Policies Affecting or Facilitating Resource Adjustment in Agriculture in the European Union

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Structural policy in the EU is ambiguous in its aims and contains conflicting elements. Interventions to ease change are combined with defensive measures that support income and discourage some aspects of adjustment. Structural change is a complex process and the number of farms is an incomplete indicator. Most adjustment takes place without active public assistance. Structural measures at EU level are now mostly within the rural development pillar of the Common Agricultural Policy. Their performance is mixed. However, many countries also have national policies, especially on taxation and land transfer, whose influence on adjustment must not be overlooked.

Key words: adjustment, farm, income, policy, rural development, taxation

1. INTRODUCTION

Farms in Europe are relatively small compared to the standards of North America and Oceania, with over half the total number of European Union (EU) holdings (55%) being less than 5 hectares, although there is great diversity in sizes both within and between countries. Nevertheless the agricultural sector in the EU has undergone major structural change since the beginning of the 20th century, even in Member States such as the United Kingdom (UK) with its relatively large farms. The pressures that cause adjustment at the farm level are not always steady, nor is response gradual. History suggests that sudden shocks can occur, whose effects are superimposed on the longer-term trends in commodity prices and farm incomes and that demand rapid adaptation. Such shocks may be created by technical step-changes (as happened in Europe following the opening up of transportation systems that produced stiff international competition in the 19th century and the mechanisation of United States of America (US) agriculture in the early 20th) or economic crises (such as the depression of UK farm profitability in at the start of the 21st century resulting, in large part, from the strength of Sterling)(Defra 2004). Policy reforms can be incremental but, as will be demonstrated later, the 1990s was marked by a number of changes to the EU's Common Agricultural Policy (CAP) that were akin to shocks because they were responses to critical situations that demanded swift action. Indeed, without these spurs reforms would have been far less likely

Despite the inevitability of adjustment in the face of the longer-term cost-price squeeze, the CAP has acted primarily as a defensive mechanism, supporting incomes of producers via market prices or, latterly, by substituting direct payments that, while less coupled to production decisions than previous forms of market intervention, are nevertheless linked to past levels of output and related subsidies. Income support has also been the principle response to shocks, such as the agri-monetary components of the UK Action Plan for Farming in 2000 (Hill and Agra CEAS 2004). Many current policy measures appear to be designed to protect farm operators from having to face greater market-orientation and are essentially anti-adjustment in nature. Despite these efforts, structural change has been substantial and continues.

In the EU farming is seen as not only as producing agricultural commodities (food and fibre) but also as the generator of environmental, social and cultural services important to the welfare of society (the so-called *multifunctionality* of the *European model* of agriculture). Though there is an element of rent-seeking in the increasing political attention given to these outputs since the later 1990s (especially the *Agenda* 2000 agreement of 1999), there is a strand of opinion that believes that the present structure of the industry, dominated by family farms (a notoriously imprecise concept, see Hill 1993) is better placed to provide beneficial externalities and public goods associated with agriculture than other types of farm business. One result of this is that the stance of adjustment and adjustment policy in many European countries is rather protective, with an overarching objective to maintain the number of farm units in the sector and to keep their family-operated character. However at the same time, and in partial conflict, featured prominently among stated objectives is the intent to create or maintain a viable, competitive farming sector, capable of providing "reasonable" or "fair" standards of living. The first objective has led, in many instances, to a complex set of measures that tries to manage the transfer of land, the size of farms, and the way in which farm businesses are organised. The second objective (in addition to market support policies and direct payments) is pursued through investment measures (incentives for modernisation, diversification, afforestation etc.) and through training, the latter generally directed at improving technical and business performance within the sector but also embracing the development of skills useful to non-agricultural activities. Clearly, the creation of viable farming units involves decisions about how resources no longer needed in farming (mainly labour) may find alternative uses where retirement is not appropriate, and thus general rural development policies are increasingly finding a role in agricultural adjustment strategies. It is hoped that these will provide farmers and members of their families with economic opportunities that may enable them to continue to live in their local areas, often on their farms which become, in essence, residential units or operated on a part-time basis.

The ambiguity of structural aims is expressed eloquently by Daucé *et al.* (1999) in the introduction to an article analysing early retirement programmes for farmers in France.

> "Concerning employment, structural policy in agriculture has always been split between two contradictory objectives; on the one hand policy aims to bring about the modernisation of agricultural holdings through investment subsidies, hence the substitution of labour by capital, but on the other hand, and sometimes contemporaneously, measures are taken to prevent the emergence of strong demographic imbalances in rural areas, incentives are put in place to encourage the installation of young farmers" (translation by Cahill).

It is worth noting the broader consequences of adjustment in agriculture. The proportion of the active population that is wholly or mainly engaged in agriculture is small, even in most predominantly rural regions in industrialised countries. In many such regions there are more self-employed people operating other types of businesses than there are farmers. The share of rural economic activity generated by farm household-firms is likely to be similarly small. Consequently the economic impact of adjustment by farm household-firms on the broader rural economy is likely to be modest though, as the major land-user, consequential environmental changes may be far more important from a societal perspective. In the reverse direction, the operators of agricultural household-firms will be affected by policies aimed at rural areas and regions designed, for example, to maintain populations, to support services, or to stimulate businesses, jobs and incomes there. The creation of alternative jobs in rural areas for farmers and their families is an explicit aim of the CAP's "second pillar" and farm households will share benefits brought to regions lagging behind, which are often rural in nature.

2 THE ADJUSTMENT PROCESS AT THE FARM-LEVEL

While farm adjustment is most often described in terms of numbers of farms and size characteristics, it can take many other forms. In considering structural change it is important to understand the behaviour of the basic economic units engaged in farming. While a range of institutional types exist at the farm level, in the EU the majority are family-owned businesses[2]. Sometimes these adopt corporate form for taxation or inheritance reasons but such units can be treated, for most purposes, as if they were unincorporated. The predominant model to use when considering adjustment and the role of adjustment policy is thus that of the household-firm. This is a hybrid that combines the economic functions of production and consumption. These functions are not easily separated, for example when houses and vehicles are used for both and where there is a blurring of work-time and leisure. The consumption of own-produced goods presents a particular problem of identification and measurement. Where the household-firm engages in several forms of independent activity (self-employment in farming and in non-farming) no impermeable barrier exists between the two. The existence of income from other sources (wages, property, welfare transfers etc.) is also likely to impinge on the way that farming is carried out and how adjustment to economic change takes place. Nor should capital issues be forgotten. Though not reflected in conventional income measures used to monitor the industry for policy purposes, real capital gains constitute a form of income that has been influential in retaining farmers in agriculture even when current rewards have been low. Capital losses may shift the equity leverage and require changes in holdings, including sales of farmland. Large net worths imply high economic status and an ability to ignore income pressures, at least for a time. Thus a satisfactory explanation of the adjustment process in agriculture needs to take a broad view of the activities of the complete farm-household economic unit, not just its farming component, and to cover both income and capital.

Household-firms are also social units and their responses to economic signals are influenced by such factors as the life-cycle of farm operators and the value sets of farm households within the broader context of rural society. Land changes hands rather infrequently and now mainly through transfer or inheritance within families; in most European countries the majority of land is owned by the families that farm it. Only a relatively small share of farmland becomes available on the open market, the main purchasers tending to be existing farmers enlarging their holdings. Significant adjustment often occurs at the point at which one generation takes over from another; it appears to be far less common within a farming career. Such adjustment may include rebalancing enterprise mix, on-farm investment, changes in area and land use with possible environmental implications, and wide-ranging decisions, such as whether the new operator should be full-time, part-time or leave farming altogether. Indeed, probably the most critical decisions that impact on structural change are those about retirement and non-entry by a successor[3].

Most households that operate farms are not exclusively involved in agricultural activity. For a large and increasing proportion, farming is only one of their gainful activities. This has implications for the impact of agricultural policy reform on livelihoods and on adjustment behaviour. Where agriculture is a minor activity, reforms in agricultural policy are likely to have a minor effect on household well-being. Households are more likely to be influenced by developments in the rest of the economy, and agricultural activities will largely reflect changes in non-agricultural factors. The proportion of farm operator household income derived from non-farm activities has been rising steadily in industrial countries, and now constitutes the principal source of farm household income in many cases (Hill 2000). The proportion of household-firms for which farming is the sole source of income is small. However, it does not necessarily follow

that those heavily dependent on farming are all large units or account for the great majority of output. Thus an important piece of information when assessing the impact of agricultural policy reform is the socio-economic structure of household-firms that comprise the farming industry.

In the short and medium term farm operators routinely adapt their production practices in response to changing prices, both for those of agricultural commodities and (increasingly) the other goods and services that many produce. Because of the expansion of multiple income sources that characterises agricultural households, the relative impact of a reduction in their returns from farming is less important for them now than in the past, though in EU Member States some pluriactivity has always been in evidence. The impact of the removal of support would be greatest (in an absolute sense) for large farmers (measured by the value of sales), but such farmers tend to have above-average incomes in comparison to other households in industrial countries. In the longer term, given the historical tendency for agricultural prices to decline in real terms, farmers have adopted various strategies to try to protect their economic position. Some have chosen to increase the scale of their operations, typically by purchasing or renting land, in order to generate larger total revenues and net income from agricultural activities. Some have opted to intensify production and generate a higher output value from the same land base. As noted above, many farmers, or members of farm households, have chosen to allocate a larger proportion of their labour and capital to activities (either on or off the farm) that are not strictly agricultural (in terms of the international standard classifications of products). This has led to a sustained out-migration of labour from agriculture and a decline in the total number of farmers, in particular those who are devoted full-time to agricultural activities.

3 POLICIES TO ASSIST ADJUSTMENT IN THE EUROPEAN UNION

Although farmers have a range of options in adjusting to economic change, including policy reform, it is extremely unlikely that any such change will be costless, either in terms of the individuals and households most directly involved, or more widely through societal and cultural effects and the environmental effects of changes in land use. While the reallocation of resources, such as farm labour, may involve costs for those involved, there is likely also to be changes in asset prices and hence impacts on the net worth of farm households, though the link with incomes from farming and asset values is not straightforward in industrial countries, where many factors influence land prices. A case can be made that, in some situations, market failure justifies intervention to assist the adjustment process, in particular by countering asset fixity. There may be an element of striving for equity, in that the pressures to adjust may be most keenly felt by low income/low wealth farmers who are dependent on farming, and assistance can be steered towards them. Part of the motive may be to compensate farmers for past government failure, in that the existing structure may reflect expectations by farmers built up through past government policy assurances of support for agriculture for which there is no longer the will to deliver. History also suggests that the introduction of structural policies, or their greater emphasis, is often a political ploy to enable reform to take place elsewhere in the support system where costs are becoming unmanageable or are an impediment to strategic aims (such as reaching trade agreements).

Whatever their rationale and motivation, in the EU programmes to assist structural adjustment absorb only very a minor part of the agricultural budget; they have usually accounted for less than 10 percent of total CAP spending

Identifying and measuring the full extent of public assistance to adjustment in the EU is complicated because,

- adjustment programmes that take place under the umbrella of the EU's CAP are financed only in part from the EU's agricultural fund (EAGGF/FEOGA). Measurement should include that part funded by national governments, the size of which varies between areas and forms of support and thus whose details are less readily available
- in areas of Member States that have been given special status as regions lagging behind, some schemes to assist farmers to adjust are arranged and financed as part of regional policy (i.e. are funded differently), again making the task of assembling figures less than straightforward
- some purely national agricultural structural measures exist, including schemes to assist change in farm size and regulate it. A comprehensive and accessible inventory of such schemes and their costs does not apparently exist
- there are numerous general national policies that nevertheless contain special provisions for agriculture that are of relevance to adjustment, in particular national policies on capital taxation and on the provision of social benefits. Again, no complete inventory seems to exist.

As information on EU-level schemes that assist structural adjustment are the better documented, they are the logical point of departure.

3.1 Structural adjustment assistance within EU agricultural and rural policy

Attempts to assist adjustment have long policy roots. For example, in the United Kingdom the 1957 Agriculture Act contained provisions, based on the Swedish model, to assist with farm amalgamations (with a negligible uptake) and investment grants for modernization of viable units (much larger uptake). In 1959 the United Kingdom introduced a scheme to assist small farms to develop their businesses, but did almost nothing for the low income, poor management group[4]. The 1967 Agriculture Act raised incentives for amalgamation and provided an Outgoers Scheme (pension or lump sum) and envisaged grants for encouraging tourism and recreation on farms. National schemes were mostly replaced by European Economic Community (later European Union - EU) schemes upon accession.

Major structural adjustment in European agriculture was identified as being necessary by Mansholt in 1968, but action to achieve the proposed changes was then judged to be politically unacceptable. Subsequent EC Directives in 1972 represented a much watered-down policy response. These offered support for investments for farm modernization (capital grants or subsidized interest rates), financial incentives for retirement and land reallocation, and the provision of socio-economic advice to farmers.[5] The passage of time saw this list expanded to include schemes to assist the entry of young farmers (financial assistance), to provide vocational training for hired workers and self-employed farmers (mainly in the form of financial assistance to organizations providing the training), to improve processing and marketing of agricultural commodities (grants to the firms involved, mainly not individual farmers), to encourage diversification on farms (including into organic production and non-food crops by financial incentives that include capital grants and compensation for income forgone), and for the afforestation of agricultural land (various grants for planting and to offset income forgone in the establishment phase). There were also efforts to create alternative job opportunities in rural areas.

In Europe three significant historical events that combined policy reform and assistance for farm adjustment should be noted. In 1988, a decision to limit the amount of support for

agricultural production was accompanied by a reorganization of the EU "structural funds" and a doubling of the resources available. Though most of the spending went to regions that were lagging behind economically (many of which were rural) through general development programmes, there was provision for both horizontal aid to agriculture to assist it in adapting to the reform of the CAP (though in reality this reform was limited in scope) and for geographically targeted rural development, which might benefit farmers indirectly.[6]

Much more significant in terms of agricultural policy were the "MacSharry" CAP reforms of 1992 that lowered support prices by a hitherto-unprecedented extent; actions linked with the need to make progress in the Uruguay round of trade negotiations under the General Agreement on Tariffs and Trade (GATT). "Compensation payments" were provided. These were necessary to make the policy reforms politically acceptable and to cushion their short-term impact on incomes; there was deliberate ambiguity concerning how long these payments were to continue. At the same time "accompanying measures" were introduced to facilitate structural adaptation, mostly continuing and expanding the types of schemes already in place.

The *Agenda 2000* package, that *inter alia* carried the MacSharry reforms a stage further and paved the way for EU enlargement, defined rural development as the CAP's "Second Pillar" (price and income support being the first). In practice, the provisions for farm adaptation were contained in the Rural Development Regulation (RDR) 1257/1999; this brought together into a single piece of legislation the "accompanying measures" and other structural schemes, including the encouragement of conversion to organic production (again developed from an existing measure) and some new provisions. The Chapters of this Regulation are listed in Annex 1. Within its framework, national governments produced plans (covering 2000-06) for local implementation (in the United Kingdom there are separate ones for England, Wales, Scotland and Northern Ireland) which, when agreed with the Commission, are part-financed through EU funds. Typically, existing schemes have been rapidly adapted to fit the RDR 1257/1999 requirements, though some new ones have been introduced[7].

It should be noted that EU spending on rural development includes much more than provision for adjustment at the farm level. Most significant is the spending on agri-environment schemes and support for farming in mountainous and other less-favoured areas These took about 40% of planned spending under the RDR in the EU15 in the period 2000-06, but two-thirds in the United Kingdom and more than half in Austria, Sweden, Finland and Ireland. In the short term these agri-environmental payments may be seen as assistance for adjustment to policy reform. But in the longer term, if environmental objectives can be achieved more cost-effectively with fewer but larger farms, it would be expected that incentives will eventually be reduced and structural change ensue. The special payments to farmers in hill areas are, if anything, incentives *not* to adjust to prevailing market conditions. Again, there may be social or environmental policy objectives that justify the continuation of farming in these areas, though alternative approaches to achieving such ends may be preferable. Thus assistance for investment, diversification (including to organic production and forestry), training, early retirement and marketing improvements accounted for only a portion of the already slim "Second Pillar". Though there are provisions within agricultural spending for assisting in the creation of off-farm jobs in rural areas in the European Union, and thus facilitate the exodus of farm labour, funds devoted to this are small.

Have the adjustment measures been effective? In the EU there is a requirement that evaluation be carried out on schemes aided by EU funds, and in the UK there is also pressure to carry out national studies. In consequence there is an accumulating body of evaluation evidence at Member State and EU levels of various schemes to assist structural adjustment, including the mid-term evaluation of the Rural Development Programmes and the structural assistance schemes

they contain. There is only space here to provide a few observations drawn from this information. It must be conceded at the outset that evidence on the performance of adjustment policies is not particularly strong, but what exists tends to point to results that are, at best, mixed and dependent on the context and manner of the application of instruments.

3.1.1 Early retirement and installation of new entrants. Early retirement schemes, perhaps the intuitively most appealing form of structural assistance, are problematical[8]. Aid to early retirement (and to assisting new entrants) has not been offered in England and Wales in the present RDP because of a history of lack of success, *ex ante* appraisals that suggested low additionality and high deadweight (the expectation being that much spending would be absorbed by people who would have retired anyway) and some concern over the equity of treating farmers as a special case in rural areas. A review of such schemes across OECD members noted that participation had been relatively weak in most countries (OECD 1995). Where uptake was greatest (Sweden and Finland) the measures were quite closely targeted and rather generous in terms of the incentives offered. In contrast, France for many years has implemented enthusiastically programmes favouring the installation of young farmers and the early retirement of older farmers, often in parallel. These linked actions are operated with structural adjustment rather than social objectives in mind. The emphasis continues. Of the total budget of the National Rural Development Programme (2000-06), France planned to devote a combined total of 18% to early retirement measures and to installation assistance to young farmers (LUPG 2002).

An insight can be gained into French attitudes and policy from the experience of the early retirement programmes that were implemented under the EU measures that accompanied the CAP reform of 1992 (Daucé *et al.* 1999). The first phase, which came to an end in 1994, was highly successful in the sense that 43 000 farmers, a third of the eligible population, took early retirement and most of them, by doing so, improved their income. 1.3 mio hectares were released for redistribution to other farms, 60,000 of whom received additional land. However, most of those acquiring the land were already established farmers, albeit recently installed in many cases, and the same period saw a sharp fall in the number of new entrants. This outcome was considered undesirable and the scheme was drastically changed in favour of setting up (new) young farmers. Installations recovered in the following years, although they have never since reached the high levels of the early 1990s. The general conclusion in the literature, given the dominance of within-family handovers which were favoured by the system, is that the combined effect of retirement and installation measures in France has been mainly to accelerate the process. In other words, there has probably not been a significant net increase in the number of young farmers entering the sector; rather they have done so earlier than would otherwise have been the case. In any event, a policy that aims to take labour out of the system with one set of measures and re-insert it with another, is inherently paradoxical.

Like France, Ireland implements installation and retirement policies vigorously with a view to improving farm structures and maintaining viable population levels in rural areas. These include, under EU early retirement provisions, a pension granted for up to ten years on transfer of the farm through lease, gift or sale. Rental income in these circumstances is exempt from income tax and there is retirement relief on capital gains tax of up to 476 250 Euros. For new entrants there is an installation allowance and priority access to quotas The demographic structure of the sector has been improving in the past decade, although whether this is due to the various measures in place, demographic change or overall macroeconomic developments is difficult to say.

3.1.2 Investments. Evidence from across the European Union on assistance to farm investments that formed part of a previous regulation (EC 950/97) suggests that such schemes were of greatest

benefit to countries that typically had farms of small size but were least relevant to countries, such as the United Kingdom, which already had a better farm structure (Agra CEAS 2003a). The impact of processing and marketing grants (mainly taken up by non-farm businesses) is also uncertain; the evaluation of schemes of this type concluded that, at the EU level, only where farmers were organised into co-operatives, or had a financial stake in the processing sector, was it likely that the economic benefits from investments under the scheme would be transferred to primary producers (Agra CEAS 2003b). However, the conclusion on the performance of the UK's various schemes operating during the 1990s suggested that they delivered value for money, with smaller projects likely to display greater additionality (studies quoted in CRER *et al.* 2002).

3.1.3 Training. There is evidence from the United Kingdom that higher levels of vocational training are associated with greater on-farm innovation and more technology transfer (Gasson and Hill 1996) but, perhaps surprisingly, there seems to be no evidence of a relationship with business performance. In terms of government-sponsored advice to farmers, McNally (2001) concluded that there is a need for this to be carefully targeted if it is to have an impact on the survival of households traditionally dependent on the farm business. Training appears to concentrate on what is needed within the agricultural industry. Germany is one of the few European countries that has implemented specific assistance through training for farmers to leave the sector for employment elsewhere.

An improvement in the evidence base for schemes to assist adjustment at the farm level is likely to result from the evaluation of the Rural Development Programmes in Member States organised under the EU's Rural Development Regulation 1257/1999. This arises in part from improvements in methodology (guidelines being given in Commission 1999), from gathering evidence on previous schemes, and the establishment by the Commission of a set of quite detailed evaluation questions and proposed indicators for each Chapter of the RDR.[9] It is too early to judge the performance of farm adjustment schemes introduced under the RDR for the European Union as a whole. Findings for Wales (Agra CEAS 2003c) and England (ADAS and SQW 2003) are to hand, but the disruption caused by Foot and Mouth Disease in 2001 has contributed to slow uptake, with actual spending falling behind the amounts budgeted. Administrative costs appear to be high. Farmers have to be proactive in applying for assistance under the schemes and receive approval (the exception being payments to farming in Less Favoured Areas); anecdotal evidence suggests that the presence of change agents (such as agricultural officers in National Parks) can be influential in take-up. Even at the farm level the success of inducements for diversification, vocational training, processing and marketing and alternative ways of using land (afforestation, energy crops, organic production) have barely started to be felt. Though income gains for participating farms can be detected, assessing the impacts on the agricultural industry as a whole must wait for more projects to be completed. However, the relatively small numbers of direct beneficiaries suggests that this is likely to be muted.[10].

3.2 Structural adjustment assistance within national agricultural and other policies

Within the EU the picture of assistance to structural change to agriculture under national policies is complex and not well documented. However, information for a few countries and for a few types of assistance enables some observations to be made. A range of agricultural and land use programmes exist outside the CAP framework that influence farm household-firm adjustments, such as legislation that regulates the relationship between tenant and landlord and the explicit controls that some countries exert over the purchase and sale of land. Farm operators are also subject to national economic and social policies that may have particular relevance to

adjustment, such as education (in that this affects occupational or locational mobility) and infrastructure, including access to electronic communication.

Some forms of general assistance to mobility may not be targeted specifically at farmers but are of disproportionate importance to them. For example, in the UK capital gains tax concession are available to self-employed businessmen who retire, and these are of importance to farmers because of the large gains many will have accumulated. Or general systems may exist within which farmers are given preferential treatment. A review of taxation found that special concessions for agriculture in income taxation and annual property taxes were common in OECD countries, as was the favourable treatment of agricultural land in inheritance taxes (by using a less-than-market value, or lower rates of tax, or other allowances)(Anderson *et.al.* 2002). Social contributions for farmers may be lower than for other socio-professional groups. Some of these concessions might be inhibitors of adjustment, providing incentives for remaining in agriculture whereas others (such as inheritance concessions for early transfer of land) might encourage change.

Social benefits are also potentially important to structural change, in particular retirement pensions. Though the funding of pensions may differ between farmers and other groups, the essential point is whether there is an incentive for certain groups to accept a pension and thus become less dependent on the farm (which might facilitate policy reform). In Germany between 1965 and 1983 structurally-improving transfers of land were rewarded with a higher pension, presumably encouraging retirement. However, in Ireland the system of poverty alleviation contained benefits that were specifically targeted at farm families and general ones that *de facto* offered preferential treatment for them, which would be expected to provide an incentive for not leaving.

Of particular interest are the policies that some countries apply to land transfers (OECD 1998). The present structure of agriculture will reflect *inter alia* the past legislation on inheritance. In that intergenerational transfers are known to be crucial nodes for structural adjustment, inheritance laws form a background against which policies to assist adjustment have to work. Annex 2 gives details of inheritance laws regarding land for France, Germany and Norway. But of at least equal importance are the interventions that governments in some countries make in the operation of land markets, ostensibly to create agricultural structures more in line with social, economic and environmental objectives but in practice probably impeding adjustment. While at one extreme the UK and Ireland do not have any significant intervention mechanisms, two important EU examples (France and Germany) can be given where this takes place, with Norway providing another.

3.2.1 France. While France does not have general agrarian land legislation to control farmland ownership, or to control changes in farmland operators, in reality regulations and institutions exist that have a significant impact on land operations. In particular, the institutional status given to the SAFER (*Sociétés pour l'aménagement foncier et l'établissement rural*) is important in the French farmland market (SAFER, 2003). These organisations were set up in 1960 as non-profit public corporations owned by the government and controlled by farmers unions, mutual organisations and other administrative or agricultural entities such as agricultural banks. Their principal objectives are to help certain farmers expand farm scale, facilitate settlement or maintenance of viable farm units and thereby improve agricultural structures through buying and selling operations in the farmland market. There are currently 26 SAFERs.

Any landlord (of tenanted land, which accounts for about 2/3 of the total) wishing to sell farmland must inform the relevant SAFER two months in advance. The SAFER may itself

purchase the land if it considers that desirable from a structural point of view, pre-empting all other possible buyers, other than the tenant of the land. All land acquired must be resold within a given period either to new farm entrants or to foster sustainable farm units. No specific standards define eligibility to buy land from a SAFER but the underlying aim is to foster an "ideal type" of holding which is defined by the law as "a family farm holding with personal liability". This notion is based among others on a minimum settlement acreage (or SMI) which differs from region to region. In recent years the powers and mission of the SAFER's have been extended to cover environmental management of land.

SAFERs have been very influential in the French land market in some years in the early 1990s accounting for as much as 25% of all farmland purchases in France. According to the most recent data they purchased 23% of farmland coming on the market. Of those purchases, 85% were amicable in nature and 13% by pre-emption (a form of compulsory purchase). Half of the lands disposed of most recently have gone to "young farmers" with the rest being used to increase existing holdings.

The impact of the SAFER is difficult to gauge. The extent to which they impede or facilitate farm consolidation probably varies from region to region and *département* to *département*, reflecting the local composition of the boards and local conditions and attitudes. Reflecting this, SMIs (minimum settlement areas) seem to be quite different from region to region. For this paper levels ranging from 90 hectares (Ardennes) to 25 hectares (Vienne) to 18 hectares (some parts of the Pas de Calais) have been found. There are also significant differences in the extent to which farms are prevented from becoming bigger. Local authorities seem to also have the power to intervene in land market operations that would result in farms becoming bigger than some multiple of the SMI. Certainly, the institutions and regulations in place are sufficient to allow micro management of land markets but the extent to which they actually do so in practice is difficult to determine. A thorough study of changes in farm structures at disaggregated level would be necessary to come to any conclusion on this point.

3.2.2 Germany. Germany maintains statutory controls over any change in ownership or lease of agricultural land. Authorisation for any transfer of farmland rights may be withheld in three cases:

- If the transfer would lead to an undesirable distribution of farmland – *e.g.* transfer to non-farmers is generally considered undesirable.
- If the transfer would lead to undue fragmentation of land (a minimum of 1 hectare) or excessive aggregation (more than around 400-500 hectares, but only in the former Federal Republic).
- If the sale price is thought to be seriously disproportionate to the land's value.

The same criteria may be applied in the case of farmland leases.

Lander have state-owned organisations (*Siedlungsgeselkschaft*) that buy farmland from farmers and non- farmers and resell it to farmers. They may intervene only with respect to land parcels in excess of 2 hectares and when no farmer is in the market for the land in question. Pre-emptive rights may be exerted over non- farmers but not over farmers.

3.2.3 Norway. The Concession Act of 1974 aims to protect the limited farm area. To acquire farmland other than through inheritance or other type of transfer within the family requires a concession granted by the king. The acquirer must have a professional agricultural qualification

and must live on and manage the farm for five years. The Concession Act also aims to control prices of agricultural land in order to limit the capitalisation of support into land values. The Land Act prevents subdivision of farms without approval of the authority and also lays down conditions for how land should be farmed – in conformity with normal farm management practices. In other words the owner of cultivated land has an obligation to preserve it and to actually use it for farming. If the latter is not observed the state may expropriate the property and transfer it to others. The state has pre-emptive rights over any real estate covered by the Concession Act, including on farms and farmland to be used for structural rationalisation

4 DISCUSSION/CONCLUSIONS

In Europe the main emphasis of policy has been to defend farmers against the pressures that would lead to structural adjustment. Where shocks resulting from changes in policy have been anticipated, the main response has been to provide a further cushion of income support. Overall, there is relatively little in current EU agricultural policies that is actually designed to facilitate the adjustment process in agriculture. The consequence is that most of the structural responses to longer-term pressures for change have taken place without much assistance from policymakers. Such adjustment measures that have existed have been primarily sectoral in nature and have only been used by a minority of farmers

Despite its title, the EU's Rural Development Regulation is agri-centric, reflecting its origins within the CAP. The national Programmes to which the RDR has gives rise are similarly heavily shaped by the legacy of previous schemes that were part of agricultural structural policy. Only in regions that qualify for special assistance under Objective 1 and Objective 2 of the reformed Structural Funds could the creation of employment opportunities in the rest of the economy be considered germane to facilitating changes in the structure of agriculture.

Outside the framework of the CAP and EU-level policies a number of measures can be found that, by design or otherwise, influence entry and exit decisions in the agricultural sector. These include policies regulating farmland mobility/transfer, social security policies with the emphasis on retirement pensions, taxation with the emphasis on property, inheritance and capital gains taxes, and some aspects of income tax law. Remarkably little research has been found that evaluates the effects of these measures, either individually or as a whole.

The countries cited in this paper do not seem to be exceptional in Europe in terms of the degree to which governments intervene in land markets or in the extent to which the taxation and social security systems are used for a combination of income support and structural purposes. Many if not most European countries avow an attachment to family farming and relate that to avoiding rural depopulation. The United Kingdom is the only real exception, though this owes something to the rather different concept of what family farming constitutes there and the recognition that rural development in Britain is not dependent on agriculture to the same extent as is assumed in some other European countries.

Labour adjustment seems to be still largely through (unassisted) retirement and entry/non-entry decisions. None of the countries examined seems to pursue vigorous positive adjustment measures designed to assist inefficient labour to leave the sector by retraining for another occupation. While there are local training efforts for farm-related diversification, such as for green tourism, their purpose relates more to keeping labour on farms, albeit with a diversified activity set. Measures focussing on entry and exit operate under the assumption that it is better to

get older farmers out of the sector and younger farmers in, although there is little evidence to suggest that such measures do anything but accelerate a process of transfer of farm management within families that would in any event occur, while generating significant additional transfers from taxpayers and consumers. Few seem to welcome entrants to farming from non-farming backgrounds — which may also constitute a missed opportunity in rural development terms.

Another observation – not for the moment tested in any way – is that there is a strong correlation between farm size and the degree of intervention in structural adjustment questions, in the sense that the greater the degree of intervention the smaller the size structure. Persistence of small farms may reflect historical, climatic and topographical factors, in which case the observation is no more than a tautology. But small farms may also be the fruit of structural policies that have not kept pace with technological, demographic and economic development. A look at Korea and Japan, although not the subject of this paper, suggests that the question should at least be asked. Preliminary investigation of the same set of policies in those countries has revealed an extraordinarily complex set of interventions. At first sight, these would seem to be counter-productive, with farm consolidation measures struggling against land laws and fiscal measures that go in the opposite direction.

Clearly policy interventions influence the agricultural sector's structure, although precisely how or in what direction is difficult to establish. It is therefore even more difficult to disentangle the effects from specific structural measures or from more general non-sectoral policies. Nonetheless, it is clear that significant capitalisation of support into land values has occurred. The price of land has been inflated to the point where many governments believe that its market value has little or no relation to its economic value in agriculture[11]. Similarly, measures designed to restrict production in different sectors have created rents (dairy quotas, headage limits for suckler cow premia, etc) that constitute significant entry costs. It is here that one of the most fundamental paradoxes in agricultural policy is to be found. Governments try to offset inflated entry costs, caused, at least to some extent, by mainstream agricultural policies, through a second string of measures that are structural, fiscal and social. Action on both fronts, an unravelling of agricultural specific support and protection on the one hand, and an easing of restrictions on land transfer and in particular on conversion to non-agricultural uses, could have significant beneficial effects in making the agricultural sector itself more responsive to change. In parallel there could be significant spin-offs in terms of the development of non-agricultural activities in rural areas.

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Annex 1

The EU's Rural Development Regulation (1257/1999)

Chapters of the RDR cover various forms of support which are implemented by schemes drawn up and administered at national level. Member States draw up Rural Development Plans which, when approved by the European Commission, become multi-annual Rural Development Programmes running from 2000-2006. For illustrative purposes the national schemes operated in England and (separately) in Wales are described.

Chapter I – investment in agricultural holdings (covering on-farm investment for reducing production costs, improving and redeploying production, quality improvement, improving the natural environment, hygiene conditions and animal welfare standards, and (on-farm) diversification. In Wales this Chapter is implemented through the Farm Investment Grant and Farm Enterprise Grant Schemes, with the equivalent Farm Enterprise Scheme in England.

Chapter II – setting up young farmers (i.e. aged under 40, where the holding is viable and where the person is the head of the holding). Neither England nor Wales have chosen to apply schemes under this Chapter, one factor being the smallness of the sums that could be paid in relation to the costs of new entry. Nevertheless, Wales has encouraged young farmers by providing higher rates of support under other schemes.

Chapter III – support for vocational training (of persons engaged in agriculture and forestry – and not limited to holders). The main method used in England and Wales has been to conduct skills checks and then provide finance to the *providers* of training for setting up training schemes.

Chapter IV – Early retirement of elderly farmers (55 years and over but not of normal retirement age) and with assistance of farm transfer, but with support also for an income to farm workers. Neither England nor Wales have chosen to implement schemes, the main argument being very high deadweight, low additionality, and the very large sums that might be involved. Also there has been a feeling of inequity, in that similar schemes are not available in other occupations.

Chapter V- Less favoured areas and areas with environmental restrictions (area payments on land deemed to be of LFA status). In effect, this means a supplementary area payment to farmers in LFAs, with a differentiation between those in Disadvantaged Areas and Severely Disadvantaged Areas. Payments of a similar nature, given for a mix of environmental and social reasons (population maintenance in hill areas) have been given in the United Kingdom since at least 1975.

Chapter VI – Agri-environment (the only category in which it is mandatory to offer schemes). The assistance is to promote ways of using land that are compatible with the protection and improvement of the environment, the upkeep of the landscape, the use of environmental planning in farming practice etc.. In England this has formed the basis of the Countryside Stewardship Scheme, payments to farmers in Environmentally Sensitive Areas etc.. In Wales it is the basis of the Tir Gofal (a menu-based system for environmental enhancement by management agreements and capital projects). In both countries an Organic Farming Scheme falls under this chapter.

Chapter VII – Improving processing and marketing of agricultural products (grants mostly to non-farmer firms)

Chapter VIII – Forestry (including woodland creation by planting and natural regeneration, and management of forests, and provision of income support for a run of years when land is switched from agricultural use to forestry).

Chapter IX – Promoting the adaptation and development of rural areas (including land reparcelling, setting up farm relief and farm management services, marketing of quality agricultural products, basic services for the rural economy and population, renovation of villages and conservation of the rural heritage, diversification of agricultural activities and those close to agriculture to provide multiple activities or alternative incomes, encouragement for tourism and craft activities etc..)

Annex 2 Inheritance legislation

France

France is one of a group of countries where inheritance laws require an equal division among all the children of the estate of a deceased person (OECD, 1998). This does not necessarily lead to the fragmentation of farms as various alleviating measures have been put in place over the years to prevent this happening. If one of the heirs is willing to take over the farm business he must pay compensation to his coheirs. However, the law allows the land to be valued at about half its open market value. Additional provisions allow the incoming farmer to be compensated for the years during which he may have already worked on the farm prior to taking over from the deceased parent and/or to spread payments to coheirs over a number of years. GFAs (*Groupement familiaux agricoles*) have been developed as a business model that allows a single operator to run the farm, while the co-heirs retain ownership.

Nonetheless, there would seem to be some evidence that younger farmers in France (and in other countries where the rules governing inheritance are the same), are found to have much higher debt levels than in other countries where it is more usual for well established farmers to take on higher levels of debt (Blanc *et al.*). Despite the measures to alleviate the burden imposed by the "egalitarian" inheritance rules this particular aspect of French law (which applies to all property and not just to agricultural land) would seem to impose significant costs on those hoping to enter the sector by succession.

Germany

German law allows unequal inheritance and therefore farms may be passed on without division although usually there is an obligation to provide monetary compensation to siblings or other coheirs. This is the case under specific laws in several north-west Lander, which are based on a "principal heir" system. The testator does not include the farm in the community of property but passes it to a single or principal heir who may be determined by a court. To qualify he may have to show that he can manage a farm, has worked on a farm or has a farming qualification. But even in these Lander, the testator may subordinate the farm to the ordinary inheritance law so that it is divided equally among co-heirs.

In other Lander, the farm is, in principle, divided but again it can be left to just one heir and a determination is made of the claims of co-heirs with a view to compensation. Current practice is that a single heir to the farm may have to make monetary compensation to siblings but the level of the compensation depends on his ability to pay and the extent of his obligations to his parents. It is not based on market value although German legislation allows that the proceeds of land sold subsequently at market value should be shared if a sizeable capital gain is made.

These differing practices (and the fact that inheritance laws were different in earlier historical periods) have led to strong regional differences with break-up of farms and therefore a pattern of smaller farms in the south and preservation intact and therefore bigger farms in the north.

Norway

The Allodial Act pursues two goals; securing farm population in all districts by maintaining owner-operated family farms and preventing undue fragmentation of farmland. Priority rights are

given to the eldest child to inherit the farm undivided, the law precluding any choice on the part of the testator. However, if the new owner decides to sell, allodial rights pass to relatives. Anyone taking over a farm pursuant to their allodial rights must live on and manage the farm for at least five years.

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[1] Carmel Cahill, OECD (Carmel.Cahill@oecd.org) and Berkeley Hill, University of London (b.hill@imperial.ac.uk)

[2] According to the EU Survey of the Structure of Agricultural Holdings (Farm Structure Survey) "Natural persons" accounted for 98.8% of EUR 12 holdings in 1993. Only one country was below 97% - the UK at 93.7%.

[3] For a review of the restructuring process in England, including an identification of factors which drive is that those that hinder and slow it, see University of Plymouth (2002).

[4] Small Farmers' Scheme (1959)

[5] Directive 72/159/EEC Modernisation of Farms; Directive 72/160/EEC Cessation of farming and the reallocation of agricultural land for structural improvement; Directive 72/161/EEC Provision of socio-economic guidance

[6] For a review of EU policy on agricultural structures see Commission (1985, 1990.

[7] For a review of the way in which the RDR 1257/1999 has been implemented, see LUPG (2002)

[8] Under the EU RDR's chapter for assistance to farm outgoes, hired workers are eligible for some income support as well as vocational training.

[9] Mid-term evaluations had to be submitted to the European Commission by the end of 2003. A review of such submissions is expected by the end of 2004.

[10] For example, in Wales, where there are some 13,000 agricultural holdings above 8 European Size Units, the numbers that had approved projects under the Farm Improvement Grant, Farm Enterprise Grant and the Processing and Marketing Small Grant schemes by mid-2003 totalled less than 300. In England, with some 115,000 holdings above 8 ESUs, the target number of projects to be assisted by the Rural Enterprise Scheme by 2006 was 500. For the Processing and Marketing Grant (which would include other eligible businesses).the target was 370.

[11].It is not only agricultural support that influences land values, pressure from development and urbanisation can also be important in some countries.