

CAP SPECIFIC OBJECTIVES

...explained

– Brief No 7



STRUCTURAL CHANGE AND GENERATIONAL RENEWAL

This is part of a series of Briefs summarising the facts and addressing the policy relevance around the 9 proposed specific objectives of the future CAP.

KEY MESSAGES

- ✓ *The agricultural sector is undergoing structural changes in terms of number, size and specialisation of farms, while the number of young farmers has been declining over time.*
- ✓ *Young farmers face significant challenges, such as low availability of land, high land prices and low profitability, difficult access to credit and poor knowledge and training.*
- ✓ *However, a vibrant agricultural sector needs skilled and innovative young farmers to respond to societal demands, from quality food to environmental public goods.*
- ✓ *The proposals for a future CAP provide a policy framework, which, together with national instruments, will support young people setting up in farming, while creating good working and living conditions in rural areas.*

This brief is based on contributions from: Chiara Dellapasqua, Ricard Ramon, Gesa Wesseler.

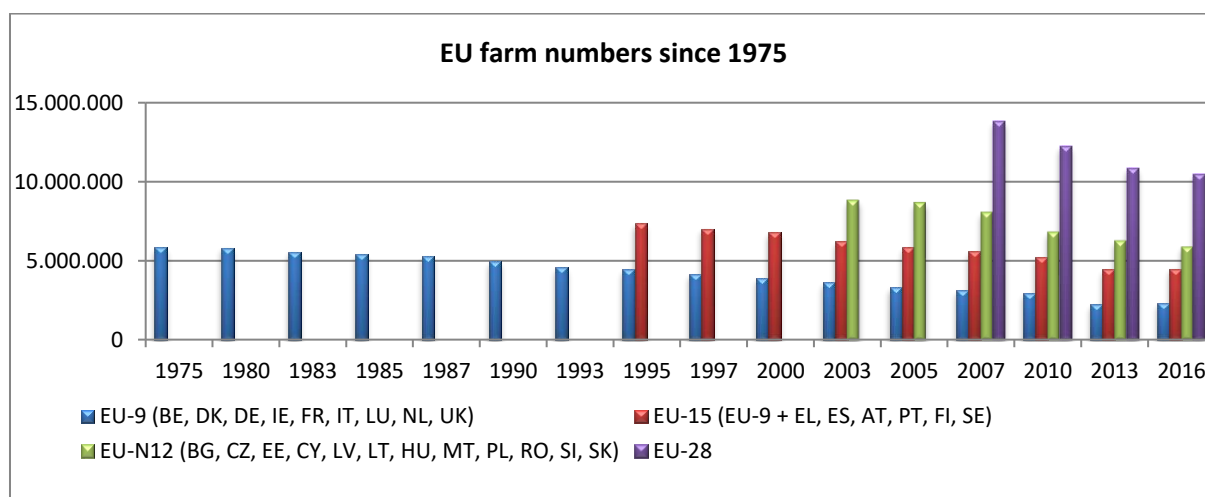
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1. The facts on generational renewal

a. Change in EU agriculture is taking place: there are fewer but larger farms

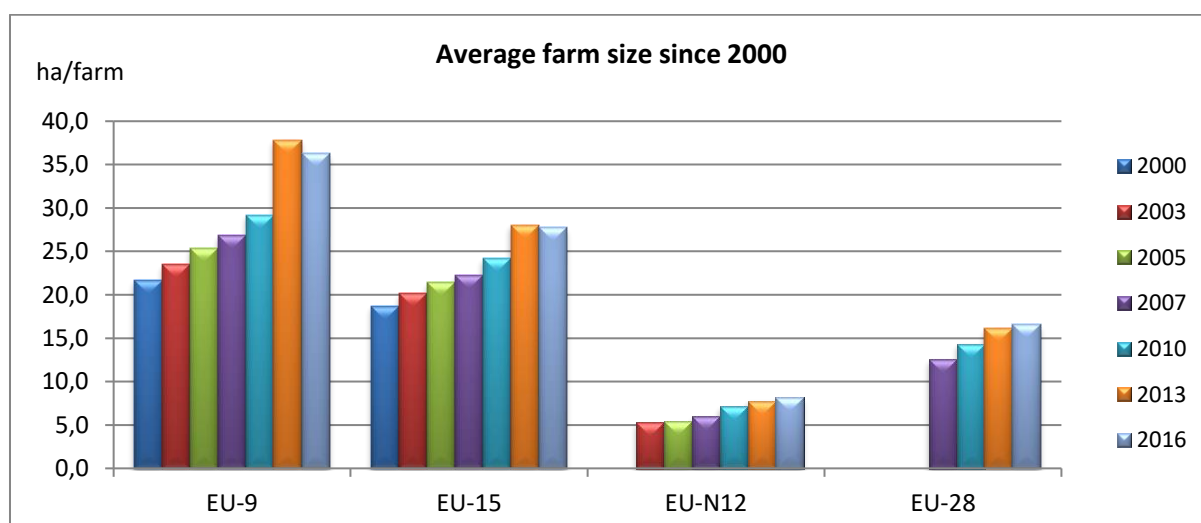
The number of farms in the EU is declining. This trend is not new and not specific to the EU; farm numbers have been shrinking in most medium- and high-income countries for decades, due to both productivity growth in agriculture, low profitability of farming and improved job opportunities in other parts of the economy. Farm machinery is now used for tasks that were done manually before, often requiring a large scale to be efficient. In the EU, average farm size has increased along with the decline in farm numbers (Figures 1 and 2).

Figure 1. Evolution in number of EU farms



Source: DG Agriculture and Rural Development, based on Eurostat data

Figure 2. Evolution in average EU farm size

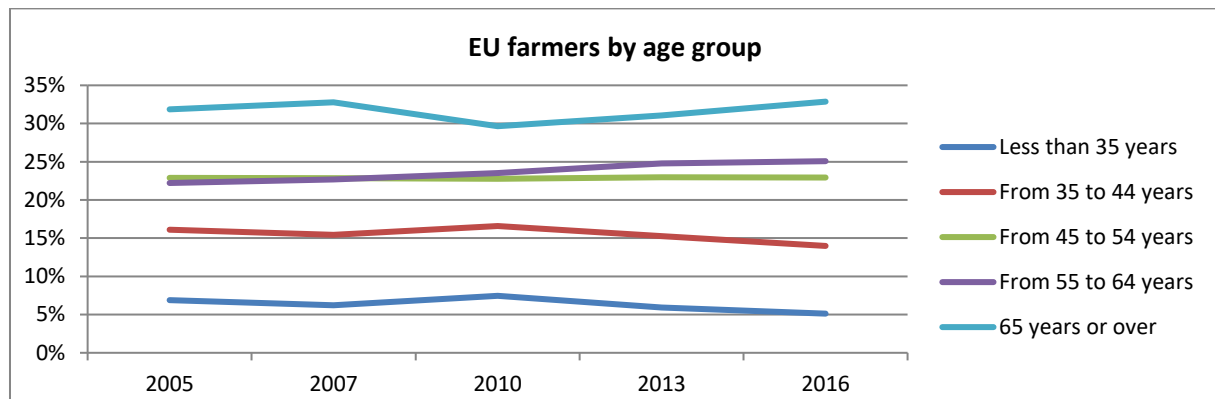


Source: DG Agriculture and Rural Development, based on Eurostat data

b. Aging farm population: share of young farmers decreasing over time

The age structure of European farmers is such that for every farmer younger than 35 years, there were more than six farmers older than 65 years in 2016. Over the last decade, the proportion of young farmers in the overall farming population declined, while that of farmers older than 55 years increased (Figure 3). Despite a slight change of trend during the last economic crisis (between 2007 and 2010), the decline in the proportion of young farmers continues.

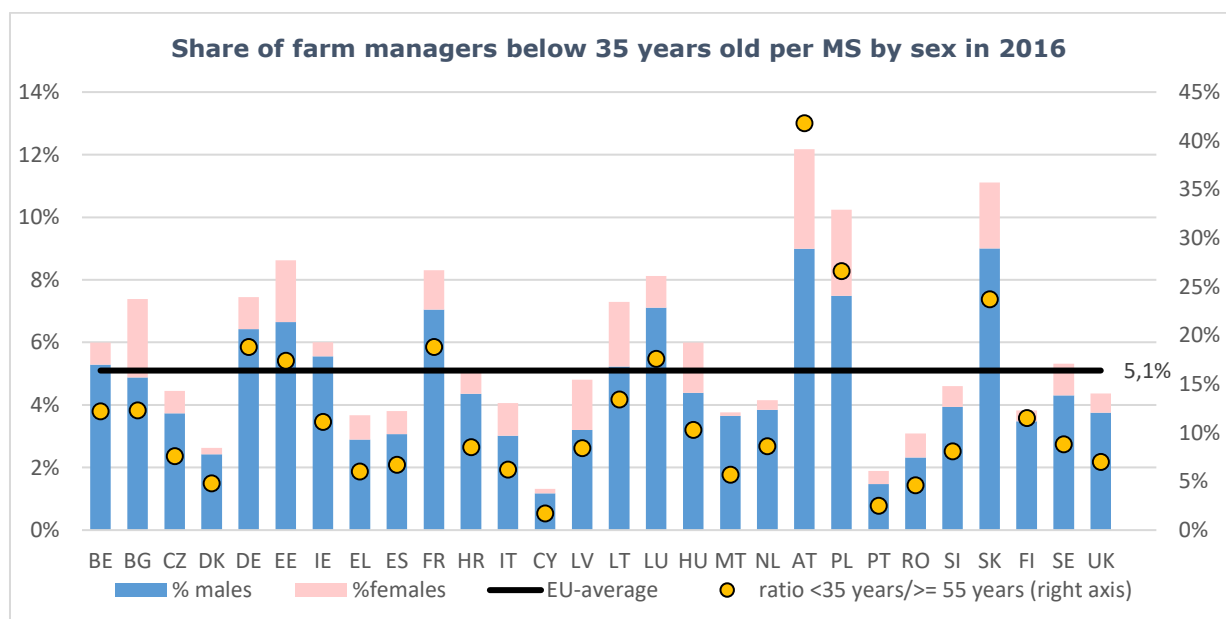
Figure 3. EU farming population, by age groups



Source: DG Agriculture and Rural Development, based on Eurostat data

A declining share of younger workers is not unique to agriculture, and reflects a general trend in the economy. The definition of a farmer also plays a role: in a family context, young people may be responsible for the day-to-day operations, but their parents still hold the legal rights on the holding (Figure 4).

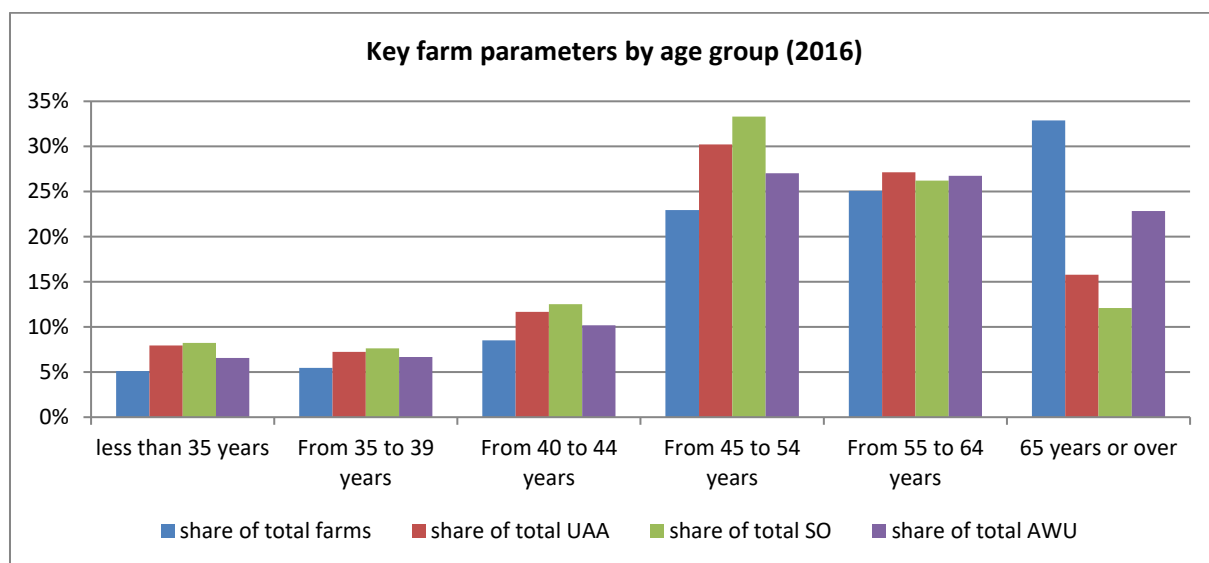
Figure 4. EU farm managers, by age group



Source: DG Agriculture and Rural Development, based on Eurostat data

Likewise, some countries include very small farms in statistical surveys, which increases the number of older farmers. However, those active in the agricultural sector tend to be older than those in other sectors of the economy as, beyond problems surrounding a lack of profitability, in many cases older farmers remain active beyond the normal retirement age, as the farm is not only their business, but also their home. Some farmers may reduce their farming activities to a minimum, but continue working to complement their pension. Thus, while older farmers represent the biggest group of farmers, they occupy a much smaller proportion of the agricultural land and contribute even less to the overall production value.

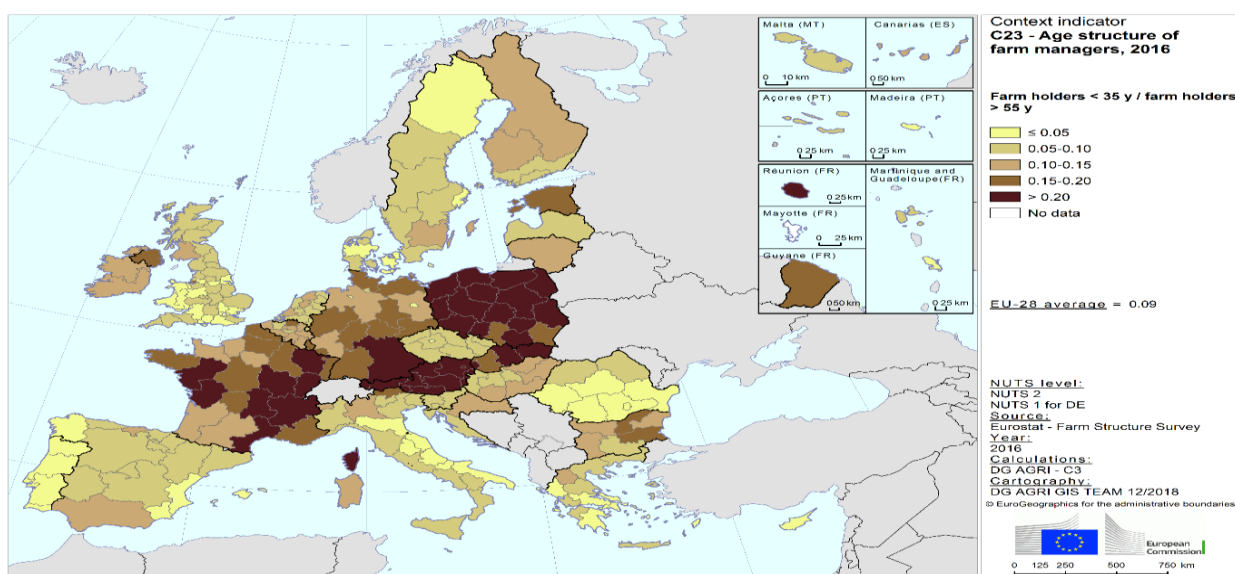
Figure 5. EU farm age group characteristics



Source: DG Agriculture and Rural Development, based on Eurostat data.

Note: UAA=Utilised Agricultural Area; SO=Standard Output; AWU=Annual Work Unit)

Figure 6. Farm diversity in the EU

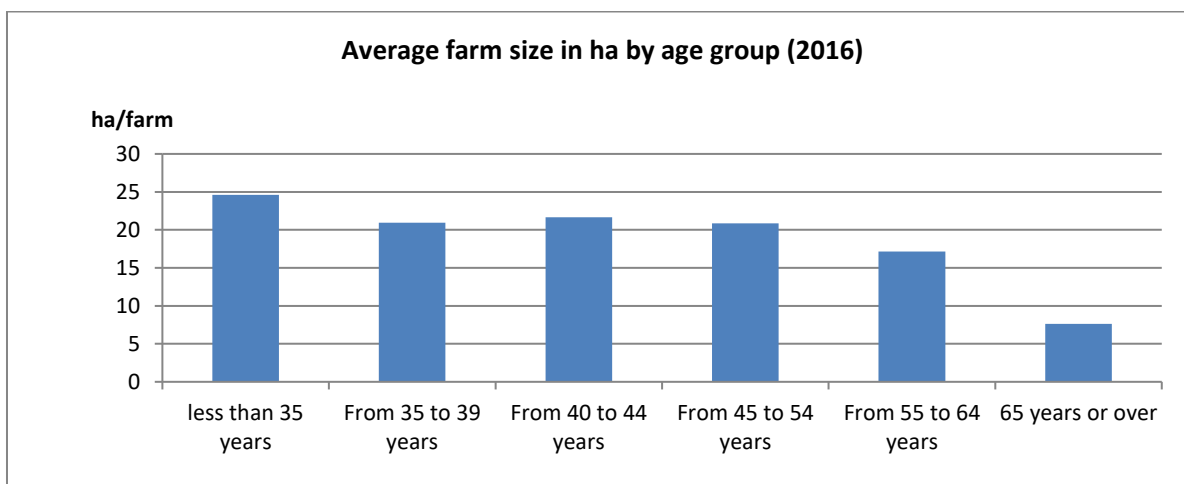


The reality of the farming community is very diverse across the European Union. In 2016, countries like Austria, Germany and Poland showed a relatively balanced demographic structure, while in others the older population is much larger. In Cyprus, for every farmer younger than 35 years, there were 34 farmers older than 65 (27 in the case of Portugal). This diversity is due to different economic, social, legal and policy contexts.

c. Young farmers have bigger, more specialised farms, but a lower income

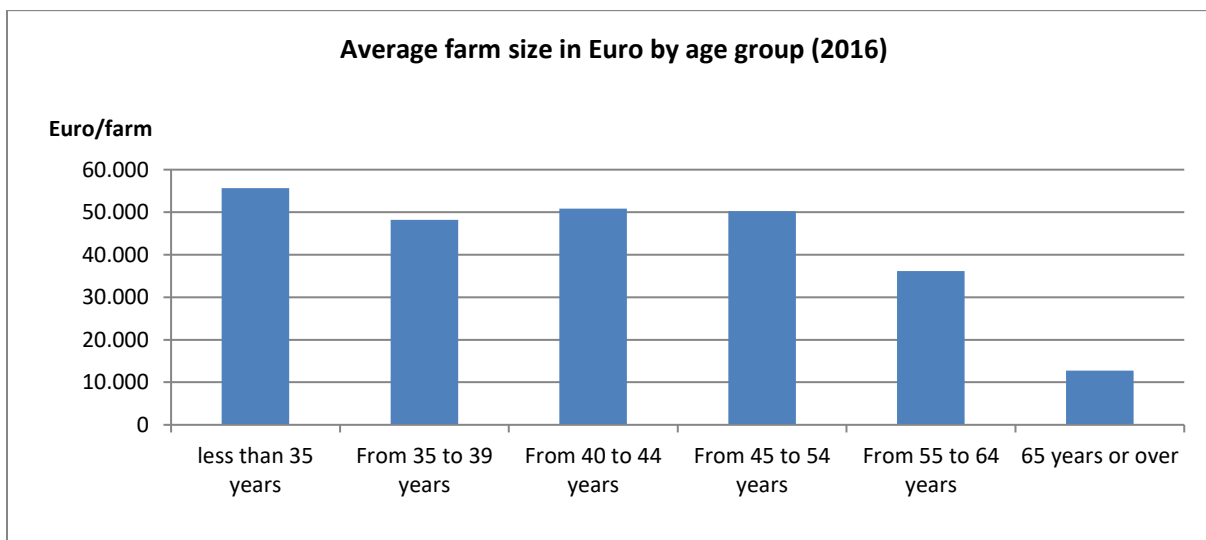
The average farm managed by an older farmer is significantly smaller in comparison to all other age groups, in terms of both agricultural land and potential production value (Figures 7a and 7b, respectively). Young farmers tend to have the biggest farms.

Figure 7a. The role of age in farm size - area



Source: DG Agriculture and Rural Development, based on Eurostat data

Figure 7b. The role of age in farm size – production value

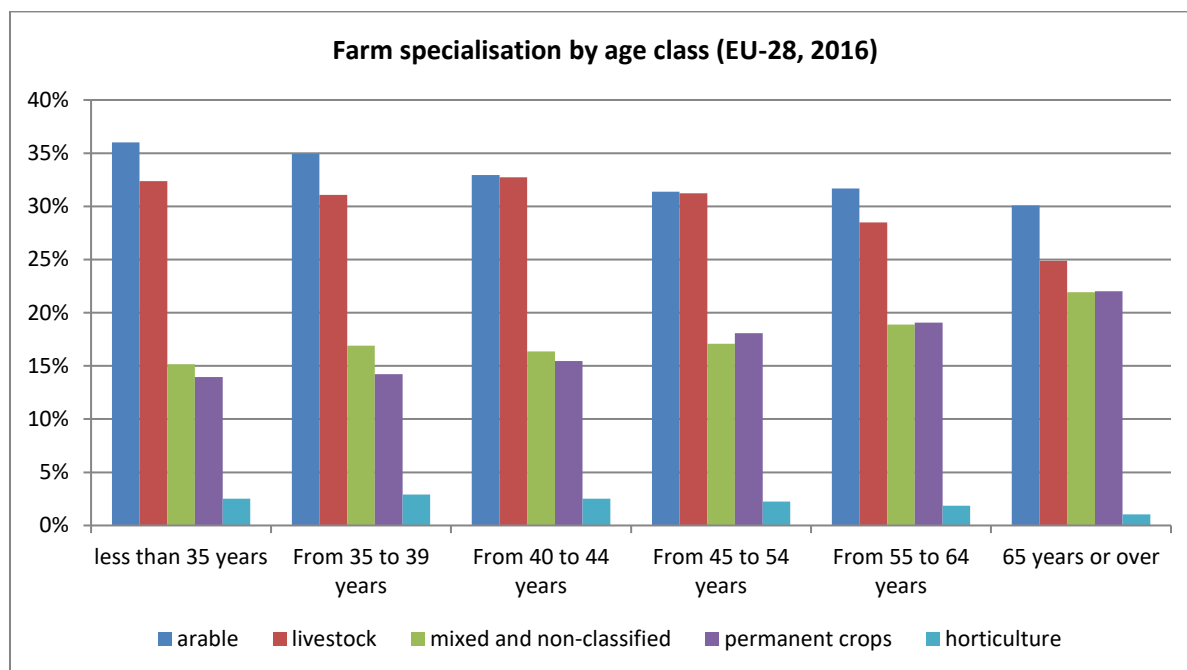


Source: DG Agriculture and Rural Development, based on Eurostat data

Given that most farming operations stop because the operator has reached the end of her/his working life, the land of these operators is likely to be merged with existing farms, thereby contributing to the decline of farm numbers and increase of farm size. This process has advanced at a continuous and regular pace in the last decades.

Young farmers are more likely than older farmers to engage in specialised arable or livestock farming, and less in mixed farming activities and permanent crop production, confirming the trend towards greater specialisation of farming activities among young farmers (Figure 8).

Figure 8. The role of age in farm specialisation



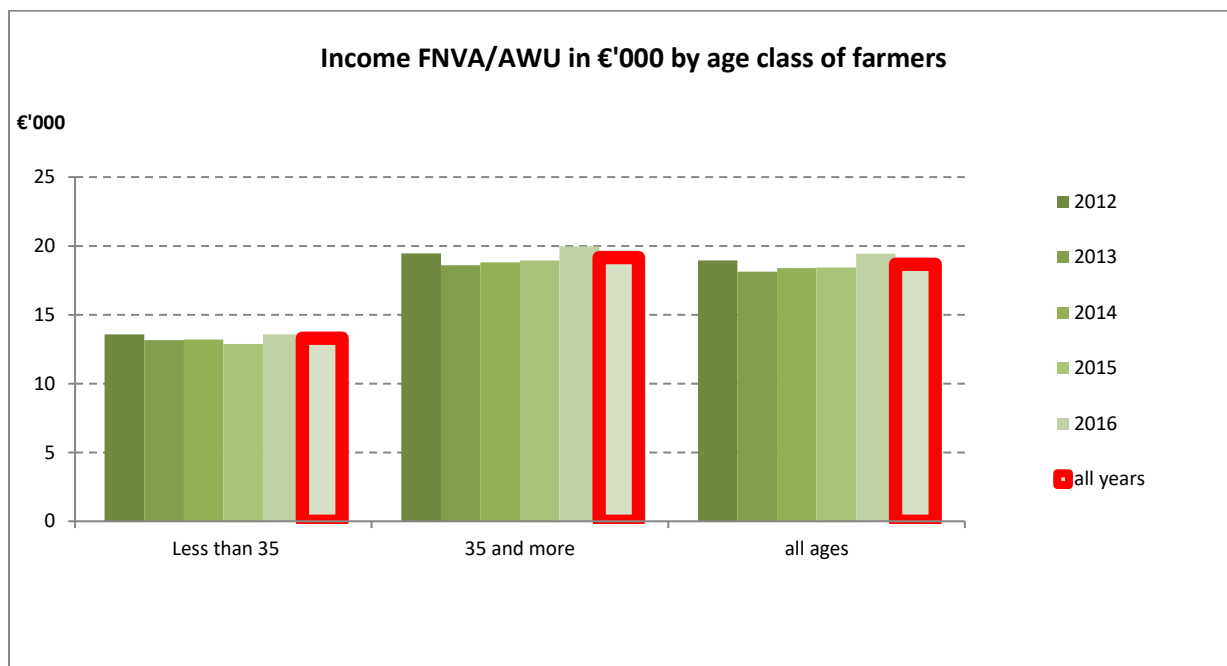
Source: DG Agriculture and Rural Development, based on Eurostat data

Despite a lack of detailed evidence, new entrants into the sector appear more likely to be involved in alternative and value added farming activities (e.g. alternative agri-food networks, local certification schemes) as well as in innovation and new business models¹. Furthermore, it is well established in the organic farming literature that organic farmers are more likely to be new entrants, as well as participants in 'community-supported agriculture' and 'back-to-the-land' migrants.

Based on the FADN data, the age seems linked to certain economic features: on the one hand, income² and average farm capital per farm are lower for the age group of farmers below 35 years old, in line with the parameters which characterise newly set-up businesses.

On the other hand, the average net investment per farm clearly decreases with the age from the group of 35-44 years (Figure 9).

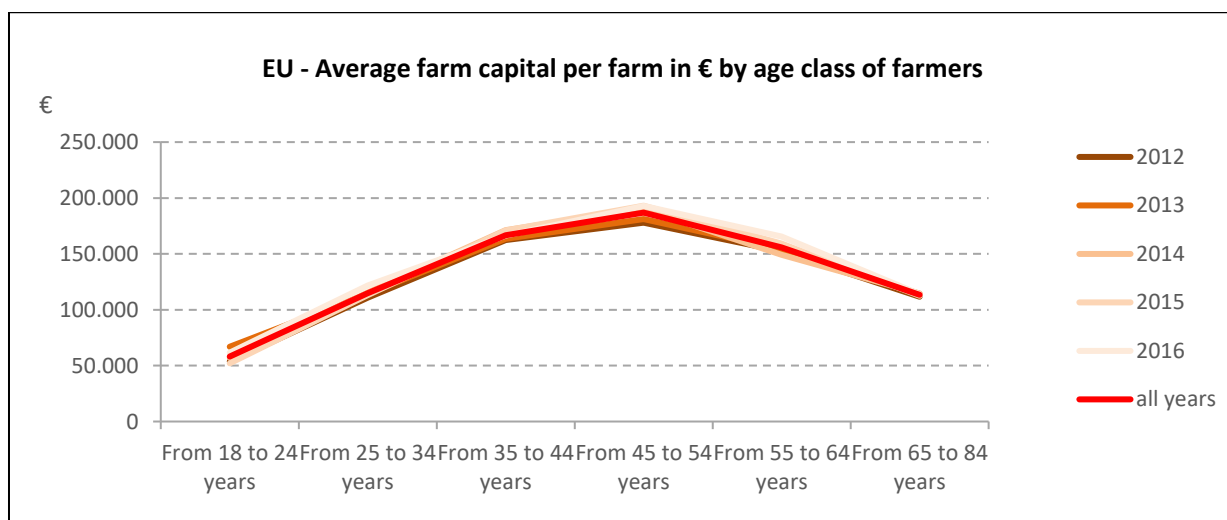
Figure 9. The role of age in farm income



Source: DG Agriculture and Rural Development, based on FADN data

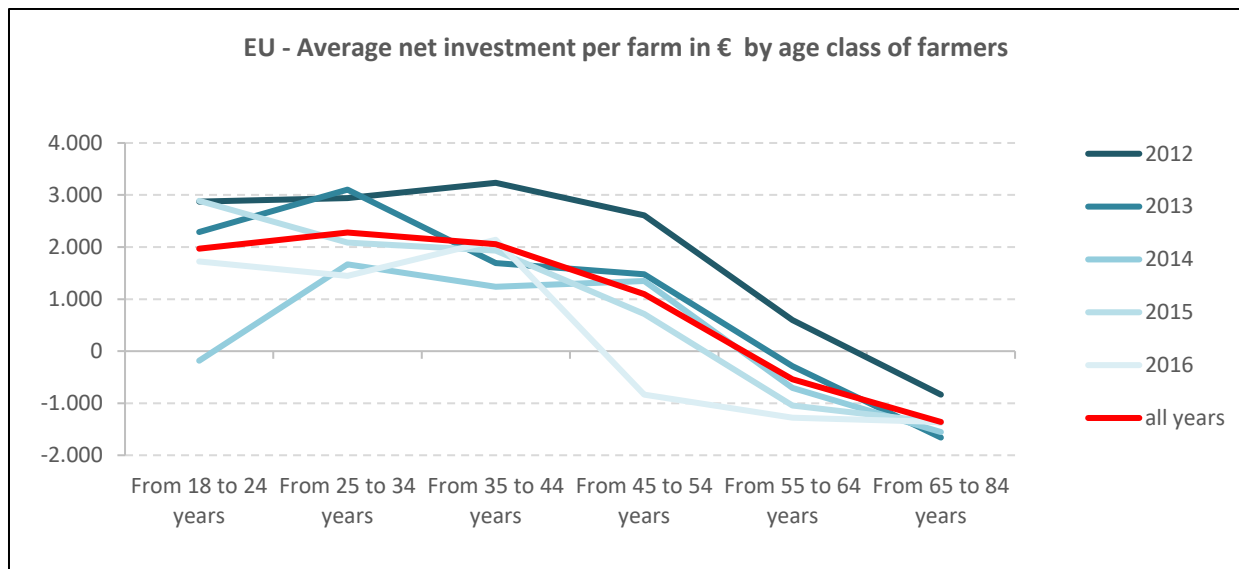
On the other hand, the return on assets shows a very linear decrease as generations pass the mid-40s mark (Figure 10).

Figure 10. The role of age in farm asset values

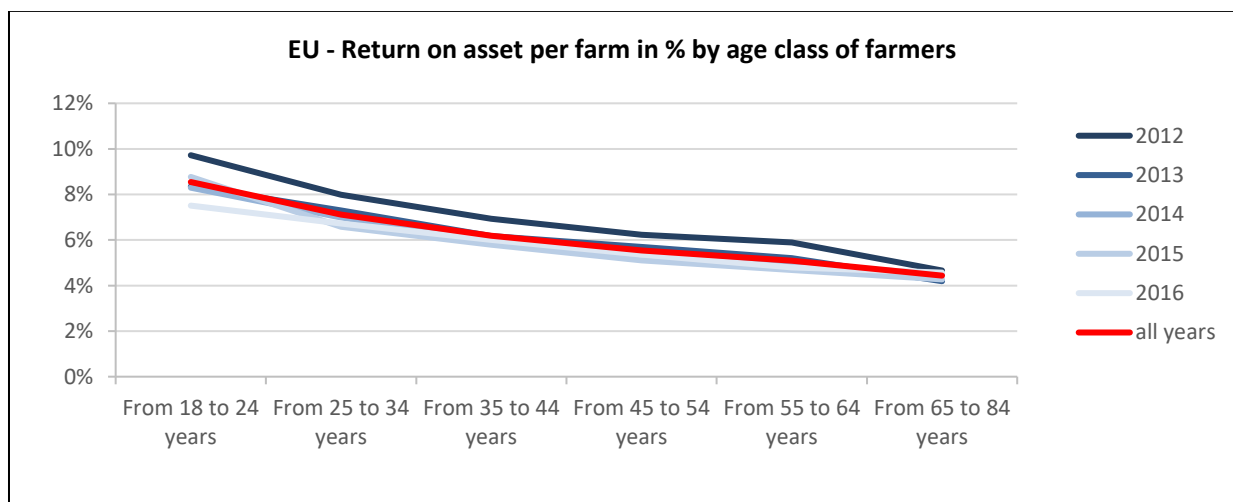


Source: DG Agriculture and Rural Development, based on FADN data

A similar trend characterises the level of investment per farm, which also declines after this age mark is reached, while the rate of returns per asset is declining with age from the start (Figures 11 and 12 in the next page).

Figure 11. The role of age in farm investments

Source: DG Agriculture and Rural Development, based on FADN data

Figure 12. The role of age in farm returns

Source: DG Agriculture and Rural Development, based on FADN data

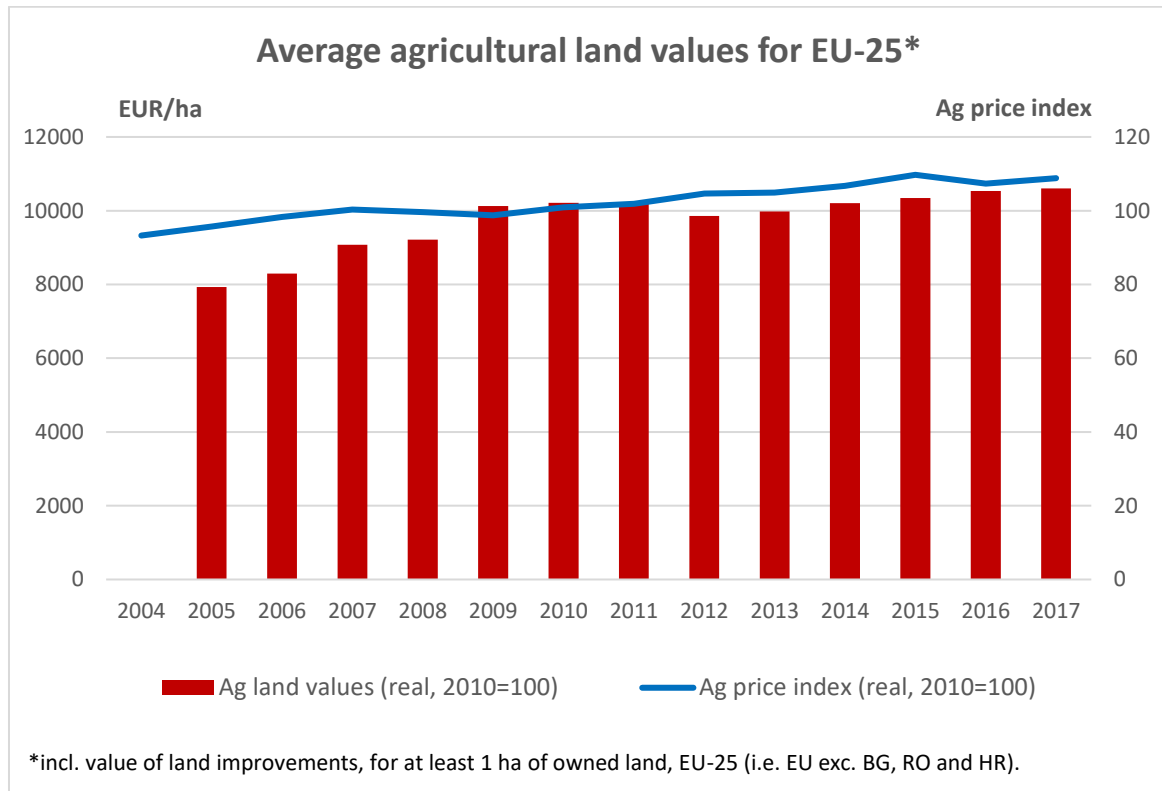
2. The main challenges for young farmers

a. Low availability of land and growing land prices

Several studies have identified access to land as the largest barrier for new entrants to farming in Europe. Access is limited by the limited availability of land for sale or rent in many regions, the rising capital value of agricultural land, together with the deterioration of biophysical suitability of land, as well as competition from existing and well-established farmers (who attempt to achieve economies of scale), investors and residential users.

Agricultural land values in the EU-25 (i.e., EU without Bulgaria, Romania and Croatia, for lack of time-series data) grew at an average annual rate of 2.4% between 2005 and 2017, i.e. slightly lower than the overall agricultural price growth, at 2.4% per year over the same period (Figure 13). (This path has not been uniform as the impact of the 2004 enlargement had an impact at the earlier transition years). However, agricultural land is often transferred to the next generation of farmers in a family context, without formal sales taking place. Thus, figures cover only a very limited number of transactions.

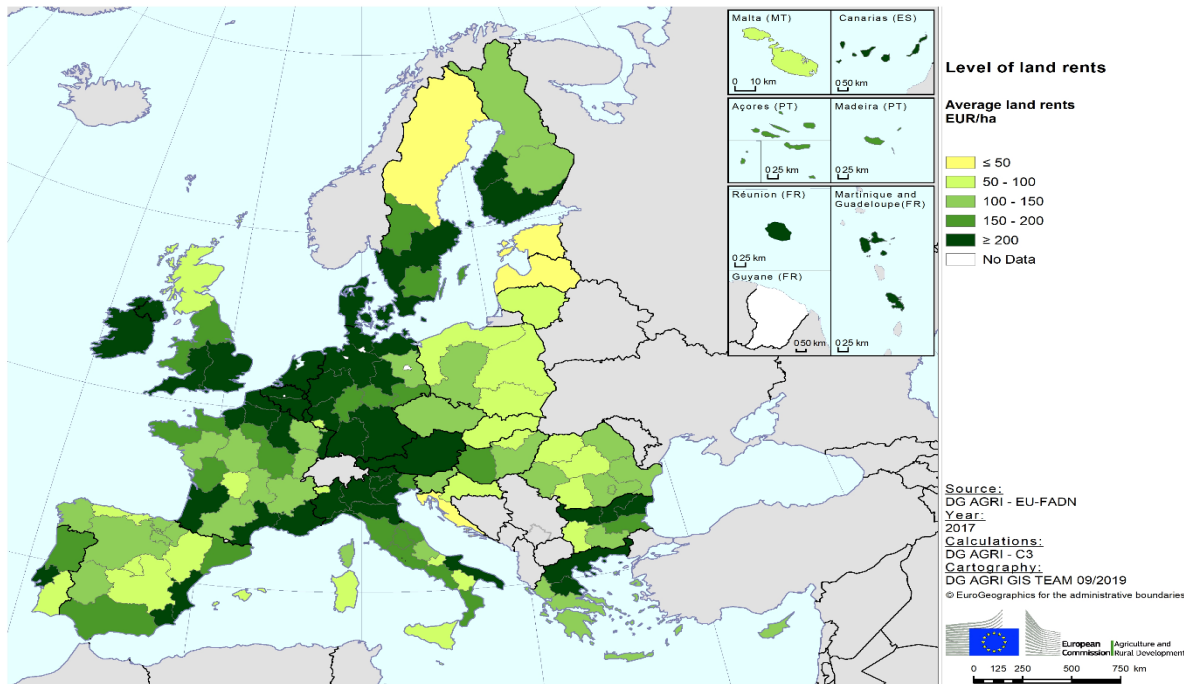
Figure 13. Evolution in the value of EU agricultural land



Source: DG Agriculture and Rural Development, based on FADN data

Data on land renting provides a better representation of the challenges faced by young farmers in accessing land (Figure 14 in the following page) but land rent rates vary widely both across and within Member States.

This variation is a reflection of multiple factors, primarily the productivity of land in the region, but also the evolution of agricultural prices and production costs, pressures on land from urban expansion, or infrastructure projects, and, of course, the level of public support received in the area. As has been mentioned elsewhere, the growth in land values and rental rates is also affected by the very different national legislation on land markets that characterises EU agriculture, with both direct (taxation, inheritance) and indirect (pension schemes, state aids on alternative land uses) influences on land rental rates.

Figure 14. The diversity of agricultural land rents in the EU

Source: DG Agriculture and Rural Development, based on FADN data

b. Difficulties in access to finance and credit

Access to finance and credit is another main barrier to entry. Lack of credit history, and assets to secure loans, can be prohibitive to young new entrants in particular. New entrants may also face high interest rates, particularly outside of the Euro zone. Moreover, low levels of profitability, particularly in the early years of farm development, make it difficult to repay loans (see also section d).

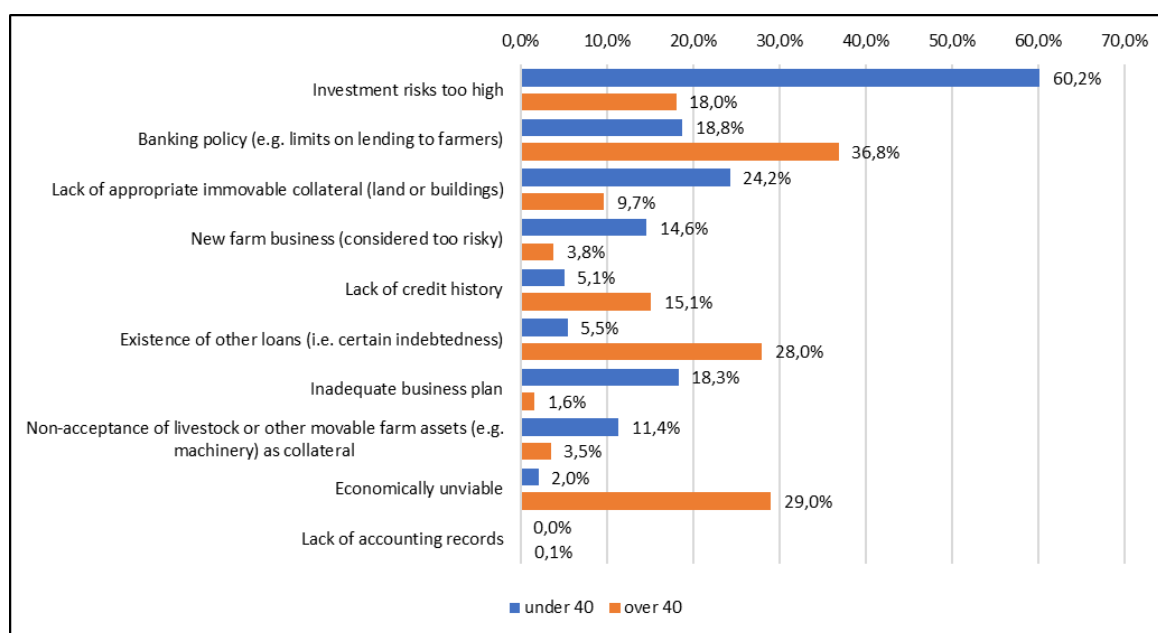
While middle-aged farmers have the highest (and rising) level of liabilities (long-, medium- and short-term loans), indebtedness decreases with age and is the lowest for farmers older than 65. For young farmers, the level of liabilities has been declining over the last decade, signalling difficulties in accessing credit markets; the situation is further exacerbated by the low level of farm capital and owned land that could be used as collateral.

An interesting element to take into account is that, according to several SAFE surveys, agricultural enterprises are less successful in their applications for finance in comparison with SMEs in other sectors.³

A recent survey of Fi-Compass has revealed that young farmers (below 40) tend to rely more on resources provided by relatives and friends and are less confident in approaching the banking system in comparison to older generations.⁴

Agricultural enterprises run by young managers have less success in obtaining the requested finance, in particular for short-term or long-term loans: applications are rejected mostly on the grounds of higher risks associated with new businesses, lack of appropriate collaterals (both immovable and movable) as well as inadequate business plans. As a result, young farmers are two to three times more likely to have their loan application rejected (Figure 15).

Figure 15. Key reasons for banks to refuse loan applications by farmers



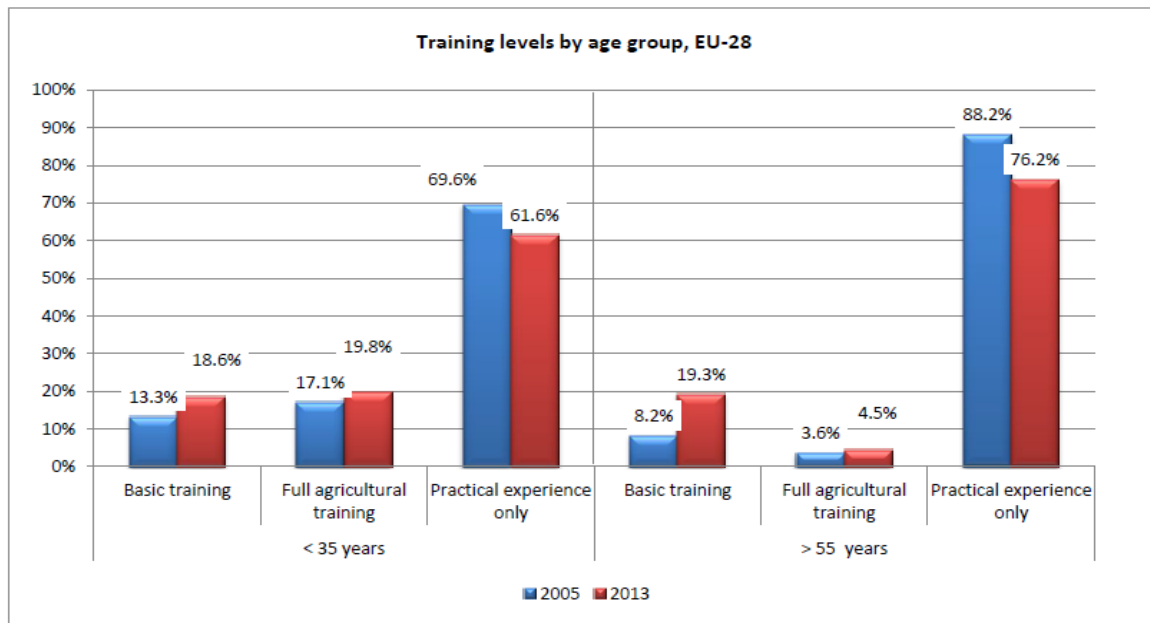
Source: Fi-compass, April 2019.

The same survey showed that young farmers tend to invest more in new machinery, equipment or facilities, as well as in working capital, while older managers use the financing more for investments related to land.

Young farmers tend to be more interested in financial instruments that include flexible conditions, such as interest rates or repayment schedules adjusted to the business cycle or cash flow.

c. Need for knowledge: still low level of training of the young farmers

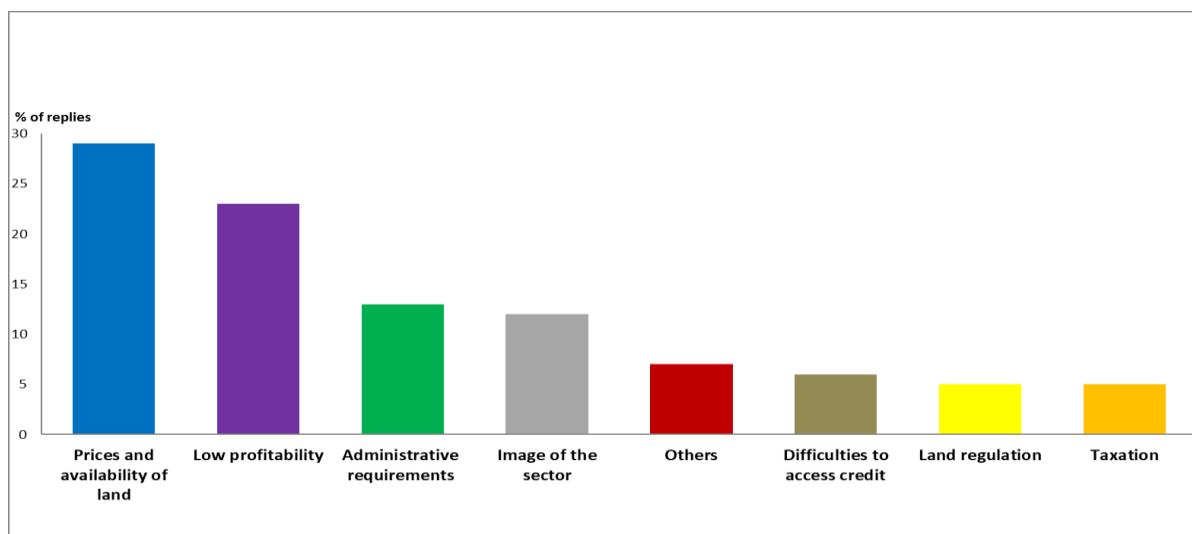
Updating the level of knowledge that is necessary to run a modern farm business is essential for all farmers – and even more so for the younger generations. Yet only one out of five young farmers (19.8%) followed a full agricultural training cycle. Although low, this is still an improvement on the figure of 4.5% for farmers older than 55 years. Between 2005 and 2013, the share of farmers with basic or full training increased in both age groups, but in broad terms, 62% of the youngest farmers still only have practical experience (Figure 16 in next page). *[Note that, although the 2016 data are not yet available in detail, Eurostat published in its 2018 Agriculture, Forestry and Fisheries Statistics the relevant EU-wide figure, which is 19.2%].*

Figure 16. Levels of farm training by age group

Source: DG Agriculture and Rural Development, based on Eurostat data

d. The opinion of stakeholders

According to the public consultation on modernising and simplifying the CAP⁵, prices and availability of land and low profitability, together with burdensome administrative requirements, are identified as the main barriers to entry in the agricultural sector (Figure 17).

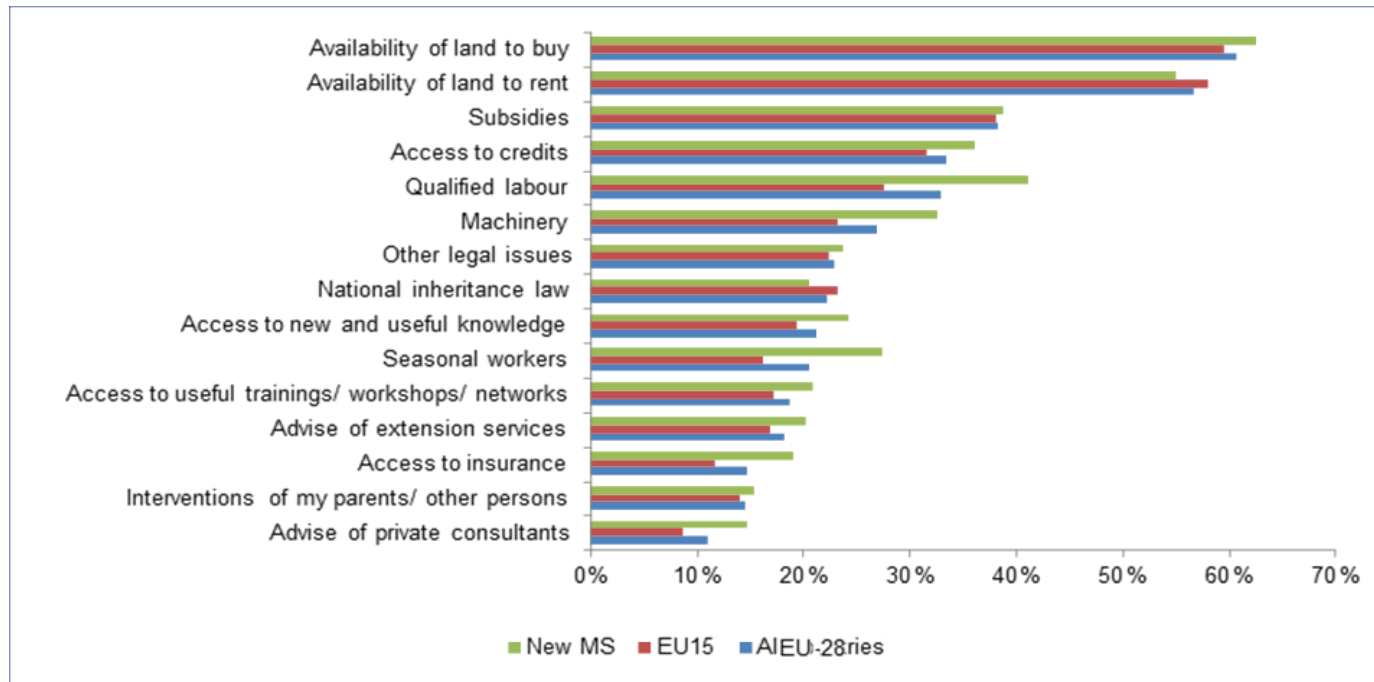
Figure 17. Main barriers to entry

Source: Public consultation "modernising and simplifying the CAP" (2017)

According to the pilot project “Exchange programmes for young farmers”, financed by the European Union, land (to buy and to rent) is the most important general need of the interviewed young farmers throughout the EU. Subsidies, credit and qualified labour are also important needs.⁶

Figure 18. General needs of young farmers in the EU

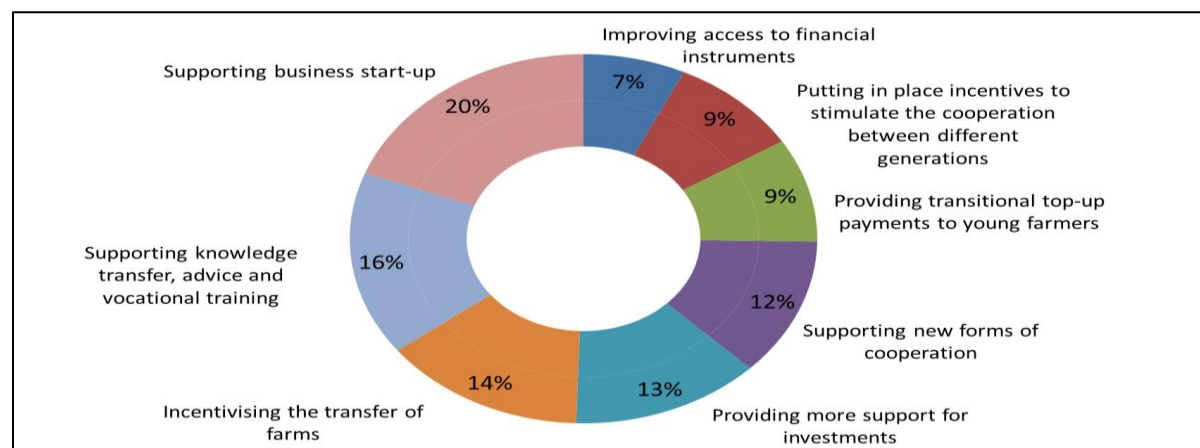
(Percentage of interviewed young farmers perceiving the following as problematic)



Source: Pilot project “Exchange programmes for young farmers”

In terms of policy instruments to support young farmers, participants to the public consultation on modernising and simplifying the CAP identified support to business start-up and knowledge transfer as the most relevant tools, with incentivising farm transfers and supporting investments also seen as key.⁷

Figure 19. How the CAP can better help young farmers



Source: Public consultation on modernising and simplifying the CAP

3. Making the policy fit for purpose

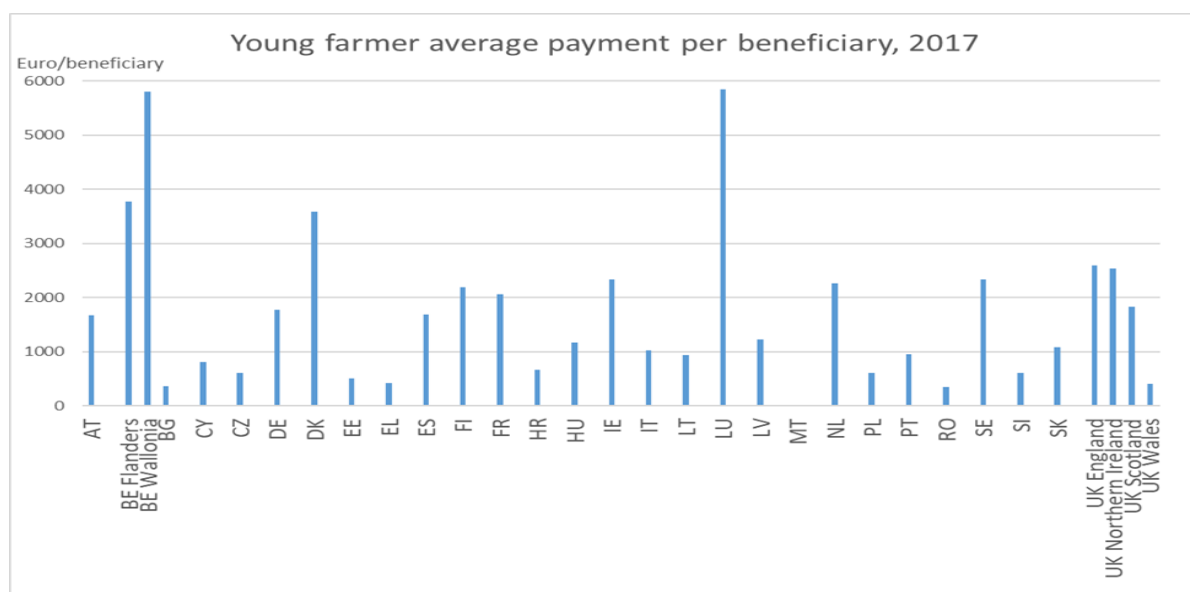
a. The current policy achievements

The CAP includes many instruments to encourage generational renewal in the agricultural sector, both in the first and second pillar.

Under the first pillar, the Young Farmer Payment (YFP) is a compulsory scheme for Member States to implement. It targets farmers of no more than 40 years of age who are setting up for the first time an agricultural holding as head of the holding, or who have already set up during the five years preceding the first application for the scheme. In countries implementing the Basic Payment Scheme, young farmers also benefit from a priority access to the national or regional reserve. This is important for young farmers who do not have payment entitlements, or less payment entitlements than hectares. The maximum ceiling for Member States to allocate to the YFP is fixed at maximum 2% of the national direct payments envelope.

In 2017, almost 410 000 young farmers received the top-up support, i.e. 6.5% of all BPS/SAPS/SFS applicants, with average payments per hectare differing across MS. In addition, in 2017 more than 45 000 young farmers received allocations from the reserve in the form of new Payment Entitlements and increase in the value of existing Payment Entitlements. Depending on the decision of MS, young farmers receive the top-up for between 25 and 90 PE/ha. The average annual amount per YFP beneficiary also varies widely between, on average, 5.900 Euro/beneficiary in Luxembourg and 22 Euro/beneficiary in Malta (Figure 20).

Figure 20. Young farmer payment 2017 - Average amount/year per beneficiary



Source: DG Agriculture and Rural Development

The overall budget at EU level totalled almost 383 million EUR in 2017 (corresponding to 0.92% of DP envelopes at EU level), therefore well below the maximum 2% ceiling. The changes that entered into force in 2018, with the so-called 'Omnibus Regulation', improved the design of this type of top-up and provided MS with a possibility to increase the level of the top-up.

The rural development policy contributes considerably to the creation of the best possible environment for young farmers to operate in rural areas. It does so not only by providing setting-up support, but also by supporting training and knowledge transfer actions, offering investment and diversification opportunities to develop non-agricultural activities, supporting cooperation and innovative initiatives, and financing the development of basic services, local infrastructure and community-led local actions, including broadband, in order to make rural areas attractive places to live in.

Under the second pillar, focus area 2B is designed to facilitate the entry of adequately skilled farmers into the agricultural sector and generational renewal. The importance of focus area 2B varies considerably across Rural Development Programmes (RDPs). For the period 2014-2020, the total public expenditure under this focus area amounts to 6.7 billion EUR, allocated as follows: 5.4 billion EUR to installation grants; 1.2 billion EUR to investments; 185 million EUR to training, information, advisory services; 18 million EUR to cooperation.

The RDPs adopted by the European Commission for the period 2014-2020 foresee that 181,000 young farmers will benefit from installation grants.

The European Network for Rural Development (ENRD) has been actively promoting exchange of experiences and disseminating good practices in relation to generational renewal. Through a continuous thematic activity, the ENRD and DG AGRI have dedicated a series of workshops, seminars, exchanges and publications on young farmers.⁸

b. Where is room for policy improvement?

The implementation of the current tools to support young farmers has already shown the need to advance towards a **more targeted system of support**, based on **needs assessment** and more quantifiable expected results.⁹

Furthermore, the **consistency between the different tools** provided by the two pillars of the CAP can be improved. According to some observers, the presence of direct payments has discouraged older farmers to release their land to younger generations and exit the sector, hampering the efforts to incentivise young people to take up farming.¹⁰ Taking this into account, it is important that, in the future, the different tools of the CAP are designed according to the same set of objectives.

The impact of the CAP must always be considered in relation to **national policies** concerning retirement, taxation and institutional arrangements that enable or hinder passing farms on to younger generations.¹¹ Thus, future policies need to better integrate EU and national policies, in a consistent multi-level policy approach to generational renewal¹².

However, despite all potential improvements in the design of the tools, the degree of generational renewal in the farming sector will always be directly associated to the level of **attractiveness of the agricultural sector**, since non-entry decisions are often made before young farmer support plays a role.¹³

c. Generational renewal in the future CAP Strategic Plans

In the Commission proposal for a CAP Strategic Plan Regulation, attracting young farmers and facilitating business development in rural areas will be **one of the nine Specific Objectives** of the CAP post-2020.¹⁴ The future **CAP strategic plans** will enable greater synergies between pillar I and pillar II support, with a view to ensure coherence between interventions, **targeted and tailor-made solutions** and **maximise cost-effective** implementation of all resources available in ways which best suit local conditions and real needs.

Because of the importance of national factors on generational renewal, **Member States** will have to examine the interplay between national instruments (e.g. pre-emption rights, tax relief schemes, land inheritance specific conditions, etc.) and EU interventions and ensure consistency between all of these actions.

At least **2%** of the national envelope of direct payments will have to be devoted to this objective. This amount has to be allocated either in the form of top-up income support (pillar I) and/or lump sum installation grants (pillar II). Member States have flexibility in **defining 'young farmer'**, but it must be done in a way that the definition includes: a maximum age limit that may not exceed 40 years; the conditions for being 'head of the holding'; the appropriate training and/or skills required.

Using these parameters, Member States will design consistent strategies for generational renewal, implementing a **wide range of instruments**:

Complementary income support for young farmers: under the first pillar, the top-up payment for young farmers (complementary to basic support) is kept and reinforced financially, but Member States will have more flexibility to tailor the scheme to the specific needs of their young beneficiaries. In addition, reserves for payment entitlements should be used, as a matter of priority, for young farmers and farmers commencing their agricultural activity.

Installation grant for young farmers: in the form of a lump-sum payment under the second pillar, the maximum amount of aid for the installation of young farmers and rural business start-ups has been increased up to EUR 100.000 (as compared to the current 70 000 EUR).

Investment support: preferential conditions may be set for young farmers. Beyond on-farm investments, young farmers can benefit from support for processing and marketing activities, as well as diversification into non-agricultural activities, such as agri-tourism, landscaping, etc.

Cooperation: Member States will have the possibility to support forms of cooperation among farmers that could encompass farm partnerships between older and younger generations of farmers. These partnerships can include actions such as: a) retirement planning and lump sum payments for farmers in the retirement age who permanently transfer their holding; b) farm succession or transition planning services; c) “matching” initiatives enabling the gradual transfer of assets and business knowledge from older farmers without successors to new entrants; d) brokerage services for land acquisition; e) innovative cooperatives or associations engaged in facilitating land mobility, or in fostering connections between farming and the local community, etc.

This type of intervention can also be used to experiment with innovative ways of working together, e.g. community-supported agriculture, incubator-supported start-ups or “starter farms” (young farmers active in developing markets before proceeding to formal business development), contract farming, share farming, etc. Ideas to facilitate the development of new business models, including new entry models, are currently being explored.¹⁵

Interesting examples already exist in the domain of land mobility, an area where **cooperation projects** can play a key role. This is the case, for example, of Macra na Feirme’s Land Mobility Service¹⁶ in Ireland, which facilitates collaborative solutions among farmers and land owners to foster competitiveness and ease land transfer. There are also plenty of interesting examples to encourage the access to land for new entrants identified in projects, such as the “handbook” prepared by the European Access to Land network, which showcases innovative ways to access land and entry farming, often with the support of farmers’ organisations or various civil society movements¹⁷. These include ‘starter farm’ initiatives, where publicly owned land is preferentially offered to young farmers for a limited period of time, to allow them to accumulate the resources necessary to eventually start their own farm business. Another example is the “Farm Success” project, providing young farmers with training and guidance needed for the succession process in family farms¹⁸. Many other examples have been showcased.¹⁹

Knowledge transfer and innovation: within the Agricultural Knowledge and Innovation Systems (AKIS), Member States shall provide for interventions ranging from knowledge exchange, information, training, to LEADER, the European Innovation Partnership (EIP) and Horizon Europe. Young farmers are at the forefront to benefit from these interventions. Moreover, Member States may decide to use a certain share of the EAFRD allocation to finance actions in respect of transnational learning mobility of people in the field agricultural and rural development with a focus on young farmers, in accordance with the **Erasmus+ Regulation**.

Financial instruments: financial instruments, in the form of loans, guarantees, subsidised interest rates, etc., are a key opportunity for young farmers experiencing hurdles in accessing credit, and can be used by Member States in combination with grants to multiply financial resources. A main novelty is the possibility for young farmers to receive public support for the purchase of land if this is carried out through the use of financial instruments. Moreover, financial instruments may be used to support working capital²⁰: this instrument can be of primary importance for young farmers, who face more difficulties given the high investments and low returns of a start-up phase. The Commission will also further engage with the European Investment Bank, especially via the Fi-compass platform, to provide targeted coaching and analysis, raise awareness and foster exchanges on experiences and good practices in relation to specific schemes for young farmers. In addition, in April 2019, the European Commission and the European Investment Bank (EIB) have launched a €1 billion loan package for agriculture and the bio-economy, of which a minimum of 10% will be specifically earmarked for young farmers.

4. Concluding remarks

A vibrant agricultural sector is essential for the European Union, to ensure our capacity to produce high quality, safe food, and to deliver the large range of public goods society demands. In an increasingly technology-dominated agricultural sector, either through use of high tech inputs or machines, or by using modern organisational and marketing techniques, a highly educated and young farming population is a strategic asset.

It is clear that structural change in agriculture will continue in the foreseeable future, as older, smaller and uncompetitive farmers leave the sector. Europe's agricultural policy has created a framework that continues to provide for such measured restructuring. At the same time, the policy must adequately enable young people to start and develop their business activity, and ensure they can achieve a fair standard of living by engaging in the agricultural sector.

The new shift of the CAP towards a more targeted and needs-based system of support should enable Member States to adopt more efficient and consistent strategies to address the generational renewal challenge in the coming years.



Endnotes

¹ EIP-AGRI Focus Group on 'New entrants into farming: lessons to foster innovation and entrepreneurship': <https://ec.europa.eu/eip/agriculture/en/focus-groups/new-entrants-farming-lessons-foster-innovation-and-also>; also "New Entrant netWork: Business models for Innovation, entrepreneurship and resilience in European agriculture (2018-2021)": <https://cordis.europa.eu/project/rcn/212394/factsheet/en>

² Measured in farm net value added (FNVA) on annual work unit (AWU).

³ Survey on the access to finance of enterprises (SAFE), available at:

https://www.ecb.europa.eu/stats/ecb_surveys/safe/html/index.en.html

⁴ Survey on financial needs and access to finance of EU agricultural enterprises, Fi-compass, April 2019.

⁵ Public consultation available at: <https://ec.europa.eu/agriculture/sites/agriculture/files/consultations/cap-modernising/summary-public-consul.pdf>

⁶ Pilot Project "Exchange programmes for young farmers", 2015, available at:

https://ec.europa.eu/agriculture/external-studies/young-farmers_en

⁷ Public consultation available at: <https://ec.europa.eu/agriculture/sites/agriculture/files/consultations/cap-modernising/summary-public-consul.pdf>

⁸ https://enrd.ec.europa.eu/enrd-thematic-work/generational-renewal_en

⁹ Court Of Auditors, Special Report, "EU support to young farmers should be better targeted to foster effective generational renewal", 2017, available at:

https://www.eca.europa.eu/Lists/ECADocuments/SR17_10/SR_YOUNG_FARMERS_EN.pdf ; also EP report on the Future of Food and Farming Communication (2018/2037(INI)), Rapporteur Herbert Dorfmann, May 2018

¹⁰ L. Zagata, J. Hrabák, M. Lošťák, M. Bavorová, Czech University of Life Sciences Prague; T. Rättinger, Technology Centre of the Czech Academy of Science; L.-A. Sutherland, A. McKee, The James Hutton Institute, S 2017, Research for AGRI Committee – Young farmers policy implementation after the 2013 CAP reform, European Parliament, Policy Department for Structural and Cohesion Policies, Brussels

¹¹ EP report on the implementation of CAP young farmers' tools in the EU after the 2013 reform (2017/2088(INI)), Rapporteur Nicola Caputo, May 2018

¹² See "Sure-farm" on sustainable and resilient farming systems. <http://www.surefarmproject.eu>

¹³ See "Sure-farm" on sustainable and resilient farming systems. <http://www.surefarmproject.eu>

¹⁴ https://ec.europa.eu/commission/sites/beta-political/files/budget-may2018-cap-strategic-plans_en.pdf

¹⁵ See, for example NEWBIE "New Entrant netWork: Business models for Innovation, entrepreneurship and resilience in European agriculture (2018-2021)": <https://cordis.europa.eu/project/rcn/212394/factsheet/en>

¹⁶ <http://landmobility.ie/>

¹⁷ https://www.accesstoland.eu/IMG/pdf/a2l_newentrants_handbook.pdf

¹⁸ <http://www.farmsuccess.eu/>

¹⁹ E.g. ENRD workshop, "Attracting young farmers and fostering generational renewal in rural areas", 10 December 2018

²⁰ With a gross grant equivalent of up to EUR 200.000 over any period of three fiscal years.