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Greening the agrifood system through the EU budget: can we repurpose agricultural subsidies?

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The need for an ambitious transition of the European food system is no longer into question to face increasingly challenging environmental conditions. While the Common Agricultural Policy (CAP) absorbs a good third of the EU budget, its successive reforms have not been up to these objectives,* while the importance of repurposing agricultural subsidies has been outlined many times.** Many stakeholders are thus calling for further changes, either through a more ambitious greening of the CAP during the next reform or through the creation of an "environmental land management" fund, which would absorb part of the CAP money. In this *Issue Brief*, we question how such changes could happen by looking at the Multiannual Financial Framework (MFF) negotiation process, during which the overall CAP budget is negotiated, and maximum ceilings for each country and types of expenses (pilar 1 and pilar 2 of the CAP) are defined for a 7-year period.

* See for example: ECA (2021). Common Agricultural Policy and climate: Half of EU climate spending but farm emissions are not decreasing. Luxembourg, European Court of Auditors.

** FAO, UNDP & UNEP (2021). *A multi-billion-dollar opportunity – Repurposing agricultural support to transform food systems.* Rome, FAO, 154 p.

KEY MESSAGES

While there are limited possibilities to increase the receipts that make up the EU budget, new areas of interventions for the EU call for new expenses (e.g. recovery plan, common defence, emerging priorities), putting traditional programmes of the EU–and in particular the CAP–under pressure.

Against this backdrop, four arguments are put forth to justify or call into question the size of the budget devoted to the CAP:
- It needs to be maintained to ensure EU's and global food security–while little to no references are made to the need to address environmental challenges (budget +, envi –);
- It needs to be maintained to finance a much needed agroecological transition–without which the productive capacity of EU agroecosystems could eventually be reduced (budget +, envi +);
- It needs to be cut to create a new fund dedicated to the preservation of ecosystem services and biodiversity, as the CAP will never be up to that job (budget –, envi +);
- It needs to be cut as the agricultural sector makes an inefficient use of the CAP money; this will enable the EU to finance new priorities (budget –, envi –).

Member states (MS) are the most influential actors in the MFF negotiation; changing the budget allocation to support a more sustainable and resilient food system would thus require a large enough alignment of MS pushing for this idea.

This alignment will have to go beyond a rhetorical tactic from their part in view of conserving the share of the EU budget devoted to the agricultural sector, as has been the case in 2013. This would require new mechanisms linking up the MFF negotiation to the design of agrifood policies to avoid that once agrifood actors have secured "their" share of the budget through the MFF negotiation, they are left with limited to no obligation to abide to the promises made.

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1. THE MFF WILL BE KEY TO GREEN THE EU AGRIFOOD SECTOR

1.1. The central role of the MFF negotiation

There is little doubt that a transition towards greener food systems in the EU would require a repurposing of current agricultural subsidies[1] and the identification of new financial resources to de-risk investments and support innovations.[2] Three aspects make the MFF negotiation central to allocate the EU budget in such directions. The MFF first defines the money that will be allocated for seven years to the CAP. While this budget is decided and voted annually by the Council and the Parliament, the latter is obliged to respect the ceilings set by the MFF. Secondly, the MFF also sets the amount received by each Member State (MS) annually: CAP and Cohesion Policy money are pre-allocated. MS have thus a huge incentive to make the availability of these funds, considered as owed, as easy as possible.[3] Thirdly, the MFF sets important rules,[4] which include for the CAP the two-pillar structure, the flexibility between pillars, the co-financing rates for rural development support, or the share of CAP expenditure dedicated to climate action.[5]

Given that the CAP represents a good third of the EU budget, agrifood players tend to be quite active in the MFF negotiation. Yet, while "pure" agricultural negotiations are characterized by a high degree of political insularity, the MFF is negotiated by actors who have a transversal vision of the issues at stake. As such, and while agricultural matters are clearly important to reach an agreement in the MFF negotiations,[6] the CAP's place in the European budget has declined since the 1980s: from almost 60% in 1988 to 30% today.[7] During the previous MFF negotiation, the CAP budget was again cut by €39 bn in constant prices compared to the 2014-2020 CAP budget. And this downward trend is expected to continue.

1.2. The CAP budget is under pressure

At least three factors explain why the CAP budget is likely to be under pressure in the next MFF negotiation. First, the budget adopted for the current CAP will decrease between 2021 and 2027: from €53,371 bn to €46,169 bn/year. This has consequences for the next MFF since the figures taken as reference to prepare it are generally those of the last year of the current financial framework, here 2027. So even if the Commission does not change the CAP budget, the amount taken as a basis for negotiation (€323,2 bn) will be lower than the current amount allocated to this policy (€343,9 bn with the Next Generation EU recovery plan).

Second, to support the economic recovery from the coronavirus pandemic, the EU has agreed upon an exceptional fund–Next Generation EU–alongside the MFF for a total of €750 bn based on common borrowing. This fund is divided into grants and loans to MS: the €338 bn provided in the form of grants plus the interest costs will be repaid from the EU budget between 2028 and 2058.

BOX 1. MFF ADOPTION PROCESS

The drafting of the MFF is carried out by the Commission's Budget Department (DG BUDG), which then passes it on to the General Affairs Council (GAC), made up of the European affairs ministers. It establishes a 'negotiating box' which is a preliminary version of the European Council conclusions detailing the content of the MFF. The negotiation process is quite lengthy and also depends on the ability of the MS holding the Council Presidency to conduct successful negotiations. Indeed, it is up to the Presidency to organise bilateral meetings, set the agenda, propose compromises, and draft the 'negotiating box'.

The 'negotiating box' is then negotiated between heads of state or government: the European Council President organises several bilateral meetings with MS to find a compromise. The MFF has to be adopted unanimously, which makes this process particularly arduous and complex and often requires piecemeal agreements and no less than two European Councils lasting several days during which heads of state or government, the European Council President and the Commission President negotiate day and night.[8]

The Conclusions of the European Council are then adopted by the Council, which alone has the power to legislate, after obtaining the consent of the Parliament.

The Commission has proposed to collect new taxes, known as "own resources", to repay the common debt. However, MS' opposition could prevent, or at least postpone, their adoption, which would oblige the Commission to find other levies: increasing MS' contributions, decreasing expenditure or taking out a new loan. In any case, it is likely to put pressure on the overall EU budget, including the CAP.

The third factor concerns the potential Ukraine's EU integration. Due to the size of its agricultural land (41 million hectares), Ukraine's integration would have huge consequences for the CAP, especially from a budgetary perspective.[9] While it will likely take many years and may not directly concern the next CAP budget, the new status given to Ukraine in June 2022 means that it benefits at least from the pre-accession fund that will probably grow due to the multiple challenges faced by the country. The EU also pledged to support Ukrainians in their effort to rebuild the country after the war through the 'RebuildUkraine' plan, embedded in the EU budget and mentioned again in the midterm review of the MFF published recently. As mentioned by the Commission, the needs "are well beyond the means available in the current multiannual financial framework".[10] Covering all the additional expenditure generated by the 'RebuildUkraine' plan is thus likely to imply a reduction in the amounts allocated to other programmes.

In this context, those who currently benefit from CAP money will have to justify the need to preserve it at the expense of other political programmes. Neither budgetary pressures on the CAP nor the need to defend it are new–both Commissioners Fischler and Cioloş had to create a narrative to legitimise the share of the CAP budget[11]–but the scope of the threats is unprecedented. In the meantime, the need to use this money in the best way possible to support a genuine transition of the agrifood sector is critical.

2. THE AGRICULTURAL TRANSITION IN THE EU BUDGET

2.1. Existing rhetoric regarding the budget for agrifood policies

Several arguments have been used to defend the CAP budget or, on the contrary, to attack it, in particular with respect to issues related to the transition: they are presented in the following table.

	Budget +	Budget -
Environment -	The 'food security' narrative is used to both justify the high share of the CAP in the EU budget and prevent any forms of regulations, including environmental. Since the launch of the Ukrainian war, the 'food security' argument has repeatedly been used to weaken the green architecture of the current CAP.[12]	Other policies are more important.
Environment +	A strong budget for the CAP is needed to achieve the environmental objectives of the EU. Moreover, biodiversity loss and environmental degradation are one of the main drivers of food insecurity. Only an ambitious agroecological transition would both contribute to preserving the environment and strengthening the resilience of the European food system, and thus ensure long-term food security.[13]	Despite the successive reforms of the CAP, it has failed so far to protect the environment and mitigate climate change. Another fund is thus needed to fulfill these tasks.

A key objective to green agrifood policies will be to ensure that the 'Environment +' rhetoric is endorsed by key actors of the MFF negotiation–and that this rhetoric then translates into concrete changes in the way money is actually spent.

2.2. The central role of MS in the MFF negotiation

MS are the most influential actors in the MFF negotiations: they are involved at every stage, including during the drafting of the proposal by the Commission. If they consider that the proposal published does not address their requests, they might rewrite it entirely, as they did in 2006. This incites the Commission to propose a document as close as possible to MS' demands. This means that any change in budget allocation towards greener agrifood policies will require that a group of MS push for it and find levers in their negotiations with other MS. Indeed, MS do not act as a united block. The main cleavage is between net contributors (MS that contribute more to the EU budget than the amount of funding they receive from it) and net beneficiaries.[14] The latter, united in a group called 'Friends of cohesion', defend a strong budget and an important part allocated to historical programmes, namely the CAP and the Cohesion Policy. On the contrary, net contributors oppose any increase of the budget size and favour new political priorities. Net contributors can be divided into four groups:

- the 'Frugals' (Austria, Denmark, the Netherlands and Sweden) have the most rigid position;
- Finland and Germany share the Frugals' position but are more flexible;
- France and Ireland are more nuanced on budget restriction and defend the CAP budget with net beneficiaries in the 'Friends of the farmers' alliance;
- Italy which is part of the 'Friends of cohesion'.[15]

There are also divergences among the 'Friends of cohesion' (mainly between Southern and Eastern countries) and subgroups such as the Visegrád Group or the 'Baltic States' group.[16] In addition, *ad hoc* partnerships are forged between different countries on different issues.

While it is important to consider a plurality of factors for assessing (potential) MS positions, the national net balances remain decisive. Taking into account the winners and losers of various budgetary options to green the agrifood sector will thus be key to think about the possible negotiation levers–including with the Commission.

The Commission indeed frames the MFF negotiations through the writing of the initial proposal. Yet, its room for manoeuvring is limited: it must above all satisfy the demands of the MS. This has a double origin: it is linked to the institutional framework (the MFF must be adopted unanimously by the Council) but it is also rooted in the EU's financing structure: the EU budget is increasingly dependent on national contributions, which represent around 80% of EU revenues (GNI-based contribution and a tax on the VAT);[17] this narrows down the perspective of MS on net returns and strengthens the rigidity of their positions. The introduction of new own resources is often presented as an avenue to empower the Commission: MS would be less intransigent if their 'own' money was not directly at stake.

However, introducing new own resources as a way to get out of the "juste retour" logic is an old idea, mainly supported by the Commission and the Parliament. Until now, it was systematically met with resistance from the MS, which are reluctant to let the Commission gain fiscal's independency. However, the MS agree that the reimbursement of the NGEU plan will be financed by new own resources introduced after 2021 and implemented in 2023. In December 2021, the Commission proposed three new sources of revenue based on revenues from emissions trading, the carbon border adjustment mechanism and a share of residual profits from multinationals.[18] In addition, it presented in the midterm review published in June 2023 a new tax proposal based on company profits. It is still unclear how much money this will generate as unanimity is required in the Council, giving a veto power to each MS.

While the extent to which key MS and the Commission can effectively be convinced to adopt a pro-environmental approach to financing the agrifood sector (whether through the CAP or through a dedicated fund) is still quite unclear, this would not be the end of the game, as these budgetary choices then need to translate into concrete changes in agrifood policies. Indeed, while the 'public money for public goods' argument in 2011 emanated from an alliance between those who wanted a large CAP budget and those who insisted for a better integration of environmental concerns, the reform finally adopted in 2013 did not succeed in making the CAP more sustainable.[19] According to Matthews (2015), this is mainly due to the fact that once the MFF was adopted, "the threat of a budget cut no longer played a role in determining the outcome. Farm groups and status quo-minded MS and MEPs could work to weaken the ambition of greening proposals without having to worry that this could lead to a further reduction in the CAP budget".[20] It will therefore be essential not only to get the objective of repurposing agricultural subsidies supported by key actors; but also to create sufficient level of accountability to ensure that the budget allocated to the CAP or to another fund will indeed foster the agroecological transition.

ENDNOTES

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