



# POLICY BRIEFING

Working Group 1 – March 2015

## **How should European policy support agriculture** in all its variety as it adapts to market change?

### **Summary:**

**The European Union's (EU) agriculture is highly varied in terms of Member States' (MS) average farm size, business type, weather, soil, social and economic conditions, etc. As well as this, technologies and markets are rapidly advancing. In order to ensure effective policy frameworks and subsequent sustainable and balanced development, public policy must take into account these variations and advances. This briefing looks at the context of the relevant public policy and agriculture in Europe and considers the key questions and discussion points that arise from this.**

In the 1992 Common Agricultural Policy (CAP) reform policymakers decided that direct European aid to farmers should be based on the surface area of land farmed, and have confirmed this approach on the entry of new Member States (MS).

While there have been several reforms and policy adjustments since 1992, direct aid has remained intimately linked to the amounts allocated by type of agricultural land and type of production, with the 2003 reform creating a system of flat-rate payments per agricultural parcel on the same basis, the so-called historic references.

## 2 How should European policy support agriculture in all its variety as it adapts to market change?



All of these reforms were premised on average farm size as recorded in each MS – in other words the average size of their – officially declared – single farm holdings.

Measures have since been introduced (especially in the reforms of 2003, 2008 and 2013) in order to give Member States some, albeit limited, room to manoeuvre in relation to national farm support policies.

The principal measures that the MS have adopted in implementing the 2013 reform have been :

- 22 Member states out of 28 have brought in reductions to direct payments above €150,000 of aid received per farm holding and per year. Among these, 8 have chosen to cap the maximum annual amount of basic payment for each farm.
- In addition, 8 Member States have decided to introduce a system of redistributive payments (in such a way as to top up basic payments), the aim being to support single farm holdings of around the national average farm size.
  - *It is important to note that certain forms of joint agricultural holdings/ventures provide a legal status that allows individual farms to group together – to pursue joint business activities – while maintaining their fiscal independence and ability to access public aid independently of each other. These measures for caps, aid reduction or redistributive payments are consequently implemented at the single rather than the joint holding/venture level.*
- 15 MS have introduced a scheme for small farms, although only two provide equal value flat rate payments to all the farms targeted by the scheme. In the other 13 MS, the schemes introduced make little financial difference to the – nominally – small farms concerned, relative to the basic payment scheme.

### 3 **How should European policy support agriculture** in all its variety as it adapts to market change?



## **TOWARDS A MORE REALISTIC BASIS FOR STRATEGY DESIGN**

At the European level the concept of a single European ‘standard’ farm was rejected as a way forward by policymakers since the diverse soil and weather conditions, as well as different social and economic conditions across regions, require forms of agricultural holdings that are suited to them.

The reality of the business environment for farms is such that those that will flourish will be those that are able to ensure their survival as a business and at the same time manage their natural heritage sustainably, whatever their size might be.

**“The role of public policy will therefore be to provide the framework conditions in which all types of agricultural business can develop”**

The role of public policy will therefore be to provide the framework conditions in which all types of agricultural business can develop, which in turn implies that policymakers take into account the context of profound and rapid change in technologies and markets and their consequences for European agriculture in terms of numbers of farmers, their education and training etc.

What the official criteria indicate is that out of the 12 million European agricultural holdings, 6 million are less than 2 ha in size and these exploit 2.5% of arable land. In contrast, 50% of arable land is farmed by 300,000 agricultural holdings of more than 100 ha.

And it has to be underlined that the farms recorded by the Member States or

# POLICY BRIEFING

## 4 How should European policy support agriculture in all its variety as it adapts to market change?



by the European Commission in fact identify only legal entities under the label of single 'agricultural holdings', which does not necessarily provide a complete picture of the actual types of joint agricultural businesses in operation.

In this context, the following questions arise:

- How will the different types of business ventures engaged in agricultural production change or adapt in view of actual or forecast developments in their economic and environmental situations?
- What policy direction might the European Union legitimately wish – or not – to promote?

### FARM EUROPE, discussion points:

- Does the change, recorded by MS and European institutions, in the number of agricultural farms by size group mask developments in relation to new and emerging configurations of agricultural businesses that should be more carefully monitored and studied? Consider, for example:
  - *The specialisation of small to modest sized farms, aiming for high margins per hectare, in direct contact with consumers (peri-urban agriculture, or holdings operating short distribution channels) ;*
  - *The pooling of resources to reduce costs and lighten the administrative burden on family-run farms, either within de facto business associations (which are currently poorly recorded) or within larger business ventures ;*
  - *The reality of an agriculture that is in a fragile state, that is, which is at a crossroads. Farmers must decide whether to specialise, whether to target non-agricultural business revenue, whether to join together within larger business ventures, whether to scale up as an individual*

## 5

# How should European policy support agriculture in all its variety as it adapts to market change?

*holding in order to achieve a critical mass that ensures longevity.*

Depending on the relative scale of each of these developments, in a European Union in which family-based agriculture (family-run with family-based workforce) continues to form the bedrock, the question of the objectives and the means of policy will need to be examined.

- Do the various agricultural holdings or joint ventures of different sizes and economic models need the same type of support from European policy?
- Can/should the European Union steer or support these trends?
- Should the European Union link its expectations and policies for agriculture to its wider objectives for growth in Europe, for sustainable and balanced development?



# POLICY BRIEFING