

## **Family farming Issues and challenges in the reformed Common Agricultural Policy**

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**ABSTRACT:** The role of family businesses and, in general, small farms, is critical for the environment, social cohesion and rural development. In the post-productivist perspective of European agriculture, a major part of the complex process of reforms begun in 1992, including the programming period of 2014–2020, is represented by the idea of promoting the concepts of multifunction and diversification in order to obtain strategies for the livelihood and growth of agricultural realities. A good regulatory framework by itself is insufficient to ensure good performance at the local level; this depends on creative and enthusiastic engagement by Member States (MS) with the values, needs and opportunities surrounding small farms.

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**KEYWORDS:** Common Agricultural Policy, Family farming.

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**JEL classification:** Q10, Q12 y Q18.

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**DOI:** 10.7201/earn.2014.01.13.

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### **La agricultura familiar. Políticas y desafíos en la Política Agrícola Común reformada**

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**RESUMEN:** El papel de las empresas familiares y, más en general, de las pequeñas explotaciones, es fundamental para el medio ambiente, la cohesión social y el desarrollo rural. La visión post-productivista de la agricultura europea, tras el complejo proceso de reformas iniciado en 1992, incluyendo el período de programación 2014-2020, se refleja en la idea de promover los conceptos de multifunción y de diversificación, a fin de impulsar estrategias para el crecimiento de realidades agrícolas donde los agricultores mejoran todos los recursos internos y externos. Un buen marco normativo por sí solo no es suficiente para asegurar un buen desempeño en el ámbito local; esto depende de la participación creativa y entusiasta de los Estados miembros (EM), y su compromiso con el valor, las necesidades y posibilidades de las pequeñas explotaciones.

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**PALABRAS CLAVE:** Política Agrícola Común, Agricultura Familiar.

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**Clasificación JEL:** Q10, Q12 y Q18.

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**DOI:** 10.7201/earn.2014.01.13.

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Received on May 2014. Accepted on June 2014.

## 1. Introduction

The political negotiation that gave birth to a new and substantial reform of the Common Agricultural Policy (CAP) has recently ended. It was the fifth reform since 1992, when the Commissioner for Agriculture, Ray MacSharry, was the protagonist of the first major reform. These were the years of the huge financial outlays directed to subsidize exports and to withdraw surplus from the market in order to ensure stability. European farmers had been protected for three decades by agricultural policy measures aimed at increasing the supply of agricultural commodities through a system of guaranteed prices. The vision of productivity, which was the basis of the philosophy of intervention, had its roots in the need to rebuild, after the end of World War II, the European agricultural potential and to ensure a proper level of self-supply for the citizens of the six founding countries of the European Economic Community. The intervention model was extremely effective in the short term, but in the mid-seventies had shown signals of crisis. Even for the public opinion, the surplus became a symbol of unsustainable financial, economic and social development in this first phase of implementation of CAP. Thus, with the MacSharry Reform, Europe began a new transformation path for the instruments of the CAP, which will continue with Agenda 2000. With that reform, the CAP leaves the partial intervention status and acquires a more general level, which, together with rural development (RD) interventions, encompasses all the economic, social and environmental components of rural systems (De Castro *et al.*, 2010).

In 2003, a new reform was provided with the medium term review (MTR), a step that strengthened the role of RD and hastened, in an unexpected way, the move towards greater sustainability of the CAP in both local and international markets (Adinolfi *et al.*, 2010). Significant changes are marking the definitive end of the consumerist vision and the move towards a model of intervention based on the recognition of public functions connected with the management of agricultural activity (Buckwell, 2009). The Health Check offered a further step in 2009, which Garzon (2006) defines as the bridge from a sectorial and charitable paradigm to a multifunctional one. Today, new relevant ideas were added to this not yet completed bridge, along with the political debates that gave rise to the just-approved reform (Swinnen, 2009; Massot, 2011). It enriches the positive externalities that go along with agricultural activity and promotes, both at a European and single member level, the values and rights held by farmers. Furthermore, the new reform pays particular attention to the role of small farm scale. This has resulted in a number of statutory provisions that affect both the direct payments and the RD policies.

In the post-productivist vision of European agriculture, the role of family businesses and small scale farms is critical. This is not only because of the high proportion of workers who belong to these categories, but also for the essential contributions they provide to rural areas that are often identified as marginal, and for their function in environmental and social defence. In fact, it is not a case that a major part of the complex process of reforms, begun in 1992, is represented by the idea of promoting the concepts of multifunction and diversification, in order to obtain strategies for

livelihood and growth of the least professional agricultural realities where farmers enhance all the internal and external resources (Capitanio and Adinolfi, 2010) and, therefore, increase their incomes (Kinsella *et al.*, 2000).

## 2. Small-scale farms in the enlarged Europe

The dualistic dimension that characterises European agriculture and sees a strong polarisation between small and large is not a novelty but a traditional expression of the structural diversity which used to differentiate agriculture in Northern Europe from the Mediterranean region. Nowadays, polarisation is also reflected in the enlargement of Europe, as observed in the last few years (Davidova *et al.*, 2009; Hubbard and Gorton, 2011). In fact, the entry of the new Members States (NMS) has deeply changed the structural profile of European agriculture. About 10 million European farmers own an area smaller than 5 hectares and nearly 70% of them are located in the NMS territories. In this context, the future of small-scale farms is one of the main challenges for the CAP and for territorial development policies in general (Capitanio and Adinolfi, 2010; Davidova, 2011).

The widespread presence of small-scale businesses is in part related to the definition of the adjective “small”. There is debate over the definition and classification of subsistence and semi-subsistence businesses. The approaches used by Eurostat classify small-scale farms according to their physical and economical dimensions, which refer to both concepts of small and subsistence, and to their market participation (Ellis, 1993; Kostov and Lingard, 2004, Russo *et al.*, 2006), which belongs to the more general production-side approach (Wharton, 1969). The last approach appears to be the most appropriate due to the lack of capability in the other categories used by Eurostat to take into account the heterogeneity of the agricultural sector. Such heterogeneity refers to production specialization as well as to the opportunity of combining the internal and external resources of the company, which applies to the sustainability of the farm (Adinolfi and Capitanio, 2009). The concepts of small business and subsistence (or semi-subsistence) differ from one another because the purposes and objective functions that they serve are different. For some holdings, food production is fundamental for family livelihood. In other cases, the small size and the predominant involvement of family labour are the representation of life-styles, which are frequently complemented with non-agricultural occupations. The ability to sufficiently combine the company’s resources also allows small-scale farms to achieve significant economic performance. Very often, a large part of the range of these types of firms is absorbed by the broader category of family business.

Although open to interpretation, the data of the last census survey conducted by the Member States (MS) between 2009 and 2010 shows again the strong degree of structural polarisation of European agriculture that sees about half of the current 12.2 million European agricultural holdings rely on an area of less than 2 hectares and occupy only about 2.5% of European agricultural surface. On the other hand, a limited number of holdings (less than 3%) exceed 100 hectares and occupy over more than half of the agricultural area of the European Union. The presence of small farms

is more concentrated in Mediterranean Europe and in some countries of Eastern Europe, particularly Romania, which sees the presence of about 3.9 million farms (more than one third of the entire community), over 70% of holdings with less than two hectares: about 2.7 million of farms, accounting for nearly 50% of the total European holdings with less than 2 ha.

Moreover, one of the most important structural changes experienced by the European agricultural sector during the last twenty years is the loss of labour (-27 % between 2003 and 2010) and a general adjustment that sees the reduction in the number of holdings and the increase in the average areas (Blandford and Hill, 2005). This is mainly at the expense of small businesses (especially those with less than 2 hectares) that have suffered the greatest decrease and most of the labour force loss at European level. These are major figures if one considers the role of social safety net that is often insured by small businesses in the poorest rural areas of Europe, particularly in this period of economic recession. This is especially true in the 12 NMS where much of the poverty is concentrated in rural areas and small businesses will inevitably act as social buffers. The situation is even more serious if we consider the environmental and demographic role that these holdings have ensured for decades in many marginal areas.

The recognition of the social and environmental role played by the small holdings, repeatedly emphasized in literature (Zilberman *et al.*, 2008; Just and Zilberman, 1988; Pagiola *et al.*, 2005), took its first steps in the CAP only with Agenda 2000 (De Castro *et al.*, 2010). With the intervention for RD, new opportunities were offered in order to support the process of business diversification, recognize the environmental role of agriculture and underline the disadvantages to which it may be subjected. On the other hand, very few policy innovations have taken place even with the successive reforms of 2003 and 2009, with regard to Pillar 1 and, in particular, to direct payments.

### **3. Alternatives for small farms in the CAP 2014-2020**

Following this scenario it is clear that the theme of “small farms” has very different connotations in the European Union MS, besides the fact that the issue is geographically widespread. This consideration represents the basis for the decision to make alternatives for the MS, applying the so-called “small holding regime”. It also justifies the application of different approaches in different MS for identifying the potential beneficiaries of this simplified scheme, which is to be applied in place of “system components” (Table 1) that will be in force from January 1<sup>st</sup> of 2015. This scheme simplifies the access to direct payments by small businesses that would benefit from a flat-rate payment. More in detail, adherence to the scheme allows the beneficiary farmers to receive a single payment in place of all the components required by the new regulation on direct payments. The amount of this payment will be between € 500 and € 1000 (€ 200 for Cyprus and Malta). While this solution can be appreciated in the interest of simplifying the administrative support to small farms (Groupe de Bruges, 2012), it cannot be overlooked that, on the one hand, the relative weight of the bureaucratic burden is greater on small-scale holdings and, on the other hand, many small farms are not able to access the system of direct payments (Davidova *et al.*, 2013).

TABLE 1  
**New scheme for direct payments. Components and shares  
of the national envelopes**

Compulsory Components	Voluntary Components
Basic Payments (18% - 68%)	Less Developed Areas (max 5%)
Greening (30%)	Coupled Payments (max 15%)
Young Farmers Payments (max 2%)	Redistributive Payments (max 30%)
Alternatively and in substitution of all payment components: Small Farmers Scheme (optional)	

Source: Own elaboration based on DG AGRI web site [http://ec.europa.eu/agriculture/cap-post-2013/legislation/index\\_en.htm](http://ec.europa.eu/agriculture/cap-post-2013/legislation/index_en.htm).

This option represents the first response to the criticism that direct payments, the main form of support enjoyed by European farmers, are inherently biased against small farms (Davidova, 2014; De Castro *et al.*, 2012), given that over 40% of the beneficiaries in the system cover less than 2% of the European budget. .

Alongside reducing the bureaucratic burden where its relative incidence is higher, the reform contains other changes that directly or indirectly have potential consequences when the specific profile of the company is small. Generally, family holdings identify the latter as firms in which the majority of the employed labour is activated within the family farm. This category of farmers, which is various in respect to structural terms and organizational forms, will benefit in the CAP post-2013 from new possibilities that the European legislator draws to cope with significant critical social gaps that characterise the European agricultural and, in a deeper way, family businesses. One weakness is the lack of generational change, given that people under the age of 35 run only 6% of European businesses. Other problems affecting family farms to a greater extent are the lack of credit and the imbalance of negotiating power along the supply chain<sup>1</sup>. At the same time, the ability to contribute to the family income with employment outside farms has gradually declined in conjunction with the economic and employment crisis occurring throughout Europe.

The additional options that this program offers are intended to help overcome these problems, both in the implementation of direct payments and in the RD policies. Under the system of direct payments, as well as the ability to activate a simplified payment scheme for small businesses, the “Young Farmer Payment” and the “Redistributive Payment” deserve attention. The former gives additional support to farmers under 40 years of age. This is a mandatory component that MS should activate and to which they can spend up to 2% of the national ceiling dedicated to direct payments. The latter allows MS the possibility of introducing a so-called payment “for the first few hectares”, to which they can devote up to 30% of the national envelope in order to provide an additional cost for the first 30 acres owned by the benefi-

<sup>1</sup> See EU’s Public Consultation “The role of family farming, key challenges and priorities for the future”, EC 2014.

ciary farmers; this measure could represent a way of redistributing direct payments to small and medium farmers (Matthews, 2013).

Pillar 2 also contains important news. There is an enhancement of the traditional tools available to farmers for the initiation and diversification of farm activities. The range of LEADER programs is broadened, as one of the best actions designed to meet the needs of small farmers (Lukesch, 2003). But perhaps the most important novelty is the possibility for MS to build specific measures devoted to small farmers, with the aim of defining a set of measures specifically organized to support the continuity of small farmers with financial resources exclusively allocated. This new legal framework represents an opportunity to tackle the need to overcome the barriers that traditionally constrain the access of small farmers to the measures of the second pillar.

#### **4. Conclusion**

In conclusion, the next programming brings with it a strengthened orientation towards small farms. There have been critical reactions and there is no doubt that some tools have targets that are still too generic (Matthews, 2013). At the same time, however, there is a widespread belief that an important step in the approach of the CAP towards small enterprises has been taken.

There is much evidence to suggest that Pillar 2 should be an important source of assistance for “transformable” and continuing (diversification, non-agricultural rural jobs) small farmers, as it offers flexibility and a range of objectives that are relevant to the needs and opportunities of these types of farms. However, the evaluation of existing provisions highlights the generally lower use by small farmers of Pillar 2 aids, compared to their use by larger farms. Furthermore, it reveals that the barriers to access are probably more frequently related to “informal” or indirect obstacles to participation (e.g. lack of awareness, low capacity, poor education, old age, low access to capital or credit, lack of entrepreneurial experience), as they are to direct obstacles such as minimum-size or other thresholds to participation. Nevertheless, evidence from case studies shows how both explicit direct obstacles and indirect barriers to participation can be effectively reduced through careful and appropriate design and the implementation of programmes and measures, as in Slovenia (basic measures) and Italy (quality and marketing initiatives). Assessing the current Pillar 2 reform, the prospect is on positive balance, but MS may not make full use of the scope offered in the new European Agricultural Fund for Rural Development (EAFRD) Regulation (Regulation 1305/2013) in favour of small farms. Offering more appropriate and more flexible Pillar 2 measures in a menu cannot guarantee their adoption and tailoring towards these types of farm. Furthermore, evidence suggests that the addition of scope for more tailoring, in the form of small-farm sub-programmes, requires additional costs and efforts on the part of Managing Authorities if they decide to use this scope.

It is important to emphasize that all the main priorities of the new EAFRD have potential to be pursued by small holders. What is essential, however, is an appropriate delivery model for whichever measures from the Regulation are to be target-

ted at these types of farms (e.g., measures for physical investments, and/or support for establishing new groups for more cost-effective delivery of various RD goals). The proposed regulation requires MS to only define the responsible bodies for each function in relation to RDP delivery and to describe, for information purposes, the management and control structures that will be used in its implementation. A good regulatory framework on its own is insufficient to ensure good performance at the local level; this depends on creative and enthusiastic engagement by MS with the values, needs and opportunities surrounding small-scale farms. In that sense, it seems likely that path-dependency, the audit culture and innate conservatism within MS will act to reduce innovation on the ground in response to better meeting these needs and opportunities.

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