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Dear Director General,

Thank you for the Commission's comments on the Hungarian CAP Strategic Plan.

In response to the request set out in the cover letter, allow me to respond briefly to the key findings of the letter, while expressing Hungary's intention to conduct the negotiations necessary for the adoption of the Plan as efficiently and effectively as possible.

As a preliminary point, I would like to emphasize that the delayed adoption of the CAP reform and the Russian invasion of Ukraine have also caused unprecedented uncertainty in the agricultural sector. In this situation, we have a shared responsibility to send a reassuring message to farmers by adopting the CAP strategic plans as soon as possible. We must not forget that farmers will have to decide on their sowing plans during the summer; and they also have to be aware of all the conditions and circumstances affecting their farming, so that they can meet the requirements of the new CAP. Hence, the Plan must be approved by the end of July 2022, at the latest.

The extreme market turmoil caused by the war poses a serious threat. Again, it is our shared responsibility to enable EU farmers to carry out the necessary work to ensure food security within the EU and, to a certain extent, on export markets. We agree that both the plans and the approval process itself need to be in line with the unfortunate new situation that has arisen. We therefore ask the Commission to show sufficient flexibility in the evaluation of the plans and to focus the bilateral discussions only on those parts of the plans which, in the view of the Commission, do not comply with the basic act and consequently need to be improved. In the current situation and in the years to come, food security must be the primary objective.

Our first reactions regarding the key areas are as follows.

Planning coordination, transparency and partnership

From the outset, **Hungary has been consulting with a wide range of professional and social partners** during the preparation of the CAP Strategic Plan. The SWOT analysis of the Plan, the identification of the needs and the design of the interventions are a significant result of the consultation with the professional organizations. We intend to implement the Plan in a similar spirit, so the composition of the Monitoring Committee will include representatives of the widest range of fields covered by the Plan, including experts delegated from the civil sphere.

We are working hard to present our **synergies and demarcations with other operational programs**.

The consistency of intervention logic

Since the submission, we have been busy strengthening the internal coherence of the Plan, including the links between the SWOT analysis, the needs assessment and the specific interventions. The expertise of ex ante evaluators also helps us in this endeavor. We are working to further elaborate the logical chain required by the Commission, so that it is clear why and what is presented in our Plan. This process includes, but is not limited to: (i) a clearer presentation of the **relationship with national energy, environment and climate programs**; (ii) highlighting the above-mentioned **synergies with other operational programs**.

European Green Deal

From our point of view, the Hungarian CAP Strategic Plan makes a large contribution to achieving the goals set out in the non-binding strategic documents of the European Green Deal. This is true even if Hungary does not include specific, quantified commitments in the CAP Strategic Plan – which is in line with the relevant voluntary provision of the basic act. It is important to emphasize that the Green Deal goes beyond the CAP Strategic Plans, both in terms of content and time horizon. The CAP's set of instruments alone is not suitable for achieving the environmental objectives that are put forward. That is why we do not consider it appropriate to make commitments in the Plan which are not mandatory under the basic act and which are set out in non-binding communications.

At the same time, for example, the pursuit of sustainable pesticide use and the application of the general principles of integrated pest management are reflected in several levels of our Plan's green structure. The Hungarian domestic regulations on plant protection products have also been designed and implemented accordingly. The amount of plant protection products marketed per hectare in Hungary has been below the EU average for many years and is also showing a declining trend. Thus, in our view, the practical implementation of integrated pest management, through the regulatory environment and subsidies, can make a greater contribution to achieving the objectives of EU strategies on plant protection products than a non-contextual reduction in figures, without regard to Member State specificities.

Contribution to the specific environmental and climate objectives of the CAP in general

Among the Commission's remarks, there are several criticisms of the green elements of the submitted Hungarian Plan and its level of **green ambition**. In terms of these suggestions, we would like to draw your attention to the fact that the level of green ambition is emphasized in many measures, elements and prescriptions of the Plan. We are ready to present them repeatedly and with a different approach for the ease of understanding. We are convinced that the real level of green ambition of the Hungarian Plan goes far beyond the results already achieved and contributes to the goals of the EU. The level of ambition represents higher values compared to the targets in relevant indicators, in particular in the case of biodiversity and water management issues. There are several elements of the National Plan's green structure – for example, expansion of the range of eligible areas, conditionality and compensation of Natura 2000 areas – which cannot be reflected in the environmental indicators due to methodological requirements. At the same time, they have an indisputable role to play in preserving and improving the condition of agricultural habitats and species, in mitigating possible negative

environmental impacts in the field of soil protection, protection of water bodies and territorial water retention objectives in the landscape and in the soil.

Contribution to certain environmental and climate objectives of the CAP

I believe that strategic plans can make a significant contribution to achieving environmental and climate protection goals, even without the set targets in the Green Deal. About 70 per cent of the **Pillar II** related EU funds allocated to Hungary are tied to green goals. In addition to the European Union funds, 80 per cent of national co-financing will be brought in, which will be implemented within the framework of additional national financing (top-up). Overall, Hungary plans to devote an unprecedented amount of resources towards environmental and climate protection goals.

Of particular importance is the strengthened agri-environmental program launched in 2022. The ongoing, increased amount of organic farming program, which will of course be available throughout the duration of the Strategic Plan, will also have a significant environmental added value. The Plan includes a robust forestry program package consisting of several elements. The share of various green, energy efficiency and non-productive investments is significant. It is important to underline that the program includes a number of measures that directly or indirectly **reduce energy consumption** or promote the use of renewable energy sources.

Adapting to the effects of climate change is inconceivable without appreciating the role of more **reasonable water management and irrigation**. In the interests of food security and predictable yields, we must support water retention in the soil and in the landscape at both producer and community level, as well as irrigation investments that enable water to be used efficiently. It is beyond dispute that all these interventions must be in line with the Water Framework Directive; which we believe is already met in our submitted Plan.

In addition, the range of investments to reduce ammonia emissions will appear as a separate measure. For the sake of clarity, these investments will be shown in the Plan as dedicated interventions. Another set of new interventions in the Plan will cover **antimicrobial resistance and GHG emissions**. Similarly, the range of **animal welfare** interventions will be further strengthened. Both the animal species involved and the directions of utilization, as well as the amount of allocated resources, will exceed our previous similar measures. The usefulness of this type of expenditure cannot be overestimated; without them, the transition to a number of economic, social and environmental requirements for livestock farmers is inconceivable.

In order to meet sustainability and environmental goals, we will set up a so-called **green support network**, which will be exclusively responsible for this type of knowledge transfer.

Another important group of green measures is related to the **I. Pillar**. An important element of the green architecture is the **expansion of the concept of areas eligible for basic support**. In that framework we include previously unsupported land types, while encouraging producers to preserve land cover and landscape objects that are very favorable in terms of biodiversity and water retention. Hungary plans to introduce enhanced conditionality that integrates current greening regulations as a minimum. We are convinced that the planned Hungarian regulation fully complies with the legal requirements established by the basic act. As far as GAEC 7 is concerned, we want to make use of the derogation set out in the footnote to Annex III, by applying a combination of crop rotation and crop diversification that is better suited to the regional characteristics of the Carpathian Basin than a rigid and uniform rule. Indeed, certain agro-climatic criteria are required for the derogation to be applicable. We are ready to explain in more detail that these exist in Hungary. We are therefore proposing a hybrid system that is on a par with the practice of pure crop rotation in terms of environmental added value and also gives producers the greater flexibility that is particularly important in the current situation to guarantee food security. We hope that the Commission will be able to accept our proposal

with the appropriate additions and explanations. A great novelty of the green structure and at the same time one of the “custodians” is the new **eco-scheme**. We want to include a significant part of our agricultural area in this program, which is also supported by the indicators. We want to implement the program as an additional support. Through a scoring system that is not very complicated, but at the same time expedient, we want all participating hectares to fulfill a roughly similar obligation in return for a payment commensurate with the amount of ambition. We want to take important steps in this area (e.g. the use of bacterial fertilizers in the eco-scheme to reduce the need for fertilizers, which will ultimately counteract natural gas dependence), which will be presented separately.

In our opinion, this complex system will result in significant changes in the overall green impact. However, we are ready to examine the Commission's detailed comments, and we are open to fine-tuning and modifying certain elements of the Plan where necessary.

Agricultural incomes, competitiveness and generational renewal

Hungary would like to emphasize that **the most important goal of our Plan is to strengthen the competitiveness of farmers**. In our view, direct payments, including coupled payments, are specifically designed for this purpose, as these resources directly help farmers who, after the difficulties caused by the coronavirus, continue to provide consumers with basic foodstuffs. A series of measures to support modernization, market presence and co-operation in the framework of rural development are also intended to strengthen competitiveness. The importance of the income-generating potential of agriculture in these difficult times should not be underestimated. In our view, care should be taken to ensure that the proposed **redistributive or green measures do not counteract competitiveness objectives while fulfilling their own objectives**. The organizing principle of the Hungarian Plan is to create appropriate internal proportions and balance. We do not believe that one goal can only be achieved at the expense of another. Hungary is ready to show a stronger targeting for investments. We would also like to emphasize that the system of transitional national aids (TNA), which Hungary wants to use in the case of some vulnerable sectors, serves competitiveness as well.

As highlighted in the submitted Plan, we are preparing a number of mutually reinforcing, dedicated interventions in the field of **generational renewal**. We provide resources for the start-up of young farmers in the same way as for the transferee and the transferor during the transfer of a holding. It will also catalyze generational renewal that we shape national regulation and knowledge transfer to make it as easy and attractive as possible. In addition, we accepted the Commission's proposal and separated the share designated for young farmers within the agricultural holding investments.

Targeting

Regarding the **redistribution aid**, the Commission points out that the proposed farm size of no more than 300 hectares in the second stage of our two-stage aid is too large. We note that Hungary wishes to show, supported by further analyzes, that the 300-hectare size in Hungary is a medium-sized enterprise category that currently produces a significant part of Hungarian agricultural output and may face a particularly uncertain economic outlook. Their operational fundament, which has been considered stable so far, may fluctuate due to increased costs and more expensive financing. We also stress that we intend to comply with the principle of reallocating aid to medium and small farms not only via the redistributive aid but also with other measures; although the transfer rate required by the basic act is already met by this item alone (CRISS). We cannot leave it unnoticed that Hungary, with the 10 per cent CRISS rate, will almost triple the redistribution of subsidies compared to the current period.

Hungary is ready to show a stronger targeting for **investments as well**.

Sectors and supply chain

Within the framework of the sectoral measures, Hungary has planned specific measures in the fruit&vegetable, grape&wine and apiculture sectors. In other sectors, however, we intend to use the

instruments provided by coupled support and transitional national aid. It is important to emphasize that if we wanted to introduce a sectoral program dedicated to other sectors, we could only create its source by reducing coupled support for the same sectors, which would have little added value for the farmers concerned.

We want to strengthen coordination within value chains and more effective promotion of producer interests through a number of traditional interventions. This includes targeted support for producer organizations and more intensive encouragement of their joint development, the establishment and operation of quality schemes, or even the creation of short supply chains.

Rural needs and LEADER

It is natural that the identified rural needs occur simultaneously in economic, environmental, regional development, welfare, infrastructural and sociological dimensions. Consequently, the answers to be given come from several places, partly outside the CAP Strategic Plan. Synergies between different EU and nationally funded programs play a key role in the main themes of classical rural development (local economic development; business development; support for social enterprises; community development, infrastructure and quality of life; tourism). It is safe to say that during the period 2023-2027, this funding diversity is more important than ever. We will present this to the Commission in detail in the coming weeks; as well as the number of dedicated interventions within the Plan's own measures and the amount of resources we want to expend on the needs of rural areas and settlements, of which the full LEADER coverage is no exception.

AKIS network and broadband internet access

Comments on **digitization and knowledge transfer** are welcome. We will act accordingly, when we finalize the Plan. We would like to point out that the roll-out of broadband internet in rural areas is not the subject of CAP Plan; we are ready to show, as is usually the case with our synergies and demarcations with operational programs, which other EU and national co-financed programs are contributing towards this area.

In conclusion, I would like to reaffirm Hungary's commitment to engage in both expert-level and political negotiations with the Commission, in the spirit of the earliest possible adoption of the Hungarian CAP Strategic Plan. For the sake of transparency, I agree that this reply letter should be made available to the public in conjunction with the Observation Letter.

Budapest, April ..., 2022

dr. Feldman Zsolt