

# A Guide to Deep Dives on the CAP

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## Executive Summary

The CAP is in a period of transition and the new CAP does not come into full force until 2023. Between then and now, a lot remains to be said about the form it will take in each member state. There is considerable scope for new thinking about farming and rural economy and a real possibility for introducing new elements emerging at regional level, if well-argued and if introduced through appropriate channels.

The two significant differences between the envisaged new CAP and past policies are that EU member states are now responsible for

- Defining important aspects of local CAP implementation.
- Financing a significant part of the CAP based on a blend of EU, national and regional funding.

This is a reflection of pressure on the EC to reduce the CAP budget, as well as an attempt to provide member states with the flexibility they need to better adapt the CAP to local needs and priorities.

Nevertheless, it creates a number of significant challenges. The first is a governance challenge related to how member states will accommodate the different needs of the regions in a national strategic plan that they must submit to the EC. The second concerns the money, which subject to uncertainty and is based on the willingness of member states to dig into their own pockets to finance activities related to rural development.

The practical consequence of this is that the regions must now play a much more pro-active role in the formulation of CAP policy, making sure that their interests are adequately represented in the national strategic plans, and making sure that all options for financing of initiatives that are in their interest, are adequately explored and exploited.

The POLIRURAL project can make a contribution to addressing both of these concerns. Primarily by piloting a governance approach based on the use of Foresight for the development of rural regions, an approach which has introduced a number of innovations in the Foresight process, in particular the use of inventories intended to provide regional Foresight teams with resources intended to ensure adequate preparation of key Foresight process stages and events. These innovations include

- An inventory of drivers of change
- An inventory of policy options
- An inventory of more than 40 financing options, intended as an antidote to the potential dismissal of by central government of needs expressed by regional administration on the basis that there is no money to finance the suggested list of measures.
- A series of guides on deep-dives motivated by many of the high level “missions” of the European Union, its member states and neighboring countries.

Given the constraints of time, resources, and expertise that any finite project inevitably entails, this guide restricts itself to three main issues with regard to CAP reform. Namely to an exploration of reforms intended to improve farm incomes, improve the position of farmers in related value chains, and improve the vitality of rural economies. The regional Foresight teams of the POLIRURAL project may work on any or all of these, or they may choose to explore other issues related to CAP reform. The choice is theirs, and whatever their choice, it is hoped that this guide will provide insights into how they might approach the issue of CAP reform based on the specific needs of their region.

## Background

The ongoing process of CAP reform taking place over the period 2023 to 2027, will take place in a global context of a growing population and increasing demand for food, against a background of increasingly scarce natural resources, disruption to food systems due to climate change, and a significant threat of biodiversity collapse.

While it is true that farming and forestry contribute to the problem of climate change, and to the erosion of natural capital, they have an essential role to play in reversing the problems caused by decades of rapid growth and development, and in restoring a balanced, sustainable, and circular system for shared living within the limits and constraints of the planet and its natural systems.

This calls for a radical and urgent reinvention of agriculture both as a practice and as a business. The current process of CAP reform can be seen as the first phase of a process that will radically reposition agriculture and rural development in the overall structure of the economy.

CAP reform is based on a list of **nine policy objectives**<sup>1</sup>. **The first of these is to**

- Ensure a fair income to farmers.

This is supported by two more objectives which are essentially economic in nature.

- Rebalance the power in the food chain
- Increase competitiveness of the food system

Added to these are two more objectives,

- Create vibrant rural areas
- Support generational renewal

While these seem more social in nature, they clearly depend on ensuring a fair income for farmers, in the sense that if farming allows farmers to live well, it will become an attractive career option for young people as well as a source of entrepreneurial opportunity.

The remaining four policy objectives can be described as existential. They are

- Protect food and health quality,
- Take care of the environment,
- Preserve landscapes and biodiversity, and
- Act on climate change.

This deep dive guide will focus on the first objective, ensuring a fair income to farmers. A lot is said and will continue to be said about the other objectives, mainly on the basis of what farmers have to do to ensure the achievement of the other 8 objectives. Nevertheless, it is possible to argue that the prosperity of farmers does not receive the attention it deserves. In the light of these new and increasingly onerous requirements on farmers and the farming system, it may be time to completely change the narrative about farming and rural economies, and their role in society, and the contribution they make to prosperous urban economies, recognizing the wide range of services they provide to the whole of society, to the entire economy, including that in urban areas. Many of which

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<sup>1</sup> [https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/future-cap/key-policy-objectives-new-cap\\_en](https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/future-cap/key-policy-objectives-new-cap_en)

are of great value or even essential for life itself, but for which farmers are rarely if ever, compensated.

It is therefore suggested to organize a deep dive on CAP reform, which

- Puts the prosperity of farms and farm families at the center of the discussion,
- Recognizes the essential role these play in achieving the other 8 objectives,
- Recognizes the full set of services they provide that benefit all citizens and economic activities,
- Reinvents the rural economy based on the wedding cake model of sustainability which puts natural capital and biodiversity at the base of a system which supports the entire economy and society.



This diagram was first used by Johan Rockström and Pavan Sukhdev from the Stockholm Resilience Centre at Stockholm University, where they show how the Sustainable Development Goals are linked to agriculture and food production<sup>2</sup>.

## Basic Ideas and Concepts

To follow the policy discussion, it is useful to know some of the key policy concepts and their associated vocabulary.

- **Decoupling:** The idea that payments to farmers should not be linked to the volume of production, except in exceptional justifiable cases. Payments related to volume of production

<sup>2</sup> <https://www.stockholmresilience.org/research/research-news/2016-06-14-how-food-connects-all-the-sdgs.html>

can be considered as interfering with market mechanisms and trade distorting. For this reason, most payments are based on the number of hectares being farmed.

- **Multi-functionality:** The idea that farming serves a range of functions that go above and beyond the production of food, feed, and fiber. These include but are not limited to public goods such as valuable landscapes and essential eco-system services.
- **Compliance:** The idea that farmers operate in compliance with a series of regulatory requirements. Good practices that are intended to preserve natural assets such as valuable landscapes, historical and monuments and archeological artifacts, sources of potable water, not to mention biodiversity.
- **Convergence: This is a** mechanism to bring payment values towards a Europe-wide average value. There are two kinds of convergence both of which are requirements of the new CAP.
  - **Internal convergence:** The idea that the value of decoupled per-hectare payment entitlements should converge to a common rate within each Member State or region<sup>3</sup>.
  - **External convergence:** The idea that direct per-hectare payments to farmers across the EU should converge to a common level of payment. The issue is controversial and much debated<sup>4</sup>.
- **Capping:** The imposition of a maximum direct payment... there is much debate about the logic of direct payments, the need for capping and how effective this has been in actually achieving the stated policy goals<sup>5</sup>.
- **Degressivity:** The idea that “aid” to farmers should be modulated on the basis of the size of their farm holding. In particular that rates for large holdings should go down, as these are less in need of “aid.” This much-debated issue is closely linked to the notion of capping and articles here<sup>6</sup>, here<sup>7</sup> and here<sup>8</sup> provide useful background on the history and current status of the debate.

**BISS:** Basic Income Support for Sustainability

**CRISS:** Complementary Redistributive Income Support for Sustainability

Eco-Schemes:

## The CAP until 2019

The last major CAP reform was in 2013 and reached the end of the life in 2019. The period 2020 to 2022 is a period of transition and the new CAP will take effect in 2023 lasting up until 2027.

Doubtless there will be a need to update the CAP once again and the search for the new policy will start in advance of 2027. Most likely there will be one or two years of transition here the old rules are abandoned, and new rules start to be put in place, with a brand-new policy taking over from about 2028 or 2029.

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<sup>3</sup> <http://capreform.eu/distribution-of-direct-payments-the-peculiar-case-of-the-spanish-model/>

<sup>4</sup> <http://capreform.eu/external-convergence-debate-continues-to-simmer/>

<sup>5</sup> <http://capreform.eu/does-capping-direct-payments-make-sense/>

<sup>6</sup> <https://www.arc2020.eu/remembering-20-years-of-rejection-to-aid-degressivity/>

<sup>7</sup> [https://ec.europa.eu/info/news/cap-measures-play-important-role-supporting-farm-income-2021-may-12\\_en](https://ec.europa.eu/info/news/cap-measures-play-important-role-supporting-farm-income-2021-may-12_en)

<sup>8</sup> <http://capreform.eu/tag/degressivity/>

It is worthwhile bearing in mind that the as soon as the new CAP is agreed and takes effect in 2027, discussion will start as to what form the next one will take. For those involved in Foresight for the development of rural regions, this means that some of the issues raised, and some of the ideas discussed now, may not mature to the point of feasibility until some years down the line. Nevertheless, it is important that this thinking start now.

## The CAP from 2020 to 2027

The new CAP is intended to achieve a number of goals. The nine goals are by now well-known and are explained in detail on EC and member state websites.

Each EU member state is required to develop its own strategic plan in which it explains how it will contribute to achieving the 9 objectives of the CAP, established by DG-AGRI, and agreed by the member states<sup>9</sup>. These 9 high level objectives deal with environmental, social, and economic challenges as well as issues related to knowledge and innovation<sup>10</sup>. They are also required to complement the ambitions of the Green Deal and support the achievement of the EU Farm to Fork and Biodiversity strategies.

Member states have until January 2022 to submit their national strategic plans.

From a practical point of view, CAP can be summarized in terms of three types of measures implemented by farmers/

- **Regulatory Measures** are compulsory practices, that farmers are required to implement. They do not get financial support for effectively obeying the law, and contribution to what is known as “cross-compliance.”
- **Mandatory Measures** are based on compulsory good practices that farmers are required to implement, but where farmers receive financial support for their implementation.
- **Voluntary Measures** intended to support more general rural development objectives. Farmers may choose to be involved and they do get some form of financial support for their efforts.

## Strategic Orientations and Guidance

A number of presentations on CAP reform provided by the European network for rural development are available online<sup>11</sup>. IN addition to these, the EC has provided analysis of the 9 objectives and how they pertain to each member state. These country-by-country reports are provided online as a series of analytical fact-sheets<sup>12</sup>.

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<sup>9</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2018%3A392%3AFIN>

<sup>10</sup> [https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/new-cap-2023-27/key-policy-objectives-new-cap\\_en#nineobjectives](https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/new-cap-2023-27/key-policy-objectives-new-cap_en#nineobjectives)

<sup>11</sup> [https://enrd.ec.europa.eu/news-events/events/enrd-seminar-key-steps-cap-strategic-planning\\_en](https://enrd.ec.europa.eu/news-events/events/enrd-seminar-key-steps-cap-strategic-planning_en)

<sup>12</sup> [https://ec.europa.eu/info/food-farming-fisheries/farming/facts-and-figures/performance-agricultural-policy/agriculture-country/cap-specific-objectives-country\\_en](https://ec.europa.eu/info/food-farming-fisheries/farming/facts-and-figures/performance-agricultural-policy/agriculture-country/cap-specific-objectives-country_en)

The EC has also published a number of position papers to support thinking about CAP policy objectives<sup>13</sup>. These include papers on simplifying the CAP<sup>14</sup>. Five papers on the competitiveness, jobs, growth, and farm incomes.

- Ensuring viable farm income<sup>15</sup>
- Structural change and generational renewal<sup>16</sup>
- Farmer position in value chains<sup>17</sup>
- Increasing competitiveness<sup>18</sup>
- Jobs and growth in rural areas<sup>19</sup>

As well as 4 papers on farming practice and the broader role of farming in the economy

- Efficient soil management<sup>20</sup>
- Agriculture and climate mitigation<sup>21</sup>
- Biodiversity and farmed landscapes<sup>22</sup>
- Health, food & antimicrobial resistance<sup>23</sup>

In addition to the guidance on CAP reform provided by the European Commission, the country specific background papers, and the (draft) national strategic plans, other related strategies that need to be consulted include:

- The European Green Deal<sup>24</sup>
- The EU Farm-to-Fork strategy<sup>25</sup>
- The EU Biodiversity Strategy<sup>26</sup>.

## Pillar I

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<sup>13</sup> [https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/new-cap-2023-27/key-policy-objectives-new-cap\\_en#nineobjectives](https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/new-cap-2023-27/key-policy-objectives-new-cap_en#nineobjectives)

<sup>14</sup> [https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/key\\_policies/documents/cap\\_briefs\\_10\\_simplification.pdf](https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/key_policies/documents/cap_briefs_10_simplification.pdf)

<sup>15</sup> [https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/key\\_policies/documents/cap\\_specific\\_objectives\\_-\\_brief\\_1\\_-\\_ensuring\\_viable\\_farm\\_income.pdf](https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/key_policies/documents/cap_specific_objectives_-_brief_1_-_ensuring_viable_farm_income.pdf)

<sup>16</sup> [https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/key\\_policies/documents/cap-briefs-7-structural-change\\_en.pdf](https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/key_policies/documents/cap-briefs-7-structural-change_en.pdf)

<sup>17</sup> [https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/key\\_policies/documents/cap-specific-objectives-brief-3-farmer-position-in-value-chains\\_en.pdf](https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/key_policies/documents/cap-specific-objectives-brief-3-farmer-position-in-value-chains_en.pdf)

<sup>18</sup> [https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/key\\_policies/documents/cap-briefs-2-productivity\\_en.pdf](https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/key_policies/documents/cap-briefs-2-productivity_en.pdf)

<sup>19</sup> [https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/key\\_policies/documents/cap-specific-objectives-brief-8-jobs-and-growth-in-rural-areas\\_en.pdf](https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/key_policies/documents/cap-specific-objectives-brief-8-jobs-and-growth-in-rural-areas_en.pdf)

<sup>20</sup> [https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/key\\_policies/documents/cap-specific-objectives-brief-5-soil\\_en.pdf](https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/key_policies/documents/cap-specific-objectives-brief-5-soil_en.pdf)

<sup>21</sup> [https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/key\\_policies/documents/cap-specific-objectives-brief-4-agriculture-and-climate-mitigation\\_en.pdf](https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/key_policies/documents/cap-specific-objectives-brief-4-agriculture-and-climate-mitigation_en.pdf)

<sup>22</sup> [https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/key\\_policies/documents/cap-specific-objectives-brief-6-biodiversity\\_en.pdf](https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/key_policies/documents/cap-specific-objectives-brief-6-biodiversity_en.pdf)

<sup>23</sup> [https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/key\\_policies/documents/cap\\_briefs\\_9\\_final.pdf](https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/key_policies/documents/cap_briefs_9_final.pdf)

<sup>24</sup> [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)

<sup>25</sup> [https://ec.europa.eu/food/horizontal-topics/farm-fork-strategy\\_en](https://ec.europa.eu/food/horizontal-topics/farm-fork-strategy_en)

<sup>26</sup> [https://ec.europa.eu/environment/strategy/biodiversity-strategy-2030\\_en](https://ec.europa.eu/environment/strategy/biodiversity-strategy-2030_en)

Pillar I is fully financed by the EU and covers the organization of a single market for agricultural products across the EU<sup>27</sup> as well as direct payments to farmers<sup>28</sup>. The direct payments consist of

- 3 compulsory payment schemes that all members states must provide
  - A ‘basic payment’ per hectare
  - A ‘greening’ payment for public goods not remunerated by the market
  - An additional payment for young farmers
- 4 voluntary schemes that member states may choose to provide
  - A ‘redistributive payment’ for the first hectares of farmland
  - Additional income support in areas with natural constraints
  - Coupled support for economic and-or social reasons
  - A simplified payment system for ‘small farmers.’

Pillar I payments are subject to a range of constraints, which guarantee a range of minimal policy considerations, while affording a significant degree of freedom to member states.

For example, cross-compliance has been simplified by making direct payments subject to compliance and member states must use at least 30% of their national allocation to fund greening.

The following table gives an overview of the kind of constraints that apply. This is a complex subject and likely to cause some confusion. Especially as the EU constraints will be interpreted differently by each member state, and perhaps even differently for each region.

Payment	Constraints
Greening	30% of national allocation
Basic payments	70% of EU allocation after deduction of amounts 1 and 2
1: Entitlements	Up to 3%
2: Redistributive payments	Up to 30%
Payments for young farmers	From MS funds up to 2% of national allocation
Payments for less favored areas	Up to 5% of total based on MS contribution
Payments coupled to production	Up to 15% of total based on MS contribution

It is therefore strongly recommended that each regional Foresight team obtain the support of a local expert on CAP reform, not only to understand the condition being applied at EU level, but to follow thinking about how these will be interpreted and applied by each member state.

## Pillar II

Pillar II which is about rural development. It is financed by a mixture of EU, national, regional, and local funding mechanisms<sup>29</sup>. It is intended to help rural regions of Europe address the major economic, environmental, and societal challenges of the 21st century. It gives each member state a degree of flexibility that allows the regional, national and local authorities to formulate their individual multiannual rural development programmes based on a European ‘menu of measures’. It is funded by a mixture of EU, regional and national funding mechanisms.

<sup>27</sup> <https://www.europarl.europa.eu/factsheets/en/sheet/108/first-pillar-of-the-cap-i-common-organisation-of-the-markets-cmo-in-agricultural>

<sup>28</sup> <https://www.europarl.europa.eu/factsheets/en/sheet/109/first-pillar-of-the-common-agricultural-policy-cap-ii-direct-payments-to-farmers>

<sup>29</sup> <https://www.europarl.europa.eu/factsheets/en/sheet/110/second-pillar-of-the-cap-rural-development-policy>

The measures that Member States must include in their programmes the following areas:

- Knowledge transfer and information dissemination measures
- Advisory services, including farm management and farm-relief services
- New quality systems for farm produce and foodstuffs
- Investment in equipment and infrastructure
- Improving the performance and sustainability of farms
- Restoring agricultural potential lost due to natural disasters and catastrophic events
- Actions to prevent natural disasters and loss of natural capital
- Development of farms and related businesses including rural non-farm businesses
- The revitalization of rural villages
- Investment in the development of forests and related businesses
- Setting-up of producer groups and organisations
- Preservation farming practices beneficial for the climate and the environment
- Subsidies for organic farming
- Payments linked to Natura 2000 and the Water Framework Directive
- Payments for areas facing natural or other specific constraints
- Animal welfare payments
- Payments for environmental and climate services based on forestry
- Centers and networks for food, agricultural productivity, and sustainability
- Risk management tools such as insurance, and mutual funds to compensate for losses
- Income stabilization tools

Give the breadth and scope of options to be considered, it is strongly recommended that each regional Foresight team obtain the support of a local expert on CAP reform, not only to understand the condition being applied at EU level, but to follow thinking about how these will be interpreted and applied by each member state.

## An Opportunity to Change the Narrative Around Farming

Until relatively recently farming has not been seen as a very desirable profession or career. It was seen by many as difficult and dirty. Farmers were accused of being cheque-book farming and the receipt of subsidies through the CAP was often seen with a certain contempt, and the employment of essential practices such as set-aside was often snubbed as farmers “being paid to do nothing.” In reality the general public had little understanding of what farmers actually do, and no-one made any effort to educate the public as to the range of services they provide. Since the crisis of 2008, this seems to have changed in the sense that an increasing number of people, many of whom have no natural affiliation to farming or link with the land, have become interested in food production and farming as a profession. This was partly due to the recession, but also due to an increasing interest among consumers in the health of the planet, and an increasing awareness of the potential role of farming in the mitigation of climate change.

Nevertheless, there remain islands of hostility to farmers, who in extreme cases have been attacked by militant vegans, and now suffer attacks from those who are against the slaughter of animals for food and consider the production of beef and dairy products as an insult to the earth.

There is arguably a need for farmers and those who represent them to do a better job in explaining what they do, what they represent and the value they create not only in terms of food production, but also in terms of the role they play in provision of potable water, valuable landscapes, places of rest

and recreation, a high level of biodiversity and a wide range of eco-system services that help urban areas mitigate the worst effects of climate change.

Maybe it is time to stop referring to the payments given to farmers as “subsidies” but as fees for the services they provide, given names to those services and measures the value they provide for society as a whole.

If there is to be a new narrative then what it be and how is it to be developed?

Arguably any progressive vision that refers to the future of farming or rural regions, should bear in mind the need to educate the general public as to the role it plays not only in sustainable food systems, but more broadly as drivers of sustainability of a much broader sets of systems on which all living things depend.

## Regional CAP as a Catalyst to Reinvent Farming and Rural Economies

Progress in achieving these goals will require a combination of strategies and funding sources that go beyond those enabled by CAP and entitlements from the EU CAP budget, and not only because only pillar I of the CAP is financed from the EU budget, while Pillar II must be financed by a combination of EU, national and regional budgets.

This will require calling upon a wider range of strategies, including the Green Deal and the new biodiversity strategy, and related budgets as well as budgets intended to support research innovation, education, and training.

## The Transition Period 2020 to 2022

In a nutshell the main changes are that some of the money to pay for the CAP must now come from the member state and regional budgets, and that each member state is now responsible for certain details of the CAP policy.

Important changes include the following:

- Only active farmers will be eligible for the new payments per hectare
- In the new CAP, only farmers that comply with the regulatory minimum standards are eligible to receive CAP funding. On some compliance issues they do not receive compensation, on others they may, based on the local CAP strategy.
- Our understanding of multi-functionality is evolving towards an more detailed understanding and the ability to monitor and measure the extent to which such public goods are produced, developed, and maintained. It is possible to imagine a near-future where farmers are not simply rewarded for compliance but for “performance” in terms of the quality of compliance and their ability to provide more than a regulatory minimum of public goods and eco-system services. It is possible to imagine a rational system for the production of public goods and service where farmers are required to achieve a minimum but are remunerated for their efforts to beyond the minimum on the basis of a market system for public goods an eco-system services. Its i:implmentaiotn may rely on new and improved EO systems and services, as well as new roles for public sector actors such as

payment agencies (whose role is being disrupted by new EO services and the requirements of CAP reform) as well as providers of advisory services. The new CAP is a step in that direction. Arguably progress in this direction will be accelerated by the climate crisis, the COVID recovery package, and the Green Deal, and the new biodiversity strategy.

Important features of the new policy include the following:

- Much of the programming of the CAP at member state level will be decided at member state level on the basis of national strategic plans. This will allow member states to decide priorities for support and put in place programming that takes account of national (and regional) specificities and priorities. The POLIRURAL pilots are significant in that they are an opportunity to demonstrate how the regional needs can be introduced into the national strategy process.
- There will be an overall reduction of direct payments to farmers. These are counted under Pillar I of the CAP and are entirely funded by the EU budget. This reduction will be carried out based on a redistribution of payments, whereby some farmers would end up better off and some less well off than in the past. This is intended to address criticisms of past policies where highly profitable well-run industrial scale farms, which were in no need of assistance, benefited from high levels of support from the CAP, whereas small farmers, who really did need help, were not getting as help as they needed.
- There will be an overall reduction of EU contribution to rural development, the so-called Pillar II of the CAP. The general principle is that budgets for rural development will come from a combination of funding from the EU, but also from national and regional budgets.

The overall intention is that the smaller or poorer farmers should be better off under the new system. It is advisable that those running a regional Foresight initiative maintain a healthy skepticism as to the claims of the central governments. One reason is that an increasing share of the overall budget for implementing the CAP at MS or regional level, will come from member state and regional funds, and will be required to align more broadly with a range of bigger policy goals, most notably with the goal of achieving net zero in 2050, weathering the numerous disruptions that are expected (new pandemics, economic recessions, impacts of climate change, the transition to a post carbon economy, not to mention the possibility of biodiversity collapse or other loss of natural capital at local level) All of these considerations will increase weight upon the minds of policy makers, making demands on their time and calling upon available budgets.

One consequence of this is that farmers will have to make a stronger case for whatever budget they think they need, not only from the EU but from member state and regional financing lines. This is also why it is so important to become aware of new and alternative methods of financing that have emerged around the world, and which are increasingly being considered in Europe, in particular methods that rely on green bonds, impact investing, the social economy.

The Foresight exercise, has an important role in formulating those arguments, pointing towards new financing options, and making sure that the public sector fully live up to the goal of creating a more sustainable, more vital, and more robust rural economies.

Now EU member states are responsible for a significant share of the detailed implementation of the CAP, based on their production of a national strategy. This raises the governance question of how

member-states will integrate the needs of their regions, presenting a plan that makes sense in terms of a national strategy, while respecting the different needs of its regions.

The story from Ireland suggests that this is a complicated process and one that is not easy to get right the first time, where there is a real need to experiment with methods of engagement to find the most appropriate way to proceed.

This also raises the financing question. Not only do members states have to provide many of the details of CAP implementation, but they must also find the money to finance much (if not most) of its implementation, from its own national and regional budgets.

The new CAP could have a strong catalytic effect on the re-invention of the business of farming and on the structure of rural economies. Important additional factors in favor of such a transition right now are ...

- A general sense of crisis in relation to climate change,
- An increasing awareness of the importance of the environment, not only as the basis for life on earth but also a key component in limiting the effects of climate change,
- Pressure on farmers from food processors and from public opinion to reduce their carbon footprint,
- An emerging and rapidly growing carbon-industry sector,
- The reinvention of models of the economy based on biodiversity and the concept of natural capital.

## Difficulties Adjusting to the New CAP

It has not been easy for the member states, adjusting to the new CAP. Ireland in particular has held the view that issues such as the reduction of GHG emissions and other measures needed to address climate change can be ignored and dealt with “politically.”

The Irish Farmers Journal recently reported “outrage” at the department’s recent proposal for a cap on herd numbers, effectively preventing ambitious farmers from growing their business, as well as at the perception that recent efforts at consultation amount to a gathering of views offering no opportunity for debate<sup>30</sup>.

Pat O’Toole writing for the Irish Farmers Journal refers to controversy related to the redistribution of direct payments, which (as expected) will leave some farmers with a slight increase and others with significant cuts<sup>31</sup>. News of this dispute made it into the FT on August 19, in an article on how Irish farmers fear for their livelihoods as a result of the overhaul of the system of agricultural subsidies<sup>32</sup>.

The issue of GHG emissions is finally being addressed<sup>33</sup>, though there has been a divergence of approach between the national climate strategy and that of the department of agriculture. At least it

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<sup>30</sup> <https://www.farmersjournal.ie/farmers-in-the-dark-at-town-hall-meeting-640664>

<sup>31</sup> <https://www.farmersjournal.ie/500m-shift-in-cap-direct-payments-640438>

<sup>32</sup> <https://www.ft.com/content/f0619c5f-fe6c-4362-8da6-5846397d9d29>

<sup>33</sup> “Agricultural climate targets already being planned” by Hannah Quinn-Mulligan, July 28, 2021.

<https://www.farmersjournal.ie/agriculture-climate-targets-already-being-planned-637429>

is now recognized that Irelands climate is changing<sup>34</sup>, that Ireland is getting wetter and warmer, and that these change will have consequences for Irish agriculture<sup>35</sup>. But the matter seems far from settled.

Not only is there controversy over the way that methane emissions from cattle are measured<sup>36</sup>, the Irish Farmers Association, claims that methane emissions from cattle are being overstated<sup>37</sup>. Indeed, there is real evidence that this may indeed be the case. It should also be recognized that fruit and vegetables grown in green houses, as well as organic and vegan food, also produce emissions and that these too should also be measured, and steps taken to be reduced.

Farming communities must also now reckon with the reality that major food companies have made public promises to achieve net zero by a certain date, by virtue of their taking part in the CDP or some other reporting systems such as SBT. These include major producers of meat and dairy products, which claim that over 60% of their emissions originate with the farmers. There is no way for them to achieve net-zero without the farmers also achieving net-zero. milk They have started to take measures not only to encourage farmers to reduce their footprint, but also by diversifying into and developing less carbon intensive products such as plant-based alternatives to animal-based foods.

As indicated by the views of farmers that took part in a debate held in Ireland in advance of elections in ... many farmer yearn for an opportunity to respond to what they see as unfair criticism and respond to their critics. They also see Ireland as having a competitive advantage as a result of the way in which it raises cattle for beef and dairy. This is explained in more detail in annex.

This is going to be an increasingly important topic for the future and can be seen as an opportunity for the sector, not as something to be swept under the carpet.

This is an opportunity to change the equation of competitiveness and to change the narrative around farming, which has bordered on insulting for many years for, those involved in the business.

They will also have consequences for the value of service by provided by farmers to the wider public. Arguably this should be reflected in the way that farmers are compensated.

Arguably it should be acknowledged that they provide service to society and the economy, above and beyond the food, feed, and fiber that they produce for and that they should be compensated for this, on the basis of “fees for service” and not subsidies.

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<sup>34</sup> Caoimhe Harney writing for the IFJ on August 12, 2021. <https://www.farmersjournal.ie/ireland-s-climate-getting-warmer-and-wetter-641000>

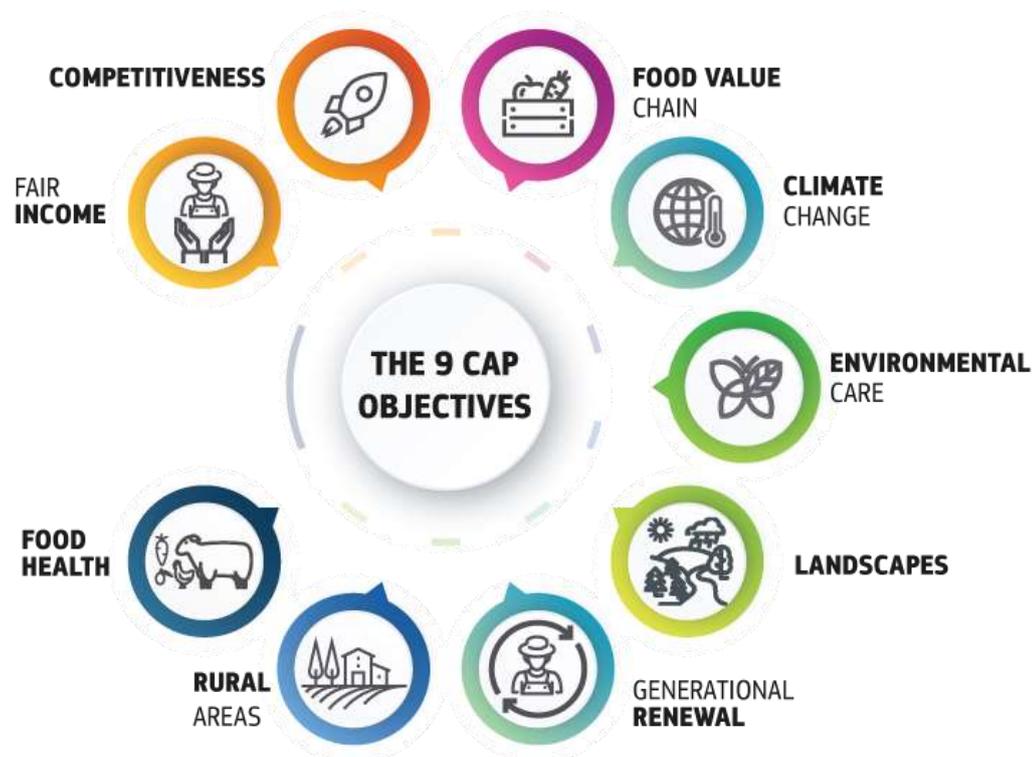
<sup>35</sup> <https://www.farmersjournal.ie/rising-temperatures-have-critical-consequences-for-agriculture-minister-ryan-640081>

<sup>36</sup> <https://www.farmersjournal.ie/high-confidence-in-methane-metric-could-be-good-for-national-herd-640100>

<sup>37</sup> <https://www.farmersjournal.ie/methane-emissions-from-cattle-are-being-overstated-ipcc-report-641512>

## The Deep Dive on CAP Reform

The new CAP is described by the EC as encompassing 9 policy objectives<sup>38</sup>.



The 9 objectives of CAP reform point to three areas for improvement, based on

- Fair income for farmers,
- Better position of farmers in supply chains,
- More vibrant rural life based on diverse farming population and new entrants but also new entrants in other economic sectors such as
  - Tourism and leisure,
  - Energy and circular economy,
  - The provision of eco-system services, including the burgeoning sector of CCUS and the provision of what are called “nature-based solutions.”
  - The accommodation of entrepreneurs from towns and cities

It is therefore suggested that For the purpose of the deep dive, the pilot teams focus on 3 main objectives,

- Fair Income for farmers
- The position of farmers in the food value chain, and
- Vibrant rural areas, a subject which is very closely related to generational renewal.

<sup>38</sup> [https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/new-cap-2023-27/key-policy-objectives-new-cap\\_en](https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/new-cap-2023-27/key-policy-objectives-new-cap_en)

The commission has published a number of position papers on these objectives, and it is recommended that all regional Foresight teams, read them and make themselves familiar with these publications. It is important to understand the original texts and not to rely entirely on local interpretations and whatever the press has might have made of these basis ideas.

It is worth noting that on the subject of a “fair income” for farmers the European Commission points out that “in 2017, farmers earned on average just under half of what could be gained in other jobs, from a third a decade ago.” The issue of fair income for farmers is seen as being of importance for food security and for the resilience of the food system. This theme is elaborate in an EC paper<sup>39</sup> but the question of fair income for farmers is also one of social justice and it is well worth exploring what a fair income might look like as part of the deep dive on CAP reform. *The basis for such a discussion relies on good data and a set of leading questions to set up the debate. This will be discussed in more detail later.*

Concerning the position of farmers in the food value chain, the Commission points out that “agriculture is characterized by a stagnant and low share of value added in the value chain, due to high input costs, variation in production and incorporation of new services.” The EC briefing document refers to the possibility of measures that “strengthening cooperation among farmers, increasing market transparency and ensuring effective mechanisms against unfair trading practices.”

Organizing a useful and fruitful discussion on this as part of the deep dive, requires preparation in terms of gathering real data and setting up good questions around which to structure the debate. This will be dealt with in greater detail later on in this document.

With regard to the creation of a vibrant rural economy, the EC has provided a position paper on “structural change and generational renewal”<sup>40</sup> as well as one on “jobs and growth in rural areas”<sup>41</sup>.

The paper on structural change and generational renewal refers to the need to modernize the sector by attracting young people and improving their business development.” This is something that has been all but neglected in the past. Arguably farmer get lots of support to help them become better producers but very little to improve the actual farm-based business. The H2020 funded SKIN project on short food supply chains found that schemes to reward short supply chains reward farmers for running farms shops and similar initiatives, despite the fact that the underlying business provided very little in terms of extra income, and arguable little added value either to the farmer or to what was often a very limited number of local clients. The project questioned the wisdom of rewarding farmers for running what were in effect weak and barely profitable businesses. On the other hand, the project also identified farmers who managed to transform themselves by running very effective D2C retail operations. Perhaps this kind of weakness in the overall system of support to farmers.

The paper on jobs and growth in rural areas deals with the measures that “promote employment, growth, social inclusion and local development in rural areas, including bio economy and sustainable forestry.” This is of great relevance to the POLIRURAL project which emphasizes the role of new entrants, and access to land. Over the course of the project the initial focus of new entrants to the

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<sup>39</sup> [https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/key\\_policies/documents/cap\\_specific\\_objectives\\_-\\_brief\\_1\\_-\\_ensuring\\_viable\\_farm\\_income.pdf](https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/key_policies/documents/cap_specific_objectives_-_brief_1_-_ensuring_viable_farm_income.pdf)

<sup>40</sup> [https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/key\\_policies/documents/cap-briefs-7-structural-change\\_en.pdf](https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/key_policies/documents/cap-briefs-7-structural-change_en.pdf)

<sup>41</sup> [https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/key\\_policies/documents/cap-specific-objectives-brief-8-jobs-and-growth-in-rural-areas\\_en.pdf](https://ec.europa.eu/info/sites/default/files/food-farming-fisheries/key_policies/documents/cap-specific-objectives-brief-8-jobs-and-growth-in-rural-areas_en.pdf)

business of farming has been extended to include new entrants to the rural economy. This recognizes the fact that

- Farming families also need access to off-farm employment, a condition by both established farm families and new entrants to farming,
- The nature of tourism has changed due to COVID, arguably in favor of new forms of local tourism, based on staycations and multiple short stays.
- New opportunities for employment go beyond those created by rural tourism and include employment in sectors such as energy systems, circular bio-economy base on waste processing and various forms of green chemistry, as well as new kinds of supply chains linked to new and emerging urban agricultural paradigms.
- Many who live in rural areas work in neighbouring towns and cities. Thanks to COVID there is a growing trend towards WFH, and so they increasingly both live and work in rural areas, creating demand for a service infrastructure<sup>42</sup> which was formerly provided in the towns and cities. This dynamic is behind the transformation of sleep rural villages into more dynamic “zoom towns” which have been transformed by telecommuting.
- Even before the pandemic it was already possible to discern emerging trends where city-based entrepreneurs and start-ups had started to move to rural areas to avoid excessively high city rents and in-flexible renting conditions, accompanied by the appearance of rural coworking spaces, increasingly attractive to small companies and independent professionals.

## Essential Preparation

Essential Reading for the local Foresight team

- The background papers on CAP reform, in particular on the 9 objectives of CAP reform
- The European Commission position paper for your region
- The (draft) national strategy paper
- The Green Deal (energy and climate strategy)
- The Farm to Fork strategy
- The EU Biodiversity Strategy

It is not reasonable to expect all of the stakeholders and beneficiaries to do this, but the local Foresight team needs to do it, they need to be able to provide guidance and drive the process to a useful conclusion.

It is essential to involve local experts on CAP reform who can explain the logic of the reform and highlight, what has changed and the opportunity that this has created for a reinvention of agriculture in the region and the direction that this is taking in your region.

## Deep Dive on Improving Farm Incomes

A Discussion on Fairness

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<sup>42</sup> Everything from shops, to creches and broadband

One of the key concepts arising in relation to CAP reform is the idea that farmers should be fairly compensated for what they provide. The concept of fairness can help to structure much of the discussion. One can ask for example if it is fair that...

- Farmers sometimes end up selling produce at less than the cost of production,
- Off-farm income and revenues from other family members are sometimes needed to subsidize the farming activity,
- The sale of assets such as land for building are sometimes used to finance major family expenses,
- Farmers provide valuable services for which they receive no compensation, and
- To the extent that they are compensated for such services, is the level of compensation fair, considering the value that they provide?

This discussion might seek to quantify the extent to which farmers experience such conditions, and what can be done to improve the situation.

It is important to notice that many of the ecological and climate related services provided by farmers, such as carbon sequestration, are now at the center of rapidly growing industry sectors, providing nature-based solutions to the challenges of the climate change and the challenge of transition to a post-carbon economy.

Growth in these new industry sectors is being driven by the climate-based regulation of industry, by consumer demand and supply chain dynamics, by activist shareholders and the risk management strategies of the finance industry, as well as by venture backed entrepreneurs and private equity.

Important questions need to be asked as to how rural communities in general and farmers in particular can benefit from this new and emerging dynamic.

## Farming and the Carbon Economy

One source of unfairness in rural life is arguably provide by criticism levelled a farmers by certain consumer groups. Farmers in general, but dairy and beef farmers in particular, are routinely attacked by a variety of groups on the basis that they are “destroying the planet.” Though usually well-meant, such criticism is often inaccurate. Reality is more complex that some activists would have one believe, and many farmers feel that they need to work harder to educate consumers as to what is really going on.

Whereas it is true that these sectors emit GHG gases such as methane, and in that sense are doing damage to the planet, they also sequester carbon in soils, hedgerows, and this should be taken into account when measuring their overall impact on the environment.

Agricultural researchers in New Zealand for example point out that emissions from both beef and dairy production have decreased by about 30% since 1990. They also point out that sheep farmers can offset the existing emissions by anywhere from 63% to 118% because of the carbon captured by the trees and vegetation on their land<sup>43</sup>.

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<sup>43</sup> <https://www.farmersjournal.ie/new-zealand-farms-could-be-offsetting-on-farm-emissions-by-up-to-118-575726> by Amy Fiord on October 7, 2020.

For these reasons, New Zealand farmers therefore want formal recognition of carbon captured on their land, so they can determine what their true impact of their activities is, inform consumers and take measures needed to reach net zero by 2050.

It is interesting to note that farmers interviewed by the Irish Farmers Journal on February 3, 2020 as part of an event organized in advance of national elections, several of the farmers present spoke of this issue. They spoke of their desire to be part of the carbon economy, to measure both their emissions and their sequestrations. They felt confident that this could be made into a factor of competitiveness, that compared to other countries their levels of emissions were already quite low and could be decreased even further over time.

### A Baseline Model for Farm Incomes

To the extent that it is possible, the regional Foresight teams might establish a model for farm incomes. This should, be based on available data and provide a realistic overview of the challenge as it presents itself in the pilot region. The involvement of local experts may help in this regard. Local payment agencies may also be able to help. In principle they have very detailed information on the situation of farms, their activities, output, and revenues, especially in terms of the payments made to farms under the CAP. Relevant association may also have up to date information.

This is a practical exercise and what follows are suggestions as to the kind of information that might help to support a fruitful discussion on how best to help farmers improve their incomes, by providing insights into what aspects of the farm economy might be most amenable to change, and what issues if adequately addressed might have the biggest impact over time.

One can ask if it is fair to treat the sector as though all actors operate with similar conditions and natural advantages. It might be worthwhile to segment the population of agricultural producers in terms of the scale and profitability of their enterprise, with a view to having a more differentiated approach to supporting growth in the sector.

It is a part of the reality of agricultural life that many farms in a region may not be viable as stand-alone businesses. As a result, the prosperity of a farming family may depend on a wide range of revenues, not only from the activity of agricultural production but from other activities, and not only from the work of those involved in agricultural production but also from the work of other family members who may be employed in entirely unrelated sectors such as teaching, public administration, or various service sectors such as retail, transport, legal services, accounting, and media.

There may be significant levels of poverty among those involved in agricultural production, poverty that may be visible and easy to recognize as well as poverty that is effectively hidden, being alleviated by support from families and the occasional sale of land for construction or other purposes.

Whereas a lot of attention has and continues to be given to the production function of farming, with a view to ensuring “food security” in terms of ensuring an adequate supply of low-cost nutritious

produce for consumers and processors alike, relatively less attention has been paid to improving the viability or financial performance of farm-based businesses or to improving the business model of farming itself.

One can try to establish a baseline for an adequate level of income for a farmer and for a farming family. It may be useful to compare with other professional activities, and also to other concepts such as

- A living wage
- A minimum wage knowing that national minimum wage rates may fail to take account of regional differences in cost of living, due to factors such as the need to maintain a car, and lack of access to low-cost public services.
- A dignity wage, a term often used in the context of economic development, which refers to the amount needed for a family to live a modest but dignified life. In practice this can be very different from that obtained by two parents on a minimum wage.

Whether or not a model for farms incomes exist at regional level is an open question, and it should be asked of local experts and key local stakeholders. Where such a model exists, it can be used to anchor a discussion on growth at the level of farmers and their farm-based businesses.

Where such a model does not exist, it may be possible to gather insights based on questions directed towards knowledgeable bodies or individuals.

Bearing in mind that the concept of sectoral or regional growth can be very far removed from those of growth at personal or firm level. The regional Foresight teams might try to obtain information on revenues from agricultural production and related activities can in principle be modelled at different levels. At the level of

- The individual farmer
- The farm family
- The community
- The region

It may be useful to obtain information on quality of employment in the region, for example by asking how many farmers or members of farming families earn

- Above or below a living wage?
- Above or below the minimum wage?
- As gig-workers (many in full time employment do gig work to make up a living wage)?
- On zero-hour contracts (their time is consumed by an employer but not remunerated)?

Even in regions which have a high overall level of prosperity, and where macro-level statistics look good, there may be specific groups that are doing badly, and whose role in the regional economy can be improved through appropriate measures. Some of this information may exist in terms of

This may be captured to some extent by the Gini coefficient which in principle can be captured at any level of geographical granularity ...

Household composition

- Parents

- Grand parents
- Adult children
- Children of school-age
- Other (refugees etc.)

#### Household incomes

- Incomes of parents or heads of family
- Contributions of grandparents
- Contributions of adult children
- Others (assistance for looking after refugees ...)

#### Farm household incomes

- Revenues from agricultural production
- Revenues from directly related downstream activities such as processing
- Revenues from D2C sale of produce via farm shops, farmers' markets, other retail models
- Revenues from CAP
- Revenues from eco-system services (carbon sequestration,
- Revenues from Income from Non-farm related farm incomes

#### Typically, there are three main ways to improve the bottom line

- Increase revenues,
- Reduce operating costs,
- Manage the exceptional costs.

#### Sources of revenue...

- Agricultural production
- Forestry
- Labor for hire for related services (driving or operating machinery...)
- Other private sector activities
- Pensions, social security, various forms of income support.

#### Operating costs

- Interest paid on loans for purchase of land, livestock, feed or machinery
- Leasing of land
- Buy machinery
- Buy material inputs such as seed, feed, and or

#### The exceptional costs could include

- Loss of output due to disease, and unseasonal or extreme weather events
- Loss of demand due to changing market conditions
- Loss of property due to theft of animals, machinery, or other inputs
- Loss of property due to extreme weather events (flooding, wild-fire, landslides...)

### Access to Land and Other Barriers to Growth

Access to land is often cited as a barrier to growth of the sector. If this is a concern, it is important to know the level of demand, and if this is for land to buy or land to lease. There may be other land

related issues such as access to land for building on, for social housing or for operating non-farm related businesses, for example related to first mile logistics or the organization of circular economy clusters.

There may be competition for other uses, anything ranging from tourism and leisure facilities such as golfing and camp-sites, as well as land set-aside for its natural beauty, for the historical and archaeological assets it contains, its conservation for water provision or its potential for the provision of eco-system services via mechanisms such as wilding, rewilding or flooding.

A more recent barrier to growth has appeared in the form of restrictions on herd numbers. This is a disaster for ambitious farmers who want to expand their activities, as it may even require them to cut back. The motivation for this appears to be a desire to limit GHG emissions. But this seems to be a clumsy political fix and lacks a basis in fact, in particular it lacks a consideration of real options for the immediate reduction of emissions based on sequestration and for long-term reduction of emissions based on new feed strategies, feed additive technologies, genetics and even the use of wearables.

Typically farms and farming activities are under-served by financial services, both in terms of access to loans and suitable insurance products. This situation may have been exacerbated by the increase in recent years of climate related damage to crops, property, equipment, and infrastructure.

One of the advantages of having a model for farm incomes is that it allows one to move beyond anecdote, more easily identify the most important issues that may need to be addressed, and then focus subsequent discussion on measures that can be undertaken to address those issues.

Despite their length, the lists provided above are far from complete. The regional pilots are invited to select from those the items that they find useful and most relevant for the context in which they operate. This is a very practical exercise, and no region is expected to cover all items mentioned. The overall approach is to start with a broad overview, prioritize issues for further discussion and then focus the effort on those.

Where it is found that important information is missing, such gaps can be translated into elements of the action plan, items that require further investigation, to be addressed under the heading of research or feasibility studies.

## **Deep Dive on Improving the Position of Farmers in the value Chain**

Although it is customary to look at the position of farmers in the agri-food value chain, it is worth noting that they participate in far more than just the food system.

Even in the case of food, it might be worth while distinguishing between international food chains and local food systems.

In addition to food, farmers increasingly occupy a position in other value chains, most notable in areas such as

- Tourism
- Energy

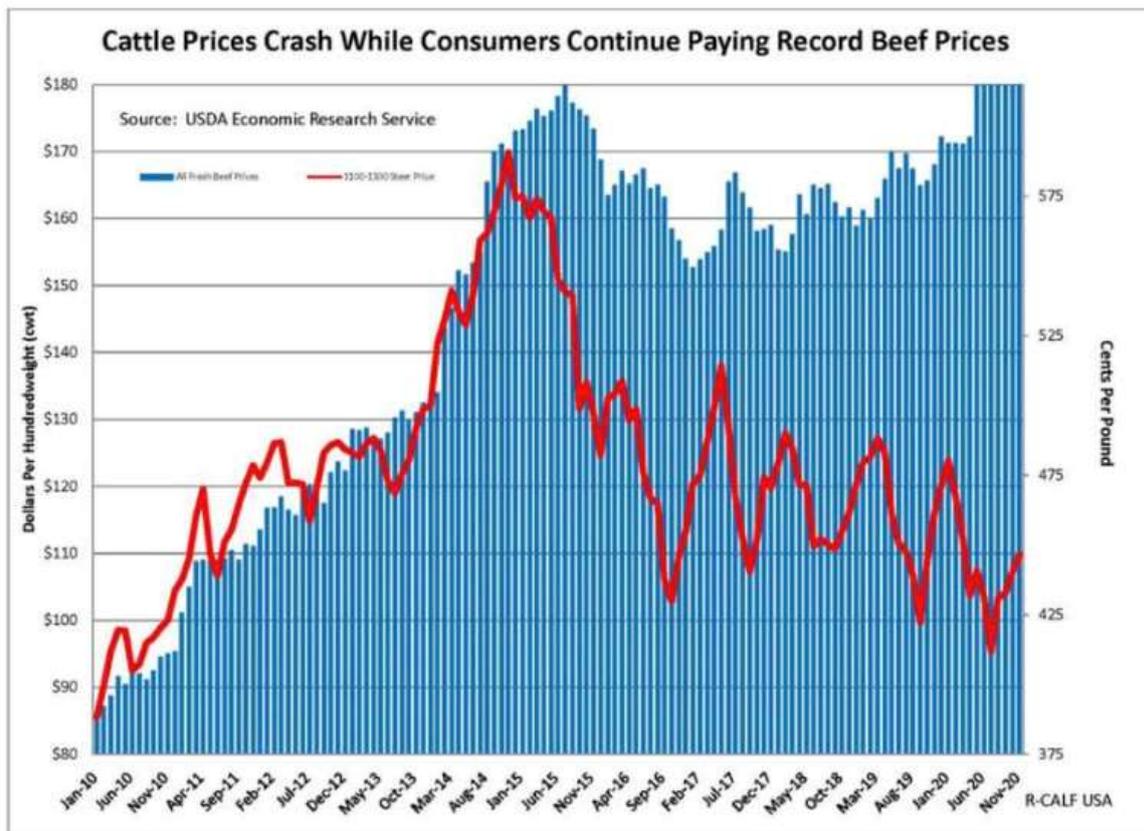
- Green chemistry and more generally
- The circular economy.

In some countries, the role of energy in farming has increased to the point that it accounts for a significant share of their income, even to the point of competing with food production in importance, and attracting the attention of private equity, which due to the climate crisis sees in this a very great area of opportunity for hands-on investment. In this section however, we will mainly focus on food related value chains.

### Dealing with Concentration and Monopoly

Farmers are subject to intense pressure from the companies they supply, to reduce their prices, and often claim that they end up selling to intermediaries at process below the cost of production. This is especially true in certain sectors in certain countries, for example in the beef sector in Ireland.

Matt Stoller, a, American journalist who publishes BIG, a newsletter about monopoly power, wrote about the impact of concentration in the beef industry in the US<sup>44</sup>. His article contains an informative graph that shows how the situation for beef farmers in the US, somehow changed in 2014, when the price paid to farmers suddenly diverged from that charged to consumers, to the detriment of farm incomes.



<sup>44</sup> <https://mattstoller.substack.com/p/beef-is-expensive-so-why-are-cattle> by Matt Stoller in May 2021, an article entitled “Beef Is Expensive. So Why Are Cattle Ranchers Going Bankrupt.”

Graphs such as thee strongly suggest that something fundamental has changed in the beef value chain. Farmers are justified in feeling aggrieved and often respond by accusing processors of operating cartels or employing unfair practice.

In 2019 for example, the Irish Competition and Consumer Protection Commission received over 200 complaints from farmers and the associations that represent them, suggesting that the beef industry was operating a cartel and squeezing them on price. In 2020, it carried out an investigation and concluded that there no evidence of collusion between beef factories in Ireland, that would suppress the price paid to farmers<sup>45</sup>. Another IFJ article from 2019 reported on how supermarkets (in Ireland) make double digit profits on the sale of meat (20% to 45% gross profit margins) at a time when the farm gate prices of meat is below the cost of production<sup>46</sup>.

This is a familiar pattern a such accusations, collusion is notoriously hard to prove, and new thinking is needed if beef farmers are to break out of this trap.

The classic solution is to demand that beef farmers produce more efficiently, or move into higher value products, such as organic beef or beef special breeds, and it is possible that in the very near future they will be advised to solve the problem by producing even carbon zero beef<sup>47</sup>. But this is not an effective solution to the problem that due to concentration and pressure from shareholders and many other factors, despite the fact that great profits are made by specific actors in the value chain, these profits are not being shared with the farmers.

One approach is to appeal to the public sector to use procurement strategy to implement a system that is fair. The very least it can do is to promise to procure a minimum of produce locally. This approach is already being take in some European regions and countries. But the issue remains as to whether or not the public sector pays a fair price or just the market price. It is possible in principle to expect more from the public sector and to ask more, for example by their promising to procure at a “fair” price. If there is agreement on the principle of paying a fair price to local producers, one that amounts to the cost of production plus an agreed mark-up, this will only amount to a practice of public procurement that has been applied by the public sector in many areas in the past.

Other approaches are also feasible and worth exploring, especially in this period of unprecedented disruption. One radical approach is to mimic that taken by countries dealing with unfair competition in international trade. The same principles that are applied in the international context and which are well understood by experts in international trade, could in principle be applied locally.

It is worth noting that governments sometimes (though arguably not often enough) compel companies to better treat their employees, or more accurately to better treat those who work for them. This is an increasingly important issue, and also a timely one in view of debates about income inequality, social justice, and the overall resilience of our economic systems. Target groups include gig-workers and those on zero-hour contracts, so why not also farmers which in many cases are suppliers to powerful and profitable groups that occupy what are effectively monopoly positions in the overall value chain and exert considerable power over the working conditions of suppliers? This

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<sup>45</sup> <https://www.farmersjournal.ie/no-cartel-in-the-beef-industry-competition-watchdog-550294>

<sup>46</sup> <https://www.farmersjournal.ie/revealed-supermarkets-take-fat-profits-out-of-irish-meat-514447> from December 11, 2019.

<sup>47</sup> There are already a small but increasing number of agricultural producers claiming to be carbon zero, these include producers of wine in New Zealand, of beer in the US and at least one producer of beef in the UK, <https://carbonneutralbeef.co.uk/about-us/>

is not an issue that can be solved in a short time, but something could be gained from treating the value chain situation of farmers as part of a larger challenge of economic and social justice.

In the end it is highly unlikely that merely appealing to the sense of “fairness” of large industrial groups will yield much to farmers in terms of better treatment. History suggests that an approach based on finding a guilty party and extracting compensation, is unlikely to provide a solution. So new thinking is needed.

This issue of incomes for beef farmers in Ireland is a good example of a hard persistent problem that has become worse over time. There is no need to find a guilty party. The approach is based on objectively gathered about the damage being done or unfair impact on the aggrieved party. Taxes , fines, or other charges are then levied against the offending parties which are asked to repair their ways and put in place processes which can be considered “fair.”

## Cooperation and Cooperatives

Other strategies to improve the include the creation of producer owned cooperatives, for killing the animals, as well as processing, and distribution and sales. Beef cooperatives have existed in the past. Many have gone bankrupt, and some have been captured by special interests and transformed into traditional holdings backed by non-community interests. This is not a reason for not trying the cooperative model. Cooperatives are like any other business in the sense that they need to be

- Set up correctly,
- Well managed and
- Adequately financed.

These are all challenges in the sense that

- Few schools teach the skills needed to establish and manage a successful cooperative,
- Finance from traditional sources is not readily available as cooperative projects are not structured with the intention of to return a large part of their revenues to lenders or commercial investors.

Work done by the H2020 SKIN project on short food supply chains demonstrates that cooperatives can be highly successful and can have a transformative effect on the fortunes of owners, whether they are consumers of producers. Both of these problems. The first on the basis of well-conceived training and education programs. The second on the basis of alternative forms of finance such as impact funds, government owned venture capital funds, opportunity funds and community funds.

The model can be adapted to almost any kind of activity, in principle even to new and innovative ideas such as producer-owned carbon projects, which may help to deal with the short-term problem of decarbonizing the farming sector, at the level of the region or sector.

## D2C Retail Models

More generally, the issue of improving the position of farmers in the food value chain, has relied on encouraging them to sell directly to consumers. This challenge has been addressed by a number of H2020 funded research projects and CSAs, including the SKIN project on short food supply chains.

Among its main observations are the relatively poor business performance of many on-farm shops, even those that have repeatedly won-prizes for their efforts. These often turned out to be remote, open at strange non-customer friendly hours and providing a very narrow range of produce. To the extent that they used e-commerce the sites were hard to find online and generally failed to generate much revenue. Arguably, for most farmers, the on-farm shop was not much more than a distraction and added little or nothing to the bottom line of the business. Nevertheless, the SKIN project did identify cases where the shop was thriving and had totally transformed the underlying farm business. These cases succeeded because of the underlying know how of the owners and their commitment to becoming just as good at retail, as they were at agricultural production.

SKIN identified any examples of well-run coops that really succeeded in the D2C sales, marketing, and distribution of farm produce. Some of these were organized and run by up to about 100 farmers. Others were run by consumers implementing buy-local pro-farm policies. These ranged in size from cooperatives with 400, 200 and 20,000 members, based essentially on organizing the voluntary labor of members, to cooperatives with over 8 million members relying on full time paid professional management. Some of them claimed that they paid producers up to 20% more than what they got from traditional retail networks, and that the members paid up to 20% less for their basket of groceries.

The SKIN project conducted a study on the future of short food supply chains. A part of this focused more generally on the future of retail, with a view to learning about things that are happening in the world of retail that could be adapted to the case of agriculture and food. It turns out that retail has been in the midst of a major disruption over the last decade, a series of changes which started to accelerate from about 2015, and which really took off due to the impact of the pandemic on the retail and restaurant sector as well as on consumer behavior. The main issues identified in the study include

- A move away from bricks-and-mortar based retail models
- A move towards multi-channel or omni-channel retail models
- The emergence of D2C brands which eschew retailers and sell direct to consumers
- The proliferation of new delivery models (click and collect, direct to home, work, car-park...)
- The emergence of new systems for food preparation (ghost kitchens, dark kitchens...)
- Accelerated adoption of e-commerce
- Accelerated adoption of robotics (cobots for kitchens and autonomous delivery)
- The entry of technology companies into retail (from warehouse and kitchen robotics...)

The SKIN project also had interesting findings in relation to farmers markets and kiosks as well as various pick-up and delivery models. So, there is hope. So far however, almost none of this seems to have spilled over into farming as an enabler of increased farm incomes. There is a serious lack of innovation and critical thinking about how to create added value for farmers based on D2C retail models and great areas of entrepreneurial opportunity for those that do.

Good examples of successful well run D2C retail ventures producers include the farmer owned retail system of Appelen Roes in Belgium and the producer owned retail cooperative on the Netherlands called Landwinkel. Both of these have had a transformative effect on the fortunes of the farmers that own them.

Notable examples of successful well-run consumer owned cooperatives include Bees COOP of Brussels, as well as well as la Louve and Coop à Paris in Paris. Whereas operating a cooperative requires some structure, a totally different approach is provided by the REKO system in Finland. This is a flat, self-organizing model based on the use of social media. It has no CEO, no investors, no

buildings, no overheads and back in 2015 when we studied it, it had 340,000+ members in Finland alone.

Herrenboeren is an example of a farm managed by a community of about 200 residents of a small town called Boxtel in the Netherlands. They obtained the land from local government on a concessionary basis and employ a farmer to produce food according to their needs.

Farmers and Co. a franchise network created by cooperatives of the Balearic Isles, with a view to developing the market for the 500+ products offered by its 600+ members. The network undertakes logistics and distribution, sales, and marketing on behalf of its members. At the time of the SKIN project it had 16 stores in the Balearic isles and mainland Spain and planned to open another 10 in the near future, including one in Lisbon

Important barriers or bottlenecks to success will be the quality of leadership and suitably skilled management, the availability of appropriate forms of finance and an enabling regulatory regime.

## Organizing the Deep Dive

There are many possible issues to be addressed under the heading of improving the position of farmers in the food value chain. Key background documents include the EC Farm to Fork strategy and certain outputs of projects such as SKIN. Aside from the obligatory background reading, to get non-trivial results, you need to involve experts, with relevant knowledge, and they need to be briefed so that they really understand how they are expected to contribute to the Foresight process and related events.

In the time available, it is not reasonable to cover all possible issues, so choices will have to be made. The issues raised above include strategies to improve the position of farmers in food value chains based on...

- D2C retail strategies
- Public procurement policies
- Farmer-owned Cooperatives
- Pro-farmer consumer-led cooperatives and other structures
- Regulatory approaches based on principles of fair trade

The key to improving the system is asking business like questions about the underlying business<sup>48</sup>, identifying successful models, encouraging the adoption of similar models, and provide training.

One way to organize a deep-dive on value chain issues is to

- Decide the issues you want to address.
- Obtaining good information of the kind displayed in the Matt Stoller graph provided above for the US beef industry. The purpose of this is to see how profit is distributed throughout the value chain and evaluate the unevenness of the distribution of profits throughout the value chain. Certain researchers or associations may already have this data. In the absence of such data ideas for follow-up can be gathered from knowledgeable stakeholders.

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<sup>48</sup> How many customers do you have? How often do they come? What is an average sale? What is the cost of running the shop? How much of your time does it take up? What revenue does this generate in a year? If they have a web-site, does anyone use it, how much do they sell via the website, what are they doing to grow traffic, how do they manage pickups and deliveries?

- Present the evidence to get agreement on the issues to be addressed.
- Identify possible solutions based on countries, regions, and cases, where the problem have been successfully addressed.
- Conduct a “radical thinkers’ workshop” to which you invite people who have innovative and provocative new ideas for expanding minds and broadening the field for discussion.
- Bring it all together in a design workshop, where you summarize the problems, remind people of the range of possible solutions, discuss them and work towards a list of measures that could work in your region.

This is only one possible approach. It is up to each region to decide what to do and how to do it, based on the time and resources available, as well as the quality of the experts they can call upon to take part.

## Deep Dive on Vibrant Rural Economies

Arguably, the development of a vibrant rural economy is a prerequisite for the creating the conditions for more robust farm families, new entrants to farming and related industries and new entrants, other occupations and businesses situated in rural areas. As a general rule, diversity of usually very good for the health of an eco-system. It is possible that the pandemic will have a positive impact on rural economies. It has changed many patterns and behaviors in relation to where people live and work. It has changed the nature and intensity of demand for both public and private services. It has accelerated changes that were already underway before the pandemic that were also positive from the point of view of the vibrancy of the rural economy.

Important areas for further development that may immediately impact revenue opportunities for farmers<sup>49</sup> include

- Tourism
- Transport
- Energy, construction (the renovation wave) and the circular bio-economy (organic waste streams, food waste and plastic which is used a lot in agriculture)
- NBS (Nature Based Solutions) for industry and society
- The independent, small and start-up business including those in the arts and media.

The areas of energy, construction and the circular bio-economy will be addressed in detail in a separate guide, under the guise of “the green deal.” The NBS sector will be addressed in a separate deep-dive guide focused on the new EU bio-diversity strategy. IN this section we will therefore focus on three areas for development, namely tourism, transport, and rural entrepreneurial eco-systems.

### Tourism

The pandemic has had a devastating effect on all aspects of tourism, and on all economic actors operating in the sector

- Providers of transport services and those who work for them,

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<sup>49</sup> ... and other land-owners, including the public sector which may be in need for new sources of revenue to fund or seed-fund development projects.

- Providers of accommodation and related service staff,
- Owners and employees of restaurants, bars, and cafés,
- Organizers of festivals and events,
- Artists, engineers, and technicians who depend on venues, festivals, and events,
- Owners of venues including cinemas theatres, concert halls
- Organizers of experiences including tours and visits, hiking, boating, and fishing.

The pandemic has changed the nature of tourism in the sense that it has introduced a range of hygiene related rules and laws that must be observed, which impact business models in important ways, an impact which may continue to be felt in COVID fourth wave occurs and if other similar kinds of pandemics arise in the future, encouraged by climate change. Such changes include changes to

- The number of people that can sit together in a café, bar or restaurant,
- The number of meals that can be served in a day,
- The number of people that can attend an event or entertainment venue,

Changes such as these impact the revenues that can be expected from tourism related activity. They have forced owners to lay off staff or reduce the number of hours that they work.

Activities that required or involved close contact with strangers have been severely curtailed and new models for activities such as concerts and festivals have been and continue to be tried out and tested.

This has changed the range of entrepreneurial and employment opportunity that the sector affords, and any concept of future “growth” for the sector is likely to be very different from whatever it was in the past.

Many of these issues may have been identified from your Deep Dive on the impact of COVID. It may be useful to follow up on these results to fully explore what this means for the future of tourism in the region. The results of this reflection may help to further develop and qualify aspects of the “vision” part of the Foresight package.

The starting point for any serious reflection on the future of tourism in the region, is the gathering of as much reliable data as possible, on

- Activity, investment, and employment from before the pandemic,
- How these have been hit by the pandemic, along with an analysis of which changes may be permanent and which ones may prove ephemeral,
- The potential for future growth based on the changes that have occurred, and the new tourism models that may emerge.

The best way to access such data may be to involve a variety of local associations, key business-people, from the sector who must adapt to the changes that have taken place, and aspiring entrepreneurs who see such recent disruption as an opportunity for reinvention or renewal.

## Transport

It is likely that the pandemic has led to long-term changes in the way people work and live and to

- The dominant place for work and study,
- The way people use their homes,
- Local demand for services, including the public services and retail.

- Demand for high quality internet connectivity (4G, 5G, rural broadband...).

All of these changes will be reflected in changes in demand for transport and transport related services. In particular in the need for daily commutes between home and places of work and study.

If tourism is to be encouraged, this will place new demands on the local transport system. It may create a need for new services, including parking facilities.

But these are not the only changes that may need to happen to the transport sector. The need to move to a greener more sustainable economic model and provide an adequate response to the challenge of climate change, there is a need to promote and support the introduction of e-vehicles, not only for personal transport, but also for deliveries and related logistic tasks.

E-vehicles include e-cars, e-vans, and e-trucks. They include e-bikes, electrically powered cargo bikes, and scooters. They also include autonomous e-vehicles for grocery delivery, and electrically powered public transport, as well as electrically powered machinery including tractors.

Things may be changing much more quickly than most people realize.

- According to the FT, Ford intends to make electric vehicles 40% of their global sales by 2030<sup>50</sup>. In the same article it observes that “most analysts think the global industry will be largely electric within two decades.”
- Elsewhere<sup>51</sup>, in an article about the future of the German car industry, it quotes Tobias Hans, the prime minister of Saarland, a hub for big car-makers and for their suppliers, in saying that “we know that by 2030, more than a third of all cars will be electric or hybrid.”
- Bloomberg recently reported<sup>52</sup> on how farmers in California are starting to use electric tractors and other farm machinery made by a company called Monarch. This is only one of a number of venture backed start-ups that want to transform the sector. Its article quotes Scott Wine, CEO of CNH Industrial, a maker of agricultural equipment with headquarters in the Netherlands, and an investor in Monarch, as saying that “...in five years, 20% of small tractors sold will be fully battery-powered, with demand driven by vineyards, orchards and small vegetable crops. “It’s an exciting time in a somewhat sleepy industry...”

These changes significantly impact what it means to talk about multi-modal transport and what is meant by transport infrastructure, which increasingly means space for shared-vehicles and e-vehicle charging points. They create an opportunity for some regions to distinguish themselves by addressing the range anxiety issues that visitors and others that undergo longer journeys may experience.

Any strategic exercise looking at the future of transport in rural areas, would do well to consider the case for supporting the adoption of e-vehicle technology for citizens, tourists and professionals for transport, logistics and farm-work.

This issue is inseparable from the issue of local or community based renewable energy systems and so it overlaps with the agenda of the Green Deal. It opens up new ground in rural economic development in that it opens up a debate on an issue of importance for rural areas that until now has mainly been restricted to large cities and urban areas.

There is clearly a wide range of use-cases to be explored, piloted, and scaled-up with regard to e-vehicle adoption and the greening of transport in rural regions.

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<sup>50</sup> <https://www.ft.com/content/be1730fc-33da-479d-8a5b-d5a0bdc83d57>

<sup>51</sup> <https://www.ft.com/content/61871ff4-8790-11e9-97ea-05ac2431f453>

<sup>52</sup> <https://www.bloomberg.com/features/2021-monarch-electric-tractors-self-driving/?sref=pXqpDvRQ>

As always the basic approach is to dive deeply into the issue and evaluate the need for policy intervention by bringing together people who know things about the issues at stake (local experts), with people who have the mandate to act, such as representatives of local authorities dealing with issues such as transport, infrastructure, and energy.

## Support for New-entrants, Start-ups, Small-Businesses and Professionals

One of the most interesting social phenomena linked to the pandemic is the emergence of so called “Zoom towns” that is towns that have become centers for work and entrepreneurial activity enabled by a new generation of collaborative software systems, of which Zoom is only one.

Before the pandemic there was already evidence of an increasing flow of people from large towns and cities to rural areas, driven by the need to seek lower rents and lower cost of living, but also attracted by what they saw as the possibility of a better quality of life, closer to nature, with more space, better for kids and with less of the stress of the city.

The term already has its own entry in Wikipedia<sup>53</sup> which explains that many of these places used to be called get-away locations, being also considered as good places to go for vacation. Forbes has written about the phenomenon<sup>54</sup> in an article entitled “ why your last vacation getaway may be your next home.”

Some places have already started to build upon the trend offering financial incentives to people willing to move there and use it as a place of work. The Wikipedia article refers also to the trend in Europe, where countries such as Italy, Romania, Poland, Latvia, and Bulgaria, all of which have experienced brain drain in the past, have since found that young professionals are beginning to return home as a place from which to work remotely.

The kind of people attracted by such moves include a new generation of well-educated professionals, working in areas such as artists, designers, software engineers, experts in marketing (influencers), as well as business and related service providers, as well as start-ups. The pandemic has added to this small but increasing flow of talent from cities to rural areas, due to the increased adoption of WFH.

The important point is that services that may benefit new-entrants may overlap significantly with those that may help locals who have been disrupted by having to WFH. One can see these two distinct groups being joined by a new generation of entrepreneurs involved in the design development and operation of rural energy systems and circular economy ventures. All three groups could benefit from access to various kinds of rural co-working spaces, and services intended to support WFH, small business growth and development as well as family-life.

Various trends conspire to reinforce the phenomenon in certain places. These include the trend of people with second homes in rural areas transforming them into places of permanent residence. In Europe we seen a related phenomenon of abandoned houses and villages in places like Italy and Portugal being offered by local administration for people who will come and live there, invest in the

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<sup>53</sup> [https://en.wikipedia.org/wiki/Zoom\\_town](https://en.wikipedia.org/wiki/Zoom_town)

<sup>54</sup> <https://www.forbes.com/sites/irenelevine/2020/09/15/zoom-towns-why-your-last-vacation-getaway-may-be-your-next-home/>

property, and set up permanent residence. Some countries and regions have cast the net wide to attract a certain kind of talent, even providing assistance in the application for working visas.

It may be too early to say just how important such trends actually are, but for places in which they already exist, it is worth while exploring if this is something on which to build, as a way of bringing new life to rural areas, making them more attractive for graduates and higher earners, adding to the social and economic diversity of the region. It is worth exploring to what extent this has or may be happening in your area and evaluate the potential for supporting the trend with a view to breathing new life into the rural region.

A deep-dive on the issue of how to support new entrants and local entrepreneurs could start by calling upon local experts and actors to examine

The availability of “places” that could be offered to “new entrants” or used to support them and any of the other groups mentioned above

- Residents who have been disrupted by WFH, and struggle to cope with isolation, living in houses that are not designed for WFH, or the homeschooling of kids.
- New entrant entrepreneurs who intend to need to set up to develop ventures based on energy, circular economy, and the provision of eco-system services.
- New entrant entrepreneurs who want to get away from cities with high rents and high costs of living,
- Artists and those involved in media and entertainment who might have specific requirements.

It might be useful to create an inventory of available such places, a so called “land bank” based on

- Abandoned private buildings and lands,
- Unused commercial real estate,
- No longer used public buildings and lands.

It might also be fruitful to consider extending this to property situated in key cities that the rural region effectively “supplies” with a view to consolidating the rural-urban link and exploit natural synergies between rural areas and various urban systems, for example urban food systems, urban agriculture, and circular economy.

A subsequent step might try to

- Think creatively about how to use re-purpose such properties to support the creative entrepreneurial, economically productive class.,
- Estimate the number of entrepreneurs that might benefit from this,
- Estimate the impact they might have in economic and social terms, including second order effects such as the demand they will create for

This work and related exploration of policy options support this aspect of the rural economy, might draw upon the resources provided in the inventory of policy options.