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Small, young, active – some new elements of the CAP reform

Abstract: The paper deals with some new elements in the CAP reform. The author presents support scheme for small farmers, young farmers and active farmers. The latter three are crucial in the subsequent reform of the Common Agricultural Policy.

Key words: agriculture, Common Agriculture Policy, international competitiveness of agricultural products.

The EC's Communication on 'The CAP towards 2020' outlined new instruments for the future CAP and launched a formal debate with other European institutions, with Member States, with farmers and with members of the public. All those events were followed by a set of legislative proposals which have to be adopted in the near future. Among those new instruments were some new schemes: for small farmers, young farmers, but foremost for active farmers. The aim of this short paper is to present those ideas and to show their economic implications.

Support scheme for small farmers

The EU agricultural sector is characterized by a very high number of small farms (more than 70% have less than 5 ha). These farms are heterogeneous with respect to socio-economic characteristics of farm holders, the farm asset base, the availability of non-farm incomes, and therefore their capacity to stay or become viable and flourish.

Many small farms may be unprofitable and uncompetitive from an economic perspective. Yet, they are of crucial social importance in certain Member States and rural regions where they make a significant contribution to employment, to the maintenance of viable areas and to cultural heritage.

Furthermore, small farms are important for the provision of public goods. Practices applied by small-scale farmers vary a lot across the EU but generally small farms play an important role in maintaining a varied landscape with a diverse pattern of perennial, natural and planted vegetation. This variety, when accompanied by the presence of retained landscape features such as field margins, hedgerows, stonewalls, meadows, small woods and watercourses, is valuable for biodiversity through ensuring connectivity between semi-natural habitats and cultivated areas. It also contributes to the resilience of the landscape in the face of climate change.

In the face of these pressures on the one hand, and the important contribution of small farms to social and environmental objectives on the other, support structures need to be in place that allow small farms to survive and develop. Although at present, there are already some rules aimed at relieving smaller structures and Member States administrations from some administrative costs related to cross-compliance (e.g. with respect to the de minimis

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rule or hygiene regulation), the administrative burden on small farmers is in general disproportionately high in relation to the amount of support they receive.

A specific scheme for supporting small farmers would acknowledge the contribution such farms make to rural areas and the environment. It could allow small farms to restructure, diversify and increase their competitiveness, e.g. by exploring new local market opportunities and providing specific regional products. To achieve this, the scheme would have to be designed in a way to either promote competitiveness, development and structural change or allow small farmers to choose their development path (e.g. maintaining local small-scale production) in order to narrow the income gap with larger structures. This specific scheme would also make it possible to cut red tape by simplifying administrative procedures for farmers as well as for national administrations.

However, a support scheme for small farmers within the first pillar would only offer limited possibilities of targeting or imposing requirements in terms of e.g. development capacity, investments, or the commitment to continue farming. This is why it is important to grant it in combination with more targeted support through Rural Development policy, focusing on the competitiveness of farms.

The purpose of a small farmer scheme in the first pillar would thus be to provide for general support to small farms in the form of a higher level of direct payments while simplifying the management of the scheme at farm and at Member State level (without imposing any specific request on the development strategy of the farm). This could be done by introducing a single payment at farm level that replaces all other elements of the direct payment (i.e. the basic rate, the payment for natural constraints, coupled payments and the greening component). This higher payment could either consist of:

The attribution of a fixed EU-wide support (lump-sum) in addition to the "normal" payment to farmers below a threshold. In that case, there is a risk that farmers just below the threshold may receive a higher level of direct payment compared to the ones just above the threshold who would not be entitled to the specific lump-sum for small farmers.

The granting of a lump-sum payment corresponding to a pre-determined threshold. However, this could lead to grant a high "bonus" to those with the lowest payments compared to the ones that are just below the threshold.

An increase of direct payments by progressive percentages (the lower the payment below the threshold, the higher the percentage). This would assume setting up bands under the threshold to the limit of which the payment of the farmers falling in the band would be completed. This option would mitigate the concerns of the above option by completing only to the limit of the band but it would be complicated to apply.

As regards the financing of the scheme, it should not put at risk the competitiveness of other farms by using a disproportionate share of the total direct payment envelope. Several options could be envisaged: either through a share (e.g. 5%) of the national envelope for direct payments of each Member State or through the result of capping generated in the same Member States. The latter could be an intuitively appealing solution as it would link the distribution problems at both ends of the farm spectrum. However, this would result in a financial mismatch between the funds needed for the scheme and those generated , owing to the unevenly distributed farm structures between Member States. There would be either too little financing available (in Member States with many small farms) or the scheme would be over-funded (in Member States with large farm structures).

Clearly, the budgetary needs for financing the small farmer scheme crucially depend on the definition of small farmers. Several options could be considered to define the small farmers:

– Option 1: A threshold fixed at EU level for all Member States (e.g. EUR 1 000 per beneficiary)
– Option 2: A threshold calculated at Member State level with an EU-wide formula (e.g. 15% of the average amount of direct payment per beneficiary in each Member State)
– Option 3: A threshold defined at Member State level within an EU framework (e.g. maximum EUR 1 000 per beneficiary and maximum 5% of the direct payments envelope in each Member State dedicated to small farmers).

The results of the calculations made by the Commission services are the following:

Option 1: would use 9.2% of the EU DP envelope which would mean an additional 5.1% of DP dedicated to small farmers as compared to what they receive in the Status Quo. In Cyprus (CY), Malta (MT), Romania (RO), more than 40% of the direct payment (DP) national envelopes would be used for more than 70% of beneficiaries. In Italy (IT), Lithuania (LT), Greece (EL), Spain (ES), Poland (PL), Portugal (PT) and Slovenia (SI), 8 to 23% of national DP envelopes would be used for more than 40% of beneficiaries. Detailed results are presented in Table 1.

Table 1. Small farmers - Impacts of option 1 (EUR 1 000 per beneficiary for all MS)

Country	Share of beneficiaries below the 1000 euros threshold	Share of budget necessary to grant 1000 euros to the beneficiaries below the 1000 euros threshold	Share of additional budget needed to finance these small farmers
AT	22%	3,7%	2,0%
BE	12%	0,9%	0,5%
BG	46%	4,5%	2,1%
CY	76%	57,7%	35,9%
CZ	17%	0,4%	0,2%
DE	23%	1,5%	0,9%
DK	23%	1,5%	0,9%
EE	36%	4,6%	2,2%
EL	55%	23,9%	15,1%
ES	44%	8,1%	4,9%
FI	9%	1,1%	0,3%
FR	15%	0,7%	0,4%
HU	43%	6,2%	3,1%
IR	8%	0,8%	0,4%
IT	62%	20,2%	12,3%
LT	59%	23,5%	11,3%
LU	9%	0,5%	0,2%
LV	48%	15,5%	7,0%
MT	85%	82,3%	66,3%
NL	24%	2,0%	1,2%
PL	50%	22,5%	10,6%
PT	70%	22,5%	15,2%
RO	79%	43,5%	21,9%
SE	27%	3,0%	1,4%
SI	45%	19,6%	9,5%
SK	48%	1,9%	1,0%
UK	18%	0,9%	0,4%
EU 27	**50%**	**9,2%**	**5,1%**

Source: CATS data, DG Agri calculations.

Option 2: would use 4.8% of EU DP envelope which would mean an additional 2.8% of DP dedicated to small farmers as compared to what they receive in the Status Quo. The maximum share of national DP envelopes dedicated to small farmers would be 11% (in SK). The scheme would concern more than 40% of beneficiaries in Bulgaria (BG), the Czech Republic (CZ), Estonia (EE), ES, Hungary (HU), IT, MT, PT and Slovakia (SK). Detailed results are presented in Table 2.

Table 2. Small farmers - Impacts of Option 2 (15% of the average amount of direct payment per beneficiary in each MS)

Country	Threshold (15% of national avg) (in €)	% beneficiaries below threshold	Total amount needed to raise small farmers to the threshold set at 15% of national .average (in % of the DP envelope)	Share of additional budget needed to finance these small farmers
AT	868	20%	3,0%	1,6%
BE	2.070	22%	3,3%	1,8%
BG	1.524	66%	9,9%	6,3%
CY	198	21%	3,2%	0,8%
CZ	5.737	57%	8,6%	5,4%
DE	2.203	34%	5,1%	3,3%
DK	2.411	38%	5,8%	3,7%
EE	1.179	43%	6,4%	3,2%
EL	348	31%	4,7%	2,4%
ES	824	40%	6,1%	3,6%
FI	1.244	12%	1,8%	0,7%
FR	2.947	26%	3,9%	2,6%
HU	1.054	45%	6,8%	3,5%
IR	1.496	13%	2,0%	0,9%
IT	461	42%	6,3%	3,0%
LT	379	18%	2,8%	0,9%
LU	2.800	17%	2,5%	1,5%
LV	467	21%	3,1%	1,2%
MT	155	48%	7,2%	3,8%
NL	1.831	33%	4,9%	3,2%
PL	335	13%	1,9%	0,4%
PT	468	51%	7,7%	4,5%
RO	271	12%	1,8%	0,4%
SE	1.347	35%	5,2%	2,7%
SI	347	14%	2,1%	0,8%
SK	3.855	73%	11,0%	8,3%
UK	3.046	35%	5,3%	3,4%
EU 27	**UE27 819**	**33%**	**4,8%**	**2,8%**

Source: CATS data, DG Agri calculations.

Option 3: In this option, it is assumed that each Member State would try to maximise the threshold by reaching either EUR 1 000/beneficiary or the level of the threshold which reaches the maximum (5%) share of national DP envelopes. This limitation to 5% of national DP envelopes would reduce the EUR 1 000/beneficiary threshold in 11 Member States. The number of beneficiaries concerned still differs widely between Member States. At EU level, it would represent 29% of all beneficiaries.

From an economic point of view, the scheme would result in an improvement of the position of smaller structures and to a consolidation of micro-sized farms, thus contributing to the vitality of rural areas, increasing the public acceptance of direct payments and having a positive impact on the income and purchasing power of small farmers.

In the course of ongoing discussion, Option 2 was selected for further refinements.

Specific support scheme for young farmers

Data on the age structure of farmers in the EU indicate the ageing of the farming community. There are 1.8 million young farmers (defined as farm holders "under 40 years of age") which make up 14% of the population of farmers in the EU-27 and hold 20% of the potentially eligible area (PEA) The largest share in PEA held by young farmers is found in PL (29%), Austria (AT) and France (FR) (both 27%), while the smallest one in RO (12%), MT and CY (both 13%). The average farm size for young farmers in most Member States is larger than the overall average farm size.

The CAP recognized years ago that the age structure in the farming sector was a problem, and has been addressing it by rural development measures, in particular by the measure “Setting-up of young farmers”. In contrast, direct support schemes up to now have not explicitly targeted young farmers. Within an overall aim to enhance the competitiveness of EU agriculture, direct support schemes serve as an income support for farmers and have to be granted in line with the principle of non-discrimination. Nevertheless, when allocating payment entitlements under the SPS, Member States have the possibility to address young farmers indirectly through provisions for farmers commencing their agricultural activity between the reference period and the first year of the SPS and later on by using the national reserve.

Farmers commencing their agricultural activity are defined as a natural or legal person that did not have any agricultural activity in her own name and at her own risk in the 5 years preceding the start of the new agricultural activity. It is highly likely that many of the newcomers who apply are young farmers.

While a majority of Member States use the national reserve for newcomers, there are a few that do not (Denmark - DK, the Netherlands - NL, Sweden - SE, MT, Germany - DE, United Kingdom - UK), which means that their young farmers can get the access to direct support under the SPS only by transfers of entitlements (by buying, leasing or inheriting). As this can be, together with land, rather costly, young farmers may not be encouraged to start farming. This is particularly the case when the support for setting-up (or for an early retirement) is not available under the rural development programme (MT, NL, SK). In terms of access to direct payments, young farmers in Member States applying SAPS benefit from a more favourable treatment as they can claim direct support any year provided that they have at their disposal eligible land.

In the light of this situation, a specific support scheme for young farmers in Pillar I could be envisioned that would encourage the setting-up of young farmers and/or support the operation of their farms in the first years. When designing such a new scheme, the objectives of the scheme should guide further decisions such as whether it is mandatory or voluntary, who are beneficiaries, the amount and the form of support, when and for how long to grant support and whether to set any budgetary limits.

A mandatory application would ensure that the often difficult situation for young newcomers would be equally taken into account in all Member States. On the other hand, voluntary application could be argued as well since Member States are in the best position to decide if an additional measure is necessary in their case.

The following options for a specific support to young farmers could be envisaged:

Option 1: Granting a fixed top-up payment per hectare to young farmers (less than 40 years of age)

Option 2: Devoting a fixed percentage of Member States' direct payment budget to a scheme for young farmers (less than 40 years of age)

Option 3: Granting a top-up of a certain percentage of the basic rate for direct payments in each Member State to a scheme for young farmers (less than 40 years of age)

Option 4: Granting a lump-sum support to starting-up farmers based on average farm size and average direct payments per ha in the Member State.

In all options, the support would be given for a limited number of years, e.g. 3 years or 5 years, or until a farmer reaches the age of more than 40 years.

The results of the Commission services calculations are as follows:

Option 1: The impact of a Young Farmer Scheme (YFS) with a fixed top-up amount per hectare for small farmers has been examined for three different amounts for the top-up of 100€/ha, 50€/ha and 20€/ha. Both a top-up of 100€/ha and a top-up of 50€/ha would require a considerable share of the direct payment budget for its financing (7.6 % and 3.8 % respectively at EU level) while these amounts would be reduced substantially for the top-up of 20€/ha (1.5 %). Latvia (LV) would be the Member State with the highest share of the national direct payment envelope going into the YFS, up to 16 % with a 100€/ha top-up due to the fact that its number of young farmers is relatively high and the budgetary envelope for direct payments relatively low.

Option 2: The impact of a YFS with a fixed percentage of the Member State overall direct payment budget devoted to the scheme was examined for two shares of the direct payment budget, i.e. 5% and 2.5%. At EU level, the per hectare top-up amounts resulting from the application of such a scheme would be 66€/ha for a 5% share of the budget and 33 €/ha for a 2.5% share of the budget. However, the amounts would vary substantially between Member States with, for example, MT going up to 266 €/ha in the 5% budget situation while LV would be at 31€/ha for the same setting.

Option 3: The impact of a YFS with a top-up for young farmers as a percentage of the basic payment rate was examined for top-up percentages of 20% and 25%. Assuming a basic rate of 60% of the overall direct payment envelope of a Member State, for the EU-27 the 20% top-up would be 30€/ha, leading to a basic rate of 179€/ha for young farmers (as compared to 149€/ha for other farmers) and 37€/ha for the 25% top-up leading to a basic rate of 186€/ha for young farmers. This would mean 2.3% and 2.8%, respectively, of the direct payment budget at EU level. The highest 25% top-up would be paid in Greece (75€/ha) while the lowest would be in LV (19€/ha). The share of the direct payment budget devoted to the YFS would vary between 1.3% in RO and MT and 4.6% in GR with the 25% top-up.

Option 4: The impact of a lump-sum support to young farmers was analysed for a model that would give young farmers a payment at the level of 25% of the average direct payment per ha in the Member State in which they are located, times their farm size in hectares, with a limit of 25 ha, in Member States whose average size of holding is below 25 ha, and a maximum comprised between 25 ha and the average size of holdings in the Member States where average holding size is equal to or higher than 25 ha. The results shown in Table 2 indicate that the overall budgetary impact at EU-27 level would be limited to 0.21% of the total direct payment budget. In the different Member States, the amounts would lie between 0.1% in the UK and 0.36% in PL.

Social impacts

A specific support scheme for young farmers could encourage the entry of young farmers into the sector and thus improve the age structure in the farming sector. A setting-up aid (Option 4) is likely to prove more efficient in this respect because it is targeted only to new entrants, not to those young farmers already in the sector.

However, an aid given to *all* new entrants – whether young farmers or not – would risk supporting some people who were not actually targeted by the measure. Furthermore, Option 4 bears a certain risk of leading to double funding with the already existing aid for "Setting-up of young farmers" under rural development policy, which is based on similar criteria. However, if the young farmer scheme was designed in such a way as to bring additional income and lower the cost of capital it could actually be complementary to the support possible under Pillar II.

Options 1-3, which are not targeted as a start-up support but an income support to all farmers under a certain age, risk less of an overlap with existing rural development support as they are based on different criteria. On the other hand, due to the fact that they are based on age alone as the selection criterion, they may be challenged at the European Court of Justice for being discriminatory.

"ACTIVE FARMERS"

The current definition of "farmer" (*"...a natural or legal person, or a group of natural or legal persons (...) who exercises an agricultural activity")* acknowledges the fact that direct support is decoupled and, thus, not linked to production activity. However, the application of this definition has resulted in criticism from the European Court of Auditors (ECA), and also from the public at large, as certain cases have been reported where direct payments seem to have been granted to persons or companies that cannot be considered as genuine farmers, as they are only to a very small extent engaged in agriculture or agriculture is not their main business activity.

This problem was already addressed in the Health Check of the CAP that provided for optional additional criteria for the exclusion of persons/companies from aid , whose agricultural activity is only an insignificant part of their overall activity and/or whose main business objects do not consist of exercising an agricultural activity. However, no Member State has made use of the possibility of setting up these additional criteria.

This is why a provision could be introduced that obliges Member States to define who is an "active farmer". However, the introduction of such a provision poses substantial practical difficulties:

First, as there exists limited information on the exact dimension of the problem (number of beneficiaries now receiving direct support but not qualifying as "active farmers") it is rather difficult to make a quantitative analysis of impacts.

Second, the definition needs to be fine-tuned to reliably exclude non-active farmers while at the same time not affecting the access to support of genuine farmers. The criteria to define 'active farmers' would have to ensure that part-time farmers are not excluded as it is clear that diversification of activities is a valuable alternative to limited growth opportunities within the farm sector and contributes to maintaining farming in areas where agriculture is socially and environmentally valuable.

Third, the situations differ substantially between Member States with respect to how many beneficiaries could be affected and with respect to what kind of information is available in national statistics to be used as criteria to determine what is an "active farmer".

As for establishing the criteria to define who is an "active farmer" there are two approaches, both of which, however, may create problems:

- Due to the differences between Member States mentioned above, it could be a promising approach to establish a list of criteria for the definition of "active farmers" at European level from which Member States could then choose those elements that best fit their national situation and the availability of information. The problem with this approach is that it could give rise to complaints about discrimination and unequal treatment between farmers.
- Alternatively, fixed and equal criteria could be set that all Member States would have to apply. This, however, would not leave flexibility to Member States and could create problems for those Member States that are not in a position to apply the selected elements.

Possible elements to be considered as criteria to determine who is an "active farmer" could be, for example:

- That the turnover (or income, or receipts) derived from an agricultural activity represents or represented at least X % of the total turnover (income, receipts) of a natural or legal person. This would mean that payments would be granted only to those natural and legal persons for whom agriculture forms a significant part of overall economic activities, or whose principal business or company objectives consist of exercising an agricultural activity. However, care would have to be taken not to exclude part time farmers with such a definition (most notably those engaged in diversification strategies).
- That farm animals or agricultural crops, or that farm machinery, or relevant facilities for an agricultural activity are present on the agricultural holding. However, these criteria could result in problems with the Green Box classification of support if they were not linked to a date in the past – which, in turn, would make them questionable for determining who is an active farmer today.
- That professional qualification and/or practical experience is properly credited or that the physical residence of the person is on the agricultural holding or close to it. However, while these criteria are not problematic from a WTO or discrimination point of view, they would also not suffice as the only criteria to determine who is an active farmer.
- Certain types of business (such as airports, railway companies, sport grounds, etc.) could be excluded from qualifying as active farmers ("negative list"). However, such a negative list could pose problems since it may not be exhaustive and thus may leave out certain companies which could lead to complaints about unequal treatment by the economic agents explicitly mentioned on the list.

Farmers subscribing to rural development measures could be considered as active farmers. However, this criterion is, again, not sufficient as the sole determinant of who should be seen as an active farmer.

The economic impacts of a better definition of "active farmers" would most likely not be substantial as the problem of granting direct payments to non-genuine farmers seems to be limited to particular cases and is not a widespread phenomenon. This having been said, a

definition that guarantees that only active farmers receive support means, of course, a better targeting of payments to those who actually are the intended recipients. Thus, the approach would improve the use of public funds and increase the public acceptance of direct payments.

It would have to be ensured that the list of criteria set up to define who is an "active farmer" contains only elements that respect WTO Green Box criteria. In particular, it would have to be avoided that any of the criteria would imply an obligation to produce in order to be classified as an "active farmer," as this would be against the principle of decoupling.

Care is needed not to exclude from support – and so from GAEC – land which is important for environmental reasons and/or which may also at some stage be needed for agriculture.

Improving the targeting of payments to active farmers would require careful fine tuning of definitions, possibly in cooperation with Member States, and selecting criteria to be integrated into the IACS register. This would generate substantial administrative effort for farmers who would have to prove eligibility by providing supplementary detailed information and possibly submitting accompanying documents with their application, and for national/regional authorities who would have to manage the received information. This could lead to a considerable increase of administrative burden for farmers and Member States.

Conclusions

During the Ministerial Council of March 18-19, 2013, Member States reached the compromise on the above-mentioned issues.

1. Payments to small farmers become more elastic. The primary proposal is maintained, i.e. small farms are exempt from greening as well as from cross-compliance controls and sanctions.
2. As for young farmers, in all Members States shall be the same criteria for farms eligible for support: the limit of payment shall be not less than 25 hectares or an average farm size in a given Member State. A bulk sum payment was also proposed, fixed on the basis of an average size of young farmers' holdings.
3. The definition of active farmer has been simplified, as well as a "negative list" has been created i.e. the list of entities that cannot apply for direct payments. However those entities may prove that payments constitute at least 5% of their annual receipts from non-agricultural activities (eg. airfields, recreation areas).

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