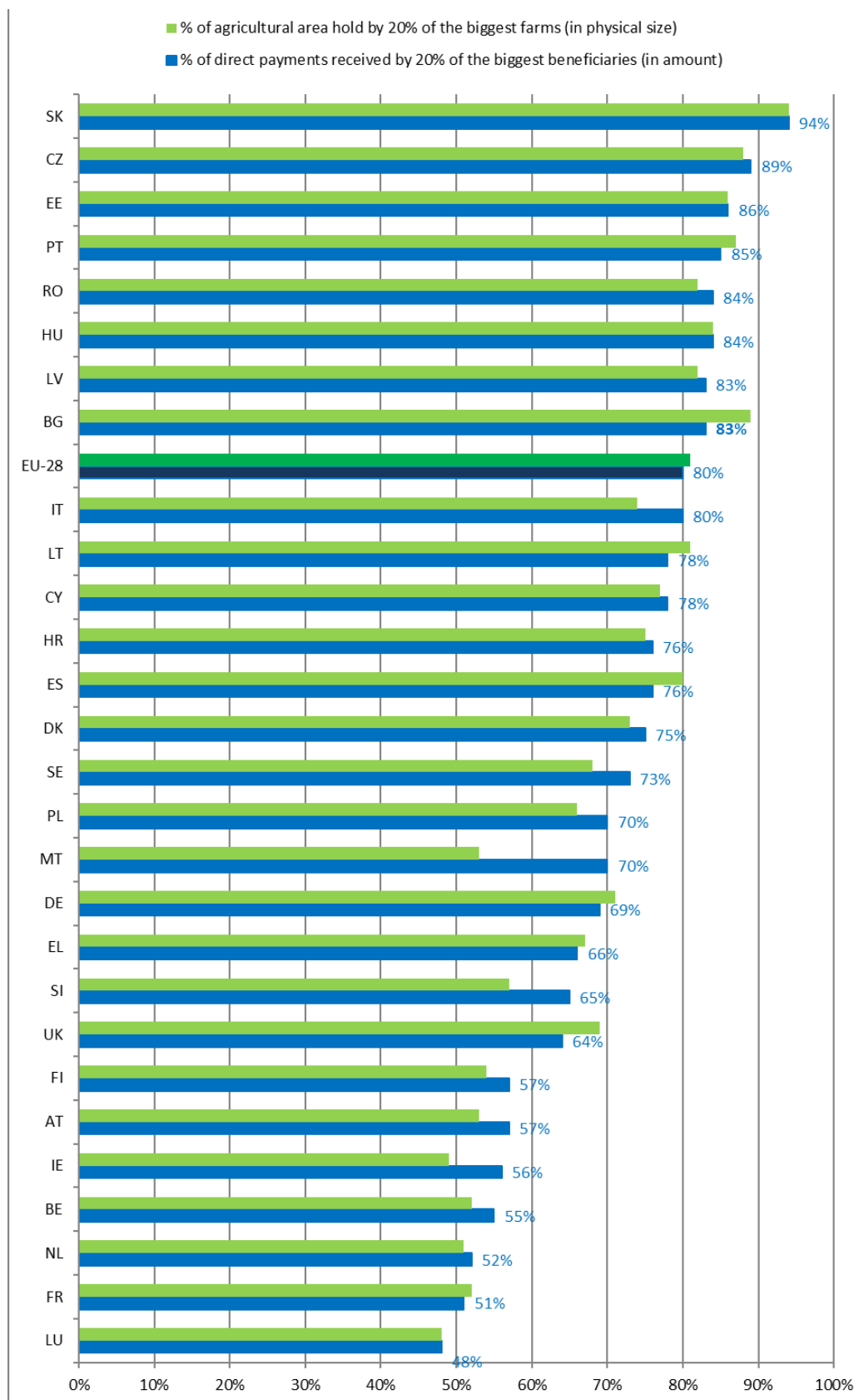
We observe a slightly decreasing concentration of land in certain Member States: Belgium, Bulgaria, Czechia, Greece, Spain, France and Italy. This could be investigated further if the trend is confirmed.

Table 21 Trend in 80-20 ratio by Member State between 2015 and 2018

% of direct payments received by the 20% biggest beneficiaries (in amount)					% of agricultural area hold by the 20% biggest farmers (in size)				
MS	2015	2017	2018	Difference 18/15	MS	2015	2017	2018	Difference 18/15
BE	56%	56%	55%	-1%	BE	53%	52%	52%	-1%
BG	84%	83%	83%	-1%	BG	90%	89%	89%	-1%
CZ	89%	89%	89%	0%	CZ	89%	88%	88%	-1%
DK	75%	74%	75%	0%	DK	73%	73%	73%	0%
DE	69%	69%	69%	0%	DE	71%	71%	71%	0%
EE	86%	86%	86%	0%	EE	86%	86%	86%	0%
IE	56%	56%	56%	0%	IE	48%	49%	49%	1%
EL	68%	67%	66%	-2%	EL	68%	67%	67%	-1%
ES	78%	77%	76%	-2%	ES	81%	80%	80%	-1%
FR	54%	52%	51%	-3%	FR	53%	52%	52%	-1%
HR	77%	77%	76%	-1%	HR	75%	75%	75%	0%
IT	80%	80%	80%	0%	IT	76%	75%	74%	-2%
CY	77%	78%	78%	1%	CY	77%	77%	77%	0%
LV	80%	82%	83%	3%	LV	80%	81%	82%	2%
LT	77%	78%	78%	1%	LT	80%	80%	81%	1%
LU	48%	49%	48%	0%	LU	46%	48%	48%	2%
HU	85%	84%	84%	-1%	HU	84%	84%	84%	0%
MT	72%	70%	70%	-2%	MT	53%	53%	53%	0%
NL	54%	53%	52%	-2%	NL	50%	50%	51%	1%
AT	58%	57%	57%	-1%	AT	53%	53%	53%	0%
PL	70%	70%	70%	0%	PL	66%	66%	66%	0%
PT	85%	85%	85%	0%	PT	86%	87%	87%	1%
RO	84%	84%	84%	0%	RO	82%	82%	82%	0%
SI	64%	66%	65%	1%	SI	56%	56%	57%	1%
SK	94%	94%	94%	0%	SK	94%	94%	94%	0%
FI	55%	56%	57%	2%	FI	54%	55%	54%	0%
SE	73%	73%	73%	0%	SE	68%	69%	68%	0%
UK	64%	64%	64%	0%	UK	69%	68%	69%	0%
<b>EU-28</b>	<b>82%</b>	<b>80%</b>	<b>80%</b>	<b>-2%</b>	<b>EU-28</b>	<b>82%</b>	<b>80%</b>	<b>81%</b>	<b>-1%</b>

Source: CATS control data - DG AGRI

Figure 21 80-20 ratio for direct payment and land by Member State - 2018



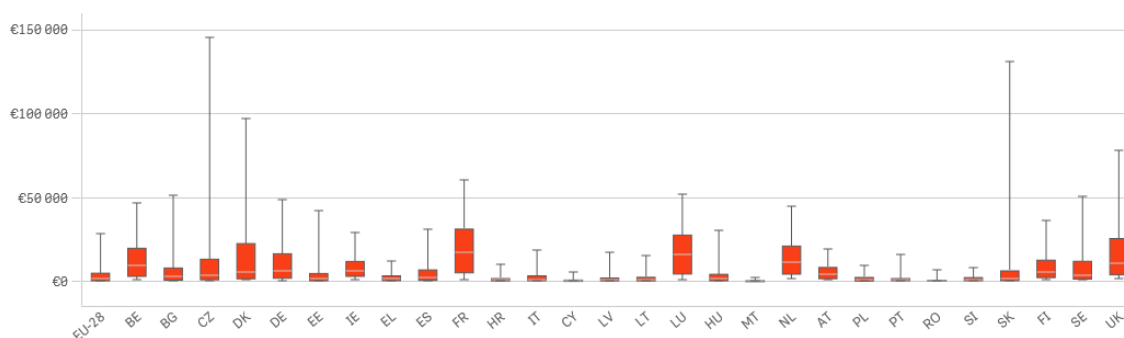
Source: CATS control data - DG AGRI

## Annex 5-2 The dispersion of direct payment/beneficiary and direct payment/hectare by Member State

The 80-20 ratio is only one way of measuring the distribution of direct payments. It focuses on the concentration. The box plot represents more exhaustively the degree of dispersion and skewness in the data observed. With the box plot of the direct payment per hectare, it is possible to show the degree of differentiation of the unit amount of direct payment in the Member State. The box plot of the direct payment/beneficiary also includes the diversity of farm physical size in the Member State.

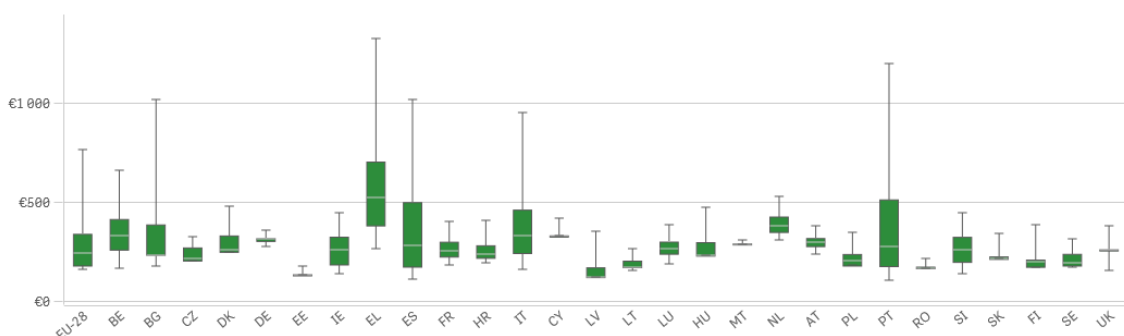
The dispersion of direct payment/beneficiary is not correlated to that of direct payment/ha. For example, while the dispersion of the direct payment/beneficiary is very dispersed in Czechia and Slovakia, the dispersion of the direct payment/ha of these two Member States is very narrow, with very few different values. This is generally the case for Member States applying the single area payment scheme (SAPS, which is a national flat rate per ha) (except Bulgaria) or in Member States applying the basic payment scheme with a national flat rate<sup>127</sup>. The differences in direct payment/ha in the SAPS Member States arise from the possible top-ups (like the payment for young farmers and the optional redistributive payment), the voluntary coupled support and the small farmer scheme. In Member States applying the basic payment scheme with a flat rate, a certain limitation in the number of entitlements can also play a role. Therefore the dispersion of the direct payment/beneficiary for those Member States more closely reflects the diversity of farm physical sizes in the Member State.

Figure 22 Distribution of direct payments per beneficiary (EUR/beneficiary) 2018



Source: CATS control data

Figure 23 Distribution of direct payments per hectare (EUR/ha) 2018

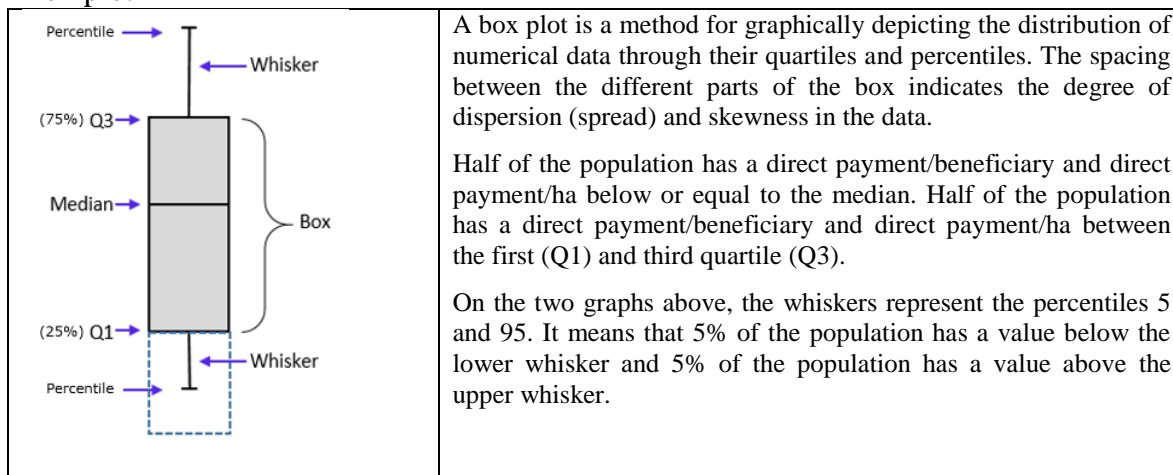


Source: CATS control data

<sup>127</sup> National flat rate from 2015 (like Malta) or from 2019 (Austria, the Netherlands, Germany) (the data presented relate to 2018).



## Box plot



On the other hand, Member States applying the basic payment scheme (with payment entitlements based on historical productive references) have a larger dispersion in direct payment/ha. This is the case in particular for the southern Member States (Greece, Spain, Italy and Portugal), which may have to do with the diversity of sectors and conditions of production, olive direct payment, etc.. However, it is striking that the dispersion in the direct payment/beneficiary in those Member States is rather moderate compared to other Member States.

There is also no clear correlation between the size of the box plot of the direct payment/beneficiary and the 80-20 ratio: for example, Portugal has little dispersion of the direct payment/beneficiary, but a high ratio (85-20).

### *Annex 5-3 Income support needs and direct payments*

The concentration of direct payments and the 80-20 ratio should not remain a marker of the fairness<sup>128</sup> and effectiveness<sup>129</sup> of direct payment distribution. What counts most is whether direct payments actually go to **those farmers who need it most** (in terms of income support need) and/or to **those who deliver most for the CAP objectives** (economic, environmental and social objectives) (effectiveness).

The key to targeting support properly at income support needs is the **unit amount**, i.e. the rate of support per hectare or per head<sup>130</sup>. On the other hand, income is compared per worker, and the number of hectares (or heads) receiving payment determines the total direct payments per farm. Therefore, the **physical farm size** (in number of hectares or of heads) and the **number of workers** per farm are also key elements in the resulting actual income support.

128 Fairness in the policy process can be seen as an ethical obligation to take a plurality of social values, perspectives and interests into account in a coherent and transparent manner (coherence and transparency being key Better Regulation requirements).

[https://publications.jrc.ec.europa.eu/repository/bitstream/JRC107843/jrc107843\\_smce-ia-fairness.pdf](https://publications.jrc.ec.europa.eu/repository/bitstream/JRC107843/jrc107843_smce-ia-fairness.pdf)

129 Effectiveness analysis considers how successful EU action has been in achieving or progressing towards its objectives. [https://ec.europa.eu/info/sites/info/files/file\\_import/better-regulation-toolbox-47\\_en\\_0.pdf](https://ec.europa.eu/info/sites/info/files/file_import/better-regulation-toolbox-47_en_0.pdf)

130 Direct payments are essentially area-based, except the animal-based voluntary coupled support, which represent approximately 75% of the voluntary coupled support allocations.

With respect to the targeting of direct payments, it can be observed that:

- **The direct payment/ha decreases as the physical farm size increases**, while the income per worker increases (up to 500 ha<sup>131</sup>). If the trend is essentially triggered by the basic support (and the greening payment, which is in general proportional to the basic payment), the redistributive payment and the coupled income support contribute as well to the global degressivity of total direct payment with increasing farm physical size. The result indicator R6 proposed in the future CAP (Redistribution to smaller farms) illustrates also this fact. It compares the average direct payment per hectare for farms below the average size in the Member State to the global average direct payment in the Member State.
- **The direct payment/ha varies significantly by type of farming**, and in many cases makes it possible to partially narrow the gap with the average income level. It should be recalled that only a part of direct payments is granted according to certain sectors/productions (voluntary coupled support is about 10% of total direct payments). However, the choices made for decoupled payments (such as keeping existing entitlements, or extending the list of eligible farmers to the allocation of new entitlements, internal convergence, regionalisation...) can also have an impact on the average level of direct payment/ha per sector.
- There is **no clear trend of the direct payment/ha increasing with economic size**, while income is constantly increasing with economic size. However, it should be noted that matching direct payment/ha directly to economic size would not be compatible with the WTO Green box rules.
- **On average for the EU, the direct payment/ha increases regularly with intensity<sup>132</sup>**, which could be related to the historic references used in the basic payment scheme and to coupled support. However, this is difficult to verify.

#### *Annex 5-4 Effectiveness of measures addressing the 2014-2016 dairy market crisis*

The analysis examines the implementation of measures (in terms of timing, Member States and financial means) and links these to the evolution of the market situation (production, consumption, trade, prices) and farmers' income.

##### Safety net measures for SMP

Market intervention measures (public intervention and private storage aid) are aimed at withdrawing products from the market temporarily and thus support prices.

Encouraged by high prices, both milk and SMP production exploded in the first months of 2014, with milk deliveries increasing by 5-6% (year-on-year) and reaching +8.4% in March of that year, the highest monthly increase ever recorded. The annual increase in SMP production went from +19% in January to +38% in September, also the biggest monthly

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131 Farms above 500 ha are essentially in Germany, the UK, Romania and Bulgaria. They are mainly cereals, oilseeds and protein crops, sheep and goats, mixed crops and livestock farms. The low income observed can be linked to the average lower income of the Member States where those farms are located (Bulgaria, Romania) and also by a high proportion of types of farming with usual lower income levels (sheep and goats and mixed farms).

132 The 'intensity' is measured as the ratio between intermediate consumption and the utilised agricultural area, identified as the best possible method to compare all farms of different sectors. However, it appears that at Member State level, results are difficult to interpret due to the sensitivity of the method to the proportion of certain types of farming in the Member State.

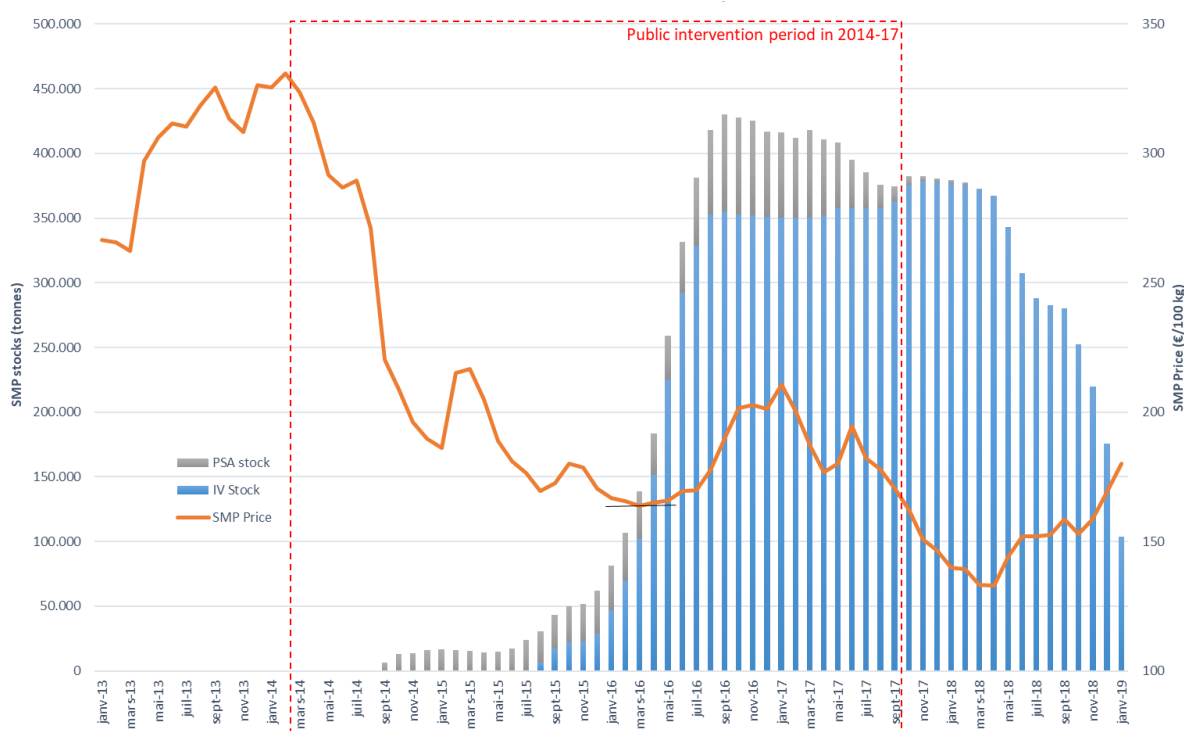
production increase ever for that commodity. As a result, 2014 ended with record annual growth figures both for milk deliveries (+4.9%) and SMP production (+31%).

From the historically high levels at the end of 2013 and start of 2014, prices of SMP and raw milk displayed a steep downward trend. At first, this could be explained as a normal market correction following a period of high prices (in addition to the seasonal price decline during the spring flush), but it was aggravated by the introduction of the Russian import ban in August 2014. Over the year, SMP prices decreased by 42% (and raw milk prices by 18%) but remained above the public intervention threshold (by 12% in December 2014).

In September 2014, in the wake of the introduction of the Russian import ban, a PSA scheme for SMP was launched (and remained in place – with some modifications - until February 2017), and the public intervention period was exceptionally extended beyond September (in practice, public intervention was available without interruption for more than 3 years: from March 2014 to September 2017).

Prices recovered in the first quarter of 2015 as the contention in milk production in the last months of the quota system improved market sentiment, but price pressure resumed as of March 2015. The first offers into public intervention were notified in the second week of July 2015, when average EU SMP prices were at 176 EUR/100 kg (4% above the public intervention threshold). The uptake of public intervention remained fairly modest for 4 months: by end November 2015, SMP stocks amounted to 23 000 tonnes (20% of the ceiling for buying in at fixed price). The pace of offers to intervention rapidly accelerated from that moment on, reaching a level of about 350 000 tonnes by August 2016.

Figure 24 Evolution of EU SMP stocks and prices



Source: DG AGRI

A last batch of offers for some 30 000 tonnes took place in spring/summer 2017, when raw milk prices were above the milk price support equivalent of 21.70 EUR/100 kg<sup>133</sup>. During this period, record butter prices (close to 6 500 EUR/t in September 2017) were supporting the

133 The milk support price equivalent is calculated based on SMP and butter intervention prices.

raw milk price paid to farmers<sup>134</sup>, while intervention buying-in of SMP was still taking place<sup>135</sup>. To avoid a repeat of this in 2018 (and 2019), the ceiling was set to zero by way of a Council Regulation. The large price discrepancy between butter and SMP observed in 2017 and 2018 never happened in the past, and the price gap is now back to a rather normal situation.

SMP prices stopped their fall by March 2016, reaching a bottom of 164 EUR/100 kg (97% of intervention threshold). By that time there were already 100 000 tonnes of product stored in public intervention. Prices then started to improve and, in parallel with the building-up of an additional 250 000 tonnes, reached a peak of 210 EUR/100 kg in January 2017 (+28% increase from March 2016).

The price-floor effect of public intervention is clearly visible in Figure 24. While buying-in took place (with the withdrawal of a quantity of product equivalent to one fourth of EU annual production), the price fall was successfully contained. Once public intervention buying-in ended (September 2017), SMP prices declined for 7 months, to 133 EUR/100 kg in April 2018, equivalent to 78% of the public intervention threshold.

Although SMP exports in 2018 remained as high as in 2017 and production did not increase, the level of stocks weighed on EU prices, which for several months remained below prices in Oceania (serving as a proxy for international reference prices for butter and SMP). EU SMP prices remained below prices in Oceania end of 2016 – beginning of 2017 too, indicating that during this period, the presence of large public stocks in the EU might have also hampered higher EU prices. In addition, exports declined significantly in 2016 (-17% compared to 2015), coinciding with more quantities entering public intervention stocks.

The effect of public intervention stocks on price recovery was also shown in a Wageningen study<sup>136</sup>. There is indeed a tension, inherent to the intervention tool, between limiting price drop and volatility (thanks to intervention buying-in) and allowing for a faster market recovery (slowed down by the existence of large public stocks).

With respect to milk prices, by the time public intervention kicked in (July 2015), EU farmgate milk prices averaged 30 cents/kg. Through the subsequent 12 months, EU average milk prices dropped by 14% down to 25.7 cents/kg in July 2016. Milk prices started to recover from then on, in the wake of a decrease in milk production that started 1 month before and that lasted for 9 consecutive months (milk deliveries had been steadily expanding for almost 2 years, from July 2013 to May 2016, with the only exception of the first quarter of 2015, when a small contraction took place in the last months of the milk quota system).

Once markets showed signs of stabilising, the Commission adopted a cautious approach for releasing SMP intervention stocks on the market. Almost no sales took place until the recovery in market conditions was confirmed. In the period where the bulk of the SMP intervention stocks was disposed of (April 2018 – January 2019), EU SMP milk prices increased by more than 30% and Oceanian SMP prices increased by more than 20%.

In conclusion, the public intervention mechanism has proved to be an effective tool to mitigate the SMP price decline during the crisis (with impacts also on the world market), and

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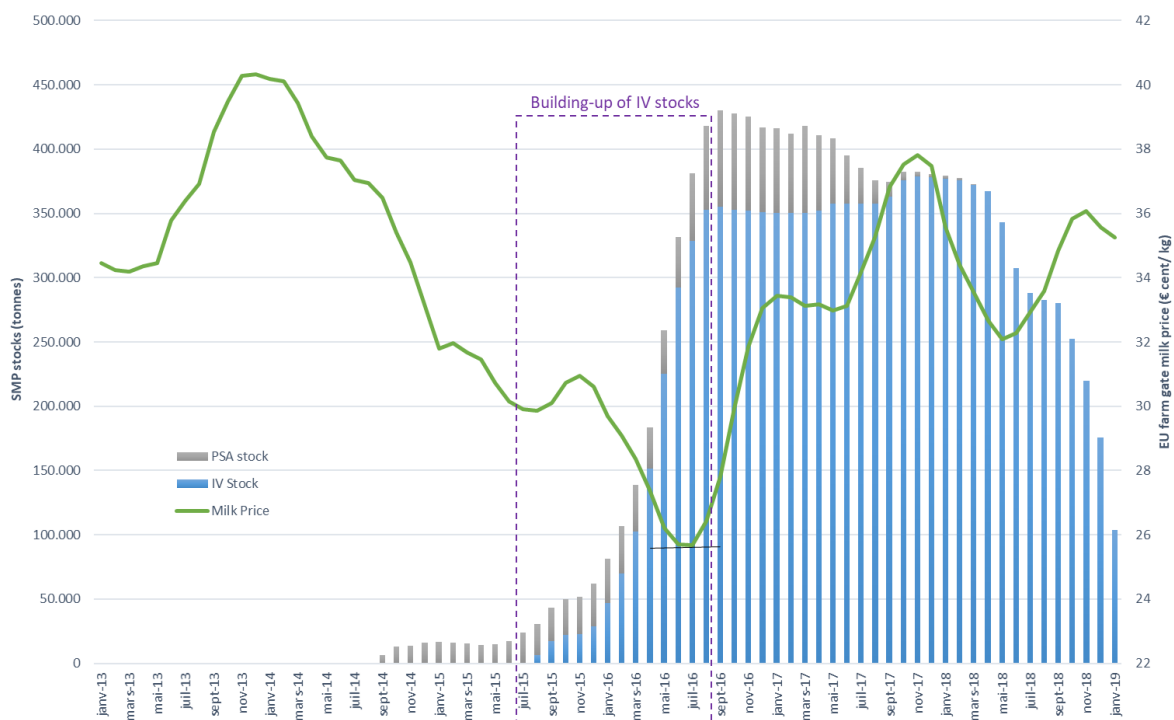
134 The gains generated by the butter sales at record-high prices allowed EU dairies to continue to produce and sell SMP at low prices.

135 Public intervention at a fixed price is automatic for SMP (and butter) between March and September up to a certain ceiling (109 000 tonnes for SMP).

136 Jongeneel R. et al. (2018), Effects of selling public intervention stocks of skimmed milk powder, <https://zoek.officielebependmakingen.nl/blg-841841.pdf>

its disposal did not disturb the market, although the existence of large quantities in intervention appears to have delayed market recovery.

Figure 25 Evolution of EU SMP stocks and EU milk price



Source: DG AGRI

### Voluntary production reduction scheme

In light of the declining farmgate milk prices in the EU throughout the first half of 2016, and the persisting supply-demand imbalance, the Commission announced an exceptional measure in July 2016. The measure consisted of an EU aid for milk production reduction granting 14 cents/kg for a reduction in farmers' milk deliveries in late 2016/early 2017, in comparison with a reference period of the previous year and up to a maximum EU budget of EUR 150 million = equivalent to approximately 1.07 million tonnes of milk).

The measure was announced in July 2016<sup>137</sup> and adopted in September 2016 (Commission Delegated Regulation (EU) 2016/1612 of 8 September 2016). The measure provided four rolling reduction periods (from October-December 2016 to January-March 2017), but 98.8% of the total volume was already subscribed for the first production reduction period by some 52 000 farmers from 27 Member States (only Greece did not report any application). The remainder was fully subscribed for the second period (November 2016-January 2017).

According to Member State notifications on 8 March 2017 on the applications for payments lodged by participating farmers for the October-December 2016 reduction period, an effective reduction in EU milk deliveries of 852 000 tonnes took place by the participating farmers. In that period, the total reduction in milk deliveries in the EU amounted to 1.3 million t, of which approximately 64% was supported by the measure.

It is not possible to judge the effectiveness and efficiency of the measure based on the observed data, because the decline in milk collection had already started in the third quarter of 2016 (close to 2 % below 2015) as farmers were adapting to lower milk prices. The data on

137 At which point in time the available data (up to May) showed a cumulated increase of 2.8 million tonnes for 2016 EU milk deliveries (+4.4% from 2015).

milk collection indicate that the impact of the voluntary production scheme (complemented with additional support from the exceptional adjustment aid in 16 Member States) on reducing milk production was small. On this basis, it is quite difficult to assess any direct impact the reduction aid might have had on the quantity of cow milk collected at EU level.

Nevertheless, as this aid was conditional on reducing production (contrary to most of the financial support provided in the other packages), it supported financially those who helped to lower supply and could have been a further incentive to reduce production (in complement to price decrease), thereby contributing to the effective rebalancing of the EU dairy market and subsequent milk price recovery in the second half of 2016.

#### Other measures and general assessment

In addition to the market intervention measures and voluntary production reduction scheme mentioned earlier, the following exceptional measures were introduced to rebalance the market and provide financial support for farmers:

- In April 2016, to allow cooperatives (and not only producer organisations) to conclude voluntary joint agreements and take common decisions on the planning of milk production on a temporary basis, the Commission adopted Regulation 2016/558 authorising agreements and decisions of cooperatives and other forms of producer organisations in the milk and milk products sector on the planning of production.
- A financial amount was allocated to the Baltic countries and Finland (Regulations 2014/1263 and 2014/1370 of November and December 2014 respectively) to address the loss of a major trade partner under the Russian ban (over 90% of these countries' dairy exports were directed to Russia). Out of the EUR 28 million, Estonia received EUR 6.9 million, Latvia EUR 7.7 million and Lithuania EUR 14.1 million. Finland received EUR 10.7 million. Aid was allocated in line with the 2013/2014 milk production levels under national quotas.
- Under the solidarity package, EUR 420 million in aid targeted the livestock sector (Regulation 2015/1853 of October 2015). Additionally, Member States had the option of adding a 100% national top-up.
- Aid for milk production reduction (Regulation 2016/1612 of September 2016) was set at EUR 14/100 kg of cow milk, up to EUR 150 million, and allocated to the volumes corresponding to the difference between the cow milk delivered during the reference period and the cow milk delivered during the reduction period.
- Finally, EUR 350 million in exceptional adjustment aid (Regulation 2016/1613 of September 2016) was provided to milk producers and farmers in the livestock sector. Member States could grant additional support (100% top-up).

Given the heterogeneity of the measures implemented by Member States, notably under the exceptional adjustment aid as well as the information notified to the Commission on the actual implementation of aid packages, it is difficult to assess the direct impact of these measures.

Nonetheless, the following elements appear:

- Financial support to farmers granted as a payment per litre of milk or for cost reduction, not conditional on reducing production, provided financial support to farmers as intended, but did not address the market oversupply. This was the case in the first aid package to Baltic countries and Finland, as well as in the solidarity package and partly with the exceptional adjustment aid.

- Dairy herd reduction and milk production adjustment started very late, mainly from the second half of 2016.
- Some measures implemented under the exceptional adjustment aid targeted the environment, thus improving the coherence with environmental objectives.
- The authorisation given to cooperatives and other forms of producer organisations in the milk and milk products sector to reach agreements on production planning could have been a powerful tool to reduce production. However, this was not really successful during the crisis because of the voluntary approach and the lack of financial means to carry it out, and because of the fear of the free-rider effect (those not committing to reductions in production would benefit from the cut in production made by those participating in the scheme).

Average income declined by around 20% for EU specialist dairy farmers in 2015 and 2016 compared to 2012-2013. Farmers saw the role of market intervention (i.e. aid to private storage and public intervention) in halting the decline in prices as insufficient. They considered the other aid packages and direct payments as an income buffer to be insufficient as well, given that despite all the efforts, their farm income declined considerably. This was the case in particular in Member States where the income drop was higher (the Netherlands, the UK, Estonia and Finland) or for dairy farmers whose income declined more than the average.

The share of subsidies in farm income increased in 2016 to 47%, given the contraction in market receipts while total subsidies remained broadly constant.

Figure 26 Share of subsidies in farms' factor income – Specialist milk, EU average



Source: DG Agriculture and Rural Development, based on FADN data

### Annex 5-5 Effectiveness of measures addressing the 2014-2016 fruit & vegetable market crisis

Areas producing peaches and nectarines in the four main producing countries have been on a declining trend over the last 10 years. From 2015 onwards, a stronger average reduction is observed with a 2018 area 7.6% lower than a 2014 area (compared to a decline in area by 2.6% over the period 2010-2014). The decline in area did not prevent oversupply in 2014, even before the Russian ban was introduced.

The oversupply on the EU market did not affect the EU consumption of fresh peaches and nectarines, which remained stable over 2014-2016. On the other hand, the amount of peaches and nectarines directed to the processing industry rose by over 30% and the consumption of processed peaches and nectarines increased from 19% over 2010-2013 to 25% in the period 2014-2018. Promotion activities may have played an important role in sustaining demand. According to a study on crisis prevention and management<sup>138</sup>, Spanish and Italian stakeholders have a positive perception of the exceptional market measures implemented during the crisis and believe these have been an effective instrument in rebalancing supply and demand.

In spite of the Russian ban, EU exports in 2014 remained high at 367 000 tonnes, which is 6% above the exports in the 2 previous years, due to high production. The decline in exported peaches and nectarines is evident from 2015 onwards.

In fact, exports to Russia had already dropped in 2014, but the drop was limited to 17% due to the introduction of the ban late (August) in the producing season (starting in June). In 2015, exports to Russia dropped to almost zero. Belarus, doubling the quantities imported, became the first export destination for EU peaches and nectarines. Switzerland became the second most important destination of EU peaches and nectarines, though exports remained stable. Despite lower volumes than before the ban, Belarus, followed by Ukraine were and continue to be among the top three export destinations. Data shows further increases in exports to Serbia and North African countries such as Algeria and Egypt. Despite the redirection of peaches and nectarines to alternative markets, EU exports in 2016 were 37% lower than in 2014, showing that redirection was insufficient in absorbing the quantities that Russia was importing before the ban.

While part of the EU production of peaches and nectarines found new destinations, the average value of exports to Belarus and Ukraine declined, indicating the significant pressure oversupply was having on prices.

Weekly prices of peaches and nectarines showed a typical pattern over the season: prices would usually start very high in the first weeks of the season for early varieties before progressively declining as availability increased due to harvesting. In 2014, prices dropped early in the season due to overproduction. Exceptional measures were taken in August 2014, just after the Russian ban was announced, at which point prices had dropped to EUR 60/100 kg. Following the market withdrawals under Regulation (EU) No 913/2014, prices rose significantly by 25% (EUR 15/100 kg). Likewise, the adoption of aid under Regulation (EU) No 1369/2015 resulted in small increases in prices over the following weeks. No similar price reaction was found with the introduction of Regulation (EU) No 621/2016 as it was introduced early in the season: prices are seen to decline at a much slower pace, keeping monthly prices higher than in the 2 previous years (+10% higher average price). The European Parliament study<sup>139</sup>, while recognising the short-term effectiveness of withdrawals in raising prices, regrets the limited financial resources available for this mechanism and concludes that it has a limited scope, with the exception of products such as fruit and vegetables, where volatility is exceptionally high.

No substantial conclusions can be drawn from the evolution of farmers' net income. The fruit sector is characterised by an exceptionally high volatility in prices (due to weather effects both on production and on demand), and consequently in income. The aggregation of data

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138 Wageningen University and Research and Ecorys: 'Pilot project : Improving crisis prevention and management criteria and strategies in the agricultural sector'.

139 Mahé, L., C. Bureau (2016) : 'Research for AGRI Committee – The Future of Market Measures and Risk Management Schemes'.



does not allow identifying farmers producing peaches and nectarines. Data on the income of farmers specialised in fruits indicate a lower income in 2014, which also reflects the significant drop in income of two main producers of peaches and nectarines, i.e. France and Spain.

The share of subsidies in farmers' net income was higher in 2014 (32%) than in the preceding and following years (22-25%). This was due in particular to higher exceptional subsidies in 2014 (although exceptional subsidies remained very small compared to market receipt and other subsidies) and indicated that the exceptional measures taken to buffer the income drop during the worst period made a positive contribution.

#### ***Annex 5-6 Analysis of the CAP measures for viable food production and their coherence with the other CAP general objectives***

The analysis in the evaluation support study took into account all the measures contributing to the objective of viable food production and examined to what extent these measures also contributed to the other two general objectives of the CAP. The judgement on the coherence of the CAP is expressed in qualitative terms, indicating whether the CAP measures for viable food production:

- work in parallel with the other objectives/sub-objectives (coherent) and/or even reinforce the effects, i.e. the combined effect is synergic resulting in a greater effect relative to the individual effects (synergic),
- do not have any particular relationship with the other objective/ sub-objectives (neutral) and/or,
- run in an opposite direction to the other objectives/sub-objectives (inconsistent).

#### **Sustainable management of natural resources and climate action**

With green payments, 30% of the direct payments are conditional on compliance with sustainable agricultural practices such as crop diversification, the maintenance of permanent grassland or the preservation of ecological areas on farms, which are beneficial to soil quality, biodiversity and the environment generally, and contribute to climate mitigation and adaptation. In this respect:

- crop diversification may contribute to increased nitrogen presence and carbon stocks and improve farm resilience to climate events such as droughts;
- new ecological areas may limit soil erosion and maintain vegetation cover, thus improving resilience to droughts and floods, and may also favour carbon sequester and the decrease of GHG emissions;
- the maintenance of permanent grassland retains biodiversity and helps to maintain soil carbon stocks.

Payments for conversion into organic farming and maintenance (measure 11 under rural development) promote organic farming practices that help to improve soil and water quality, improve biodiversity and mitigate and adapt to climate change.

In addition, a number of other measures targeting viable food production contribute to the coherence with the sustainable management of natural resources and climate action:

- cross-compliance obligations concern the respect of EU rules on food safety, animal health, plant health, the climate, the environment, the protection of water resources, animal welfare and the condition in which farmland is maintained.
- direct payments support the maintenance of farming activities limiting/avoiding land abandonment and therefore soil erosion and biodiversity changes that could have advantageous effects on climate mitigation, and, through income support, may also help to increase farms' resilience and adaptation to climate changes.

- payments to areas facing natural constraints provide income support to maintain in place agricultural systems that are agri-environment-climate oriented and to improve farm resilience to climate changes, and are beneficial in preventing the abandonment of extensive farming systems (including permanent grassland), thus contributing to the maintenance of carbon stocks<sup>140</sup>.
- rural development measure 1 on knowledge transfer and information actions and measure 2 supporting advisory services can, depending on programming choices, work in parallel to improve both competitiveness and environmental performance.
- rural development measure 14 on animal welfare, for example, by promoting more extensive and sustainable livestock systems may have a positive environmental impact such as lower emissions in soils and in the air, thus contributing to climate mitigation and adaptation.
- rural development measure 16 on cooperation can work in parallel with the sustainability objective when supporting projects on environmental and climate issues and supporting the setting-up and functioning of operational groups of the EIP for agricultural productivity and sustainability.
- rural development measure 17 on risk management supports farmers exposed to increasing economic and environmental risks and can contribute to climate adaptation by enhancing farm resilience to exceptional events linked to climate change.

On the other hand, potential shortcomings/inconsistencies can be observed in a number of measures.

- The redistributive payment, the young farmer's payment and the start-up aid under measure 6 of the rural development programme can slow down the abandonment of agricultural activities in rural areas, thus mitigating the risks of land abandonment and the possibility of desertification, loss of soil organic carbon, loss of biodiversity and valuable rural landscape. On the other hand, these payments could indirectly stimulate the intensification and/or diversification of agricultural production with negative effects on the sustainability of natural resources and climate mitigation.
- The voluntary coupled payment can have the beneficial effects of sustainability of natural resources and climate mitigation (less land abandonment, maintenance of farmland biodiversity, cultural landscapes, high quality water, air and soil, a stable climate and resilience to fire and flooding, preservation of soil fertility, etc.), but tensions could arise from the maintenance of certain types of livestock and/or crop activities requiring a greater use of fertilisers and involving an increased number of animals, thus increasing GHG emissions. Moreover, coupled support could stimulate more intensive production methods or encourage farm specialisation possibly threatening natural resources.
- Quality schemes for agricultural products and foodstuffs (measure 3) can be coherent when product specifications of the quality scheme define production methods that are respectful of environmental and climate objectives.
- Support for investments in farm equipment and technology to improve economic viability (measure 4 of rural development) can help to increase environmental productivity (e.g. 'non-productive' investments to improve energy efficiency, renewable energy, water efficiency, etc.) but also to increase conventional productivity

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140 However, preliminary findings from the evaluation of the CAP's impact on climate change and greenhouse gas emissions point to the fact that the significant budget amounts allocated to measure 13 count towards the 30% spending requirement to potentiate climate action, which seems incoherent, given that it is not a climate measure per se and has both positive and negative impacts on climate action objectives.

not necessarily with positive impacts on the management of natural resources and climate mitigation and adaptation.

The evaluation support study could not arrive at a clear judgement on coherence/incoherence with the small farmers scheme and the setting up of producer groups and organisations (measure 9 under pillar 2). However, preliminary findings from the evaluation of the CAP's impact on climate change and greenhouse gas emissions highlight that the exemption of the beneficiaries of the small farmers scheme from greening represents a sizeable missed opportunity for climate action (even if the area concerned accounts for only 7% of the total).

Preliminary findings from the evaluation of the CAP's impact on climate change also highlight the potential incoherence of Member States' implementation choices. These include:

- voluntary coupled support provided to the fruit and vegetable, cotton and rice sectors whose production drives the overexploitation of water resources, thus contributing to water scarcity;
- direct payments granted to agricultural activities taking place on peatland/wetland (e.g. the Netherlands, Lithuania) with no conditions preventing these from being damaged, which results in high levels of greenhouse gas emissions.

### Balanced territorial development

All of the measures contributing to farm income and farm competitiveness should encourage economic development in rural areas, with the exception of the greening payment, which does not have any particular relationship with the objective of balanced territorial development. As for decoupled payments, there is no straightforward assessment, as they are not linked to production and therefore do not affect the farmers' economic behaviour.

A number of measures contribute to the economic development of rural areas and produce an indirect effect on job maintenance, notably

- by supporting small farms, the redistributive payment can limit the decline of farms in rural areas;
- the young farmer scheme provides incentives for young people to start a new business and/or take over an existing farm and in so doing contribute to the intergenerational renewal of farms and the continuation of economic activities in rural areas;
- payments to areas facing natural or other specific constraints (under both pillars of the CAP) can contribute to the maintenance of specific agricultural activities in remote areas;
- voluntary coupled support can contribute to the maintenance of specific agricultural activities in remote areas.

Positive relations are also found with rural development measures that:

- help to increase competitiveness by restructuring and modernising the EU farm sector and by improving the relationship between farms and the market, such as 'investments in physical assets' (measure 4) and 'farm and business development' (measure 6) under priority 2 - 'competitiveness of all types of agriculture and farm viability';
- support diversification of agricultural activities, such as 'quality schemes for agricultural products and foodstuffs' (measure 3) and 'setting up of producer organisations' (measure 9) under priority 3 - 'food chain organisation and risk management';
- allow Member States to implement generational renewal strategies by supporting young farmers and to support new entrants into farming. These are rural development measures, for example, that help finance the start-up of new small farms as well as the setting up of young farmers and the start of the related agricultural activities contributing to job creation under measure 6;

- aim at developing knowledge transfer (measure 1), focus on the food chain organisation (measure 9), or stimulate cooperation (measure 16), which can affect labour quality and farm management (more attention to innovation, more attention to market signals, more attention to farm efficiency, etc.) and thus help to improve the competitiveness of the EU farm sector and therefore the socio-economic development of rural areas.

On the other hand, an inconsistency could be expected with measure 4 of the rural development programme, as investments aimed at increasing farm productivity could lead to an outflow of labour out of agriculture, thus reducing the labour intensity of agricultural activities with induced negative impacts on employment in rural areas.

The results of the case studies conducted under the evaluation support study confirm the analysis mentioned above, with the widespread opinion that the CAP seeks to achieve objectives that are complementarily ensuring the overall coherence of the policy.

Conversely, the case studies also pointed towards the notion (by authorities) that more attention is given to the sustainable management of natural resources than to food production. Linking decoupled payments and greening to compliance with basic environmental standards may have negative effects on territorial development (mainly in less favoured areas) due to the higher costs of greening obligations.