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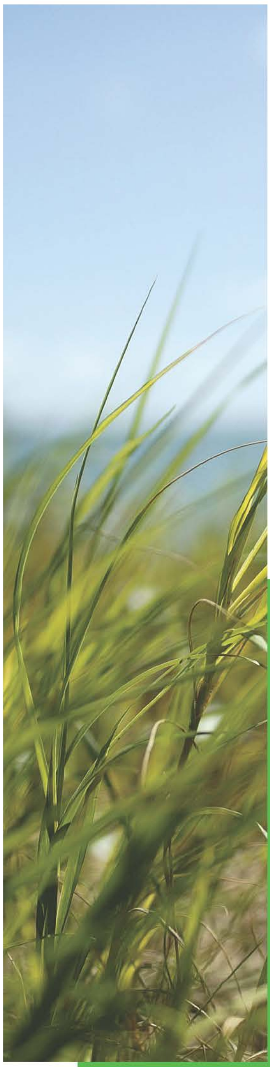

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CAP 2014-2020 TOOLS TO ENHANCE FAMILY FARMING: OPPORTUNITIES AND LIMITS

IN-DEPTH ANALYSIS

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AGRICULTURE

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This document was requested by the European Parliament's Committee on Agriculture and Rural Development.

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Abstract

Family farming is the predominant business model in European agriculture. The key challenges faced by family farms are considered in this briefing note and the effectiveness of policy measures in the EU, both the current measures and those agreed for the 2014 to 2020 period, in tackling these challenges is examined. The main conclusions are that Pillar I policies have transferred substantial funds to family farms and have ensured the survival of many farms that would have otherwise gone out of business. However, the more targeted policies contained in Pillar II have been, and continue to be, more effective in addressing the specific challenges facing Europe's family farms.

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CONTENTS

LIST OF ABBREVIATIONS

BPS	Basic Payment Scheme
CAP	Common Agricultural Policy
CEJA	European Council of Young Farmers
CMO	Common market organisation
COMAGRI	European Parliament's Committee on Agriculture and Rural Development
EIP	Europan Innovation Partnerships
ERS	Early Retirement Scheme
EU	European Union
FAO	Food and Agriculture Organisation of the United Nations
FAS	Farm Advisory Service
FIS	Farm Improvement Schemes
GPS	Greening Payment Scheme
IYFF	International Year of the Family Farm
MS	Member States
NES	New Entrant Schemes
NMS	New Member States
OECD	Organisation for Economic Cooperation and Development
PDO	Protected Designation of Origin
PGI	Protected Geographical Indication
SSF	Semi-subsistence farms

LIST OF FIGURES

EXECUTIVE SUMMARY

Background and objectives

In recognition of the unique and substantial contribution of family farms to global agriculture, the FAO have designated 2014 the "International Year of the Family Farm".

While family farming is at the heart of the European Model of Agriculture and has been supported by the CAP for many years, a number of factors, both internal and external to the family, continue to threaten the efficacy of the family farming business model. It is in this context that the European Parliament's Committee on Agriculture and Rural Development (COMAGRI) commissioned this briefing note. The purpose of the note is:

- To assess the effectiveness of current CAP measures and domestic Member State policies in supporting family farming, and
- To evaluate the effectiveness of the new CAP (2014-2020) and to describe the main family farming **opportunities** and **limits** related to the new CAP mechanisms

Findings

Over 97 percent of Europe's farms are family farms, including large and small, full-time and part-time farms. The challenges facing family farming are diverse and differ by MS, farm size and family structure. Hence designing effective policies to support family farming, in all its shapes and sizes across the EU, is difficult.

Supporting the family farm has been at the centre of the CAP since its foundation. CAP Pillar I schemes, first price support and latterly decoupled direct payments, have transferred significant funds to family farms over the decades. These subsidies have significantly boosted farm incomes and have facilitated the survival of a large number of family farms that otherwise would have been economically nonviable. Pillar I subsidies are often criticised as favouring large and more productive farms, but it must be noted that in many cases these large farms are family operated. Pillar I subsidies, especially decoupled direct payments, also act as an income stabilisation tool by reducing the exposure of the farm family to market and production risk. The risk free nature of the payments can also relax the credit constraints facing family farms and alleviate many of the problems of access to credit.

The overall impact of CAP Pillar I policies on the sustainability of the family farming model is far-reaching and complex and can be difficult to disentangle. On the one hand the policies have been successful in maintaining a large number of family farms in business which in itself is desirable. However, this has slowed the pace of structural change in the sector, a process that is desirable from an economic perspective as it allows new entrants to the sector, allows existing farms to expand and exploit economies of scale and facilitates the transfer of resources to the most efficient farms, thus making the overall farm sector more competitive. The Pillar I subsidies, which are land based, have also inflated agricultural land prices and rents thus making access to farmland for families wishing to expand, and for new entrants, limited and expensive.

In general, CAP Pillar II policies have been more targeted than Pillar I. Pillar II policies have successfully supported intergenerational transfer through retirement and succession schemes and promoted farm modernisation through investment schemes. While these schemes have enhanced the opportunities of family farms, evaluations have shown that they do not always represent "good value for money". Other Pillar II schemes have indirectly supported farm families by improving access to services and amenities in rural areas and the overall quality of life for rural inhabitants. The income earned from off-farm employment is a crucial supplement to low-farm incomes for many farm families. The success of Pillar II schemes in stimulating economic activity and employment opportunities in rural areas has facilitated the pluriactivity of many farm families.

The latest reform of the CAP presented an opportunity to develop tools to further enhance family farming. While many of the new schemes available under Pillar I can be used to address the unequal distribution of direct payments between farmers and to channel a greater proportion of the budget to small family farms, the optional nature of these schemes means that the final impact on the family farm will depend on decisions taken at a MS level. Furthermore, the schemes under Pillar I remain largely untargeted and as such are likely to have little impact beyond their duration. Payments remain linked to land and so there will be a continued leakage of support to land owners and an inflation of land prices, albeit finding a practicable alternative to land based payments is difficult.

The Small Farmers Scheme will simplify access to the CAP for many small farms and this is likely to be particularly welcomed by the NMS, although the definition of a small farm and the minimum eligibility criteria are likely to prove contentious.

Milk quota removal will lead to the elimination of costly rents in the sector and allow farmers to become more market oriented. However, there is some concern that expanding farmers and new entrants may overinvest and find themselves in financial difficulty particularly given the likelihood of continued price volatility. Farm advisory services offering business planning and investment appraisal advice should be aimed at those entering and/or expanding milk production.

Price volatility is likely to continue as a major threat to the economic viability of family farms. Domestic policies such as multiyear tax smoothing, as well as CAP policies such as the income stabilisation tool, insurances and the crisis reserve fund are all useful tools to help insulate the family farm from price risk. The direct payments made under Pillar I will also continue to act as an effective buffer against market risk. Private risk management alternatives such as futures and forward contracts should also be promoted through farm advisory services and agricultural education providers.

The new Pillar II places considerable emphasis on knowledge transfer and innovation. Clearly family farms can benefit from more effective transfer of knowledge and research allowing them to adopt new technologies on their farms more quickly and hence reap the economic benefits. While the funding available for the innovation and farm advisory schemes is significant, their success will be highly dependent on the level of farmer participation and so significant efforts will be required to encourage participation.

The start-up aid for young farmers is significantly enhanced in this rural development programme, especially when it is considered in conjunction with the provisions under Pillar I. The potential total value of the aid is substantial and is likely to be sufficient to stimulate genuine new entrants, thus overcoming a major criticism of previous programmes. The requirement to submit and fully implement a business plan is also a welcome development and is likely to contribute to improving the competitiveness of holdings. The current programme does not make provisions for an early retirement scheme. It is acknowledged that the problem of generational renewal is as much about "getting old farmers out" as it is about establishing new farmers. While previous schemes have been criticised in national evaluation reports, the complete omission of an early retirement scheme in this programme is worrisome.

Research has revealed that successful intergenerational farm transfer is highly dependent on planning, timing, mutual trust and a shared understanding of the transfer process by the two generations. Specialist succession planning advice and support for alternative business models that allow the two generations to “share” management responsibility can be effective tools in facilitating the successful transfer from one generation to another.

1. INTRODUCTION

KEY FINDINGS

Family farming is the **predominant farm business model** in Europe.
The concept of family farming is often synonymous with small farming but in Europe there are **many large family farms**.
A number of **challenges**, both internal and external to the family, threaten the sustainability of family farming in Europe.
The challenges differ depending on farm size, location and family structure, thus making **policy design to support family farming difficult**.

The family farm is a common feature of agricultural structures across the globe. While large, corporation style farms are seen as highly specialised and intensive monocultures. By contrast, family farms tend to be smaller and less specialised thus ensuring greater biodiversity and with a higher labour input, a greater contributor to rural employment and the social fabric of rural areas. In an effort to highlight the important contribution of family farming to the production of food and public goods and to ensuring balanced rural development, the Food and Agricultural Organisation (FAO) has designated 2014 the "International Year of the Family Farm" (IYFF). The family farm is the foundation of European agriculture and continues to remain at the core of the *European Model of Agriculture.* Indeed the concept and principles of family farming have been enshrined in the Common Agricultural Policy since its inception. Despite the long-standing policy support family farms have received in Europe, they continue to face a number of challenges that threaten their survival.

The purpose of this briefing note, prepared for the European Parliament's Committee on Agriculture and Rural Development (COMAGRI), is to examine the effectiveness (or the lack) of policy measures in the EU in supporting and enhancing family farming. The note is policy focused, with two main objectives as defined in the technical specification:

- To assess the effectiveness of current CAP measures and domestic Member State policies in supporting family farming and in particular to highlight specific cases of success.
- To evaluate the effectiveness of the new CAP (2014-2020) and to describe the main family farming **opportunities** and **limits** related to the new CAP mechanisms[1]

The briefing note is structured as follows; Section 1.1, the contextual background, briefly describes the challenges facing family farming in Europe. Chapter 2 reviews the various policy instruments that have been used over the last decades to tackle the challenges facing family farming and evaluates their success. Chapter 3 provides a detailed examination of Pillar I of the new CAP 2014-2020 and discusses the various policies contained in that package and their potential implications for family farming. Chapter 4 presents a similar analysis of Pillar II of the CAP. Finally, Chapter 5 draws some conclusions about the potential for policy to support the future of family farming.

[1] Statistics are widely cited in the document to support statements about policy. The source of statistical information is mainly Eurostat, particularly the Farm Structure Survey and the Farm Accountancy Data Network.

1.1. Contextual Background

Reaching a common understanding of what constitutes a family farm is challenging. Across the globe, family farming incorporates farms of many different types and sizes, with both full and part-time farmers, and farmers with and without other gainful activities, Davidova and Thomson (2013). For many people, the concept of family farming is synonymous with small, semi-subsistence farms (SSFs). However, there are many large, commercially viable farms that are also family owned and operated. In the context of IYFF the FAO definition of a family farm is *"an agricultural holding which is managed and operated by a household and where farm labour is largely supplied by that household".*

Using this FAO definition, over 97 percent of the 12 million farms in Europe can be considered family farms, where the vast majority of the labour is supplied by the family. Large incorporated farms account for only a small proportion of farms and mainly in formerly centrally-planned economies.

Despite its predominance in the structure of agriculture, a number of issues threaten the sustainability of the family farming model in Europe. These challenges, which are the subject of a detailed exposition by Davidova and Thomson (2013), can be both internal to the farm, such as issues of family transfer and the engagement of women, and external such as land and market prices, access to credit and availability of off-farm employment. These challenges are outlined briefly below.

Economic viability and structural change*:* the family farm unit must be economically viable to remain sustainable in the long-run. A number of factors affect the economic viability of the family farm including output and input prices, efficiency and productivity levels, availability of off-farm employment and access to resources. The issues of economic viability and structural change are intertwined and often conflicting. On the one hand, it may be a desirable policy objective to retain the maximum number of family farms but conversely structural change is required in the sector in order to free up resources and allow farms to grow to a size that is economically viable. In economics, it has been long understood that structural change in either land ownership and/or land control is necessary to ensure the efficient use of agricultural resources (de Janvry et al., 2001). Structural change allows resources to move to those producers who are best capable of maximising the productivity and profitability of the farm sector. Conversely, there are concerns that an accelerated exit rate from farming would undermine the vitality of rural areas. A particular structural challenge for the European Union concerns the future of the very large number of very small farms and semi-subsistence farms. These farms suffer from problems of low cash incomes and a high incidence of poverty, a subject that is examined in great depth by Davidova et al (2013).

The ***demographic challenge***: generational renewal is essential to the sustainability of family farming. At present, only 7 percent of the farmers in the EU 27 are under the age of 35 and one-third of farmers are aged 65 years or more. The mature demographic profile is even more pronounced in some MS, such as the UK, Netherlands, Italy, Portugal, Cyprus and Romania. Given the significant barriers to entry to farming in Europe, namely relatively scarce and extremely expensive land along with limited and costly access to credit, entry to farming through means other than inheritance and/or succession is rare. The demographic challenge is two-fold consisting of the problem of *"getting old people out"* in a dignified and sustainable manner as well as *"getting young people in"* in a way that is economically viable in the long-term.

Bargaining power: the output prices received by farmers, as well as the input prices paid, are critical to the economic viability of the family farm. While farmers generally are price takers in the supply chain, small family farms are particularly vulnerable within the supply chain as they lack the power to negotiate with food processors and/or input suppliers. The significant power of large corporations in the food chain, dominating both the processing of agricultural outputs and the production of inputs, means that farms are being squeezed in the middle. Indeed, in the EU's Public Consultation "The role of family farming, key challenges and priorities for the future" the majority of respondents identified "bargaining power" and competition with large corporations" as the principal threat to the economic survival of family farming (EC 2014).

Access to land and capital: in order to exploit economies of scale and remain economically viable, farmers must invest and modernize, and in many cases expand their operations. Access to affordable land and credit is critical to this process. The very high price and limited market for land in Europe poses a significant barrier to both entry and to expansion for farmers wishing to consolidate fragmented holdings. Furthermore, access to credit is a particular challenge for small, low-income farms. A large body of research has shown that many farmers in Europe are credit constrained and demonstrates the negative consequences for farm development, (Swinnen and Gow 1999). Access to credit is now widely acknowledged as a major challenge facing all SMEs following the recent banking crisis. Security of land tenure is also a challenge for many tenant farms. When land tenure is not secure tenants cannot invest and modernize their businesses with the certainty that they can reap the rewards thus adversely impacting on productivity and efficiency levels.

Access to information: farmers must adapt and innovate in order to remain economically viable. Access to information about new technologies is important in this regard. Agricultural extension programmes are targeted to improve productivity through provision of training and the promotion of new technologies (Evenson, 2001). Reviews by Birkhaeuser et al. (1991) confirm the positive economic impact of contact with extension services. However, agricultural advisory services have become largely privatized in many MS and as such have been pushed beyond the reach of many small and low-income farms (Cary 1993). This problem is further exacerbated by the failure of many farmers to engage with information and communication technologies, Warren (2007). Making information about policy schemes and services available in a manner that is accessible to all farmers in Europe is an ongoing challenge.

Off-farm opportunities: many small and economically non-viable farms can only survive in farming by supplementing their farm incomes with income earned from outside the sector, either through paid employment or by using their farm resources for non-agricultural activities. Across the EU25, 79 percent of farm workers are part-time, and 44 percent work less than one-quarter of a full-time equivalent. The recent global recession and rise in unemployment in many rural regions of Europe has adversely affected the ability of farmers to find off-farm employment. In Ireland for example, the number of farm holders working off farm declined from 58 percent in 2006 to 30 percent in 2012, Hennessy et al (2013). This contraction in off-farm opportunities is likely to pose a substantial threat to the sustainability of many family farms.

The **Gender Challenge**: female participation in farming varies substantially across Europe. Just under 40 percent of the EU farm workforce is female, compared with 44 percent of the general workforce, however less than one-third of farm holders are women. Almost half of all women involved in farming in the EU are spouses of the farm holder. Female participation is high in the New Member States (NMS) compared to the EU15 where it is as low as 30 percent in some Member States (MS).

1.2. Conclusions

Clearly the challenges facing family farming in Europe are manifold and complex. They are also likely to differ across MS and across farms depending on farm size, family structure and so forth. Some challenges are specific to small and SSFs such as access to markets, while others affect all farms regardless of size such as declining output prices, availability of land and the presence of a successor. Although the protection and promotion of family farms has been at the centre of the CAP since its inception, the heterogeneity and idiosyncrasy of the challenges facing family farms makes effective policy design, especially in a common framework like the CAP, difficult. In many MS these CAP measures have been supplemented with domestic policies also aimed at protecting the position of family farming. These policies are reviewed and discussed in the ensuing Chapter.

2. POLICY INSTRUMENTS TO SUPPORT FAMILY FARMING

KEY FINDINGS

Pillar I schemes have transferred substantial funds to family farms but **larger farms have tended to benefit more**.

Funds transferred under Pillar I schemes have **retained large numbers** of otherwise nonviable farms.

Pillar I schemes have decelerated the pace of structural change in farming acting as a **disincentive to exit** thus limiting opportunities for expansion and new entrants.

Pillar II schemes tend to be **more targeted** to specific policy goals such are encouraging early retirement, farm investment and new entrants.

Many Pillar II schemes have indirectly benefitted family farms by improving the **quality of life in rural areas**.

The adoption and success of schemes vary by MS but generally schemes suffer from **poor engagement by smaller farms**.

Pillar I and Pillar II schemes can be conflicting, pillar I payments act as a disincentive to exit while Pillar II encourages retirement and succession.

Many MS have domestic legislation and policies to support family farming such as **preferential taxation, protection of property rights and land tenure and services to support farm succession**.

Some of the key challenges threatening the survival of family farms have been discussed in the previous Chapter. This chapter assesses the effectiveness of existing policy measures and practices in tackling the challenges facing family farming. EU and domestic Member State policies are assessed with a view to identifying measures that are particularly successful in enhancing opportunities for family farming. The Chapter begins by assessing the existing CAP, first Pillar I policies are discussed and following this a review of the main Pillar II measures targeted towards family farming is presented. Domestic Member State policies are also discussed and the Chapter concludes by presenting a number of case studies and success stories.

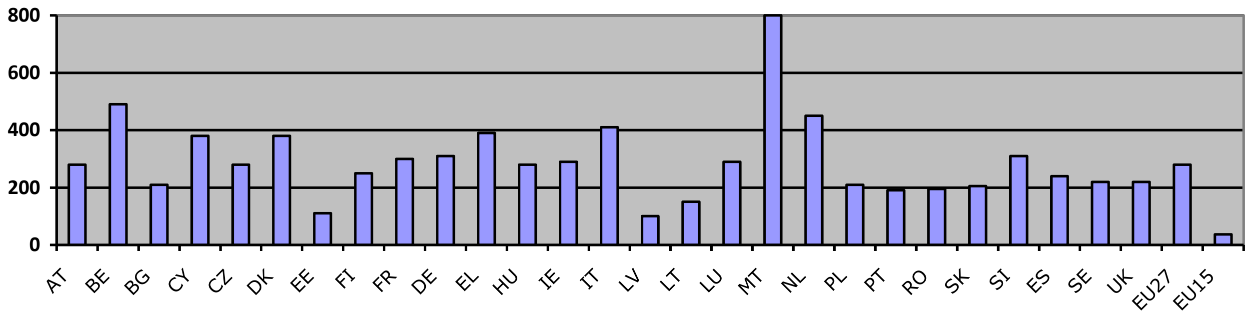
2.1. CAP Pillar I support for family farms

Pillar 1 of the CAP combines two components: (i) interventions in farm commodity markets by means of regulation (e.g. production quotas, planting rights) and price support (commodity market organisations, CMOs) and (ii) support for farm incomes, mostly via direct payments but also aid to producer groups. The vast majority of schemes, programmes and policies of the CAP fall into the larger Pillar I, which accounts for over 70 percent of the total CAP budget. Pillar I policies also tend to be more common across the EU as there is less scope for flexibility in MS implementation, fewer voluntary provisions, and in being 100 percent funded from the EU budget, Davidova et al (2013).

CAP Pillar I policies have been designed to support the economic viability of family farms. For much of its history, farm support under the CAP was provided through market price support. While such support affects all farmers equally by inflating output prices, it follows that larger farmers, that produce more benefit more from a price support policy, although it should be noted that many of these larger farms are also family farms. Following numerous policy reforms, price support has slowly been dismantled and replaced by direct income support and more recently by decoupled income support. In theory, direct income support allows for better targeting of support to achieve particular policy objectives, such as supporting small family farms. It has been argued by some however, that there has been very limited targeting of support payments in the EU, see Matthews (2013) for a discussion of this topic.

Under the current system there are considerable disparities with the distribution of direct payments both within and between MS raising serious concerns about equality. MS that implemented the historic model of decoupling for example, linked a farmer's income support entitlements to historic production levels thus ensuring that larger and more productive farmers retained their entitlement to larger payments. Furthermore, payments are still linked to land so those with larger farms benefit more. For the EU-27, over 40 percent of all direct payment beneficiaries receive a payment of €500 or less but these payments account for just 2 percent of the budget, thus demonstrating the rather unequal distribution of payments across the EU. The disparities between MS arising from the way in which the budget for direct payments has been allocated is also striking. Commission figures show that the average direct payment per hectare of potentially eligible area for the year 2013 is €94 in Latvia and €457 in the Netherlands, whereas the EU-27 average is €269. Figure 1 illustrates the significant differences between Member States as regards the average direct payments per hectare. The issue of equity in the distribution of direct payments is a contentious one and considerable attempts have been made in the recent CAP proposals to tackle this issue.

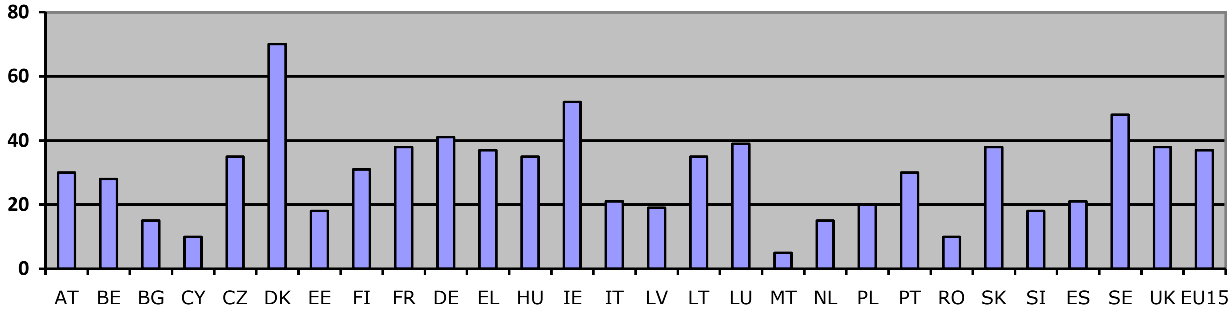
Figure 1: Average Direct Payments per hectare in each Member State (2008)



Source: DG AGRI.

According to the European Commission's own evaluation, direct payments have been an effective tool for enhancing the income of farmers and have made a positive and robust contribution to the stability of these incomes. The Commission's evaluation also concludes that direct payments contribute to keeping sustainable farming in place throughout the EU territory, as well as providing a basis for the provision of public goods through agriculture. However, the importance of direct payments to farm income varies considerably across MS. As can be seen in Figure 2, between 2007 and 2009 direct payments comprised over 70 percent of agricultural factor income in Denmark compared to less than 15 percent in some of the NMS such as Bulgaria and Romania.

Figure 2: Share of Direct Payments in Agricultural Factor Income (avg. 2007-2009)



Source: DG AGRI, EUROSTAT

There is also evidence that direct income support has been effective in slowing the pace of structural change. Research has shown that higher subsidy payments and output prices have lowered farm exit rates in European countries (Breustadt and Glauben 2007). This is particularly true of decoupled payments, as they have no production requirement even inactive farmers can remain in business and still derive an income from the land. A slower pace of structural change can on the one hand be seen as enhancing the prospects of family farms as greater numbers of farmers remain in business. On the other hand however, it means it is more difficult for new and young farmers to enter the sector and that there are only limited opportunities for farmers wishing to expand.

Although no longer linked to production, decoupled payments are still linked to agricultural land. There is ample evidence that land based subsidies inflate land sale and rental prices, see Ciaian et al (2010) for a comprehensive review of the literature on this topic. This results in a leakage of the subsidy from the active farmer to the land owner. It also further decelerates the structural change process making it more difficult and expensive for new entrants to the industry.

Risk and income volatility are a major challenge for family farms. The CAP Pillar I policies support family farms by reducing their exposure to risk. Given the significant proportion of farm income derived from decoupled direct payments, which are risk-free, the farm family's exposure to risk is reduced considerably. Direct payments act as a buffer against the negative economic impacts of market and/or production risk. As such, decoupled direct payments act as a major income stabilisation tool. The risk-free nature of decoupled payments can also serve to reduce the credit constraints facing farm families and alleviate some of the access to credit problems. Burfisher and Hopkins (2003) found that lenders perceive recipients of decoupled payments as being more credit worthy because the payments increase collateral values for land owners and increase repayment capacity, reducing lenders' exposure to risk of loan defaults. Reducing the credit constraints facing family farms can help to stimulate farm investment which in turn can improve the competitiveness of the farm business.

The impact of EU Membership and direct income support in the NMSs has varied depending on the initial farm structure, land tenure system and the pre-accession support to agriculture. Across many NMSs payments have remained inaccessible to large numbers of very small farms. Due in large part to the introduction of minimum eligibility thresholds (in area in ha, or in economic size) in some MS which serve to exclude very small farms. For example, only 16 and 17 percent of small farms in Hungary and Bulgaria respectively are beneficiaries (receiving less than €500 per annum) of Pillar 1 payments. In Slovenia and Romania, where accessibility to payments has been slightly better, Pillar 1 payments seem to have slowed down structural change and small farms remain strongly represented in their farm structure. In Malta, the number of small holdings even increased, since some tiny holdings, which pre-accession had not produced or sold much, registered to become eligible for CAP payments, (Davidova et al 2013).

In summary, the CAP Pillar I policies of the last half century of more have had a major impact on the economic viability and sustainability of family farming. Subsidies have increased the income of a large number of family farms that would have otherwise been unprofitable and unsustainable. This has facilitated the survival of large numbers of family farms that would have otherwise gone out of business. Consequently, the pace of structural change has slowed and this has limited the opportunities for farm expansion, greater market orientation and new entrants. As will be discussed in Chapter 3, attempts have been made to address many of these adverse impacts in the latest reform of the CAP.

2.2. CAP Pillar II support for family farms

Pillar II of the CAP provides multi-annual programmes of support for Rural Development, currently focused, through four "axes", upon improving the competitiveness of farming and forestry, protecting the rural environment and maintaining sensitive farming activity, diversifying the rural economy and promoting quality of life for rural inhabitants. Unlike Pillar I, Pillar II programmes are more targeted to supporting specific policy objectives. Furthermore, Pillar II is also more flexible and programmes can be tailored to the individual situations and needs in the various MS. As programmes and payments are not typically linked to farm size, Pillar II payments do not suffer from the same scale effects as Pilllar I payments, Davidova et al (2013). Given the greater potential for targeting with Pillar II payments, there is greater scope to implement policies and programmes to enhance family farming.

The numerous and diverse nature of the Pillar II schemes in the various MS makes an evaluation of their impact on the sustainability of family farming difficult. This difficulty is further exacerbated by the fact that many of the schemes were rather general in nature thus making it difficult to evaluation their effectiveness especially in the context of multiple intervening factors. Given the multiplicity of schemes operated under Pillar II across the various MS, the following analysis is not comprehensive but it does focus on the main programmes relating to family farming.

2.2.1. Agri-Environment and Disadvantaged Area Schemes

These are the two largest schemes consuming the vast majority of the Pillar II budget in most MS. They are area based payments, with a maximum ceiling, made to farmers for participation in an agri-environment scheme and for farming in an area with physical disadvantage. The schemes serve the important functions of maintaining production on land that might otherwise be abandoned and in reducing the negative environmental externalities associated with farming. While both schemes offer an income boost to farmers, the impact for the sustainability of family farming is likely to be in a similar vein to the Pillar I payments. The level of the payment and its untargeted nature means it is unlikely to substantially alter the economic viability of the farm and hence is unlikely to have any lasting impact on the sustainability of family farms other than boosting income levels for the duration of the scheme.

2.2.2. Generation renewal

At the EU level policies to encourage generation renewal in farming have typically followed two paths; retirement schemes to incentivize exit and installation support to encourage entry. Both types of schemes have received EU support for many years via Pillar II programmes. In the 2007 to 2013 period, 24 MS included activities on the setting up of young farmers within their national Rural Development Plans while 16 member states included measures relating to early retirement.

Early Retirement Schemes (ERSs) have been operated under Pillar II of the CAP for many years with varying rates of success across MS. The Schemes typically operated by offering incentives for farmers aged between 55 and 66 to transfer their farms to qualified young farmers by providing them with an annual fixed-term pension. ERSs were most popular in France, Ireland and Greece (Caskie et al. 2002).

A number of evaluations of the ERSs have been conducted in various MS.[2] In summary, these evaluations have concluded that in certain MS the Schemes have been successful in encouraging retirement and replacing older farmers with younger ones and in increasing the average size of holding. However, in many cases the ERSs have only served to bring the retirement decision forward and as such has resulted in a surge in retirements in the short-run with little change to the overall long-term retirement trends. In these cases the ERSs have only funded retirements that would have occurred anyway and as such, they have a significant deadweight loss. Davis (2009) estimated this loss to be in the order of 23 percent. The evidence shows that participation in ERSs in Ireland declined significantly in the 2000 to 2006 period and it is believed that the decoupling reform was a disincentive to exit, AFCON (2006). In Greece, the ERS was considered to be instrumental in the combat against rural depopulation in LFAs, encouraging the transfer of farms to younger and more productive farmers (Spathis and Kaldis 2003).

The other main policy instruments to support generation renewal are those clustered under the broad heading of New Entrant Schemes (NES). Since the mid-1980s, EU assistance has been available to young farmers in the form of special aid payments for their first installation as farmers as well as enhanced support for investments for farm improvements.

In a review of the Italian NES measures, Carbone and Subioli (2005) concluded that in the 2000 to 2003 period the size of the average new entrant payment was small relative to the average value of the recipient's farm and/or the cost of running that farm and hence was unlikely to significantly influence the decision to enter farming or not. Furthermore, the size of the payment was also unlikely to significantly improve the competitiveness of the farm. Carbone and Subioli also criticized the relatively untargeted nature of the support commenting that in many cases payments went to farmers who were already in farming or who were not actually entering farming but only doing so on paper to receive the grant. They welcomed the change in the 2007 to 2013 schemes, namely the greater emphasis on improving the competitiveness of the sector and the qualifying criteria of business planning and training.

Davis et al (2013) found that new entrant assistance can actually have negative effects in some farm situations. This occurs where assistance is provided to very small holdings that even with the extra support are unlikely to attain financial viability. As with an Early Retirement Scheme, a Setting-up Young Farmers measure is likely to incur some

[2] See Dauce et al. (1999), Murphy (1997), Caskie et al (2002), Bika (2007), Davis (2009) and Davis et al (2013) for national level evaluations of Early Retirement Schemes.

deadweight cost in situations where farmers borrowed money through the Scheme for investments they would have undertaken anyway. An evaluation of the Measure 112, Young Farmers Installation, in Ireland revealed that 92 percent of recipients indicated that the Scheme was very significant or significant in its contribution to them setting up as a young farmer, however, only 30 percent of respondents indicated that they would not have embarked on a career in farming in the absence of the financial supports, Indecon (2010).

France operates a significant New Entrant Scheme representing 30 percent of its axis 1 RDP 2007-2013 budget, ENRD (2010). In helping young farmers, the emphasis is placed on training and developing knowledge (young people must have attained a minimum level of education in order to benefit from this aid). They must also participate in various training sessions including, among others in France, a six month placement on other farms with a view to broadening their horizons and expanding their ambitions.

2.2.3. Farm Improvement Schemes

Farm Improvement Schemes (FIS) (Measure 121) offer grant assistance to farmers towards investment in buildings and machinery which improves environmental protection, animal welfare, produce quality and working conditions. The aim is to increase the capacity, competitiveness and innovation of farming through investment in farm modernisation.

An evaluation of the FIS in Ireland, conducted by INDECON (2010), showed that farm investment increased rapidly in the 2007 to 2008 period. This was due to the confluence of factors, including the regulatory environment, EU directives such as the Nitrates Directive, the REPS and cross-compliance requirements, in addition to capital/grant supports such as those available under the Farm Improvement Scheme. There was significant investment in environmentally friendly and more efficient buildings and facilities, especially waste management facilities and this is considered to be a positive legacy from this scheme. INDECON also claim that there is also evidence that the scheme has contributed to increased product and process innovation, with 54 percent of investment projects supported under the FIS during 2008 leading to the introduction of new products or techniques to the associated farm holdings as a result of investments supported under the scheme. They also find that there is some evidence of poorly planned over investment. They recommend that a more targeted approach to supporting on-farm investment, including a requirement for viable business plans, might result in a more efficient use of grant aid and associated significant impacts in terms of farm productivity, profitability, competitiveness and innovation. Their analysis also shows that larger, more commercial farms tend to be overrepresented in these schemes.

An evaluation of the FIS in the Czech Republic also finds positive effects, (Medonos et al 2012). Their economic modelling of scheme participants confirms the significant benefits from the investment support stemming from an increase in animal production efficiency, an overall revenue increase, and also the relatively important reduction of operational costs, especially labour costs. Similarly an analysis of the scheme in Poland found that participants increased their gross value added by 25 percent relative to non-participants, Adamski et al (2013). However, as was the case in Ireland, participants tended to have larger, more productive holdings.

Also contained under the broad umbrella of FIS is measure 125, "improving and developing infrastructure related to the development and adaptation of agriculture and forestry". This measure can be used for land consolidation.

2.2.4. Leader Programme

LEADER is a core element of Pillar II. LEADER funding is channelled through Local Action Groups who deliver the programme at local level. The LEADER programme is an area-based and bottom-up approach, involving local communities and adding value to local resources. The LEADER approach is essentially about motivating, encouraging and supporting individuals, groups and communities to develop. It is a 'self-help process where the local action groups provide advice and assistance to those with community and enterprise ideas/initiatives.

In an Irish context Kearney (1999) concluded that LEADER II had promoted an innovation ethos and that the innovative actions created new forms of employment and services, and broadened the economic base of rural areas. He also stated that the programme, particularly through animation and capacity building, had achieved much in relation to rural identity, self-confidence, vibrancy and development awareness. It has been estimated that the LEADER programme has created over 20,000 jobs in rural areas in Ireland from 1999 to 2009 DAFF (2010). A further evaluation of the LEADER programme in Ireland suggested that farmers perceive that LEADER has little to offer them and that the processes and applications that must be followed to qualify for support are too onerous (Macken-Walsh, 2009).

The income earned from off-farm employment is a crucial supplement to low-farm incomes for many farm families allowing economically non-viable farms to remain in business. The economic activity stimulated by LEADER has generated additional employment in rural areas, as evidenced by the Irish situation. While farmers themselves may have relatively low rates of engagement in new business start-up through LEADER, many of them or their family members may have secured employment in rural areas that was generated either directly or indirectly by LEADER.

2.2.5. Promoting Quality of Life for Rural Inhabitants

Measures to support the quality of life in rural areas are one of the main axes of Pillar II. Measures are available for upgrading basic public infrastructure in rural communities with a view to alleviating poverty and remoteness. The axis measures offer scope for investments in essential services like childcare, shops, education, health, amenities, and transport, in addition to facilities for elderly residents, women, younger generations and minorities. Infrastructure and multi-purpose community facilities are encouraged. Conservation and upgrading of natural and cultural heritage can also be funded and form part of a local area's tourism development plans.

While such measures are not specifically targeted to sustaining the family farm, measures that improve the quality of life, access to services and infrastructure in rural areas are all likely to positively influence the family farming experience and encourage more new entrants. Carbone and Subioli (2008) say that a perceived poorer quality of life in rural areas with diminished access to services can be a deterrent to young people entering farming. Clearly, measures that improve the quality of life in rural areas can also improve the numbers of people wishing to live in rural areas and work on farms.

2.2.6. Conclusions on Pillar II policies

Pillar II schemes are clearly more targeted than their counterparts in Pillar I and many are specifically targeted at enhancing opportunities for farm families. Although Ward and Lowe (2010) argue that because almost 90 percent of the Pillar II budget in England went to the relatively untargeted agri-environmental and LFA scheme in the year 2000, the scope to make significant achievements with the more targeted schemes was limited.

Early retirement and young farmer installation schemes have both been effective in promoting intergenerational transfer, although evaluation studies question the value for money of these schemes and the associated deadweight loss. Farm Improvement Schemes have been used by many farmers to modernise and improve farm facilities. Evaluation studies suggest that this has led to improved efficiency on these farms, although some studies suggest that this investment may have occurred anyway even without the support. Despite the numerous attractive schemes available to farmers under Pillar II, problems with limited access and low participation rates continue. Many of the national level evaluations cited here present evidence that larger more commercial farmers are more likely to participate in schemes. Most schemes require farmers to submit an application, which can often be a complex process, and in some cases matching funds are required. The application process is a necessary step in a targeted policy, but greater assistance and promotion by State agencies and farm advisory services can help small and less educated farmers overcome many of these obstacles.

Davidova et al (2013) outline the indirect barriers to participation for small farmers and SSFs in Pillar II schemes. They identify these barriers as: a lack of awareness or familiarity with claiming such grants; inability to prepare a robust application (by doing it themselves or by paying a consultant); or inability to raise matching finance for capital investment which requires some funding from private sources. This indirect (non-deliberate) exclusion appears to be most likely in respect of Axis 1 measures for physical investments (modernisation, young farmers, adding value).

2.3. Domestic Policies to Support Family Farming

In addition to EU level policies, there are many domestic MS policies that affect family farming. Among the many policies implemented by MS that may affect family farming are; land consolidation schemes to reduce farm fragmentation by land re-parcelling and amalgamation; land market regulations to regulate land sale and price; special agricultural taxation arrangements that favour family-owned businesses such as partial or total exemption from property or inheritance taxes or social security taxes; and measures to facilitate access to farm credit or insurance. The following section reviews some of these policies and explores the implications for family farming.

2.3.1. Property rights and Land Tenure

The effective functioning of land markets (both for sale and rent) is considered vital to the long-term viability of family farming. Legislation to protect property rights and to regulate land markets varies across MS. In the EU15, land ownership and rights are long-established, and in most of the NMSs post-communist land restitution has by now been largely completed, even if not resulting in optimal farm structures, Davidova et al (2013). Despite the protection of property rights, there is legislation in many MS to prevent extreme land fragmentation, and to protect the rights of the small owner-operators, land tenants and non-farming landowners (Swinnen et al., 2013). For example, legislation protects farm tenants in Belgium and France, providing for contracts for a minimum of nine years. Tenants also have a pre-emptive right to buy their rented agricultural land if it is for sale (Ciaian et al., 2012). Such provisions to protect the security of tenure for tenant farmers are crucial to the long-term development and competitiveness of these farms. Many MS also have special farmland taxation policies to encourage land transfer, long-term leasing, consolidation etc. Bogue (2012) found that in Ireland many of the farmers that were willing to disengage from farming were older and less educated farmers and were not aware of the tax incentives available for land transfer.

2.3.2. Succession and Farm Transfer

Patterns of succession vary considerably across the EU, depending on the local culture and traditions, and on the legal and financial mechanisms that exist in the individual MS. There is no single approach, but there are common challenges. In many MS the Napoleonic code of inheritance, which requires assets to be passed to all children in equal shares, has resulted in a proliferation of small units necessarily run by families and not always conducive to efficiency. Other Member States, such as Germany recognises equality of all heirs and sole inheritors must compensate other siblings. In Denmark the successor usually buys out their parents. As farm succession to owner-occupied land implies large capital transfers, the state assists in the process by loan capital schemes, whereby the first five annual payments are paid by the government (Gibbard, 1997).

2.3.3. Taxation and pension policy

Taxation does more than raise government revenue. It can affect the behaviour of economic agents in ways that complement or conflict with other public policies, including those directed at agriculture, Hill and Blanford (2007). The OECD conducted a survey of taxation policies as they affect farming and found that the use of tax concessions for farmers and landowners is widespread in OECD countries. Concessions relate to the taxation of incomes, property and inputs, OECD (2005). In some MS, such as France, farmers' income is taxed using a notional income measure rather than financial accounts. A number of studies, as reviewed by Hill and Blanford (2007), concluded that this system tends to underestimate the burden. Other tax concessions common across the EU include concessions on annual property taxes, lower duties and taxes on certain farm inputs such as fuel and multi-year averaging of farm income to allow farmer to manage their tax burden in the context of volatile farm incomes.

Of most importance from a family farming perspective, is the special treatment of tax concessions extended to land transfer. Many MS have special inheritance tax policies relating to the intergenerational family transfer of farmland. Such concessions are available in Poland, Finland, Ireland, Germany, France and the UK to mention just a few. This is a very important support for family farming allowing assets to pass between generations with minimal tax implications.

Pension provision impacts on retirement decisions. On one hand, a lack of pension provision discourages retirement as farmers cannot afford to retire. However, the reverse can also occur. In Ireland, for example, all farmers are now part of the contributory old age pension system which means they are entitled to a state pension regardless of means or other income. So a farmer over the age of 66 can live in their own home, receive a single farm payment and the state pension – the relevant question to ask is not why they don't retire but why would you retire?, Matthews (2013).

2.4. Opportunities and Success Stories

2.4.1. Supports for Land Mobility

As has been discussed above, access to land is one of the major challenges facing family farming in Europe. Some domestic MS policies have attempted to tackle this issue by enacting favourable legislation to protect the rights of small owners and favourable taxation to promote intergenerational transfer. There are opportunities to promote greater land mobility by establishing a land advisory service, either independently or part of the farm advisory service, to facilitate land mobility. The service should have an information element, informing farmers about the tax incentives available for land transfer, and an advisory/support element which assists in the actual process of transfer/leasing. This service could also make available an independent arbitration service for assisting in resolving issues that may arise.

Some MS have tackled the land mobility issue through public-private partnership options, such as SAFER in France, while other MS have provided support for brokerage type services, which can help to match those farmers who are considering winding down or retiring with those who are scaling-up or entering the sector such as the Hofgruender in Germany. The two initiatives are discussed in the box below.

Box 1: Supports for Land Mobility: Case Study

SAFER

In France Les sociétés d'aménagement foncier et d'établissement rural (SAFER) was created at the end of the 1950s in order to promote the restructuring of farmland. It is a not for profit organisation that aims at supporting competitive agriculture by buying and then judiciously selling farmland. The objective of SAFER is to establish young people in farming, whether they originate from a farming background or not. SAFER is systematically informed by notaires of pending sales of land in agricultural or natural zones, and, if necessary, has a pre-emptive purchase right. *"A pre-emptive right might be used, for example, where a farmer is planning to sell to a Parisian but a young local farmer, who needs to expand, asks SAFER to intervene. SAFER will usually buy at the asking price, but it should be a reasonable market price."* In 2010, SAFER acquired 74,800 ha of land, worth €791 000 000. In 2011, SAFER supported the installation of of 1 220 young farmers, including 730 from non-agricultural backgrounds (60% of all installations for 2011).

"Matchmaking for Farmers"

The prospective value of bringing together or matching retiring farmers and new entrants in some form of partnership or joint venture arrangement has been recognised in extension and policy circles. In the USA state extension initiatives, such as Iowa's Beginning Farmer Center's Farm-On and Wisconsin's Farm Entry-Exit Farm-link, facilitate matching between new entrants and farmers looking to retire. There are also examples in Europe. For example, the Fresh Start initiative in England set up a matchmaking element with the aim of identifying and facilitating potential joint ventures agreements between new entrants and older farmers. The emphasis was on setting up long-term arrangements that would enable the new entrant to 'buy into' an existing farm business, gradually taking over managerial control. Hofgruender is a German initiative which connects the young generation of farmers without land and farm with the older generation of farmers who are on the search for a successor. While the matchmaking service is seen as an innovative mechanism for addressing the entry-exit dilemma, an evaluation of the Fresh Start Initiative by Ingram and Kirwan (2011) suggest that its success has been limited. They found that the number of applicants was low and that issues of trust inhibited the establishment of effective transfers.

2.4.2. Supports for Succession Planning

Successful transfer of the farm from one generation to the next is critical to the sustainability of family farming. A number of studies have shown that it is crucial that the intergenerational transfer is conducted in a timely and effective way, as it has a direct impact on the long-term productivity and profitability of the farm, as well as on the social stability and wellbeing of the farming family, Kimhi (1997) and Kimihi and Nachieli (2001). In many families there may be issues of trust and it may be difficult to broach the issue of intergenerational transfer.

The use and establishment of specialist advisory and consultancy services for succession planning could be useful to support this process. Such services already exist in some Member States and could be set up by others under their RDPs. Specialist succession advisers can, for example, be useful in facilitating discussions between family members, helping to interpret the complexities of national and regional legislation regarding taxation, drafting wills and written succession agreements, and offering guidance on restructuring of a family-run farm business. CEJA also support the concept of retirement planning and facilitating access to succession brokers for farming families in all EU Member States in order to broach the difficult conversation about the transfer of land between generations, aided by an external facilitator who has knowledge of the land succession laws in that particular Member State.

2.4.3. Supports for Alternative Business Models: Joint Ventures/Partnerships

Given the limited availability and high cost of farmland in many MS, joint ventures and farm partnerships offer farmers the opportunity to achieve scale at a lower capital cost. Such business models also offer benefits such as the elimination of duplicated costs like machinery, buildings and labour, the possibility to benefit from management synergies and to risk sharing, Larson (2008). However, despite the many advantages partnerships can deliver, issues of trust and loss of independence remain major barriers to the widespread adoption of this organisational structure. Box 2 outlines some success stories in relation to policies and programmes that have been established to promote farm partnerships.

Box 2: Farm Partnerships: Case Study

FRANCE

The GAEC (Groupement Agricole d'Exploitation en Commun) is the French Farm Partnership model established in 1962 with the objective of protecting and maintaining the family farm as a fundamental component and major cultural symbol of the countryside, and to bring agriculture into the modern economy, allowing more economies of scale (Barthez, 1962). The GAEC allows individual farms to work together while maintaining their agricultural status in legal, social, economic and tax terms. Members maintain their individual rights while their liability for debts is limited to twice the proportion of their capital (Bertaux, 1999). In 2009, there were approximately 38,000 active GAEC in France involving in the region of 100,000 farmers (MAAPRAT, 2010). Initially GAEC's between neighbours were the dominant form of association, while recently, family GAEC's (typically father and son) prevailed. GAECs are unique in the EU in that they are the only fully recognised collaboration system where all the qualifying farmers in the group are treated as favourably as farmers farming on their own with regard to EU and Government supports.

IRELAND

Relative to France, Farm Partnerships are a relatively new concept in Ireland. Significant efforts have been made by the Irish government to in recent years to promote the Farm Partnership model. The initiative has been moderately successfully with 540 farm partnerships registered in 2012. Over 70 percent of these partnerships are family based between father and son or siblings. The family farm partnership model is a successful means of facilitating the progressive transfer of ownership and responsibility, and the transfer of knowledge and skills between two generations. The main benefit of family partnerships is that the young person is more involved in the management of the farm and potentially is more motivated and empowered as a result, while the older generation still retain management and ownership of the farm. A recent evaluation of Farm Partnerships in Ireland compiled a list of recommendations to further promote participation rates, these include improved regulation, greater promotion and information, policy support and tax incentives, Bogue (2012).

3. THE COMMON AGRICULTURAL POLICY 2014-2020: PILLAR I POLICIES

KEY FINDINGS

The latest reform of the CAP aims to **tackle the unequal distribution of direct payments**

Many of the redistribution schemes are **optional or have only minimal requirements** so the final impact on redistribution will depend on the implementation in the various MS

The Young Farmers Scheme will give a welcomed financial boost to farmers but its **untargeted nature** will do little to improve the efficiency or competitiveness of recipients

A Young Farmers Scheme linked to **business planning, investment and/or training**, as contained under Pillar II, could achieve more

The Small Farmers Scheme will **simplify access to the CAP** for many small farms, likely to be particularly welcome in NMS

In general, there are more schemes to channel funds to smaller and younger farms but their untargeted nature means there will be **little impact beyond the duration of the scheme**

Payments are still linked to land so there will be a **continued leakage of support to land owners**

Milk quota removal will lead to the **elimination of costly rents** in the sector and allow farmers to become more market oriented.

The Multiannual Financial Framework (MFF) proposal provides that a significant part of the EU budget should continue to be dedicated to agriculture, which is a common policy of strategic importance. The Commission had proposed that, in nominal terms, the amounts for both pillars of the CAP for 2014-2020 would be frozen at the 2013 level. In real terms CAP funding will decrease compared to the current period. Compared to the Commission proposal, the amount for pillar I was cut by 1.8 percent and for pillar II by 7.6 percent. Some flexibility for transfers between pillars is introduced (up to 5 percent of direct payments): from Pillar I to Pillar II to allow Member States to reinforce their rural development policy, and from Pillar II to Pillar I for those Member States where the level of direct payments remains below 90 perent of the EU average.

The key objective of the latest CAP reform was to create a simpler, more efficient, effective and fairer CAP. At the core of the current CAP reform was Commissioner Ciolos's desire to introduce a "more level playing field" for all farmers in Europe and this involved tackling the inequality in the direct payment system. Through both processes of external and internal convergence, the current CAP reform aims to redistribute direct payments both between and within MS. A further motivation of the current CAP reform was to reposition the CAP as a greener and more targeted policy more aligned with the Europe 2020 goals of "smart, sustainable and inclusive growth". Finally in terms of simplification, the reform aims to make the CAP an easier policy to understand for tax payers and consumers, easy to implement for administrators and easy to access for farmers and food producers by reducing the bureaucracy and "red-tape" associated with schemes. Here the implications of the latest CAP reform for family farming are considered.

3.1. Overview of CAP Pillar I Policies

As discussed the latest CAP reform was motivated by the desire to introduce greater equality and targeting in the direct payment system and to better align the Pillar I policies with the green agenda. A number of schemes, which are discussed in more detail below, have been proposed to (i) redistribute direct payments between farmers, for example the convergence model under the basic payment scheme and the redistributive payment scheme, (ii) place greater emphasis on the production of public goods and the environment, the green payment scheme, (iii) simplify the CAP and access to its schemes, the small farmers scheme, and (iv) support the competitiveness of the agriculture sector and promote market orientation, the abolition of supply control measures for dairy vines and sugar are presented by the Commission as the main reforms in this area.

The CAP reform agreement on the Direct Payments regulation allows for a total of 7 schemes, 3 of which are mandatory and 4 of which are optional. With each of the mandatory and optional schemes there are choices to be made by Member States regarding implementation. The mandatory elements of the Direct Payments regulation relate to the Basic Payment Scheme (BPS), the Greening Payment Scheme (GPS) and the Young Farmers' Scheme (YFS), while the optional schemes include Voluntary Coupled Support Scheme (VCSS), the Small Farmers Scheme (SFS), the Redistributive Payment Scheme (RPS) and Areas of Natural Constraint Scheme (ANCS). The share of the national direct payments financial ceiling that is allocated to the BPS depends on the share of the national direct payments financial ceiling allocated to the other mandatory and optional schemes. The share allocated to the BPS is the balancing item in a fixed budgetary ceiling. If the share allocated to another scheme increases the share allocated to the BPS must decrease. In other words, if MS choose to allocate the maximum levels to the various optional and mandatory schemes, this reduces the value of a farmer's basic payment. The implications of these schemes for family farming are discussed in the ensuing sections.

3.1.1. The Basic Payment Scheme

The new CAP 2014 -2020 introduces a new single 'Basic Payment Scheme' (BPS). Under the BPS, all MS will be obliged to converge towards a uniform payment per hectare at national or regional level by 2019. The level of direct payments per hectare, which is currently based on historic parameters in many MS, will be progressively adjusted with the introduction of a minimum national average direct payment per hectare. MS have a number of options on how to converge towards the uniform payment but it is mandatory that all payment values must reach at least 60 percent of the national average payment by 2019.

One of the key objectives of the BPS is to move away from the historical payment model in favour of a more "level playing field". Redistribution of CAP budget shares is a zero-sum game, in that the gains accruing to some farmers come at the expense of others. On the one hand the move towards uniform payments is likely to favour less intensive farms that did not have significant entitlements. However, there are many moderate size family farms that operated relatively intensive farms during the reference period that will lose out under this policy. Furthermore, as payments are still linked to land, larger farms will still benefit from larger payments. Thus supporting larger family farms.

Convergence will have negative implications for the economic viability of family farms with higher than average Single Farm Payments (SFP). There will be adverse impacts on their income, repayment capacity and likely future investment levels. In this case the transition period is likely to be welcomed as it gives farmers clarity about the future and time to adjust to their new payment level. Furthermore, the flexibility granted to individual MS about the rate at which they apply convergence is also likely to minimize/delay the implications, both negative and positive, arising from the redistribution. This is especially so in MS that have a high degree heterogeneity in payment levels.

One of the concerns cited in relation to convergence is that the impact will be detrimental for moderate sized family farms with funds transferring to small, hobby type farms. The tightening of the definition of an active farmer is very important in this regard. This has been the source of considerable controversy during the CAP negotiations. Finding a definition of an active farmer that is appropriate, acceptable and functional across all MS has proven difficult. The new CAP 2014 -2020 includes a new negative list of professional business activities which should be excluded from receiving Direct Payments (covering airports, railway services, water works, real estate services and permanent sports & recreation grounds), unless the individual businesses concerned can show that they have genuine farming activity. MS will be able to extend the negative list to include further business activities.

Better targeting of payments towards active farmers is likely to be one of the key developments in the new CAP that will ensure that the maximum funds possible will flow to family farms. The final definition included in the policy is quiet lenient and while it would have been desirable to link the definition of an active farmer directly to agricultural activity or the intensity of that activity, the decoupled nature of the support precludes this possibility.

In addition to targeting payments toward active farmers, the CAP agreement also makes provisions for compulsory "degressivity", and voluntary "capping". In practice this mean that the amount of Direct Payment support that an individual farm holding receives [not including the Greening payment] will be reduced by at least 5 percent for the amounts above €150 000. In order to take account of employment, salary costs may be deducted before the calculation is made.

3.1.2. The Green Payment Scheme

MS must also allocate at least 30 percent of their direct payments budget to the Green Payment Scheme. Farmers are compelled to respect certain agricultural practices beneficial for the climate and the environment in order to qualify for this payment. The 3 basic greening requirements are:

- maintaining permanent grassland; and
- crop diversification (a farmer must cultivate at least 2 crops when his arable land exceeds 10 hectares and at least 3 crops when his arable land exceeds 30 hectares. The main crop may cover at most 75 percent of arable land, and the two main crops at most 95 percent of the arable area);

- maintaining an "ecological focus area" of at least 5 percent of the arable area of the holding for farms with an area larger than 15 hectares (excluding permanent grassland) – i.e. field margins, hedges, trees, fallow land, landscape features, biotopes, buffer strips, afforested area.

The agreement includes a "green by definition" clause whereby the application of environmentally beneficial practices already in place are considered to replace these basic requirements. For example, organic producers will have no additional requirements as their practices are shown to provide a clear ecological benefit.

The GPS is the first agri-envrionmental scheme included in Pillar I of the CAP and it has been met with a luke-warm reaction on all sides. Environmentalists claim that it does not go far enough and is only a cynical "green-washing" approach by the Commission. Farm lobby groups claim that ecological focus areas and the diversification requirement take land out of productive use and limit farmers' ability to respond to market signals by growing crops that are required. This threatens the competitiveness of European food production and the ability to embrace the food security challenge and is likely to result in higher food prices and a greater dependency on imports Copa-Cogeca (2013).

3.1.3. The Redistributive Payment

Member States also have the option to introduce a redistributive payment for the 'first hectares' (i.e. allocating higher levels of aid for those hectares which increases the support for small and medium-sized farms). Up to 30 percent of the national envelope can be used to top-up payment levels on the first 30 hectares (or up to the average farm size if higher than 30ha). As the size distribution of farms in most MS is skewed to the left, in general more farmers will benefit from this payment than will lose out.

The Redistributive Payment has the potential to seriously tackle the unequal distribution of payments between farmers in those MS that choose to implement it and thus could lead to a significant increase in payments for small and medium sized family farms. Indeed Matthews (2013b) argues that the redistributive payment can do more to tackle the unequal distribution of payments than capping or modulation. This is because the threshold above which farms will lose from the redistributive scheme is lowered to just over the average farm size in each region/member state compared to only the mega-large farms losing under modulation. Second, the modulated money is not recycled to rural development funding as in previous cases, but rather is given directly to small farms at the lower end of the distribution curve. Both of these elements contribute to the much greater redistribution effect.

An important element of the redistributive payment scheme is that MS are obliged to have an effective anti-circumvention clause which prevents farmers from sub-dividing their holdings simply to create eligibility for the redistributive payment.

3.1.4. The Young Farmers Scheme

In response to the well documented demographic challenges facing European agriculture, a specific package for young farmers has been included in Pillar I. The Young Farmers Scheme (YFS) aims to channel more support to young farmers, those aged 40 years or less, through mandatory annual top-up payments to their BP in the first five years after installation. MS are obliged to use up to 2 percent of their national envelope to fund a 25 percent top-up on the direct payments made to young farmers.

Those qualifying for the YFS must be setting up an agricultural holding for the first time or have set up a holding in the previous five years and payment will be granted for a maximum period of five years from the date of setting up. MS may define further objective and non-discriminatory eligibility criteria as they choose.

CEJA have welcomed the YFS saying that while the long-running installation aid has been crucial in aiding young farmers to set-up business, the YFS will provide young farmers with a much needed financial boost in the early and most difficult years of business when most young farmers carry onerous debt burdens. However, the untargeted nature of the support has been the subject of much criticism and the value of providing further financial support in addition to the support already offered under Pillar II is questioned, see Matthews (2013). The YFS may achieve more if more stringent qualifying criteria, other than age, were applied, such as the requirement to undergo business planning, mentoring or so forth. A third and more fundamental criticism of this scheme is that the demographic challenge facing European agriculture is not due to a dearth of young people willing to enter the industry; rather it is due to reluctance on the part of the older generation to exit the industry. Matthews (2013) provides a convincing argument that the problem is not to provide incentives for more young people to enter farming, but to tackle the obstacles which mean that older farmers are reluctant to exit. He argues that especially in favourable farming areas there is no shortage of successor and that aid to young farmers in these areas will only be capitalised into higher land rents.

3.1.5. The Small Farmers Scheme

Of special importance to small family farmers in the EU is the “Small Farmers Scheme” (SFS) to be introduced within the post-2013 CAP. Under this Scheme, a farmer may choose to replace all other CAP direct payments and coupled support by a fixed lump-sum annual payment of between €500 and €1000 (€200 for Cyprus and Malta). Farmers participating in the scheme will be exempt from greening and cross-compliance, although they will still receive the greening payment, and they will benefit from more simplified procedures.

Though administratively costly to set up, it is expected that the scheme will reduce “red tape” in the longer term, and provide a more effective way to support small farms. “The objective of the scheme should be to support the existing agricultural structure of small farms in the Union without countering the development towards more competitive structures” (European Commission, 2011).

The SFS is optional for member states to implement. Defining the minimum farm size for payment is likely to prove controversial. Setting the minimum size too low will increase the administrative cost of providing the support, while setting the threshold too high may exclude large numbers of very small farms from the Scheme. There is some concern that the SFS will exacerbate the leakage of CAP funds to non-active farmers as the scheme may make it easier for small “hobby-style” farmers to qualify for support. COPA-COGECA argue that CAP funds should not be used to subsidise non-productive landowners whether large or small and that the qualifying criteria associated with active farming should also apply to the SFS.

According to the Commission’s own impact analysis of the CAP proposals, the scheme will “mean much less burdensome access to support” for farmers, with one of the major advantages being the considerable “simplification of the overall management of the direct payments scheme for Member States”. The Groupe de Bruges (2012) considered that the SFS was motivated more by a desire to reduce the administrative burden of the CAP rather than to support small farmers. Nevertheless, one of the major criticisms of the current CAP is the inaccessibility to payments for many small and SSFs, see Davidova et al (2013), the simplification offered by the SFS is a welcome step to resolving some of these issues.

3.1.6. Voluntary Coupled Support Scheme

MS will have the option of providing limited amounts of payments linked to a specific product ("coupled" payments). This will be limited to 5 percent of the national financial envelope if the MS currently provides 0 to 5 percent of coupled support, or up to 10 percent if the current level of coupled support is higher than 5 percent. The provision for voluntary coupled support is contrary to the last round of CAP reform which sought to move towards phasing out such support which had previously led farmers to continuously produce particular products whether there was demand or not.

The voluntary coupled support scheme is likely to offer only limited support to family farming. For those engaged in the production of the supported product, it will mean a boost in farm income and the retention of production levels. However, it is important to note that the coupled payments are funded through a reduction in the BPS, so farmers would have received a portion of these funds in any case without the requirement to produce. As a coupled payment, it suffers from the usual criticisms in relation to transfer efficiency, namely a leakage to input suppliers, output suppliers etc as farmers must engage in production to qualify for payment.

3.1.7. Co-operatives & Producer Organisations

Producer organisations and co-operatives offer a means for a number of small farmers to come together and gain some power within the supply chain. In this regard producer organisations can help safeguard the economic viability of small family farms. Measures to facilitate producer cooperation have been included under both pillars of the CAP 2014 to 2020. Under Pillar I the legal framework for Producer Organisations has been reinforced by extending the possibility for collective bargaining (in some sectors) and delivery contracts (for all sectors) to Producer Organisations, their Associations and Inter Branch Organisations. This legal framework is backed by financial incentives under Pillar II. The support for producer organisations and the implications for family farming are discussed in more depth in Chapter 4.

3.1.8. Market Management Mechanisms

The objective of past reforms to enhance the market orientation of EU agriculture is continued by adapting the policy instruments to further encourage farmers to base their production decisions on market signals. Competitiveness is addressed directly by changes to market mechanisms, particularly the removal of production constraints. All of the existing restrictions on production volumes for sugar, dairy and the wine sector will end, allowing farmers to respond to growing world demand, European Commission (2013).

The **EU milk quota regime**, which has been in place since 1984, will be abolished in 2015. The implications of this policy reform for the economic viability of dairy farming in Europe and for structural change in the sector have been the subject of many economic research papers. The Commission's own impact analysis suggests that the removal of the milk quota regime will lead to only modest impacts on overall EU production but will lead to a redistribution of production between countries and restructuring within countries. EU production is expected to increase by up to 5 percent by 2020 and this will be accompanied by a 10 percent decline in prices, IPTS (2010).

The implications of milk quota removal for family farming are manifold and are both positive and negative. Frist, milk prices are expected to decline. Lower and possibly more volatile milk prices are likely to adversely impact the economic viability of many small, marginal milk producers. Especially in high-cost regions, milk production and the number of dairy farms is likely to decline. The milk quota posed a costly barrier to entry and expansion, its removal means that economically viable farms that can afford to expand profitably will have the opportunity to do so without paying high rents to exiting farmers thus allowing them to exploit economies of scale and become more economically viable. New entrants and young farmers can also now enter the sector without the initial expensive investment in quota.

There is concern in some MS that quota removal may result in some farmers and new entrants expanding production rapidly with the aid of borrowed capital. With lower and more volatile milk prices, farmers may be exposed to significant debt burdens following this expansion and run the risk of foreclosure if they cannot make repayments. The role of the farm advisory services in advising farmers on viable and manageable expansion plans is crucial in this regard.

On **wine production**, the agreement upholds the decision of the 2006 wine reform to end the system of wine planting rights at the end of 2015, with the introduction of a system of authorisations for new vine planting from 2016 – as recommended by the High Level Group on Wine– with growth limited to 1 percent per year.

As a response to the proposal to end the vine planting rights by the end of 2015, CEJA calls for an appropriate regulatory framework and clear long term prospects for the wine sector. CEJA considers that the current system should not end in 2015, and calls for the extension of planting rights in the wine sector in all of the EU, for all wines, with or without Protected Designation of Origin [PDO] and/or Protected Geographical Indication [PGI].

The CAP reform also includes provision to **end the EU sugar production quota** in 2017. Existing provisions for agreements between sugar factories and growers are to be maintained whilst white sugar will remain eligible for private storage aid after 2017. The Commission notes that "organisation of the sugar sector will be strengthened on the basis of contracts and mandatory inter-professional agreements."

Other amendments to the Singe Common Market Organisation (CMO) rules aim to provide an effective safety net for farmers in the context of external uncertainties (together with direct payments and options for risk management under rural development). New **safeguard clauses are introduced for all sectors** to enable the Commission to take emergency measures to respond to **general market disturbances**. These measures will be funded from a **Crisis Reserve** financed by annually reducing direct payments. Funds not used for crisis measures will be returned to farmers in the following year. In case of severe imbalance in the market, the Commission may also authorise producer organisations or inter branch organisations, respecting specific safeguards, to take certain temporary measures collectively (for example market withdrawal or storage by private operators) to stabilise the sector concerned.

Price volatility, coupled with production risk, is a significant threat to the economic viability and sustainability of family farms. Price shocks, extreme weather events and/or disease can all adversely impact on farm profits. European agricultural policy reforms (reduced intervention prices, lower tariff rates and reductions in export subsidy expenditure) have overtime increased the exposure of EU markets to world market developments. The new crisis reserve and the safeguard clauses in the Pillar I are a welcome measure to help protect family farms from risk.

The Commission proposes to maintain existing safety net measures at their current level, with their extension to all products. Copa-Cogeca is concerned that this may not be adequate given the prospect of increasingly volatile markets. The level of the current safety nets has remained unchanged for over a decade while farm costs have risen rapidly. Copa-Cogeca also stress that it is crucial that the crisis reserve funds can be released rapidly when they are required and can be used to cover all types of agricultural crises.

3.2. Conclusions on CAP Pillar I Policies

The latest reform of the CAP has allowed numerous optional schemes that can be implemented in different ways across the Community, thus making the CAP less common than before. While the flexibility afforded to MS is welcome in that it allows them to tailor schemes and policies to their own needs, it does lead to a highly complex policy. One of the objectives of the current CAP reform was simplification, it is highly doubtful that the CAP 2014-2020 will be simpler than its predecessor.

The latest reform includes policies that address the unequal distribution of direct payments between farmers within and across MS thus presenting the opportunity to further support small family farms. The extent to which direct payments will actually be redistributed depends on the implementation of many optional schemes, such as the RPS and the degree to which convergence is applied. The introduction of the YFS offers a financial boost for young and newly installed farmers which should positively influence the generational renewal process. Despite these developments, the direct payment system continues to be untargeted. While a boost in payments for young farmers and those with lower than average payments will improve their financial position in the short-term, these payments will do little to improve the long-term competitiveness and/or market orientation of the sector and possibly serve to perpetuate the problem of subsidy dependence.

The SFS should reduce many of the barriers to accessing payments for small and SSFs. This will be a welcome development especially in NMSs that have large numbers of small direct payment recipients. While the scheme does not afford any additional support to small farmers, it should make accessing the direct payment system more straightforward, thus overcoming a major criticism of the policy.

Finally, payments are still linked to land and as such there will be a continued leakage of support to landowners as payments become capitalized into land rents and prices. This is a commonly cited problem with land based payments, but a practicable alternative remains elusive.

4. THE COMMON AGRICULTURAL POLICY 2014-2020: PILLAR II POLICIES

KEY FINDINGS

Fostering knowledge transfer and innovation is a central component of the new pillar II

The innovation measures have the potential to make a real contribution to the efficiency, productivity and environmental sustainability of family farms. However, this will be highly dependent on the **active engagement** of the full spectrum of the farming population.

The substantial package for young farmers is likely to be sufficient to **stimulate new entry** and the requirement to engage in business planning is likely to improve farm competitiveness

The problem of generational renewal is two-fold, namely stimulating both retirement and entry. This new Pillar II package **does not contain any stimulus for retirement** other than for small farmers. Hence only one half of the problem is addressed.

The impact of supports for producer groups and the Quality Package are likely to be very **MS specific**. For many MS with a more intensive farm sector focussed on commodity production for export, these schemes will add little value.

Under the new Pillar II measures will no longer be classified at EU level into "axes" with associated minimum spending requirements per axis. Instead, MS will have the freedom to choose which measures they use in order to achieve targets set against six broad "priorities". The six priorities will cover:

- Fostering knowledge transfer and innovation.
- Enhancing competitiveness of all types of agriculture and the sustainable management of forests.
- Promoting food chain organisation, including processing and marketing, & risk management.
- Restoring, preserving & enhancing ecosystems.
- Promoting resource efficiency & the transition to a low-carbon economy.
- Promoting social inclusion, poverty reduction and economic development in rural areas.

The new Rural Development regulation does not explicitly mention family farms although family farms could benefit from many of its measures, including investment grant aid, aid to farmers in areas of natural constraints, funding of agri-environment measures and aid to form producer groups and to take part in other forms of co-operation, including the development of short supply chains and local food systems, Matthews (2013). MS also have the possibility of designing these schemes in order to discriminate positively towards family farms. The following section explores the implications of these schemes for family farms.

4.1. Overview of CAP Pillar II Policies

4.1.1. Innovation and Knowledge Transfer

In order to improve advice to farmers in the area of innovation and to speed up the adoption of new technologies, the EU has proposed the expansion of the role of the Farm Advisory Service and the establishment of a European Innovation Partnership (EIP) for "Agriculture Productivity and Sustainability". The EIP will encourage researchers, farmers, advisors and other agricultural sector stakeholders to cooperate more actively. In particular, it is hoped that a more direct and systematic exchange between farming and science will accelerate the speed of technological transfer and innovation. The EIP will promote resource efficiency, productivity and the low-emission and climate-friendly/-resilient development of agriculture and forestry. This should be achieved, *inter alia*, through greater cooperation between agriculture and research in order to accelerate technological transfer to farmers. This key theme will be served by various rural development measures such as "knowledge transfer", "cooperation" and "investments in physical assets".

The measures also allow for a revamping of the Farm Advisory Service (FAS). Mr Georg Häusler, Commissioner Ciolos' chef de cabinet, outlined the problems with the current FAS.

> *"There is another difficulty with advisory systems to farms. We have FAS—farm advisory systems—which work in some countries but not as well in others. This is for various reasons. Sometimes administration has turned it into a system that farmers do not trust or use. What we are trying to do this time is emphasise the role of the farm advisory systems, give them a clear job description of what they are supposed to do, and also open up the system to private business consultants".*

There is a general consensus that agricultural extension (advisory) services are necessary to help farmers achieve national goals of food security, sustainable natural resource management and satisfactory rural livelihoods. Without such services, the results of research and development (public or private) are unlikely to be taken up by many farmers, Davidova and Thomson (2013). As previously discussed, the move towards privatized extension services in many MS has put them beyond the reach of many small and economically non-viable farms. The revamping of the FAS and the launch of EIPs will have a considerable positive influence on the development of family farming if it they are successful in transferring knowledge and technology to farmers. The active engagement of farmers in the process will be crucial to its success and considerable efforts will have to be made to promote participation especially among small and less educated farmers who typically have a lower propensity to engage with such services.

4.1.2. Business Start-Up Aids

The creation and development of new economic activity in the form of new farms, new businesses or new investments in non-agricultural activities is essential for the development and competitiveness of rural areas. A farm and business development measure should facilitate the initial establishment of young farmers and the structural adjustment of their holdings after initial setting up, diversification of farmers into non – agricultural activities and the setting up and development of non-agricultural SMEs in rural areas. The development of small farms which are potentially economically viable should also be encouraged. In order to ensure the viability of new economic activities supported under this measure, support should be made conditional on the submission of a business plan. Support for business start-up should cover only the initial period of the life of a business and not become operating aid, EC (2013).

In addition to the top-up payments available under Pillar I to young farmers, aged up to 40 years, Pillar II also contains a combination of measures that can include business start-up grants (up to €70, 000), general investments in physical assets, training and advisory services. As stated qualification is dependent on the submission of a business plan and the last instalment of the payment is not made until the business plan is correctly implemented. This development significantly improves the targeting of the payment, as farmers are not receiving the payment simply because they are young, they must engage in some forward planning which is likely to improve the competitiveness of their holdings. Furthermore, the significant size of the payment is likely to be sufficient to impact on the entry decision, unlike previous schemes where this was seen as a major weakness. The aid is also simplified, now offered as a flat rate payment eliminating the provision for an interest subsidy, thus reducing the cost and administrative burden of implementation.

Finally, the inclusion of a minimum farm size threshold avoids the problem of encouraging investment in enterprises too small to become viable. In contrast to these strengths, the proposal may be subject to high levels of deadweight losses, as young farmers who would otherwise self-finance investment or use commercial lenders take advantage of new entrant support as a substitute source of finance, Davis et al (2013).

In addition, there are also provisions for an annual or one-off payment to smaller-scale farmers who are eligible for the Small Farmers Scheme established under the Direct Payments Regulation, but who instead commit to permanently transfer their entire holding and payment entitlements to another farmer. This may stimulate structural change among the smallest farms, but the lack of an early retirement scheme for larger farms is notable.

4.1.3. Investment and Modernisation of Farm Holdings

In order to improve the economic and environmental performance of agricultural holdings and rural enterprises, improve the efficiency of the agricultural products marketing and processing sector, provide infrastructure needed for the development of agriculture and support non-remunerative investments necessary to achieve environmental aims, support should be provided to physical investments contributing to these aims. During the 2007-2013 programming period a variety of measures covered different areas of intervention. In the interest of simplification but also of allowing beneficiaries to design and realise integrated projects with increased added value, a single measure should cover all types of physical investments. Member States should define a threshold for agricultural holdings eligible for aid for investments related to supporting farm viability based on the results of the strengths, weaknesses, opportunities and threats ("SWOT") analysis as means to better target the aid, EC (2013).

Support under this measure shall cover tangible and/or intangible investments which:

- improve the overall performance of the agricultural holding;
- concern the processing, marketing and/or development of agricultural products
- concern infrastructure related to the development and adaptation of agriculture, including access to farm and forest land, land consolidation and improvement, energy supply and, water management; or
- are non-productive investments linked to the achievement of agri- and forest environment commitments, biodiversity conservation status of species and

habitat as well as enhancing the public amenity value of a Natura 2000 area or other high nature value area to be defined in the programme.

4.1.4. Risk Management Toolkit

The risk management toolkit makes provisions for insurance and mutual funds for crop, weather and animal disease. These are currently available under Article 68 of Pillar I. In the new CAP they are supplemented with an income stabilisation tool, which would allow a pay-out (up to 70 percent of losses) from a mutual fund if income drops by 30 percent. The implementation of the income stabilisation tool will be voluntary for MS and for farmers.

Support under this measure shall cover:

(a) financial contributions, paid directly to farmers, to premiums for crop, animal and plant insurance against economic losses caused by adverse climatic events and animal or plant diseases or pest infestation;
(b) financial contributions to mutual funds to pay financial compensations to farmers, for economic losses caused by the outbreak of an animal or plant disease or an environmental incident;
(c) an income stabilisation tool, in the form of financial contributions to mutual funds, providing compensation to farmers who experience a severe drop in their income.

The risk management toolkit has been welcomed by Copa-cogeca but only as long as the direct payment system is retained as the main income support measure and the buffer to market risk.

Tangerman (2011) has rejected the need for the risk management toolkit. He argues that the direct payment system is already a significant income stabilization tool and that price volatility in the coming period will most likely involve price spikes around an increasing trend or, at least, a higher price level than before. He also claims that any fund or insurance scheme operated by the EU will suffer from the well-known problems of adverse selection and moral hazard as well as the symmetric nature of agricultural risks. He concludes that government policy could do more to empower farmers to manage risk, and that there will continue to be a role for disaster payments in the face of catastrophic risks.

The numerous reforms of the CAP in the past two decades have, as already explained, increased European farmers' exposure to global markets and consequently to price volatility. Excessive volatility of prices threatens the sustainability of family farms as it makes it more difficult for farmers to undertake long-term planning and to engage in investment that may be required to sustain competitiveness. Price volatility is likely to be a permanent feature of European farming in the future given the increasing integration of global commodity markets with financial markets, the closer link between energy markets and agricultural markets and the uncertain impact of climate change on agricultural production. The income stabilisation tool is likely to reduce farmers’ exposure to extreme swings in farm income, of 30 percent or more, and hence will be a welcome tool for family farmers. However, its success will be dependent on its adoption by MS its accessibility to farmers.

4.1.5. Supports for Producer Groups

This measure shall be granted in order to facilitate the setting up of producer groups in the agriculture and forestry sectors for the purpose of:

(a) adapting the production and output of producers who are members of such groups to market requirements;
(b) jointly placing goods on the market, including preparation for sale, centralisation of sales and supply to bulk buyers;
(c) establishing common rules on production information, with particular regard to harvesting and availability; and
(d) other activities that may be carried out by producer groups, such as development of business and marketing skills and organisation and facilitation of innovation processes.

Support shall be granted to producer groups which are officially recognised by the Member States' competent authority on the basis of a business plan. The support shall be paid as a flat rate aid in annual instalments for the first five years following the date on which the producer group was recognised on the basis of its business plan. As with the Young Farmers Scheme the last payment will not be made until the business plan is correctly implemented.

Together these instruments are expected to encourage producer cooperation and to improve the functioning of the food chain. Product differentiation, quality programs, promotion and on-farm processing should also add value.

As food processing and retailing has become ever more concentrated, the share of consumer food prices that is received by farmers has diminished threatening the viability of small-scale producers. The lack of bargaining power in the supply chain was identified as one of the principal threats to the sustainability and viability of family farming. This has stimulated interest in co-operation among farmers in establishing producer organisations to increase their bargaining power and in in alternative. Producer cooperation has a role to play, with family farms working together to develop short supply chains in order to add value to their products, build relationships with their consumers and capture more of the total spend on food.

These types of producer groups focus on distribution and marketing, developing a shared identity for a group of family farms that is based on a shared geography, farming practice or traditional production technique. Many of these producer organisations also enable the pooling of human resources, with individual producers taking turns to distribute or sell the products from all farms. In several cases, they have enabled family farms to contribute towards the cost of a dedicated marketing officer. Working together has also given family farms more confidence to innovate, with many cooperatives trialling new products and creative ways of selling directly to the consumer.

Participation in producer groups and short supply chains is likely to eliminate some farmer’s access to market problems and increase their bargaining power. However, the engagement of farms in short food supply chains varies considerably across MSs and is relatively uncommon in Northern Europe. For instance, Raley and Moxey (2000) (cited in Davidova et al 2013) estimated that only 2.8 percent of the value of agricultural output in Northern England was sold directly to retailers, consumers or caterers. Furthermore, even in NMS where SSF is prevalent, short supply chains may not be functional because of problems of remoteness and the purchasing power in local markets, Davidova et al 2013).

4.1.6. Measures for Quality Products

Within Europe there is a wide range of schemes for defining quality products in the market place, for example those which promote the authenticity and provenance of the food (for example Protected Designation of Origin – PDO, Protected Geographical Indication – PGI, and Traditional Speciality Guaranteed – TSG), organic, and other environmental and animal welfare friendly labelling. Some of these quality labels have legitimate legal status, whilst others rely on voluntary guidelines or informal assurances made by the producer to the consumer.

The new Quality Package contains an 'Agricultural Product Quality Schemes Regulation', which helps to infuse existing schemes with more coherence and clarity. The Quality Package reinforces the flagship PDO and PGI schemes, whilst overhauling the TSG scheme. Other key components of the Quality Package include laying down a new framework for the development of 'optional quality terms', such as feeding methods or production systems. Furthermore, new guidelines about best practices for voluntary certification schemes and product labelling using PDO-PGI ingredients are being introduced. The Quality Package thus marks the first step in modernising EU agricultural product quality policy. The overall objective of the Quality Package is to enable farmers to better inform customers about the characteristics of their products and so help them achieve a fair price.

The Rural Development measure accompanying the Quality Package, Measure 132, seeks to increase participation of farmers in food quality schemes by reimbursing the costs for entering a supported scheme, annual contributions for participation, and inspections to verify compliance with the specifications of the scheme.

The impact of the Quality Package on the sustainability of family farming is likely to be highly MS specific. An evaluation by London Economics (2008) found that the adoption of PDO/PGI designations varies markedly across MSs. In 2008 779 PDO/PGI designations were registered in Europe with Italy, France, Spain, Portugal, Greece and Germany accounting for over 90 percent of all registrations. The analysis also revealed that the contribution of the PDOs/PGIs to the overall turnover of the agro-food sector is small accounting for between 1 and 5 percent of the turnover in France, Germany and Italy.

The new package aims to establish more PDO/PGIs and possibly extend them to more MS, however the success of this programme depends on a sufficient number of consumers being willing to pay a price premium for the certified good. In a MS lacking a well-established food culture and that is specialised in the production of commodity products for mass-export trade, this is likely to be difficult to develop. The Quality Package is likely to offer enhanced opportunities to family farms operating in the MS where there are already established PDO/PGIs or where there is the capacity to develop new designations. However, it should be noted that PDO/PGI products typically have higher production costs so the fact that the sale price is higher does not necessarily translate into higher profits.

4.2. Conclusions on CAP Pillar II Policies

The importance of innovation and technology adoption for the long term survival of the family farm is well understood. The emphasis on knowledge transfer, innovation and reinvigorating the Farm Advisory Scheme is welcome. While the funding available for the schemes is significant, the details of how they will operate in MS are yet to be seen. Their success will be highly dependent on the level of farmer participation so significant efforts will be required to encourage participation.

The start-up aid for young farmers is significantly enhanced in this rural development programme, especially when it is considered in conjunction with the provisions under Pillar I. The potential total value of the aid is substantial and is likely to be sufficient to stimulate genuine new entrants, thus overcoming a major criticism of previous programmes. The requirement to submit and fully implement a business plan is also a welcome development and is likely to contribute to improving the competitiveness of holdings.

The current programme does not make provisions for an early retirement scheme. It is acknowledged that the problem of generational renewal is as much about "getting old farmers out" as it is about establishing new farmers. While previous schemes have been criticised in national evaluation reports, the complete omission of an early retirement scheme in this programme is worrisome.

Some of the supports such as the Quality Package and support for producer groups will be MS specific. For example, few farmers in Northern Europe are involved in short supply chains or are operating an area with PDO/DGI. In these regions farming tends to be oriented more towards the production of commodity products for export, and as such these schemes are likely to deliver only limited benefits for a few farmers.

5. CONCLUSIONS

Despite the predominance of family farming across Europe, a number of factors threaten the sustainability of many family farms. Issues relating to economic viability, generational renewal, access to markets, land and credit and bargaining power within the supply chain all threaten the family farm business model. These threats to family farming differ across MS and across farms depending on farm size, family structure and so forth. Some challenges are specific to small and SSFs such as access to markets, while others affect all farms regardless of size such as declining and volatile output prices, availability of land and the presence of a successor. The diversity of challenges facing family farms means that effective policy design to support family farming can be difficult.

5.1. Policy experiences to date

The protection and promotion of family farming has been at the centre of CAP policies since its foundation. Pillar I of the CAP has transferred significant funds to Europe's farmers first through price support schemes and later through direct payments. In general, Pillar I payments favour larger farms, many of which are also family operated. Price support favoured farmers that produced more, while area based payments favour those with larger holdings. The unequal distribution of direct payments between farmers both within and across MS is a major concern and an issue that the most recent CAP reform has aimed to tackle.

Pillar I policies have increased the income of a large number of family farms that would have otherwise been unprofitable and unsustainable, thus retaining large numbers of farms in business. While it may be considered desirable to retain the maximum number of farms possible, the downside is that the opportunities for expansion and exploitation of economies of scale are limited. The overall impact is to reduce the competitiveness and market orientation of the sector and to cultivate a culture of subsidy dependence.

Pillar II policies have been more targeted and linked to specific objectives. The main relevant Pillar II schemes that have impacted on family farms include generational renewal and farm improvement schemes. Early retirement and young farmer installation schemes have both been effective in promoting intergenerational transfer, although evaluation studies question the value for money of these schemes and the associated deadweight loss. It has also been observed that these schemes are running in conflict to Pillar I policies. On the one hand Pillar I policies decelerate structural change and allow older and possibly relatively inactive farmers to derive an income from the land through the decoupled payment scheme. Simultaneously, Pillar II early retirement schemes attempt to lure them off their farms by offering further financial incentives. As is often the problem with more targeted schemes that are not universal, Pillar II schemes suffer from problems or poor engagement especially by small and less educated farmers.

Across the various MS there are also domestic policies that enhance family farming. For example, many MS operate preferential taxation policies for farmland and for the intergenerational transfer of land thus supporting the sustainability of family farms. Property rights and land market regulation in many MS support the security of tenure for tenant farmers and prevent fragmentation of farms. Succession planning is supported by specialist advisory services in some MS and by the promotion of share farming models such as farm partnerships or joint ventures.

5.2. The potential to enhance the future of family farming

The new CAP for the 2014 to 2020 period includes a number of policies aimed at addressing the unequal distribution of direct payments between farmers within and across MS. These policies present the opportunity to allocate more of the Pillar I budget to small and medium sized farms. However, as the implementation of many of these policies is optional at the MS level, it remains to be seen how exactly much redistribution will actually occur.
There are a number of schemes under Pillar I that at first glance seem to present opportunities for enhancing family farming. The Young Farmers Scheme offers a financial boost for young and newly installed farmers, while the Redistributive Payment Scheme presents the opportunity to channel more payments to small and average sized farms. However, these schemes continue to be untargeted and while they will improve the financial position of the recipients for the duration of the scheme, they would have a longer lasting impact on the competitiveness of these farms if they were used to stimulate farm investment and modernization. The Small Farmers Scheme is a step towards a simpler CAP and should reduce many of the barriers to accessing payments for small and SSFs. This will be a welcome development especially in NMSs that have large numbers of small direct payment recipients.

Milk quota removal will lead to the elimination of costly rents in the sector and allow farmers to become more market oriented. However, there is some concern that expanding farmers and new entrants may overinvest and find themselves in financial difficulty particularly given the likelihood of continued price volatility. Farm advisory services offering business planning and investment appraisal advice should be aimed at those entering and/or expanding milk production.

Price volatility is likely to continue as a major threat to the economic viability of family farms. Domestic policies such as multiyear tax smoothing, as well as CAP policies such as the income stabilisation tool, insurances and the crisis reserve fund are all useful tools to help insulate the family farm from price risk. Private risk management alternatives such as futures and forward contracts should also be promoted through farm advisory services and agricultural education providers.

The new Pillar II places considerable emphasis on knowledge transfer and innovation. Clearly family farms can benefit from more effective transfer of knowledge and research allowing them to adopt new technologies on their farms more quickly and hence reap the economic benefits. While the funding available for the innovation and farm advisory schemes is significant, their success will be highly dependent on the level of farmer participation and so significant efforts will be required to encourage participation.

The start-up aid for young farmers is significantly enhanced in this rural development programme, especially when it is considered in conjunction with the provisions under Pillar I. The potential total value of the aid is substantial and is likely to be sufficient to stimulate genuine new entrants, thus overcoming a major criticism of previous programmes. The requirement to submit and fully implement a business plan is also a welcome development and is likely to contribute to improving the competitiveness of holdings.

Research has revealed that successful intergenerational farm transfer is highly dependent on planning, timing, mutual trust and a shared understanding of the transfer process by the two generations. Specialist succession planning advice and support for alternative business models that allow the two generations to “share” management responsibility can be effective tools in facilitating the successful transfer from one generation to another.

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