

The Young Farmer Payment has been criticised as being poorly targeted and ineffective

Motivation

European agriculture as well as the wider economy face substantial demographic changes in the upcoming decades. The baby boomer generation will retire within the next 10 to 15 years and the cohorts of the young generations which will enter the labour market in the next decades are much smaller in size. Accordingly, the farming sector will have to compete with other sectors and urban areas which offer attractive career prospects. At the same time, digitalisation of the economy and the society will provide many new opportunities for the young generation as well as the different economic sectors. Moreover, the whole society and agriculture in particular will face increasing pressure to adapt to the challenges of, e.g., climate change and biodiversity losses while world food demand steadily increases. Not surprisingly, there is widespread concern over the “generational renewal problem”, referring to the ageing of the farming population and the low number of young people choosing agriculture as a profession.

For the financial period 2014 to 2020, the EU CAP allocated €6.42 billion towards generational renewal. This includes per hectare payments for young farmers within the first pillar in an amount of €2.62 billion as well as start-up support within the second pillar in an amount of €3.8 billion. The current main policy in the first pillar, the Young Farmer Payment (YFP), seeks to increase the number of young farmers in Europe. In principle, the YFP provides a top-up for younger farmers 40 years old and younger for up to five years in addition to the direct payments for a limited number of hectares. Thus, the YFP provides a financial incentive to continue a farm within the process of generational renewal irrespective of a business plan or adequate income perspectives. The European Court of Auditors has criticised the YFP as being poorly targeted and ineffective. Beyond the YFP, the wider CAP can be argued to be a mechanism to maintain and stabilise European farm structures too. This is particularly true for the direct income support as well as the redistributive measures such as capping and the first hectares’ payments. Given the amount of public resources dedicated directly or indirectly to EU agriculture, including farm demographics, and the challenges of the agricultural sector to cope with climate change, biodiversity protection, and the consequences of the COVID-19 pandemic, it is paramount in further developments of the CAP that policy objectives are coherent and that the measures are effective.

The SURE-Farm project seeks to better understand the sustainability and resilience of European farming systems, including the challenges related to farm demographics and what this means for structural change. This policy brief aims to tie the findings of SURE-Farm on farm demographics with policy options which may enable resilient farm structures.



More info:

www.surefarmproject.eu



Authors and contact:

Christine Pitson, Dr. Franziska Appel, Prof. Dr. Alfons Balmann
Leibniz Institute of Agricultural Development in Transition Economies (IAMO)
balmann@iamo.de

The ability to steer structural change through political means is limited given its complexity

Farm structural change and resilience

Farm structural change can be defined as the differences in farm structures over time from a regional to supranational level. Characteristics of farm structures include the number of farms, farm sizes, the amount and type of land dedicated to agricultural production, what is produced and how, the legal classification of operations, the type and amount of labour used, as well as how producers are financed and linked to the up- and downstream sectors.

While European agriculture has long been experiencing structural change, the past 15 years have seen rapid change. Between 2005 and 2016, the number of farms in Europe dropped by roughly 25%, with the majority of those farming less than 5 hectares. Alongside the decreasing number of farms, other farms are growing in size and intensity in terms of land, labour, and capital. Increasing farm sizes mean that more farms, and particularly those which have the largest production capacities, can no longer rely solely on family labour, causing an increasing demand for trained hired labour from within the country and abroad. Particularly the COVID-19 pandemic has illustrated how dependent European agriculture and the wider food sector are on hired labour and migration.

Many stakeholders associate structural change mainly with the loss in the number of farms and advocate for measures to decrease the losses. However, in reality, farm structural change is a farming system's response to a changing environment in order to ensure the further provision of income generation. Thus, structural change, in response to demographic pressure, is an expression of a farming system's resilience. Given the complexity of structural change, the capacity to steer this process effectively by political means is limited. Besides focusing on the loss of farms, it is important to recognise the opportunities provided by farm structural change.

The Young Farmer Payment and resilience

The Young Farmer Payment (YFP) exists in all EU member countries, though the amounts vary between countries and even regions. Accordingly, young farmers 40 years old and under receive for up to five years an additional payment for the number of hectares the farm has, often for a maximum of 90 hectares. Within the SURE-Farm project, the YFP and its effects were studied quantitatively, through simulations of the agent-based model, AgriPoliS, and qualitatively, through focus groups. The case studies were Flanders (Belgium) and the Altmark (Germany). Flanders is a region characterized by heterogeneous family farms with the average size being some 30 hectares and an annual farm loss between 3-4%. The Altmark, in eastern Germany, with an average farm size of more than 200 hectares is defined by large-scale farming – both family farms and corporate and co-operative farms – re-established after 1989 or carried over from the communist era. The Altmark has an average 1% decrease in the number of farms annually and is struggling to recruit and retain qualified hired labour.



In the computer simulations, three scenarios were run in the two agricultural regions. One without additional support for young farmers. The second scenario simulates the current YFP with annual payments in the Altmark of €44 per hectare for up to 90 hectares and in Flanders €88 per hectare for up to 90 hectares. The third scenario doubles the respective amount of the YFP in each region. The results showed that the effects of the YFP are negligible on the regional farm structure in both the model region of Flanders and the Altmark. In the Altmark, after 20 years of the YFP subsidy, 2% more farms survived. Doubling the payments over the same period resulted in 2.8% more farms in the region. In Flanders, the effect was even smaller. After 20 years of the YFP there was a 0.13% increase in the number of farms. After 20 years with double the YFP there were 0.24% more farms than in the scenario with no additional support for young farmers. In both the Altmark and Flanders, the main aim of the policy – to encourage more young people to enter the sector – was neither realized under the current amount of support nor when that support was doubled.

Figure 1 illustrates that in both regions the additional payments had almost no effect on the sector factor income. Sector factor income can be defined as the regional income from the agricultural factors of production, i.e. income generated from land, labour, interest, and profits. Looking at the YFPs in the long-run shows that in the Altmark, they constrain regional economic growth of agriculture, and in Flanders, the effects on factor income are less than the payments. I.e., in the Altmark, cumulatively, over 20 years, the sector factor income is highest in the scenarios without YFP. The negative impact of the YFP, albeit small due to the large farm sizes, is caused by the “saving” of relatively inefficient farms at the costs of more efficient farms, which face increased development burdens. Cumulatively in Flanders over 20 years, the sector factor income is highest in the scenario with the highest subsidies for young farmers. However, there are substantial deadweight losses, i.e., the

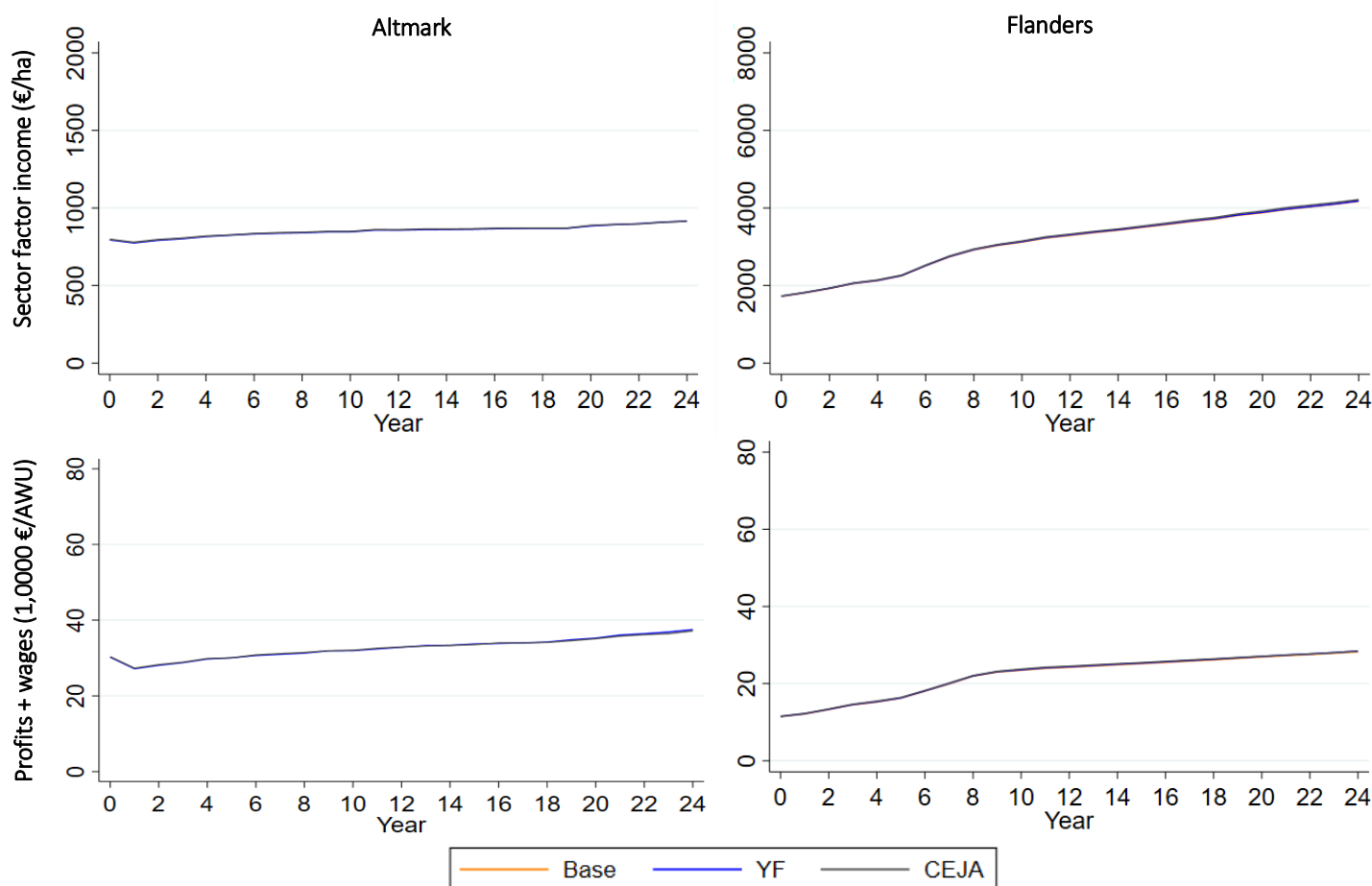


Figure 1 Sector factor income (€/ha) and income from labour (1,000€/AWU) in the Altmark and Flanders

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Leibniz Institute of Agricultural Development in Transition Economies (IAMO)
balmann@iamo.de

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Policies focused on incentivising farm succession are too narrow to support the development of resilient farming systems

gains are smaller than the subsidies. This can be explained by the fact that many relatively inefficient farms exist in Flanders which have surpluses of family labour and continue farming despite their inefficiency and low profitability.

The modelling results were qualitatively validated amongst stakeholders in focus groups in the respective regions. The stakeholders in both regions confirmed that the minimal effects of the financial support for young farmers were in line with their expectations. As costs of operation continue to rise, and prices remain volatile, the additional support is overall inconsequential for farm succession.

In terms of resilience, the YFP enables a few farms to become slightly more robust, evidenced by their survival rates in Flanders and the Altmärk. However, from the farming system's perspective, this survival means reduced adaptation to the existing economic and demographic pressures. In summary, given that the simulation results indicate that the YFP has essentially no substantial effect on farm demographics, farm structural change, and the economic performance, the YFP can be considered as a poor use of public resources - which is in accordance with the criticism of the European Court of Auditors.

Alternative policy directions for resilient farm demographics

Resilience of the farming sector in terms of ensuring the provision of private and public goods, such as food, income in rural areas or sustainable land use is important for Europe's agriculture future. It is however too narrow to focus policies on farm demographics and generational renewal on incentivising farm succession. Rather, there is a need to support the sector in its capacities to react to the current and future changes, such as increasing environmental demands or demographic trends. In order to support the agricultural sector in adapting to these pressures and to exploit the potential benefits offered by digitalisation, policy options should focus on the creation of an enabling environment. The conservation of farming structures and the focus on farm succession and the number of farms is not only flawed due to general demographic constraints, e.g. decreasing birth rates, but fails to move past the deficits of the status quo, where many farmers struggle under enormous economic and social pressure due to their inefficiencies. Instead, policy makers should look to enable and support quality entrants into the sector, including hired labour.

Based on the SWOT analyses of policy options for young farmers done by stakeholders in both the regions, there are several obvious paths for policy makers to explore contextually:

Educational support

- To benefit from technological opportunities to meet societal expectations and demands, there is a growing demand for highly educated farmers who not only have the technical know-how, but also can manage large complex operations. Supporting the on-going agricultural education of farmers and farm workers is an area where policy remains ambiguous. Existing opportunities for financial support for education are often unknown and accessing them remains ambiguous for those who could benefit the most.



Policies must send a consistent message so that farmers can make informed decisions and have room to maneuver

Attractive rural areas

- One public good provided by agriculture is the maintenance of rural landscapes and contributing to the attractiveness of rural areas. However, many rural European areas currently lack attractiveness in terms of infrastructure and provision of services which is a major deterrent for young people. Infrastructure projects and ensuring reliable internet access as well as local medical care, recreation activities, and infrastructure, schools and kindergartens are paramount to recruiting and retaining quality young farmers and workers.

Reforming policies for alternative business models

- Young people are known to bring new and innovative ideas into the sector. However, many current policies aim to support only traditional farm models and production systems, thus rather deterring innovation and resilience capacities. Existing and future policies should address the development of alternative business models, like shared farming, co-operative farming, new products, and production systems.

Clear and consistent policies

- European agriculture is highly regulated in order to ensure the production of safe food and to minimize environmental impacts. However, there are many regulations which send mixed messages – such as encouragement to intensify production as well as restrictions on the use of new technologies. For farmers to have room to maneuver, policy must send a consistent message.

Further Readings

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