

NEW PRIORITIES FOR THE EU BUDGET: A VISION FOR AGRICULTURE AND FOOD

POLICY BRIEF

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Abstract

For decades, the Common Agricultural Policy (CAP) has provided income stability and resilience to European agriculture. Yet, the structural challenges facing the sector today require a different policy approach. While direct payments continue to support farm incomes, they do little to strengthen the underlying drivers of long-term competitiveness. This Policy Brief originates from a broader strategic reflection developed in collaboration with Confagricoltura on the future trajectories of the Italian and European agricultural sector towards 2050. It represents a concise and policy-oriented synthesis of that work, adapted to the objectives of the conference and focused on one of its central themes: the role of CAP in enabling agricultural competitiveness. The Brief argues that the post-2027 CAP should shift from protecting farms from market pressures to enabling them to compete more effectively within agricultural value chains. It identifies three key pillars of competitiveness: farm organisation and scale, managerial capacity, and access to finance. Addressing these dimensions simultaneously is essential, as fragmented farms, weak managerial capabilities, and undercapitalisation reinforce one another. The Brief thus proposes a CAP centred on enterprise enablement, promoting aggregation and vertical integration, strengthening managerial competencies, and mobilising private investment through blended finance instruments. By focusing on the conditions that generate competitiveness rather than compensating for its absence, the CAP can better support the long-term resilience, productivity, and transformation of European agriculture.

Executive Summary

For seventy years, the Common Agricultural Policy has been Europe's system to stabilize farmers' incomes, support rural territories, and absorbed successive shocks, from commodity price volatility to climate disruption. Still, the architecture of the CAP was designed around a different agricultural economy, in which the support to farm incomes was both politically necessary and economically coherent. Today, with farmers representing roughly 5% of EU employment (Eurostat, 2023) and agriculture accounting for approximately 1.3% of EU GDP (Eurostat, 2023) while remaining the economic and social backbone of large parts of rural Europe, the gap between what the policy does and what the sector needs has probably widened.

The relevant question this Policy Brief aims to address is what a competitiveness-oriented CAP would look like in practical terms. The competitive focus indicates that the primary shift needed is the one from protecting farms from market pressures to enabling them to compete within those markets, capture value along the chain, and invest in their own structural transformation. This is a harder policy design challenge than it appears, and it requires the analysis of three dimensions of agricultural competitiveness: the organisation and scale of farm enterprises, the managerial skills and human capital within them, and their relationship with private financial markets.

The sector at a crossroads

European agriculture is productive, strategically indispensable, and deeply fragile in ways that aggregate statistics obscure. In 2023, the EU counted an estimated 8.4 million farms, namely 5.6 million fewer than in 2005, a decline of 39% driven almost entirely by the disappearance of small holdings (Eurostat, 2026). This structural consolidation has proceeded without guidance, reducing farm numbers without systematically improving the market position, value chain integration, or investment capacity among the farms that remain.

In Italy, the fragmentation is even more acute. 78% of farms operate on less than 10 hectares of utilised agricultural area, against a national average of 11 hectares, itself well below the EU average of around 17.8 hectares (ISTAT, 7th Agricultural Census 2020; Eurostat Farm Structure Survey 2023). The consequence is not merely one of scale economics, but a structural constraint on negotiating power within value chains, on the capacity to absorb investment risk, and on the ability to engage with financial instruments designed for enterprises with predictable cash flows and bankable assets. The generational dimension compounds the structural one. The average age of EU farm managers has risen from 55 in 2010 to 57 in 2020, while only 11.9% of managers are under 40 and just 6% are under 35 (Eurostat, Agricultural Census 2020; European Commission DG AGRI, 2025). In Italy, the share of farm managers under 35 falls below 5% of holdings (ISTAT, 2020). This is not only a demographic challenge, because generational renewal is the primary channel through which new managerial competencies, technological aptitudes, and risk tolerance enter the sector. When it stalls, so does the capacity for transformation. A delayed generational renewal equals competitiveness deferral.

A structural renewal is needed also on the side of financial management. More than 60% of the CAP budget is targeted at income support (EU CAP Network, 2024), creating a floor that has simultaneously protected farm incomes and reduced the sector's incentive to develop independent financial credibility. As a result, agriculture remains among the sectors with the lowest rates of external private investment in Europe, despite a recent growing interest from funds, impact investors, and infrastructure capital in food systems as a strategic asset class. Problematically, today, the demand for agricultural investment and the supply of capital oriented toward the sector remain structurally mismatched in scale.

Rethinking CAP's purpose

The distinction between supporting income and enabling competitiveness is a design distinction with concrete implications for how resources are allocated. Income support in its direct payment form is a transfer that compensates for the gap between market returns and a politically acceptable income floor. Still, it is decoupled from performance, investment, or structural change. Its area-based logic means it flows proportionally to land, not to productive capacity, strategic value, or future potential. Under the current area-based payment logic, competitive behaviour and structural inertia are compensated identically.

A competitiveness-oriented CAP would direct its weight toward enabling conditions rather than compensating for their absence. Enabling conditions are those that allow farms to generate sustainable returns, negotiate equitably within value chains, and invest in their own transformation. The focal point this reorientation demands, then, is how public resources can be made conditional on the behaviours, investments, and structural choices that actually drive competitiveness. Answering this requires moving from a payment architecture built around what farms are, to one built around what farms do, meaning how they organise, how they invest, how they engage with markets and private capital. These three structural dimensions identify where that shift would need to bite.

Farm structure and scale

A competitiveness-oriented CAP would need to engage more deliberately with the question of farm organisation not by simply mandating mergers, but by creating the normative, fiscal, and financial conditions that make horizontal cooperation among farms and vertical integration within value chains structurally and economically attractive. This means, concretely, to support producer organisations and supply chain contracts not merely as optional instruments but as the preferred organisational form for accessing CAP investment measures; it means designing rural development programmes around aggregation incentives rather than individual firm subsidies; and it means recognising that the negotiating asymmetry between fragmented primary producers and consolidated distribution is not a market outcome to be accepted but a structural failure to be addressed. Farms that cannot negotiate within their value chain on equitable terms will not be competitive regardless of how much technology they adopt or how efficiently they manage their operations. Horizontal scale is a precondition for vertical power, and policy design should reflect this sequence.

Managerial competence and human capital

Managerial competency is the precondition that determines whether every other policy instrument produces its intended effects. Investment measures, aggregation incentives, and financial instruments all underperform when the enterprises they are designed to serve lack the capacity to evaluate, structure, and execute on the opportunities they create. A farm manager that cannot read a balance sheet, assess a technology investment, or negotiate a supply chain contract is constrained by capability, with no payment scheme able to solve the issue.

The evidence from the Italian agricultural sector points to three specific gaps where this constraint is most acute. The first is succession planning, which remains predominantly an informal family process with consequences for asset continuity, business viability, and the conditions under which new generations actually take over. Structured support could be able to convert succession from a recurring source of productive discontinuity into a manageable transition. The second is financial literacy: the ability to prepare financial statements, engage with credit institutions, and evaluate investment returns is not widespread among farm managers, and its absence is one of the principal reasons why private capital and agricultural enterprises fail to connect at scale. The third is market positioning: understanding value chains, negotiating with distributors, and building commercial relationships require competencies that the agricultural training system has historically underweighted relative to agronomic and technical skills.

Taken together, these gaps suggest that the CAP's rural development instruments should be redesigned around the logic of enterprise enablement, conditioning investment support, aggregation incentives, and financial instruments on demonstrable managerial capacity.

Access to private capital

The capitalisation gap between European agriculture and other productive sectors reflects both structural features of the sector and policy-induced distortions. When public transfers provide a *de facto* income floor, agriculture becomes simultaneously dependent on them and unattractive to private investors who cannot price risk independently of the policy environment. This is a circular problem: income support reduces the sector's financial credibility, which reduces private capital flows, which increases dependence on income support.

Closing this gap requires action on both sides. From the sector, it requires greater financial transparency and the development of standardised reporting frameworks that allow farm enterprises to communicate their economic performance, asset base, and risk profile. It also requires the development of markets for ecosystem services that can translate the non-market value of agricultural production into investable and bankable flows, providing a new asset class that connects agricultural practice to impact capital. From the policy perspective, instead, it requires blended finance instruments that leverage rather than substitute private capital, the repositioning of public development finance institutions toward primary production and guarantee mechanisms that reduce the perceived risk premium that currently prices private capital out of agricultural lending at the scale the sector needs. The post-2027 CAP's rural development pillar is the natural home for these instruments, but only if it is redesigned around leverage ratios and private capital mobilisation rather than public expenditure targets.

Recommendations and conclusions

The three dimensions discussed in this Brief are not independent policy problems. Fragmented farms struggle to develop managerial depth, under-managed farms cannot build the financial credibility that attracts private capital, and undercapitalised farms lack

the resources to invest in the organisational and human capital transformation that competitiveness requires. A CAP reform that addresses only one of them without the others will underperform by design.

What connects them is a common logic: each requires the policy to shift from providing transfers to creating enabling conditions. Aggregation becomes structurally attractive when the normative and fiscal environment makes collaboration more rewarding than isolation; managerial capacity develops when investment support is conditioned on demonstrable competency; private capital flows when farms can present bankable financial profiles and when public instruments are designed to leverage rather than substitute market finance.

Translating this logic into policy directions, three priorities stand out. On farm structure, horizontal cooperation and vertical integration should become the preferred organisational pathway for accessing CAP investment support, not optional instruments at the margins of programming. On managerial capacity, succession planning should be treated as structured policy deliverables with dedicated instruments and measurable outcomes. On private capital, the reform should prioritise blended finance mechanisms and reorient public development finance toward primary production, with the explicit objective of mobilising private investment rather than substituting it.

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