EU Agricultural Policy

2021: A vintage year

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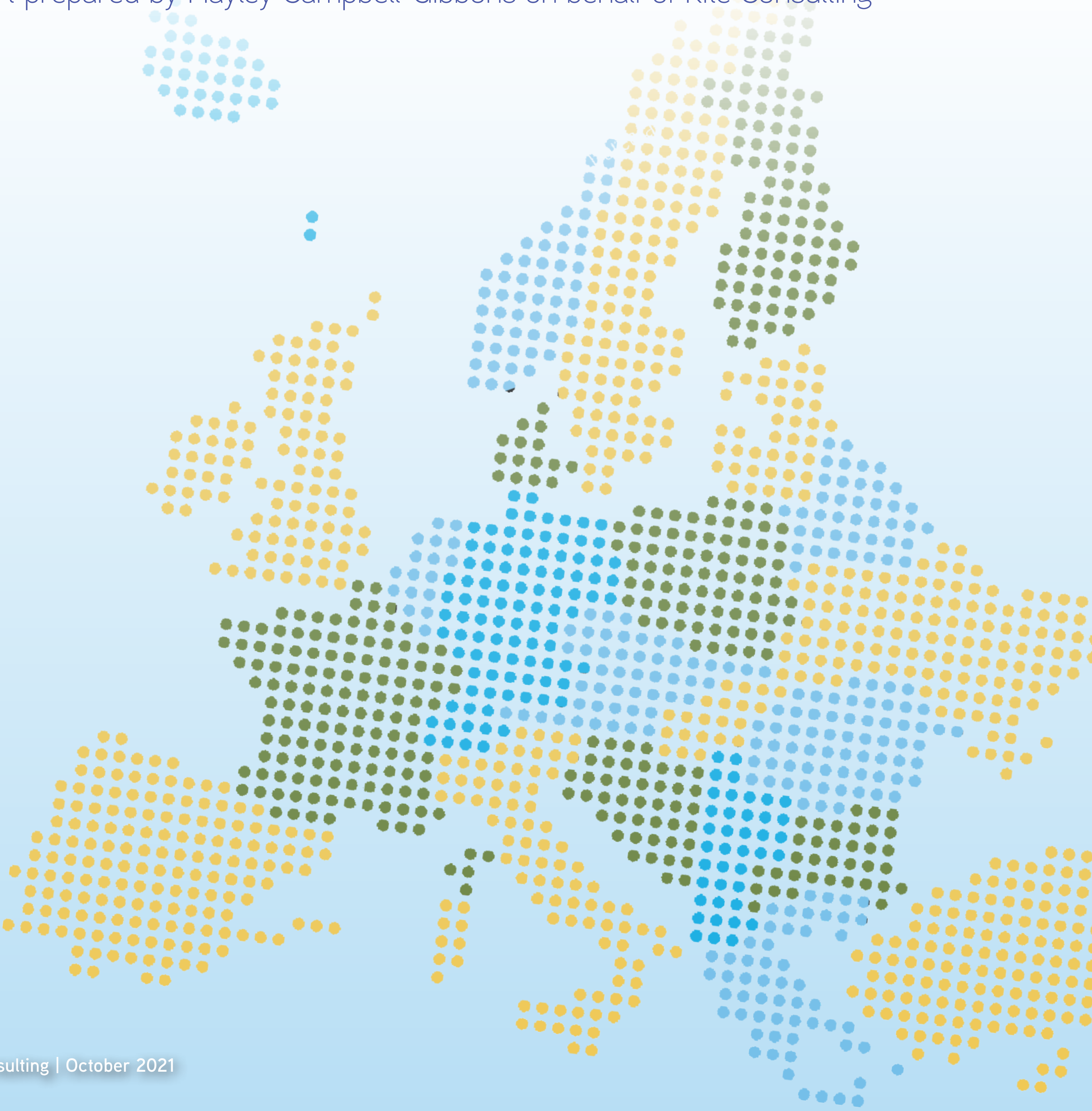

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INTRODUCTION

2021 will be known as a vintage year for EU policy.

The total EU financial package for 2021-2027 stands at 1.8 trillion euros. It is the largest EU budget in history.

Comprised of a 750 billion euro EU recovery instrument (2021-23), dubbed Next Generation EU (NGEU), and a 1.1 trillion euro Multi Financial Framework (MFF) budget for the next seven years, this is the EU's fiscal response to mitigate the impact of coronavirus.

The EU also plans for its pandemic recovery to be a green one. Europe has committed to become the first carbon neutral continent in the world, and the Green Deal is the roadmap to achieving it. An ambitious growth strategy, the Green Deal will transform the EU into a 'modern, resource efficient and competitive economy'.

Every sector has its role to play, and several strategies have been published under the Green Deal umbrella, setting out a raft of regulatory, and incentive based measures to put every industry on the path to net zero emissions by 2050. The Farm to Fork and Biodiversity Strategies are key for agriculture and the food supply chain. The Farm to Fork Strategy also states that the EU will expect imports to comply with all relevant regulations and standards.

However, several studies have highlighted the potential negative impact that the targets set in the Farm to Fork and Biodiversity Strategies will have on agricultural production, and prices. Yet, as EU Parliament prepares to vote on the package in October, there is widespread concern that environmental ambitions will trump agriculture's objections. It appears that the Commission must make a choice between a net benefit to society, over a high impact on farmers.

With agriculture and forestry covering 80% of EU land area, the Common Agriculture Policy (CAP) will play a major role in supporting the achievement of the EU's green ambitions. The new CAP brings with it a raft of new obligations for farmers, and is closely aligned to the Green Deal objectives. Despite there being no significant reductions in direct payments, there are more strings attached to this CAP, with an emphasis on results. It is both the greenest and most controversial CAP to date.

As part of the EU-UK Brexit deal, we already know that the UK will be expected to align with EU standards; the so-called 'level playing field'. As out closest neighbour and biggest export market for agricultural goods, the UK needs to continue to play close attention to what the EU is doing in the areas of agriculture and environment policy, and its impacts on EU farmers.

EU BUDGET 2021-27

The largest EU budget in history

The total EU 7-year financial package amounts to an eye-watering €1.8 trillion. Made up of a 1.1trn multi-annual financial framework budget (MFF), and the €750bn EU recovery fund, dubbed 'Next Generation EU', it is the largest EU budget in history. To put it into context, overall the EU's economy will be supported with 60% additional funds over the next financial period (2021-27), compared to the current one (2014-2020).

NEXT GENERATION EU

A green economic recovery

Nothing short of extraordinary is how the EU's approach to the post-pandemic economic recovery has been described. Next Generation EU (NGEU) gives the Commission unprecedented power to borrow billions on markets and hand it out as support to member states. The funded element of the package, called the 'Recovery and Resilience Facility' (RRF) stands at 750bn euros, and is both the largest and most innovative financial instrument the EU has ever proposed to redress its economy.

The Commission estimates that NGEU can increase the EU's GDP by an average of 2% and create 2 million more jobs by 2024. For some member states it is expected that the package could contribute up to 5% of domestic GDP[1].

The majority of the fund provides financial support to member states in the form of grants (338bn euros) and loans (390bn euros) over a two-year period, 2021-2023. A small amount (c. €22bn) will be channelled through existing EU budgetary programmes, including €8.1bn that has been injected into Pillar 2 of the new CAP, for rural development.

To access the financial support, member states must submit a 'national recovery and resilience plan' to the Commission, setting out how the funds will be spent in line with six EU priorities: 30% of expenditure must contribute to tackling climate change, 10% linked to biodiversity actions, and the remainder the must deliver on digitalisation, economic and social cohesion, competitiveness and resilience to crisis. With 40% of the recovery funds aligned to environmental objectives, make no mistake, the EU's pandemic recovery will be a green one.

Distribution of the funds

The initial deadline of April 2021 for countries to submit recovery plans was extended out to mid-2022, although the majority of plans have now been submitted. With the exception of Latvia and Sweden, all countries have requested the full amount of grant available to them. Several countries have also requested loans; Greece, Italy and Romania have applied for the full whack, with Cyprus, Poland, Portugal and Slovenia applying for between 16 - 27%. With the loans window being open until 31 August 2023 it is likely that more countries will draw down on this fiscal buffer yet.

1) https://ec.europa.eu/info/strategy/recovery-plan-europe_en European Parliamentary Research Service, Jan 2021, Ten Policy issues to watch in 2021

As expected, there is significant diversity in how countries are allocating monies across the six priority areas (many of which are overlapping). Countries for whom the RRF represents a small amount of their overall GDP are spending more than the minimum level on 'green' measures (member states are required to spend at least 30% in this area), with countries for whom the fund is a larger share of GDP spending more of the money on 'other' priorities[2].

A review of spending according to economic sector reveals that only €10.9 billion has so far been allocated to agriculture, forestry and fishing with most countries choosing to inject cash into other priority sectors. The countries investing the most in agriculture include Spain (€4.78bn, Italy €2.94bn and Poland €1.27bn).

Payback

All monies must be repaid by 2058, and the debt will undoubtedly be a drain on future EU budgets. However, the intention is that member states will, in time, contribute to the EU budget and help repay the funds by handing over the proceeds of potential new environmental levies based on non-recycled plastic and packaging waste - so called 'own resources'. If this innovative EU recovery instrument is implemented with success it could become a new way of financing EU policies and a permanent facility to help the EU face any other potential crisis[3].

THE GREEN DEAL

Europe will become the first carbon neutral continent in the world.

And the Green Deal is the roadmap to achieving it. Launched by the EU Commission on 11th Dec, 2020, and backed-up by 600 billion euros of funds from the EU budget, the Green Deal is an ambitious growth strategy that - if followed - will transform the EU into a 'modern, resource efficient and competitive economy'. It's core aim is no net emissions of GHGs by 2050, and a 55% reduction by 2030 compared to 1990 levels[4].

Each sector of the economy is assigned its role to play in achieving these aims. The EU agri-food system has been tasked with becoming the global standard for sustainability - with a strategy to ensure delivery.

The Green Deal in itself doesn't constitute much more than a headline vision to make the EU the first carbon-free continent. Arguably, a post-pandemic political power-play and tactical move ahead of COP26. As with most things, the devil is in the detail.

For agriculture, the actual mechanics required to turn the ambition into reality are the strategies and policies that sit beneath the Green Deal umbrella; namely the Farm to Fork and Biodiversity Strategies and, to a large extent, the CAP.

2) www.bruegel.org/publications/datasets/european-union-countries-recovery-and-resilience-plans Sept, 21

3) FINANCIAL TIMES EU recovery fund: how the plan will work, 21 July 2020.

4) COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, The European Green Deal COM/2019/640 final

FARM TO FORK STRATEGY

Redesigning the European food system

A major component of the Green Deal, the Farm to Fork Strategy (F2F) aims to redesign the food system to make it fair, healthy and environmentally friendly. This will be achieved through a combination of both regulatory and non-regulatory initiatives.

F2F sets the ambition for EU agriculture policy until at least 2050, and provides the framework through which all future legislation on food and agriculture will be passed. Existing regulations and directives will also be reviewed and brought into line with the F2F where needed[5].

Its goals are:

- Food production and the supply chain will have a neutral or positive environmental impact
- To ensure food security and public health
- To preserve the affordability of food, while generating fair economic returns in the supply chain[6].

Why does this matter to UK farmers and processors?

The F2F strategy sets a clear intention to ensure that all imports to the EU must comply with all relevant regulations and standards. This will include ambitious 'sustainable food related provisions' in all of the EU's bilateral trade agreements. As our closest neighbour and biggest export market for agricultural goods, the UK will need to continue to play close attention to what the EU is doing in the areas of agriculture and environment policy.

When France takes over the European presidency from 1st January 2022, there is already speculation that their first play will be a to take a tougher stance on trade and import standards.

Agriculture's actions in the F2F and Biodiversity Strategies

The F2F strategy sets a raft of ambitious and challenging targets to transform the EU's food system by 2030 including:

- 50% reduction in pesticide use and risk;
- 50% reduction in nitrogen and phosphorous losses (which will lead to);
- 20% reduction in fertilizer use;
- 50% reduction in antimicrobial sales for farmed animals;
- 25% of agricultural land under organic farming, (current level is 8%).

In addition, the Biodiversity Strategy for 2030, (published May 2020), includes targets which have a high relevance to agri-food systems, notably a 10% target for high diversity landscape features in agriculture areas (essentially increasingly non-productive land area), planting 3 billion trees, and reducing the use and harmfulness of pesticides by 50% by 2030 (linking to the F2F objective).

A swift pace for backing this agenda up with regulation has been set. Between 2021 and 2024 the Commission will introduce over 20 legislative proposals and reforms to underpin both the Farm to Fork and Biodiversity Strategy targets, spanning the areas of pesticides, animal welfare, feed, carbon, food labelling and competition rules to name but a few[7].

5) Bureau d'Agriculture Brussels: 'The Farm to Fork Strategy', May 2020

6) EU Commission, The Farm to Fork Strategy Summary Action Plan, 2020

7) F2F Strategy and Action plan, EU Commission, 2020.

The real impact of the Farm to Fork Strategy

The F2F Strategy targets will lead to a significant decline in production and a respective price increase within the EU, is the conclusion of several independent studies.

Somewhat unusually, the first impact assessment of the F2F strategy was conducted, not by the EU Commission, but by the USDA. The USDA's assessment of the impact of the strategies was not an encouraging read for EU farmers and co-operatives. It identified that, under all scenarios, the proposed targets reduced agricultural production by 7-12%, and hit EU competitiveness on export markets[8].

Subsequent evaluations of the F2F Strategy have confirmed negative consequences of the implementation of the targets, and reached worrying conclusions.

In June 20201, the Joint Research Centre of the European Commission (JRC) published a report measuring the effects of several F2F and Biodiversity Strategy targets on EU agriculture[9]. It told a tale of two halves.

The good news: the report confirmed that EU farmers could indeed meet the targets set, and in doing so would achieve significant environmental benefits in the form of reductions in greenhouse gasses of up to 28%, falling ammonia emissions and a gross nutrient surplus.

The bad news: the consequence of meeting the F2F and Biodiversity targets would be an unprecedented decline in EU production and farmers' income, higher prices to consumers for selected agricultural products, and an equivalent increase in carbon emissions in third countries resulting from the EU's loss of production capacity.

Specifically, under all the scenarios considered in the JRC study, all sectors showed declines in production of 5% to 15%, with the livestock sectors being most impacted. The cost of production increased by a net 10% due to the additional restrictions.

Almost as controversial as the findings, was the tactical publication of the report during the summer, when most of Brussels shuts down for a month-long holiday, leading to accusations that the Commission had attempted to bury it[10].

The case against F2F continues to build. Just this month (October, 20201) the JRC's, and USDA's findings were reinforced by two further studies. One, conducted by the University of Kiel, confirmed the massive carbon leakage that could result from the target-orientated approach of F2F, leading the authors to conclude that '*The Farm to Fork Strategy is not effective against climate change*[11].'

> *"The complete F2F suite of targets could result in a 6.3% decline in EU dairy production, and a 36% increase in prices."*
>
> PROFESSOR OF AGRICULTURE POLICY, CHRISTIAN HENNING, KIEL UNIVERSITY

8) US Dept. of Agriculture, Economic Research Service: Economic and Food Security Impacts of Agricultural Input Reduction Under the European Union Green Deal's Farm to Fork and Biodiversity Strategies, November 2020.

9) The four targets measured were: the reduction of the risk and use of pesticides, the reduction of nutrient surplus, the increase of area under organic farming and the increase of area for high-diversity landscape features.

10) https://www.thepoultrysite.com/news/2021/08/opinion-eus-assessment-of-the-farm-to-fork-strategy-presents-inconvenient-truths

11) University of Kiel report: Economic and Environmental impacts of the Green Deal on the Agricultural Economy: A Simulation Study of the Impact of the F2F-Strategy on Production, Trade, Welfare and the Environment by Prof. Dr. Dr Christian Henning (University of Kiel) and Dr. Peter Witzke (EuroCare, Bonn), Sept 2021

Dairy sector impact

According to the University of Kiel study, at a sector level, the decrease in production ranges from -20% for beef, -6.3% for milk as well as -21.4% and -20 % for cereals and oilseeds, respectively, throughout the EU.

The strongest price effects (cost of production and potential increase in ex-farm gate prices) are for beef (+58%), followed by pork (+48%) increase and milk (+36%). The declines in milk production and income in the dairy EU sector are driven largely by the 50% reduction in nitrogen loss target.

The knock on impact would be higher food prices and a general reduction of net exports by the EU. The dairy sector would still be a net exporter, but volumes would likely fall by 1 million tonnes. Furthermore, Professor Henning suggests that EU dairy processors could stand to lose billions on the back of the F2F Strategy through the decline in EU milk production, possibility of paying higher milk prices to stem the decline, and a drop in exports.

Professor Roel Jongeneel, Wageneieim Uni suggests that farmers, and the CAP could still be part of the solution, through tailored policies that allow farmers to be supported, and contribute to emissions reductions without negative consequence, and advises the Commission to show flexibility in its implementation.

"In all the scenarios presented by the studies conducted net dairy farm income reduces, mainly because these are low margin sectors and will have to make the biggest adjustments to meet the targets."

PROFESSOR ROEL JONGENEEL, WAGENEIEIM UNI

Brussels Backlash

In an uncharacteristic display of feeling, COPA-COGECA, has spoken out repeatedly on behalf of EU farmers and co-operatives to highlight serious flaws and concerns with the targets set out in the F2F and biodiversity strategies.

Yet, the EU Parliament appears undeterred in the face of damning independent analyses and criticism from farming lobbies. In September, the EU AGRI and ENVI Committees voted in support of the whole Farm to Fork Strategy, prompting further retaliation from farming representatives who have accused MEPs of 'crossing the red line', gold-plating the proposals and making the transition untenable for farmers.

Interestingly, some MEPs do now appear alive to the debate about the potential impact of the strategies[12].

The Commission's conundrum perhaps is that, despite the negative impact on farming, the impact studies do indicate that - long term - the F2F and Biodiversity strategies will benefit society as a whole through the achievement of greenhouse gas reductions. The expectation is that any leakage of emissions would not last more than a decade.

It appears that the Commission must make a choice between a net benefit to society, over a high impact on farmers. Farming lobbies are calling on MEPs, who will have to take a position in plenary at the end of October, to reshape the most penalising proposals, to ensure the viability of the transition to a more sustainable food system.

The debate continues.

"F2F could create a decline in production, higher prices, higher costs and greater constraints for farmers. We have a responsibility as policy makers to take this evidence into account."

ANN SANDERS, MEP AND AGRICULTURE COMMITTEE MEMBER

"All targets sound great at first, however, for EU farmers and their co-operatives... common sense would dictate that we know how the numbers behind these targets were decided and how they will impact our production, the environment, consumer prices, our food security and our exports."

SECRETARY GENERAL OF COPA-COGECA, PEKKA PESONEN DEC, 2020

12) Ann Sanders, MEP, speaking at the European Livestock Voice F2F Impact seminar, 13.10.21

A NEW COMMON AGRICULTURE POLICY: 2023-2030

The greenest and most controversial reform yet

On 25th June 2021, after three years of protracted negotiations, the EU Parliament and Council agreed on a new Common Agricultural Policy (CAP) that will cover the period 2023-2027.

Aligned to the Green Deal objectives, the new CAP is a modernised policy, with a strong emphasis on results and performance. The 7-year budget for the CAP amounts to €386.6 billion, divided between two pillars[13]:

Pillar 1: European agricultural guarantee fund (EAGF):

The first pillar of the CAP has the lion's share allocation of €291 billion. Up to €270 billion of which will be for income support schemes, with the remainder dedicated to supporting agricultural markets.

Pillar 2: European agricultural fund for rural development (EAFRD):

The CAP's second pillar total allocation amounts to €95.5 billion. This includes €8.1 billion from the next generation EU recovery fund.

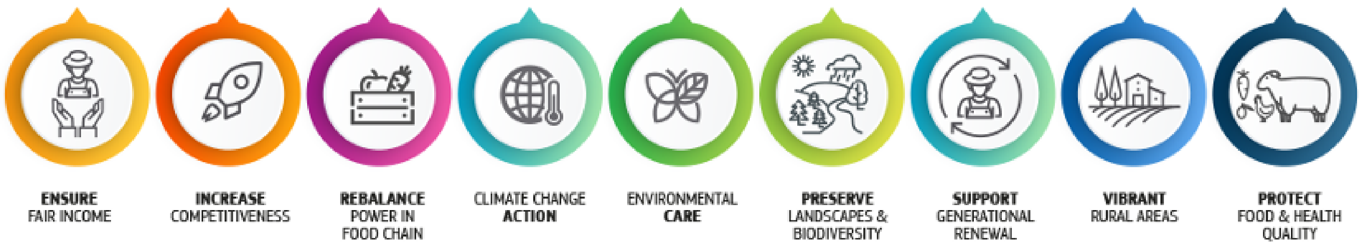
The main feature of this CAP compared to the last is the shift in emphasis from compliance and rules, to results and performance. With 40% of total CAP expenditure will be dedicated to climate action, it is also the greenest CAP yet.

The policy focuses on nine specific objectives, linked to common EU goals for social, environmental, and economic sustainability in agriculture and rural areas (diagram 1). Crucially, the CAP is fully aligned to the Green Deal objectives, and its associated strategies.

€48bn of the total support available under Pillar 1 will be allocated to green measures. Under the new rules, 25% of a country's Pillar 1 budget must be set aside for eco-schemes, which reward environmental and climate friendly practices. The schemes will be mandatory for every member state to offer, but voluntary for farmers to participate in. There is also a 35% allocation for environmental spending in the second pillar, dedicated to rural development.

Significantly, unlike in the UK, the EU has no intention to phase out, or drastically reduce, income support for farmers. That said, there will be more strings attached to receiving direct payments in future.

Diagram 1: The nine CAP reform objectives



13) https://ec.europa.eu/info/strategy/eu-budget/long-term-eu-budget/2021-2027_en

Key policy features of the new CAP[14]

National Strategic Plans: each member state must prepare a National Strategic Plan, that will define how all of the CAP instruments (direct payments / sectorial interventions / rural development) will be implemented, and the CAP's objectives met. There is an emphasis on the areas of climate and environment, so called 'Green Architecture'. Each country will have to demonstrate how their plan will contribute to various existing EU legislation on climate, environment and energy consumption, biodiversity, air quality, GHG emissions, energy and pesticide use.

Implementation and progress against the plans will be monitored by the Commission, based on a common set of indicators. The indicators are numerous in the areas of climate and environment, but also include the evolution of agriculture income and added value to primary producers.

Plans must be submitted to the Commission by 31st December 2021, who will take 6 months to assess and approve the plans before they begin in 2023. So far, no plans have been submitted.

Eco-Schemes: Member states will encourage farmers to adopt and/or maintain environmentally friendly practices (in line with the Green Deal) by funding of 'eco-schemes', through Pillar 1 direct payments. At least 25% of income support budget must be allocated to these eco-schemes.

Enhanced Conditionality: Future direct payments will be linked to certain obligations being fulfilled. There will be more ambitious baseline environmental standards, linked to specific directives, for farmers to receive support, (replacing current greening and cross compliance rules). For example, on every farm at least 3% of arable land will be dedicated to biodiversity and non-productive elements, reaching up to 7% through eco-scheme participation.For the first time there is also a new 'social conditionality' mechanism that will link direct payments for farmers with complying with workers' rights, mandatory from 2025.

Young Farmers and SMEs: Countries must ensure that at least 10% of direct payments are redistributed among small and medium-sized farms for complementary income support. Young farmers (up to 40 years old) will receive at least 3% of Member States' budgets for income support.

Optional reduction/capping of direct payments: Member states may voluntarily apply up to 85% reductions for amounts exceeding €60k. They may also impose a cap on the amount received, at €100k.

Rural Development: Support for rural development will continue to offer a wide range of tools for environment and climate improvement: at least 35% of a country's pillar 2 funding (as is currently the case). But, under this CAP, the requirements will be more stringent and exclude compensatory payments for farmland with natural constraints. Rural development will continue to support organic farming.

Producers and the supply chain: Strengthening the position of farmers in a competitive agri-food sector remains an EU priority so the new CAP regulation maintains a range of instruments to facilitate this, including:

- Member states may decide in their strategic plans to use up to 3% of their pillar 1 allocation for specific sector interventions. In addition, member states retain the possibility to spend up to 10% of pillar 1 funds, (up to 12% for protein crops) for coupled income support to improve competitiveness. Remaining wary of the legacy of coupled support, the Commission will be looking for these payments to also meet certain sustainability criteria.
- A new agricultural reserve will be introduced to fund market measures in times of crisis, with an annual budget of at least €450 million.
- A directive on Unfair Trading Practices to strengthen producers' position in the supply chain by protecting them from practices such as unilateral decision making by buyers, late payment, and short notice cancellation of orders for perishable goods.

14) https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/new-cap-2023-27_en

Reactions to the new CAP

Early reactions described the new CAP policy as "an unprecedented challenge for the EU farming community"[15]. Amongst them, French farmers complained the percentage of funds allocated to eco-schemes is too high, and German farmers state that the compromise is difficult, and that applying for subsidies will become more bureaucratic[16].

Indeed, the issue about how much money in the overall CAP budget should be set aside for greener agriculture practices was a major sticking point in the protracted CAP negotiations. The final agreement remains contentious, largely because of a new rebate loophole that allows member states to claw back how much they spend on eco-schemes if they overspend in pillar 2[17].

The introduction of social conditionality on workers' rights, which will become mandatory from 2025, and which will introduce new labour inspections with financial penalties for any breaches, is also unpopular. Member states say that this duplicates existing national labour legislation and enforcement rules. They are disputing why this needs to be included in the CAP and linked to farm payments.

> *"A cohort of farmers, many of whom are the most productive, are being hit with huge cuts under the CAP."*
>
> IFA PRESIDENT, TIM CULLINAN

> *"The word simplification has disappeared. The new CAP is massively complicated. There is huge pressure on member states to submit their national strategic plans by Dec 2021."*
>
> ROBERT MANNING, DIRECTOR, BUREAU D'AGRICULTURE BRUSSELS

The only country to have issued a draft CAP plan for consultation thus far is Ireland[18], which was met with large scale demonstrations from farmers[19]. Irish Farmers' Association (IFA) President, Tim Cullinan, said that the direction of the CAP could sound the death knell for commercial farming in Ireland.

With no member states yet actively consulting on their CAP national plans, and the Commission yet to respond to them, there is a sense that the true CAP fallout is yet to come.

15) COPA-COGECA.eu, CAP statement, 25.06.2021

16) AHDB Brussels Monthly Report, July 2021

17) Politico article: 25/6/21

18) https://www.gov.ie/en/publication/cf1c0-irelands-cap-strategic-plan-2023-2027-public-consultation-on-proposed-interventions/

19) https://www.irishtimes.com/news/environment/farmers-protest-in-tractors-around-country-over-cap-proposals-1.4590748

CAP and the Green Deal

With agriculture and forestry land covering 80% of EU land, the CAP is recognised as one of the few existing EU budgetary programmes that can play a major role in supporting the achievement of the EU's Green Deal commitments.

To that end, as part of its resolution on the EU Green Deal, the EU Parliament requested that the Commission analyse fully the contribution of the CAP reform to the goals set in the EU Green Deal.The analysis, published in May 2020 confirmed that the CAP reform proposal is compatible with the Green Deal's ambitions, and those of its associated strategies[20].

Specifically, the 'new way of working' proposed for the future CAP (namely the nine common objectives, the shift to performance based payments, strategic plans for each country and progress monitoring by the Commission) is what makes the proposals compatible with the Green Deal.

"...the Commission will work with Member States and stakeholders to ensure that from the outset the national strategic plans for agriculture fully reflect the ambition of the Green Deal, the Farm to Fork Strategy and Biodiversity Strategy"

THE GREEN DEAL, 2020

20) Notes below from Commission Paper: Analysis of links between CAP and Green Deal

FIT FOR 55

The EU's Carbon Agenda

The overarching desire for the EU, as communicated in the Green Deal, is that the cumulative impact of every strategy and policy in the pipeline will be zero emissions by 2050, and a 55% reduction by 2030, compared to 1990 levels. Therefore, the EU's approach to carbon both underpins and cuts across all the individual sector action plans, strategies and objectives.

To this end, the Commission has adopted 'Fit for 55': a comprehensive package of carbon specific policy proposals (a combination of new and revised policy instruments); several of which will directly impact on farming. Namely, the Industrial Emissions Directive review, and the review of the Water Framework Directive, (for which dairy and livestock are always target sectors), and a new regulation on Land use, Forestry and Agriculture which sets an overall EU target for carbon removals by natural sinks, equivalent to 310 million tonnes of CO2 emissions by 2030.

Amongst the other proposals are a raft of climate measures and reforms, such as: the application of emissions trading to new sectors, a tightening of the exiting EU Emissions Trading System, increased use of renewable energy, greater energy efficiency, a faster roll-out of low emission transport modes and the infrastructure and fuels to support them; an alignment of taxation policies with the European Green Deal objectives; an EU Forest Strategy; and measures to prevent carbon leakage[21].

A carbon border adjustment mechanism ('CBAM') is a key part of the Fit for 55 package. It will put a carbon price on imports of a targeted selection of products (fertilisers, cement, iron and steel, aluminium, and electricity) to avoid pushing carbon-intensive production outside Europe. It has been designed in compliance with WTO rules and it would basically require EU importers to buy carbon certificates corresponding to the carbon price that would have been paid if the goods had been produced under the EU's carbon pricing rules[22].

Carbon Farming in the EU

As announced in the F2F Strategy, the Commission wants to promote carbon farming as a new green business model as part of its drive for a bio-economy. With agriculture contributing over 10% of total EU emissions[23], a circular bio-based economy is seen as untapped potential for farmers.

The Commission will develop a regulatory framework for certifying carbon removals based on a robust and transparent carbon accounting method, with a view to farmers selling their credits to private companies who wish to offset their own carbon emissions. The intention is that future CAP Strategic Plans will include options for payments linked to carbon sequestered on-farm, and facilitate the potential for farmers to earn money for carbon sequestration on top of CAP payments. A double-down on cash for carbon initiatives. The Commission plans to publish a Communication setting out an action plan for both initiatives by the end of 2021[24].

As part of its groundwork, the Commission has already sponsored a two-year study on how to set up and implement carbon farming in the EU. The study recently concluded that result-based carbon farming can contribute significantly to the EU's efforts to tackle climate change, and that CAP does indeed have a strong potential role to play in providing financial incentives, and farmer input to scheme design. However, while the carbon farming train may have left the station, it has a long journey ahead of it, with implementation issues that need to be addressed before it reaches its full potential[25].

21) EU Commission regulation, 'Fit for 55': delivering the EU's 2030 Climate Target on the way to climate neutrality, 14.07.2021

22) https://ec.europa.eu/info/sites/default/files/carbon_border_adjustment_mechanism_0.pdf Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL establishing a carbon border adjustment mechanism, 14.7.21

23) FAO.org

24) AHDB Brussels Monthly Briefing, August 2021

25) Technical Guidance Handbook – setting up and implementing result-based carbon farming mechanisms in the EU, 2018-2020

CONCLUSIONS

The EU's ambitions and budgets are unquestionably high, but for agriculture the price of compliance could be higher.

The Green Deal and its associated strategies could impact significantly on the dairy sector. Meeting the obligations will likely result in production losses, increases in costs, and higher prices. The Commission and EU Parliament are well aware of these potential impacts, but so far show no signs of slowing or changing their approach.

One issue is that, much like in the UK, agriculture is not a big hitter when it comes to 'holding its own' alongside other Commission departments and priorities. The environment and climate agendas are the political heavyweights; setting the pace and direction of travel for the EU through to 2050. To some extent, agriculture finds itself outflanked.

With a budget of 386bn euros, one of the main vehicles for delivering on the environment is the CAP. CAP's objectives are completely aligned to the Green Deal, and the Farm to Fork Strategy. This is the greenest CAP reform yet, with 40% of the total available funds dedicated to the environment in some form. Because of the shift in emphasis and requirements, it is also the most contentious.

There will be a snowstorm of EU legislation as regulatory proposals emerge across all areas the strategies focus on, as well as a complete review and rewrite of everything on the statute books to align all existing legislation with the new ambitions.

Member states are yet to submit their National CAP Strategic Plans to the Commission, but having witnessed the showdown in Ireland, and against the backdrop of the numerous damning Farm to Fork assessments, there is a sense in Brussels that EU farmers are likely to react unenthusiastically to the heightened obligations and compliance requirements placed upon them.

There are future opportunities for farmers in the areas of carbon farming, and being part of the bio-economy the Commission seeks, but the detail and implementation remains in its infancy.

From a UK perspective, farmers and processors need to keep a close watch on the EU agenda. Many of the EU's agriculture policy developments will impact on the UK, particularly when it comes to trade and equivalence of standards, and the regulatory 'level playing field' requirement. But also in terms of national government's looking to outdo each other on environmental performance, and what role farmers might have to play in this - good and bad.

Despite the many policy hurdles, and the 'more for less' hand that EU farmers feel they have been dealt, there's no escaping that there is a lot of money sloshing around in the EU. The maintenance, and potential uplift in direct payments through rebate and recoupling loopholes, to EU farmers unquestionably puts UK farmers at a competitive disadvantage; in the short term at least.

However, on the flip side, against a barrage of policy reforms and new legislation that will - according to every study to date - severely restrict EU production and competitiveness, there may be gains to be had elsewhere considering that the EU remains our biggest export market.

The UK may no longer be a part of the EU, but it cannot afford to ignore it.