Thematic Group on Economic Vulnerability of Farming

Background Paper

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Contents

This background paper provides an **overview of the challenges faced by EU farmers**, particularly those who are most economically vulnerable, and highlights **policy measures that can help sustain a resilient agricultural sector across Europe.**

1. Economic Vulnerability

The level of income of the farming sector compared to other economic sectors is low - on average at EU level, agricultural income is about half of the average wages in the whole economy. The economic vulnerability of EU farming is rooted in several interconnected factors that impact the stability and viability of the sector. Farmers face challenges related to income instability, climate change, environmental degradation, geo-politics, cost-price pressures, and increased market competition, making the sector even more exposed to vulnerability. However, the degree of vulnerability increases significantly, in smaller farms, farms in certain sectors (e.g. livestock), and farms located in economically disadvantaged or geographically challenging regions experiencing the most acute difficulties.

Low-income levels and high-income variation

Income instability is a major concern for EU farmers, driven by fluctuating market prices for agricultural commodities and increasing production costs. Increased occurrence of adverse weather events, plant and animal diseases, and changing consumer demand further compound these issues. For many farmers, particularly those with smaller operations, income from farming alone is often insufficient to ensure a stable livelihood. As a result, a significant proportion of farm income is derived from CAP direct payments, which provide an essential safety net against income variability.

Smaller farms, in terms of economic size are particularly vulnerable, as they often lack the financial buffer needed to absorb income shocks and have limited access to finance. They are also less able to benefit from economies of scale that could help lower their production costs. This creates a situation where small-scale farmers are particularly dependent on CAP payments.

The increasing costs of adapting to climate change has also a significant impact on the entire agricultural sector. In addition, farmers fear that new rules related to environmental requirements may increase costs of production, at least in the short term

Vulnerable Regions and Sectors

Certain regions within the EU are more economically vulnerable due to geographical characteristics or specific soil and climate conditions. These regions often face lower productivity potential and higher costs (e.g. transport), making farming less competitive. Farmers in such places face unique challenges related to the quality of infrastructure, access to markets, and limited opportunities for diversification.

Moreover, some sectors tend to be more vulnerable than others. For example, livestock production can be vulnerable due to a higher dependence on feed inputs, which are susceptible to price fluctuations and global trade dynamics. Beef producers face significant challenges as demand for their produce has been decreasing.

Cost-Price Squeeze and Global Competition

Small and medium sized farms tend to have less bargaining power with suppliers and buyers and so pay a higher price for purchases. As a result, input costs, such as energy, fertilisers, feed, and labour can outpace farm gate prices during certain periods in time.

Additionally, EU farmers ensure high social and environmental standards and operate within a globalized market where they must compete with producers from regions with lower production costs and less stringent regulatory frameworks. This competitive pressure can leave EU farmers, especially those with small operations, at a disadvantage, exacerbating their vulnerability to price volatility and market fluctuations.

Increasing extreme weather events

Climate change affects the agriculture sector in Europe significantly and is expected to continue so. The number of extreme events such as heatwaves, droughts, heavy precipitation and flooding is projected to increase in frequency and intensity. Climate change is a risk multiplier that can exacerbate existing risks and crises. Farmers are increasingly aware of the risks facing agriculture and are already responding e.g. adapting production and production methods, pooling risk, and diversifying activities. That said, there is much more that businesses could be doing to improve resilience, prevention and risk management in the face of this.

From a policy perspective Europe's policies and adaptation actions are not keeping pace with the rapidly growing risks. The European Environmental Agency identifies 36 key risks for Europe, many of which have already reached critical levels. In many cases, incremental adaptation will not be sufficient, as many measures to improve climate resilience require a long timescale. Risk management actions are therefore required at all levels, across both policy and practice.

2. Sustaining Economically Viable Farming through the CAP

Ensuring the viability of farming in economically vulnerable areas is essential for maintaining agricultural production, maintaining landscapes and supporting the vitality and viability of rural areas. The CAP provides various mechanisms for supporting vulnerable farmers, whether their vulnerability is due to the farm size, the region in which it is located or the sector to which it pertains, and there is a growing recognition of the need to tailor these mechanisms to better address specific challenges.

Targeted Support through the CAP

The CAP for the 2023-2027 programming period includes several measures aimed at supporting economically vulnerable farms.

Direct payments, including eco-schemes, through EAGF (European Agricultural Guarantee Fund) make up a significant share of farm income for many farmers, and are a core component of this support. These payments are particularly important for medium sized farms and those in disadvantaged areas, as they provide a financial cushion that helps stabilize farm income and sustain farming activities. The coupled income support (CIS) intervention can be targeted to farms in more vulnerable sectors, and Complementary Redistributive Income Support for Sustainability (CRISS) is targeted to small farms. Also sectoral support, which as of the 2023-2027 programming period is available to a much wider range of sectors, can be used to target specific sectors with particular needs.

Funding for rural development (under EAFRD - European Agricultural Fund for Rural Development) offers additional support for farms located in economically vulnerable areas (including areas of natural constraint, ANC, and areas with specific disadvantages, ASD). Furthermore, it offers funding opportunities for investments in for example infrastructure, innovation, and diversification which (through investment support interventions, enhanced cooperation, LEADER and EIP Operational Groups, among others) can enhance the long-term viability of farming. EAFRD also supports training and advisory services, which can help farmers adapt to changing conditions and improve their resilience.

Furthermore, several types of interventions can be – and have been – designed in a way that they target or prioritise small farms, including CIS, investment support, and ANC. Also, the possibility of excluding small farms from some of the requirements under the Good Agricultural and Environmental Conditions (GAECs) represents an indirect way of targeting small farms by reducing their (unproportionate) costs. Sectoral support also benefits small farms as such support is channeled through the Producers Organisations (POs), hence incentivising farmers to cooperate and form POs and thus increasing their bargaining power within the supply chain. Finally, financial instruments may be made use of as a complement to, or instead of, the grants provided under the EAFRD. This allows targeting of funds to farms with more limited, or more constraints, in their access to finance, which often tend to be the smaller farms.

The specific details of these interventions are laid out in national CAP Strategic Plans developed by each EU Member State, allowing for tailored actions to meet the identified needs and challenges of farming and rural communities.

Market Measures

In addition to direct payments and rural development initiatives, the CAP's market measures can play an essential role in stabilising agricultural markets and supporting vulnerable farmers. Market measures include interventions such as public storage, private storage aid, and crisis prevention and management tools. These measures are activated in response to significant market disruptions, such as sudden price collapses or adverse weather conditions, and aim to stabilise farmers' incomes and ensure continued production during periods of uncertainty.

Market measures can be particularly beneficial for economically vulnerable farms, that are more exposed to price volatility and lack the financial reserves to weather market downturns. By providing a safety net during periods of market crisis, these measures help prevent farm closures and reduce the risk of long-term economic distress in vulnerable farming sectors.

The positive impact of market measures can also be seen in how they help to smooth income variability and provide greater predictability for farmers. For example, in times of oversupply that depress prices, the provision of public storage can help to withdraw excess products from the market, thus supporting prices. Similarly, crisis management tools provide financial support to producers affected by specific events, such as natural disasters, enabling them to recover more quickly and sustain their operations.

However, market measures should be seen as a last resort, which should not incentivise producers to produce more. Public intervention price should be kept considerably below the market price to avoid intervention purchases becoming an outlet for farmers, competing with markets. For that reason, market measures, in particular public intervention, have been used very rarely in recent decades, only in handful of sectors.

3. Tailored approaches to risk prevention, mitigation and response through the CAP

The EU agricultural sector is exposed to a range of risks, including price volatility, extreme weather events, and market disruptions. To mitigate these risks and ensure the resilience of the farming community, especially for economically vulnerable and small farms, tailored approaches are necessary. The CAP provides several mechanisms for risk management, with a focus on supporting farmers to better prepare for and respond to these challenges.

Risk Management Tools under the CAP

The CAP includes a variety of risk management tools that can be tailored to address the specific vulnerabilities faced by different types of farms. These tools include income stabilisation instruments, insurance schemes, and mutual funds aimed at reducing the impact of unpredictable markets, as well as weather or pest related events. Moreover, preventive investments and area-based commitments for sustainable land management play an important role. Such tools are available under both funds under the CAP.

The CAP Strategic Plans of each Member State outline the specific implementation of these risk management tools, which are adapted to the specific needs. Smaller farms may lack access to commercial insurance or credit, in which case public support for insurance premiums can be crucial in mitigating the impact of adverse events. Mutual funds, supported by EAFRD, provide another means of pooling resources to cover risks collectively, offering a valuable safety net for smaller operations.

Climate change poses a significant and growing threat to EU agriculture, with increased frequency and intensity of droughts, floods, and extreme temperatures. Smaller farms, which often lack the capacity to invest in adaptive technologies, are particularly vulnerable to these climatic shifts.

The CAP Strategic Plans of Member States include provisions for supporting climate-smart practices, such as water management, soil management and precision farming, which can help farmers adapt to changing conditions. For farming, the adoption of climate-resilient crops and practices is crucial to reduce their vulnerability. CAP funding is also directed towards advisory services and training programs that equip farmers with the knowledge and skills needed to implement these adaptive measures.

Support for diversification of production is another critical component of climate risk mitigation. Encouraging farmers to diversify their production systems, whether through mixed cropping, agroforestry, or the integration of livestock and crops, can help spread risks and improve resilience. This is particularly beneficial for small farms that are often highly specialised and, therefore, more susceptible to individual climatic or market shocks.

Market Risk and Diversification

The volatility of agricultural markets poses a significant risk, especially for smaller farms that have limited access to financial resources and weaker negotiating power with buyers. CAP support encourages diversification as a means of mitigating market risk. Diversification can take many forms, such as; adding new crops or livestock, developing agritourism opportunities or value-added processing.

The development of short supply chains, local food systems alongside quality or organic foods is also promoted under the CAP Strategic Plans of Member States, providing small farmers with opportunities to access local markets and achieve higher value for their products. By reducing their reliance on global commodity markets, smaller farms can achieve greater stability and mitigate the impact of price fluctuations.

In addition to on-farm initiatives, CAP sectoral and rural development support for Producer Organisations helps small farms strengthen their market position. By working collectively, farmers can reduce costs, improve access to markets, and negotiate better prices for their products, thereby increasing their economic resilience.

Furthermore, the CAP's reserve for agricultural crises is an important tool designed to manage significant disruptions across the sector. This reserve can be used to fund emergency measures when farmers face severe price shocks or other crises, providing a more predictable response mechanism for economically vulnerable farms.

Further Reading

1. **EEA (2024)** **European Climate Risk Assessment (EEA Report 1.2024)**
2. **EIB (2020).** **fi-compass Study on financial needs in the agriculture and agri-food sectors in 24 EU Member States**
3. **European Commission (2011).** **Evaluation of income effects of direct support**
4. **European Commission (2017).** ***Risk Management in EU Agriculture***
5. **European Commission (2021).** **CAP specific objectives: brief 1 – Ensuring viable farm income**
6. **European Commission (2021).** **Impact of the CAP measures on the general objective "viable food production"**
7. **European Commission (2021).** **EU farm economics overview – based on 2018 FADN data**
8. **EU CAP Network (2022).** **Policy insights – Reinforcing small farm resilience**
9. **European Commission (2022).** ***CAP Strategic Plans – Overview of Member State Strategic Plans 2022-2027.***
10. **European Commission (2023).** ***Mapping and analysis of CAP strategic plans – Assessment of joint efforts for 2023-2027***
11. **European Commission (2024).** **EU agricultural outlook 2024-35: A resilient sector adapts to climate change, sustainability concerns, and shifting consumer demand.**
12. **European Parliament (2022) –** **European Union Beef Sector – main features, challenges and prospects**
13. **Euromontana (2024). -** **Position Paper: *Ensuring a vibrant future for mountain economies***
14. **OECD (2023).** **Policies for the Future of Farming and Food in the European Union**
15. **OECD (2023).** **Agriculture Policy Monitoring and evaluation 2023: Adapting Agriculture to Climate Change**
16. **OECD (2024).** ***Agricultural Policy Monitoring and Evaluation Report***