

Research for AGRI Committee – Rural Areas - Levels of support and impact on competitiveness of farms



Farm competitiveness is a complex, multifaceted concept that lacks a single, standardised definition or measurement method. It includes 'the ability to sell products that meet demand requirements (price, quality, quantity) and, at the same time, ensure profits over time that enable the firm to thrive on the domestic or international market' (Latruffe 2010). Farm competitiveness notably depends on farm size, type of farming, location, human capital, and access to technology and innovation.

Objective and Approach

This study analyses how the Common Agricultural Policy (CAP) and state aid support farm competitiveness, also considering the support to young farmers and women. It identifies the key drivers and challenges for farm competitiveness, and the appropriateness and effectiveness of the CAP in increasing farm competitiveness for the 2014-2022 and 2023-2027 programming periods. The CAP levels of support to competitiveness and to farm income are considered separately.

The study focuses on eight types of CAP interventions that directly contribute to farm competitiveness: coupled income support, sector-specific support, productive investments, risk management tools, knowledge exchange, cooperation, and support for setting-up of young farmers and their complementary income support (CIS-YF).

The analysis is based on a literature review, the 28 CAP Strategic Plans (CSPs), financial data from the AGRIDATA portal and CAP indicators, from EUROSTAT and the FADN and internal workshops with high-level experts.

The present document is the executive summary of the study on Rural Areas - Levels of support and impact on competitiveness of farms. The full study, which is available in English can be downloaded at: <https://bit.ly/41XwZtx>

Conclusions

Total Factor Productivity (TFP) is an indicator of agricultural competitiveness. In the EU, the TFP growth is positive although the growth rate has been slowing down since 2015. It has been mainly driven by labour productivity growth. While TFP is a key indicator of competitiveness, it has limitations, in excluding issues related to sustainability.

Farmers face numerous challenges in maintaining competitiveness. **Current** challenges include strengthening their position in the value chain, price volatility and production risks, generational renewal, adhering to the stringent requirements of the EU legislation on farming practices, addressing climate change and adopting innovations including digital technologies. **Upcoming** challenges notably include risks related to climate change and changes in consumer diets and agri-food systems.

Overall, the CAP equips Member States with tools to address – at least partially – many of the current competitiveness challenges. The CAP policy framework provides various mechanisms to improve market transparency, stabilise markets and respond to crises. However, these tools do not address the significant events that may profoundly affect production patterns in the next decades, e.g., substantial changes in bioclimatic factors and unpredictable consequences of climate change.

The CSPs' interventions demonstrate continuity with the 2014-2022 period, allocating an average of 20% of EU-funded CAP budget to interventions supporting competitiveness. However, support to competitiveness across Member States varies both in budget allocation (ranging between 10 and 30%), type of support (risk management tools, support to productive investments, sector-specific support including support to producer organisations and cooperation) and share of targeted farms.

Knowledge transfer, dissemination and adoption of new technologies, and cooperation have the potential to addressing agricultural competitiveness challenges. Despite an increase in CAP support to these interventions, budgets remain limited, with these issues being often tackled outside of the CAP.

The CAP objective of **strengthening the position of farmers in the value chain** is primarily supported by sector-specific interventions, cooperation, and productive investments in the value chain. Yet, **most CSPs have only made limited use of these tools**.

The **adoption of new and digital technologies** by farmers offers an opportunity for enhancing farm competitiveness, yet it remains a challenge. The CSPs address this challenge heterogeneously through investments, knowledge exchange and cooperation. However, little is known on the uptake of digital technologies by farmers and there is still a lack of data on the added value of the many existing and emerging digital innovations. Member States are also addressing this issue through national or regional strategies.

Young farmers and women are **essential to the vitality of rural areas**, notably in remote rural areas where their presence has declined. **Young farmers** play an **important role in improving the competitiveness of farms** and the dynamics of the agricultural sector also regarding the upcoming challenges. In addition to setting up support and CIS-YF, some CSPs plan specific cooperation and knowledge exchange actions. Yet, **major aspects of generational renewal** e.g. access to land and price of land **are beyond the scope of the CAP** and need to be addressed through national policies.

Gender moved from a cross-cutting issue of the CAP's Pillar II in the 2014-2022 period to a specific CAP objective (SO8) in 2023-2027. All CSPs recognise **challenges faced by women** but only

a minority specifically target women in agriculture. Aspects such as women farmers legal status and social security are beyond the CAP and fall under national responsibility.

The increased exposure to risks for agricultural production (demand and supply factors, climate risks, dependence on imported inputs) also affects farm competitiveness. To mitigate them, the CAP intervenes via direct payments and support to diversification (through conditionality, coupled income support, eco-schemes, Agri-Environment-Climate Measures (AECM) and investment support), contributing to the stabilisation of farmers' income, promoting more sustainable farming practices and helping farmers become more autonomous and resilient. More resilient farms are not the most competitive ones as measured by the current productivity indicators. The CAP also provides **risk management tools** to help farmers cope with production, market and income risks, although their use by the Member States remains limited. Finally, the CAP contributes to the stabilisation of markets and provide tools to quickly react to crises.

Adaptation to climate change is a major current and upcoming challenge for farm competitiveness. The CSPs address this challenge through increased investment support for adaptation and risk prevention, risk management tools, knowledge exchange and increased sector-specific actions. AECMs and eco-schemes aim to support changes in farming practices. While these tools are crucial for addressing climate change, they merely mark a first step in promoting changes in farming practices. The more severe risks highlighted in predictive models such as those developed by the IPCC are yet to be considered.

The EU has established **stringent legal requirements for sustainable farming practices and food safety**. This mandates the adoption of more costly farming practices that affect competitiveness. The 2023-2027 CAP already allows to compensate for additional costs or lost income, but not to fund the production of environmental public goods.

Recommendations

- Integrate **sustainability** aspects in competitiveness indicators to measure 'sustainable competitiveness'. The right balance between sustainability and competitiveness should be at the heart of future policies. Therefore, investigate the potential benefits of moving from compensating for additional costs or lost income to rewarding the real production of environmental public goods (biodiversity, CO₂ sequestration, etc.).
- The response to farm competitiveness challenges also depends on other EU policies beyond the CAP. Assess the tangible effects of policy **coherence** between the CAP and other EU policies in the biannual performance review of the CSPs. In the same vein, future public interventions should rest on global strategies that consider the needs, beyond agriculture, for the vitality of rural areas including provisions for young farmers and women. Strengthen the policy coherence between CAP support and national policies on generational renewal and gender.
- Actively promote the 2023-2027 CAP tools regarding **knowledge exchange and cooperation in support to farm competitiveness** and assess them in the biannual review of the performance of CSPs.
- Provide a targeted and inclusive CAP support for the adoption and use of **suitable new and digital technologies** by farmers.
- Design a comprehensive approach to **risk management** supported by knowledge exchange, in collaboration with farmers to effectively address their needs.

Further information

This executive summary is available in the following languages: English, French, German, Italian and Spanish. The study, which is available in English, and the summaries can be downloaded at: <https://bit.ly/41XwZtx>

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