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SEMI-SUBSISTENCE FARMING: VALUE AND DIRECTIONS OF DEVELOPMENT

STUDY

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AGRICULTURE AND RURAL DEVELOPMENT

SEMI-SUBSISTENCE FARMING - VALUE AND DIRECTIONS OF DEVELOPMENT

STUDY

PROVISIONAL VERSION

This document was requested by the European Parliament's Committee on Agriculture and Rural Development.

AUTHORS

University of Kent: Ms Sophia DAVIDOVA, Mr Alastair BAILEY
CCRI: Ms Janet DWYER
University of Ljubljana: Mr Emil ERJAVEC
University of Newcastle: Mr Matthew GORTON
University of Aberdeen: Mr Kenneth THOMSON

RESPONSIBLE ADMINISTRATOR

Mr Francesco TROPEA
Policy Department Structural and Cohesion Policies European Parliament
B-1047 Brussels
E-mail: poldep-cohesion@europarl.europa.eu

EDITORIAL ASSISTANCE

Mrs Catherine MORVAN

LINGUISTIC VERSIONS

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ABOUT THE EDITOR

To contact the Policy Department or to subscribe to its monthly newsletter please write to: poldep-cohesion@europarl.europa.eu

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Abstract

This study discusses current Common Agricultural Policy (CAP) measures and reform proposals for the post-2013 period with respect to EU semi-subsistence farms (SSFs). Based on country case studies and interview evidence, the study assesses the values of SSFs for rural areas and the obstacles they face in using Pillar 1 and 2 measures. It concludes that the fundamental issue of income support to semi-subsistence producers is inadequately addressed by any set of CAP instruments, and puts forward a set of recommendations for strengthening the CAP approach, especially via Pillar 2, for SSFs.

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LIST OF ABBREVIATIONS

AWU	Annual Work Unit
CA	Competent Authority
CAP	Common Agricultural Policy
CMO	Commodity Market Organisation
COMAGRI	European Parliament Committee on Agriculture and Rural Development
DG	Directorate General
EAFRD	European Agricultural Fund for Rural Development
EC	European Commission
ENRD	European Network for Rural Development
ESU	European Size Unit
EU	European Union
EUROSTAT	Statistical office of the European Union
FADN	Farm Accountancy Data Network
FAS	Farm Advisory System
FSS	Farm Structure Survey
GAEC	Good Agricultural and Environment Conditions
ha	Hectare
JRC	Joint Research Centre
LAG	Local Action Group
LFA	Less Favoured Area
MA	Managing Authority
MS	Member State
NMS	New Member State
PDO	Protected Designation of Origin
PGI	Protected Geographical Indication
QP	Quality Package
RD	Rural Development
RDP	Rural Development Programme
SAPS	Single Area Payment Scheme
SCARLED	Structural Change in Agriculture and Rural Livelihoods
SO	Standard Output
SSF	Semi-subsistence Farm
SWOT	Strengths, Weaknesses, Opportunities, Threats
TSG	Traditional Speciality Guaranteed
UAA	Utilised Agricultural Area

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EXECUTIVE SUMMARY

Background and objectives

This study has been prepared for the European Parliament's Committee on Agriculture and Rural Development (COMAGRI). The study is policy focused, with two main objectives as defined in the technical specification:

- "To assess the **value of semi-subsistence farming** in Europe and the directions for its development.
- To evaluate the **effectiveness of the current and proposed CAP measures** for the period after 2013, and draw up a set of policy actions consistent with the objective of developing and supporting semi-subsistence farmers in Europe".

Previous work on semi-subsistence farms (SSFs) has been reviewed, in particular a number of academic studies and conferences (e.g. that organised by the European Network for Rural Development (ENRD) at Sibiu, Romania, in 2010). National experts have undertaken **country case studies** in Bulgaria, Poland and Romania in the New Member States (NMSs), in Greece, Italy and Portugal in the Southern EU-15, and in Scotland in the Northern EU-15. Further direct evidence has been obtained from **focused interviews** in Finland, Hungary, Malta and Slovenia. Finally, extensive use has been made of **Eurostat and other official statistics.**

Findings and Conclusions

There is no universally accepted or consistently used **definition of either SSFs or small farms**, and, in implementing the CAP, EU Member States (MSs) have often created *ad hoc* definitions. Problems arise from multiple possible measures of size (land area, economic size), and from the fact that a SSF is a multifaceted phenomenon involving agricultural, economic, environmental, social and cultural factors. In this study, consistently, **SSFs are defined as holdings from which less than 50% of the agricultural output is sold, with the remainder being consumed within the farm household**.

In 2010, there were 5.8 million such SSFs in the EU-27. Such a large sector, which provides **livelihood for millions of rural inhabitants, cannot and should not be ignored politically**. Of these SSFs, 86% are in the NMSs (61% in Romania, and about 8-9% in each of Hungary and Poland) but 11% are in Italy, with significant numbers elsewhere (over 100,000 in each of Bulgaria, Greece and Lithuania). SSFs comprise a significant share of all holdings in most of these countries but also in Cyprus, Latvia, Lithuania, Malta, Slovakia and Slovenia.

Over the EU-27 as a whole, **SSFs account for almost half of all agricultural holdings**, and about three-quarters of small holdings under 2 ha of utilised agricultural area (UAA), or under €2,000 of standard output (SO). However, their distribution varies greatly between MSs, from over 90% of all holdings in Romania to almost none recorded in most North-Western EU countries. In the more developed and prosperous countries, SSFs – sometimes created as a post-crisis or post-war strategy of land settlement – have virtually disappeared. Some small farms in the EU-15 are hobby/lifestyle farms operated for reasons such as food preferences, recreation or retirement activity, and some are protected by policy (e.g. in Scotland, UK). At the other extreme, many poorer EU-27 MSs have large numbers of SSFs which provide food for low-income households.

Structural change in agriculture is driven by macroeconomic, institutional, technical and other factors. The number of labour units engaged in agriculture and in particular in small farms has tended to decline to 2010 (the latest year for which figures are available), somewhat faster in the NMSs. However, the number of SSFs has been relatively stable, and between 2007 and 2010 they declined by only 1%, including a decline of 5.7% in the NMSs but a substantial increase of 35% in the Southern EU MSs. The **relative rural poverty in some MSs, and the hardship stemming from the economic recession**, are factors contributing to the relative stability and in some cases the proliferation of SSFs.

The main economic role of SSFs is a welfare one, alleviating poverty by acting as a "social buffer" for households with few other assets and minimal other income sources. In five major NMSs, subsistence production contributes between 20% and 50% to the incomes of households at the risk of poverty. In the current recession, this welfare role has also been noted in Italy, Greece and Portugal.

A more market-oriented **economic role of SSFs is in supplying speciality foods**. The engagement of small farms, including SSFs, in short/direct food supply chains varies significantly across MSs: it is far more prevalent in the Southern EU MSs and in some NMSs, such as Poland and Romania, than in North-West Europe and the remaining NMSs. Farmers' markets, the most prevalent form of short/direct food supply chains, are most successful where they target "ethically concerned" consumers and those for whom direct relations with producers is considered as the main guarantee of quality. Such consumers are typically middle-class urban residents, so that successful farmers' markets are often located some distance from the point of production.

Small and SSFs appear to play an important **role in the wider rural economy**. Significant numbers of small farmers engage in other gainful activities that may be particularly important for their household livelihoods but in addition generate welfare for the non-farm population and economy, and help to maintain rural populations in remote areas.

However, the **age and sometimes limited skills of many SSF holders** reduce the potential for these latter roles. In any case, the demographics of farmer age in many of the studied countries, particularly the occupants of the smallest farms, is an important opportunity for structural change. Big strategic decisions regarding the future of farm and household often come to a head at a change of family generation.

Concerning **environmental public goods**, SSFs often practise mixed farming, which contributes to a scenic landscape and to biodiversity. **SSFs do appear to produce more farmed biodiversity than commercial farms** which specialise in the production of products in which they hold a comparative advantage. On the other hand, there seems to be no strong evidence that small farms, as distinct from SSFs, offer more or better environmental public goods than larger holdings on a like by like basis (i.e. per hectare or per ESU). Anecdotal evidence of both positive and negative impacts suggests that more research is necessary in this area.

There are three possible **paths of development** for SSFs and small farms in the EU: **disappearance** due to absorption into larger commercialised farm holdings, or to land abandonment (e.g. in remoter areas); **transformation** of SSFs into small commercial farms; **continuation** through (a) diversification; (b) non-agricultural wage employment and part-time farming; or (c) "forced" re-entry of successive family generations due to the lack of other income sources. No single support measure, even a well-targeted one, is likely to be wholly appropriate for all types of farms and all development paths: **this is not a one-size-fits-all situation.**

These various roles and development paths, which vary in significance both between EU MSs and amongst individual SSFs, explain some of the **difficulties of designing policy for SSFs and small farms**. The largely **area-based design of** the current **Pillar 1** exhibits **the problem of large farm bias**.

There is much evidence to suggest that **Pillar 2 should be an important source of assistance for transformation or continuation of small and SSFs**, as it offers the flexibility and a range of objectives that are relevant to the needs and opportunities of these types of farm. However, **Pillar 2 measures are generally less used by small and SSFs, than by larger farms**.

Non-CAP EU measures, such as those under cohesion policy, have some potential to assist SSFs indirectly via infrastructure improvements and SMEs support. Rural households are also potential beneficiaries of actions supported by the European Social Fund, e.g. social inclusion, education and training. It is however questionable to what extent in practice these actions assist **socially vulnerable members of the farming community**, including SSF households.

Recommendations

The following recommendations for policy action are made as regards small and SSFs.

Pillar 1

- Direct payments are very largely based on size of farm and not on income "need", so that the poverty of many SSF households is very inefficiently addressed. **Per-hectare rates of payment are not a solution for small and SSFs.**

- The **simplified small farmers scheme** should, as proposed by the European Parliament, be made available in (but not be compulsory for) MSs, but **with standard annual payments of e.g. €1,000 for all scheme entrants**. Failing this, annual payments should fall within a restricted range, e.g. €500 to €1,000, depending on the MS and the size of the standard direct payment entitlement rate (for some MSs, derogations from this range might be necessary). This would provide small and SSFs with a **secure payment** which is clearly designed to act as income support.

- Entrants to the small farmers scheme should comply with Good Agricultural and Environmental Conditions (GAEC) and Statutory Management Requirements. However, due to large numbers of small farmers the costs of visiting their farms to observe non-compliance with the standards and impose penalties are likely to outweigh any possible reductions in direct payments. Participants in the small farmers scheme should be **exempt from on-the-spot checks and from reductions in the standard annual payment**.

- Entrants to the small farmers scheme could be offered a **one-off lump-sum payment based on the present value of annual payments until 2020**, to be available at any time during the period 2014-2020. This would constitute an immediate "**policy exit**" from Pillar 1 for SSFs and small farms **for the period until 2020**, thus saving future transaction costs for both farmers and administrative agencies for cases where a lump-sum is more attractive to the holder than annual income support.

- The use of direct payments for **coupled support** in certain sectors in clearly defined cases may be used for sectors with a large share of small and semi-subsistence producers, e.g. sheep production in remote regions.

- In line with the assessment of existing measures and their potential, the requirement for MSs to establish a **Farm Advisory System (FAS)** could be expanded to require specialised and targeted provision of a FAS service for small and SSFs in any MS where these form a significant feature. This **FAS should have a remit broader than that currently specified**, which could include raising awareness of, and facilitating these farms' access to, appropriate support under both pillars of CAP.

- The **expanded product coverage for recognition of producer organisations**, included in the proposed by the European Commission (EC) regulation for a Single Common Market Organisation (CMO), may benefit small and SSFs if, and only if, such organisations are set up in sectors of importance to small and semi-subsistence producers and the participation of these producers is facilitated.

Pillar 2

If a MS or region has a sufficient number or territorial coverage of very small and/or SSFs for them to be significant in economic, environmental or social terms, it should be required either:

- To **demonstrate how its Rural Development Programme (RDP) takes special account of the needs of small and SSFs** through design and implementation, such that these farms have access to appropriate types and levels of support in line with achieving the strategic objectives of the European Agricultural Fund for Rural Development's (EAFRD); or

- To design one or more **sub-programmes** specifically targeted at small and SSFs.

If the MS or region chooses the second option, they should be granted an additional element of **technical assistance funding**, not exceeding say 4% of the total EAFRD budget for that MS or region, to cover the costs associated with design and implementation of the sub-programme(s). In addition, it should be permitted to plan and implement such a targeted programme **one year later** than the starting date for implementation of the rest of the RDP, without financial penalty.

Within any RDP or sub-programme designed to be accessible to small and SSFs, the Managing Authority (MA) should incorporate design or delivery features to ensure cost-effective operation, as follows:

- The programme or sub-programme should contain a **Strengths, Weaknesses, Opportunities, Threats (SWOT) analysis of the small and SSFs** within the territory, and propose a strategy which clarifies the particular contribution to be made by these farms and farm households towards the six EU priorities for rural development (RD) for 2014-2020. The programme or sub-programme should develop targeted actions to promote and strengthen these contributions.

- **Delivery structures** and processes for targeting small and SSFs should be tailored to their specific characteristics and designed to achieve reduced transaction costs, increased simplification and enhanced access for beneficiaries, compared to previous approaches.

- The **approval decision-meetings** for all applicants to such programme or sub-programme should adopt a quarterly cycle.

Guidance should be prepared on how best to design and deliver RDPs or sub-programmes effectively targeted at small and SSFs. It should advise the MA to select and justify the use of one or more from the following:

- Supporting delivery by the use of **facilitators**, employed at the local level by the MA or Paying Agency, with the role of promoting the availability of funding for RD among small and SSFs.
- Working with an approved group of **pre-existing co-operatives, network organisations or other independent advisers** in order to encourage them to bring forward appropriate applications for the measures on offer.
- Providing a small **"starter fund"** under the co-operation measure, Article 36 in the EC proposal for regulation on support for RD, for approved facilitators or advisers to award small grants to people or groups who come forward with promising ideas for funding, to enable them to meet and/or plan their projects and initiatives professionally.
- Compiling a number of EAFRD measures into a simple menu, budgeted as far as possible **using standard or average costs to pre-determine payment rates**, and assessed in a holistic way against the strategic objectives of the small and SSF programme or sub-programme.
- Designing **training, advice and capacity-building** approaches which are welcomed and supported by target groups of beneficiaries such as small and SSFs, and which build as far as possible on pre-existing social networks and capacities. To the extent that these criteria are met by the FAS within the MS or region, this system could play a significant role in this activity. Where experience suggests that the FAS does not meet these criteria, steps should be taken to identify developments which will provide an accessible, tailored and trusted advisory and training service for small and SSFs.
- **Applying special lower-than-usual eligibility thresholds** in respect of minimum holding area, minimum economic size or minimum levels of turnover or qualifications for beneficiaries, as appropriate to this sector. For the agri-environmental measures any minimum threshold applied by a MS should be justified by either establishing that farms smaller than the threshold do not produce environmental public goods, or farms smaller than the threshold do not incur costs in producing that environmental public good.
- Defining a **maximum size (upper threshold) of aid payment per beneficiary per year,** which is linked to a lower level of controls and conditions than would apply to larger-scale grants or payments under EAFRD, tailored as appropriate to the specific characteristics of small and SSFs (i.e. with simpler conditions, where these are necessary and justified).
- Ensuring **adequate provision for financial engineering instruments** (e.g. micro-credit facilities, loan guarantees) which effectively remove the barriers to uptake that might otherwise exist in respect of securing match-funding for investment aids of any kind.
- Identifying and facilitating the establishment or strengthening of links and groups which can bring together small and SSFs or farm household members to co-operate in the development of new RD actions within their territories. In order to capture any **environmental and public good network effects**, and/or where there is potential for more cost-effective delivery, appropriate forms of group should be encouraged (e.g.

including Local Action Groups (LAGs) or producer groups as well as new groups, depending on the situations considered)

As proposed by the EC and amended by the European Parliament, **entry into the small farmers scheme in Pillar 1** should entitle applicants to one-off payment at a higher rate for Pillar 2 farm and business development assistance, if they **permanently transfer their holding to another farmer to create a viable economic unit** and stop all commercial farming activity definitively. This will facilitate the exit of small and economically non-viable holdings from agriculture, and stimulate structural change. FAS should provide advice to farmers managing non-viable holdings and facilitate the uptake of this measure.

Food supply chains

- Support for **short/direct supply chains** in the EU-15 may best be achieved through LEADER and similar national programmes (e.g. PRODER in Spain), rather than introducing any new, additional Pillar 2 measures. In the NMSs, it may be better to set up new supply chain groups under the new Pillar 2 programmes than using existing NMS LAGs.

- At national or regional level, efforts should be made to **encourage contracts with producer organisations,** as foreseen in the Milk Package. Given the novelty of measures contained within the Milk Package it is difficult to fully evaluate their impact at this stage, but there is a need to monitor outcomes and consider whether such measures could be beneficially extended to other supply chains.

- **Producer groups,** which tend to be more flexible than producer organisations, should be encouraged to develop initiatives within the proposed Pillar 2 sub-programme specifically targeted at small and SSFs.

- There is a need for the collation and better dissemination of **best practice** on organising and promoting farmers' markets and other direct marketing initiatives (e.g. box schemes, community-supported agriculture).

- While consumer interest in short supply chains and local foods has risen, a **new local farming and direct-sales labelling scheme**, as introduced as a policy option in the Quality Package (QP), **is *not* recommended**. Such a scheme would be difficult to enforce and there is no evidence that such a label is desired by, or would influence the decision-making of, consumers. Any proliferation of EU labelling schemes is likely to add to consumer confusion. A strategy should be developed to improve consumer awareness and understanding of the Protected Designation of Origin (PDO)/ Protected Geographical Indication (PGI) schemes.

- Marketing bodies and agricultural extension agencies should be included in any list of approved agents if SSFs are to be encouraged to form **group marketing schemes**. This would be within the proposed new Pillar 2 sub-programme specifically targeted at small and SSFs.

Other

- In order that **flexibility measures within the Hygiene Package** are in place at the time of accession, it is recommended that the capacity of Competent Authorities (CAs) in new and acceding MSs is raised. This could be achieved via **twinning arrangements** which establish linkages with those most experienced in the introduction of flexibility measures in EU-15.

- It is recommended that in those MSs where the small and semi-subsistence farm sector is significant, the **Farm Accountancy Data Network (FADN) should be extended** (in a modified and simplified form) to adequately capture the wellbeing of small farms and the impact of policy measures on the sector.
- While **EU non-CAP measures** can potentially play an important role in promoting social, economic and environmental development in rural areas, **better targeting of public investments towards and within lagging behind regions** is necessary since many of these regions are populated by small and SSFs.

1. INTRODUCTION

KEY FINDINGS

- Semi-subsistence farmers produce predominantly for **own household consumption** and are characterised by a **low degree of market participation**.
- The lack of a **universally accepted definition** of a semi-subsistence or small farm, and the multiplicity of thresholds adopted by different EU Member States for different CAP measures, make systematic analysis difficult.
- In recent years, the debate on SSFs in the EU has gathered speed, but **reliable and comprehensive statistical information is scarce,** and **research is still in an embryonic form**.

1.1 Rationale of the study

Semi-subsistence farmers in Europe have been given little specific attention in the design and implementation of the CAP. There are at least two reasons for this: the relatively low incidence of semi-subsistence farming in the EU in the decades preceding the enlargements in the 2000s and the fuzzy boundary between semi-subsistence and small farms, with debate and policy emphasis in Europe focused on the latter. However, the accession of the 12 NMSs which brought millions of semi-subsistence farmers into the EU has increased their political importance and introduced semi-subsistence farming on the policy agenda.

SSFs are typically characterised as small, family-run agricultural holdings. They are associated with production for own household food needs and low degree of market participation (ENRD, 2010). Semi-subsistence farming is often associated with low cash incomes, sub-optimal use of land and labour, a lack of capital, and little contribution to rural growth. However, SSFs are often valued for their socio-cultural role, whether as a social "safety net" or custodians of rural traditions, and for their positive environmental contribution to the landscape and biodiversity.

This study, prepared for the European Parliament's Committee on Agriculture and Rural Development (COMAGRI), is inspired by the need to better understand the roles that SSFs play in rural areas in Europe and the effectiveness (or the lack) of CAP measures to enhance their contributions to welfare, rural communities and natural environment. The study is policy focused, with two main objectives as defined in the technical specification:

- To assess the value of semi-subsistence farming in Europe and the directions for its development.
- To evaluate the effectiveness of the current and proposed CAP measures for the period after 2013, and draw up a set of policy recommendations consistent with the objective of developing and supporting semi-subsistence farmers in Europe.

To do this, the study adopts a wide perspective. It looks at issues not only behind the "*farm gate*" but beyond it, e.g. the food chain and the natural environment, with a focus on assessing the contribution of small and SSFs in these areas.

With the aim of providing robust policy conclusions, the bulk of the study analyses critically the effectiveness of the CAP's Pillar 1 and 2 measures (both those of existing policy and those proposed for the future) to maintain and enhance the positive contributions of semi-subsistence farming. The policy assessment is focused on three key questions:

- How are SSF policy needs targeted in the current CAP?
- How are SSF policy needs addressed in the proposed post-2013 CAP?
- What are the policy alternatives?

The lack of a universally accepted definition of a "small" or SSF and the multiplicity of thresholds adopted by different EU MSs for different CAP measures make systematic analysis difficult. This is compounded by the relatively few relevant studies in this area.

1.2 What has been done so far?

The neglect of SSFs as an agricultural, economic and policy issue in the EU is reflected in the scarcity of studies on this sector. There are only a few studies on Western Europe concerned with the balance between home production and consumption of food on a semi-subsistence holding, and therefore the net sales or purchases. Most studies coming close to such considerations are focused mainly on hobby farming (e.g. Caillavet and Nichele, 1999). However, research on the NMSs before or after accession to the EU has developed since the phenomenon of semi-subsistence farming became apparent following the economic and agricultural reforms in the 1990s (Kostov and Lingard, 2002; for example, Abele and Frohberg, 2003; 2004; Mathijs and Noev, 2004; Petrovici and Gorton, 2005; Davidova *et al.*, 2009; Fritzsch *et al.*, 2010; Davidova, 2011; Möllers *et al.*, 2011; Davidova *et al.*, 2012).

The increased political attention in the EU to SSFs has been reflected in the organisation of several conferences at EU or national level, debating the roles of SSFs and their policy needs. In this respect, it is worth mentioning the conference in Sibiu (Romania) organised in 2010 by the ENRD on "*Semi-subsistence farming in the EU: current situation and future prospects*". This involved the wide participation of major stakeholders in rural development from many EU MSs, and was followed in 2011 and 2012 by high level conferences in Krakow organised by Polish public and academic organisations. The issue of how to help small farms to access markets was a central concern at the EC conference in 2012 on "*Local Agriculture and Short Food Supply Chains*" (European Commission, 2012b). In addition, the EC has funded research to analyse aspects of SSF activity. The project "*Structural Change in Agriculture and Rural Livelihoods*" (SCARLED) included a study of the contribution of semi-subsistence farming to household incomes, and the barriers faced by SSFs in accessing markets (SCARLED, FP6). The project "*S-Farms*" carried out by the EC Joint Research Centre (JRC) Institute for Prospective Technological Studies in Seville simulated the effect of some policy packages on statistical clusters of SSF households in Poland, Romania and Bulgaria (Fritzsch *et al.*, 2010).

This suggests that the debate on SSFs in the EU is gathering speed, but statistical information is scarce, and research is still in an embryonic form. This prevents a systematic assessment of the paths of development of SSFs and the extent to which CAP measures address their needs.

1.3 Study methods

In order to investigate the complex policy issues presented by semi-subsistence farming, the general approach of this study is qualitative, but assertions and arguments are supported, wherever necessary and possible, by quantitative evidence and by examples from different EU MSs. In order to capture the diversity and the richness of SSFs in the EU-

27, the study conducted in-depth country case studies and narrower focused interviews in selected EU MSs characterised by important small and SSF sectors. In more detail, the study adopted the following approaches:

- A review of existing literature helped to formulate a set of common questions for the country case studies and the interviews in order to ensure the comparability of information across the selected countries. The questions covered the main aspects of interest to this study, including: national definitions of small and SSFs and the respective statistics; the roles of SSFs in the rural economy as recognised by politicians and wider society; institutions and legislation affecting farm structural change; national CAP implementation issues; national debates concerning the proposed CAP package for the period after 2013; and political representation of small and SSFs.

- On the basis of this set of questions, the case studies were carried out by national experts in six EU MSs and one large region, aiming at a balanced mix between NMSs and EU-15. The MSs covered and the case studies authors are as follows: Bulgaria (P Mishev), Poland (J Falkowski) and Romania (C Hubbard) in the NMSs; Greece (E Papadopoulou), Italy (C Salvioni) and Portugal (M Dos-Santos) in the Southern EU-15; and Scotland (K Thomson) in the Northern EU-15. Similar but less detailed information was gathered through focused interviews from other countries with a large SSF sector and important current or historic institutional developments, such as Hungary (M Gorton), Malta (J Dwyer), Slovenia (E Erjavec and L Juvančič) and eastern Finland (E Rabinowicz). These country case studies and interviews provide a great deal of the material for the whole study. The authors' contact details are included in Annex 1. Due to their length, the country study and interview reports are not attached to this report, but they are available upon request from the authors.

- The case study and interview information was analysed and expanded with information from other sources. The policy analysis is focused on assessing the extent to which current and proposed future CAP measures are adequate to the needs of small and SSFs. It also considers if there is a hidden "policy bias" against these farmers. This policy assessment serves as a basis for the development of policy recommendations.

- Statistical analysis is used throughout the study. The source of statistical information is mainly Eurostat, particularly the Farm Structure Survey (FSS), and national statistical offices in the case study and interview countries. Data collected by the SCARLED project has also been drawn upon to answer specific questions. The basic unit in the Eurostat FSS is the agricultural "holding" defined as a techno-economic unit under single management engaged in agricultural production, including the maintenance of land in GAEC (Eurostat, 2013a). On the other hand, the agricultural sector is usually thought to consist of "farms", i.e. a production and business unit engaged in agriculture. The way that the two terms are used differs between the EU MSs; in this study, they are used interchangeably.

2. SEMI-SUBSISTENCE AND SMALL FARMS IN A WIDER PERSPECTIVE

KEY FINDINGS

- In 2010 in the EU-27 there were **5.8 million semi-subsistence farmers**, defined as those who sold less than 50% of their output and used the remainder for their own household consumption. Such a large sector provides **livelihood for millions of rural inhabitants and cannot be ignored politically**.
- **SSFs account for almost half of all agricultural holdings in the EU-27**, and about three-quarters of small holdings (under 2 ha, or with standard output under €2,000). Their distribution varies greatly between MSs, from over 90% of all holdings in Romania to virtually none in North-Western EU countries. SSFs are common in many but not all NMSs, and in most Southern EU-15 countries.
- Semi-subsistence farming is a multifaceted phenomenon involving **agricultural, economic, social and cultural factors, values and roles**. For some farmers, producing their own food is a **survival strategy** to cope with conditions of rural poverty and a lack of non-farm rural jobs; for others, it is a **lifestyle preference**.
- Semi-subsistence farming is often associated with low cash incomes, sub-optimal use of land and labour, a lack of capital, and little contribution to rural growth.
- SSFs are valued for their **socio-cultural role,** whether as a social "safety net" or as custodians of rural traditions, and for their **positive environmental contribution to landscapes and biodiversity**.
- Despite structural change in EU agriculture, farm fragmentation and the persistence of semi-subsistence farming are pervasive in Europe.

2.1 Definitions and quantifiable criteria

There is no universally accepted and consistently used definition of either semi-subsistence or small farms. For the purpose of implementing the CAP, the EU MSs have often created *ad hoc* definitions.

The definitional problems arise from the fact that semi-subsistence farming is a multifaceted phenomenon involving agricultural, economic, social and cultural factors. In addition, it is highly heterogeneous, embracing a wide diversity of decision-making behaviour and differences in locational and agronomic situations. Farmers can be placed on a continuum from zero to 100% according to their market participation. At one extreme are farmers who use their whole output for their own household's consumption (subsistence farmers). At the other extreme, many farmers sell all their output and purchase all food products necessary for their dietary needs (fully commercialised farmers). Semi-subsistence farmers are those who sell some share of their output but who retain a significant proportion for their own food needs. Wharton (1969) proposed a cut-off point differentiating semi-subsistence from commercial farming at 50% of output sold, a threshold which has been used widely in semi-subsistence farming studies, including this one. This is consistent with the EC definition in Article 34 (1) of the Council Regulation on Support for RD by the EAFRD (Council Reg. (EC) No. 1698/2005) where SSFs are defined

as *"agricultural holdings which produce primarily for their own consumption and also market a proportion of their output"*.

For some farmers, producing their own food is a survival strategy to cope with conditions of rural poverty and a lack of non-farm rural jobs; for others, it may be a lifestyle preference. Some semi-subsistence farmers are engaged full-time in agriculture without any other gainful activities, but a large proportion consists of part-time farmers, some with other occupations, others without. As a result, semi-subsistence agriculture encompasses a heterogeneous group of rural land holders with different motivations and different degrees of commitment to agriculture. Three categories of semi-subsistence farmers can be distinguished: i) farm holders pushed into subsistence farming by poverty and an underdeveloped social safety net, for whom operating a SSF is a survival strategy; ii) part-time farmers with other gainful activities; and iii) semi-subsistence farmers by choice, sometimes known as "hobby" or lifestyle farmers (Davidova, 2011).

A central question is the relation between SSFs and small farms. Conceptually, a small farm and a SSF are different, since the motivations of farmers and the resource constraints they face are different. The term semi-subsistence farming always reflects some degree of an inherent strategy to feed the farm family from its own resources, either by choice or from necessity. On the other hand, the term "small" merely reflects the size of the farming operation, and implies nothing about the motives of the farmer to directly provide part of the nutritional needs of the farm household. Small farms are mainly constrained by external factors – either by scarcity or quality of production factors, e.g. agricultural land, or poorly functioning markets for land and capital. However, in many cases semi-subsistence farmers are also resource-constrained, and, as will be revealed below, in the EU there is a substantial overlap between semi-subsistence and small farms.

To define and quantify small farms is also a complex issue, since size can be measured in physical units (hectares, livestock or labour units) or in economic terms which in the EU was expressed in European Size Units (ESU) until 2007 and currently in SO. The EC Directorate General (DG) Agriculture and Rural Development in its brief "*What is a small farm?*" underlined three dimensions of complexity in classifying farms by their size: *"(1) the physical or economic criterion used to define the threshold; (2) within these, whether size is measured in absolute or relative terms, where relative means in relation to the characteristics of all farms in a given area; and (3) what relevant consistent data are available at EU level"* (European Commission, 2011e). We argue that for policy purposes the absolute thresholds are more straightforward and easier to understand by both farmers and policy-makers.

In the EU, physical measures are generally used to set thresholds for: 1) what is considered a farm; 2) eligibility for Pillar 1 income support; and 3) eligibility for some RD measures, e.g. agri-environmental measures. McConnell and Dillon (1997) have suggested that holdings with 0.5-2.0 ha of cultivated land might be a good proxy indicator for SSFs. In Europe, there is a broad consensus that small farms are those that operate on an agricultural area of 5 ha or less. In this paper, we take into account both physical farm size thresholds - under 5 ha and under 2 ha. Conditional on the existence of adequate cadastral and policy registration systems, measuring the size in land area is a feasible operational criterion understandable to farmers, politicians and all rural stakeholders. However, the major weakness in using land area to define small farms is that there are differences in terms of fertility of land and the type of land use. A farm which is small by its land area can be a large economic enterprise if it specialises, e.g. in intensive vegetable or livestock production, while 5 ha produce little in an extensively grazed mountain location.

Economic size thresholds are widely applied for statistical and policy purposes throughout the EU. As mentioned previously, the ESU was used for policy purposes until 2007. The ESU is a measure of the standard gross margin of a farm (the difference between revenue, including direct payments, and production costs). One ESU is equal to €1,200, calculated using standard regionalised coefficients. For example, in England, one ESU roughly corresponds to either 0.6 ha of cereals, or 2 dairy cows, or 13 ewes, or equivalent combinations of these. For the EU FSS, Eurostat classified farms smaller than 1 ESU as subsistence holdings, and farms between 1 and 8 ESU as small farms.

However, following the 2003 CAP reform and the move from coupled to decoupled direct payments, Eurostat changed the indicator for economic size to the SO, i.e. actual or potential sales revenue, which does not include direct payments. The reason for this change was that the subtraction of the direct payments from the output side of the ESU measure could result in negative values which cannot be utilised for the classification of farms according to their specialisation, e.g. between particular crops and livestock. SO is always positive since production costs are not deducted and is expressed in Euros (European Commission, 2012c).

In this study, farms with SO less than €8,000 are classified as small, but the smallest farms with SO less than €2,000 are also covered when necessary. Everywhere in the EU-27, farms with SO less than €2,000 are not large enough to bring the farmer's household above the national at the risk of poverty threshold, determined by Eurostat at 60% of the national median income, taking account of the differences in a household's size and composition. However, in most of the MSs, farms with SO smaller than €8,000 are also not large enough, since SO includes production costs and is therefore not equal to farmer's income. The existence of such farms is related either to poverty or to the need to combine farming with alternative sources of income.

In order to illustrate the magnitude of the SSF and small farm sector in the EU, Table 1 presents the total number of semi-subsistence and small farms in the EU-27, in sub-groups of MSs and in individual MSs, and Table 2 presents the shares of SSFs within individual MSs. Since farm structure differs in different parts of the EU, data is presented separately for the NMS-12, EU-15 and within the EU-15 for the MSs located in North-West of Europe (EU-15 NW) and the four Southern MSs – Greece, Italy, Spain and Portugal – (EU-15 S).

The most striking fact is that in 2010 in the EU-27 there were 5.8 million farm holders who sold less than 50% of their output and used the remainder for their own household consumption. Such a large sector, which provides livelihood for millions of rural inhabitants, cannot and should not be ignored politically.

Table 1: Numbers of small and semi-subsistence farms in the EU-27, MS sub-groups and individual MSs, 2010 (thousands)

Member State	Total and small farms					SSFs				
	Total	Less than 2 ha	Less than 5 ha	With SO less than €2,000	With SO less than €8,000	Total	Less than 2 ha	Less than 5 ha	With SO less than €2,000	With SO less than €8,000
EU-27	12,015	5,637	8,056	5,132	8,507	5,842	4,053	5,186	3,906	5,487
EU-15	5,225	1,728	2,728	1,167	2,669	845	660	786	501	758
EU-15 NW*	1,586	119	267	109	388	20	10	17	7	16
EU-15 S*	3,639	1,609	2,461	1,058	2,281	825	649	769	494	742
NMS-12*	6,789	3,909	5,328	3,965	5,838	4,997	3,393	4,401	3,406	4,729
Austria	150	16	46	21	55	0	0	0	0	0
Belgium	43	4	9	1	6	0	0	0	0	0
Bulgaria	370	295	325	254	340	177	163	171	153	176
Cyprus	39	29	34	22	32	20	19	20	16	20
Czech Republic	23	2	3	1	8	2	0	1	0	2
Denmark	42	1	1	1	6	0	0	0	0	0
Estonia	20	2	6	5	11	6	1	3	3	5
Finland	64	1	6	3	20	0	0	0	0	0
France	516	67	129	42	116	20	10	17	7	16
Germany	299	14	26	1	34	0	0	0	0	0
Greece	723	367	551	236	511	119	117	118	113	117
Hungary	577	413	459	359	496	454	367	395	323	424
Ireland	140	2	10	18	60	0	0	0	0	0
Italy	1,621	819	1,177	495	995	645	485	592	343	568
Latvia	83	10	28	39	64	59	9	25	35	51
Lithuania	200	32	117	97	170	114	24	82	65	109
Luxembourg	2	0	0	0	0	0	0	0	0	0
Malta	13	11	12	5	8	7	6	6	3	3
Netherlands	72	8	19	0	9	0	0	0	0	0
Poland	1,507	355	823	443	1,007	511	171	373	195	447
Portugal	305	152	230	117	237	57	44	55	36	55
Romania	3,859	2,732	3,459	2,717	3,632	3,590	2,608	3,277	2,593	3,438
Slovakia	24	9	15	8	18	13	7	11	6	13
Slovenia	75	20	45	16	51	44	17	37	15	42
Spain	990	270	503	211	538	4	4	4	1	2
Sweden	71	1	8	6	29	0	0	0	0	0
United Kingdom	187	4	13	16	54	0	0	0	0	0

*EU-15 NW comprises all the EU-15 countries except Greece, Italy, Spain and Portugal; EU-15 S comprises Greece, Italy, Spain and Portugal; NMS-12 comprises all the NMSs which joined the EU in 2004 and 2007.

Source: Authors' calculations using Eurostat FSS 2010 database.

Table 2: Shares of semi-subsistence farms in the EU-27, MS sub-groups and individual MS, 2010 (in %)

Member state	% of SSFs in total no. of farms within MS	% SSFs in total no. of farms less than 2 ha within MS	% SSFs in total no. of farms less than 5 ha within MS	% SSFs in total no. of farms with SO less than €2,000 within MS	% SSFs in total no. of farms with SO less than €8,000 within MS
EU-27	49	72	64	76	64
EU-15	16	38	29	43	28
EU-15 NW*	1	8	6	6	4
EU-15 S*	23	40	31	47	33
NMS-12*	74	87	83	86	81
Austria	0	0	0	0	0
Belgium	0	0	0	0	0
Bulgaria	48	55	53	60	52
Cyprus	51	66	59	73	63
Czech Republic	9	0	33	0	25
Denmark	0	0	0	0	0
Estonia	30	50	50	60	45
Finland	0	0	0	0	0
France	4	15	13	17	14
Germany	0	0	0	0	0
Greece	16	32	21	48	23
Hungary	79	89	86	90	85
Ireland	0	0	0	0	0
Italy	40	59	50	69	57
Latvia	71	90	89	90	80
Lithuania	57	75	70	67	64
Luxembourg	0	0	0	0	0
Malta	54	55	50	60	38
Netherlands	0	0	0	0	0
Poland	34	48	45	44	44
Portugal	19	29	24	31	23
Romania	93	95	95	95	95
Slovakia	54	78	73	75	72
Slovenia	59	85	82	94	82
Spain	0	1	1	0	0
Sweden	0	0	0	0	0
United Kingdom	0	0	0	0	0

*EU-15 NW comprises all the EU-15 countries except Greece, Italy, Spain and Portugal; EU-15 S comprises Greece, Italy, Spain and Portugal; NMS-12 comprises all the NMSs which joined the EU in 2004 and 2007.

Source: Authors' calculations using Eurostat FSS 2010 database.

2.2 Structural change in European Union agriculture

Structural change can be defined as the process of *"recombining and redeploying the resources used in agriculture"* (Lobley *et al.*, 2002). Changes in the mix of land, labour and capital used in farm production, in parallel with the application of new technologies and equipment, usually lead to an increase of the competitiveness and efficiency of the

agricultural sector. From this point of view, structural change is a positive and politically desired development. At the farm level, structural change is most often linked to the mechanisation of farm operations, increased use of purchased inputs and greater farm specialisation.

The main drivers of structural change are technological progress, institutions (formal and informal), market forces and policy reforms. There is also a link between macroeconomic conditions and the speed of structural change in agriculture. The macroeconomic environment affects the opportunities for farm labour to find work and income in non-agricultural sectors. During periods of economic growth and low unemployment, labour is "*pulled*" out of agriculture, thus accelerating the adoption of labour-saving technologies and structural change. During economic recessions, as currently observed in the Southern EU MSs, labour is "pushed" back to agriculture and farming serves as a buffer against urban unemployment.

In recent decades, the main driver of the changes in the farm structures in NMSs from Central and Eastern Europe were the economic reforms across all sectors, taking place at the same time as major political reforms. Important factors affecting agricultural structural change have been institutional reforms, which reinstated private property rights in land and privatised non-land farm assets.

One factor which affects the rate of structural change in agriculture, and is specific to Europe, is accession of a country to the EU. EU membership and adoption of the CAP can have different consequences for structural change in different countries depending on the initial farm structure, land tenure system and the pre-accession support to agriculture. Hubbard and Ward (2012) indicate that structural change in Irish agriculture was initially slow after accession in 1973 due to the increasing level of farm support that accompanied adoption of the CAP and a tradition of owner-occupied, small-sized family farms. On the other hand, in Spain, after accession in 1986, a significant proportion of farms found it difficult to attain profitability and competitiveness in the larger EU market, and structural change accelerated (Ceña Delgado, 1997).

The case studies undertaken for this project corroborate these findings. In Finland, after accession in 1995, the profitability of farming, and especially of small farms, decreased substantially and structural change accelerated, particularly during the first years after accession. However, in Slovenia and Romania Pillar 1 payments seem to have slowed down structural change and small farms remained strongly represented in their farm structure. In Malta, the number of small holdings even increased, since some tiny holdings, which pre-accession had not produced or sold much, registered to become eligible for CAP payments. Therefore, depending on the initial conditions and the effect of accession on farm incomes, EU membership in general, and the CAP measures in particular, can have different impacts on structural change in agriculture.

2.2.1 Institutional factors affecting structural change

The prevalence of small and SSFs in those European countries studied here is not a new phenomenon and has been strongly shaped by legal institutions. Of particular importance are the redistributive land reforms, the laws of succession, and the collectivisation and de-collectivisation of agriculture in the NMSs from Central and Eastern Europe. Military conflicts and the need to settle population displaced as a result of wars (for example in Greece and eastern Finland) have also slowed down the structural change and have contributed to farm fragmentation.

Historically, almost all of the studied countries have had redistributive land reforms expropriating land from large estates, and allocating it to landless farm workers and farmers who then had small plots of land that could not sustain their households. Based on equity and historical considerations, these land reforms created (or recreated) a pervasive fragmented farm structure. A contributing factor following such land reforms has been provisions limiting the agricultural area that could be owned; these impeded land reallocation through free market transactions, e.g. in Greece, and in some of the Central and Eastern European countries under the centrally planned system.

Table 3: Institutional factors affecting structural change

Country	Factors
Finland	The land Acquisition Act in 1945 aimed at settling refugees from the eastern province of Karelia, creating more than 100,000 new small farms. Restrictions on the expansion of large farms (especially for pig producers) aimed at keeping the highly protected domestic market for smaller farmers but not exclusively for SSFs. All restrictions were subsequently removed.
Greece	*Code Napoleon*. Succession of land reform acts at the beginning of the 20th century expropriated land from large estates and allocated it to landless peasants and war refugees; legal provisions in 1952 limited the ownership of agricultural land by absentee landowners to 25 ha and by owner-operators to 50 ha. The restrictions were removed in 1961.
Italy	Until 2006, the *Code Napoleon*. In 2006, a new act allowed farmers to identify their successor and pass on the farm as a single economic unit. Redistributive land reform in 1950s expropriated land from large estates in the south and allocated it to peasants and farm workers – average size of newly created farms 6 ha.
Malta	*Code Napoleon* applied to both owned and leased land, since around two-thirds of Malta's agricultural land is owned by the Government but leased under historic arrangements to individual farmers.
Poland	Land reform in late 1940s by the communist Government which expropriated the large estates. The failure of forced collectivisation and the return in 1956 of around 80% of cooperative land to small private farmers brought about a very fragmented farm structure, particularly in the south and east of the country.
Romania	Land reform introduced by the communist Government in 1945 expropriated land owned above 50 ha and distributed it to landless farm workers and farm households with less than 5 ha. In regions where collectivisation was not successful the average farm size was 2.3 ha. Post-communist land reform in 1991 restituted land up to a maximum limit of 50 ha arable land per household.
Scotland, UK	Land reform in the late 19th century in the Highlands gave small farmers ("crofters") virtual ownership over household plots, and grazing rights on surrounding hillsides, within very large estate land ownerships used mainly for sport, forestry and large-scale tenanted farms.
Slovenia	Historically, the *Code Napoleon*. Subsequent law by the Austro-Hungarian monarchy aimed at limiting the splitting of the assets of middle sized-farms, but was implemented only in one region in Slovenia. The communist Government attempted collectivisation in the 1940s, during which the limit to private farmers' land was set at 10 ha.

Most of the EU MSs characterised by a prevalence of small and SSFs have the *Code Napoleon* inheritance system which requires assets to be passed to all children of the deceased in equal shares. Thus, the farmer is not free to choose one successor and transfer the farm as a single economic unit. The effect of this succession law is the fragmentation of both farms and agricultural land (fields). Faced with the inefficient outcome of *Code Napoleon*, some countries, e.g. Italy, recently changed their legal provisions and freed up farmers to choose their successors.

Some institutional factors that have been underlined in the country case studies are presented in the Table 3.

The reforms in Central and Eastern Europe in the 1990s included restitution of land ownership to pre-collectivisation land owners or their heirs. In many cases, this replicated the pre-World War II farm structure which was, in many cases, highly fragmented.

The impact of the institutional and political factors on farm structure and structural change in Europe is so strong that even the most well-thought-through policy measures may not be effective, at least in short-term, to consolidate very small farms.

2.2.2 Technical progress

As mentioned above, structural change in agriculture is often linked to farm mechanisation and increased use of purchased inputs, both features of technical change in farming. Agricultural research and development has led to the availability of larger machines and buildings, which are not only more efficient in themselves (e.g. in use of fuel), but strongly encourage the exploitation of scale economies, i.e. larger enterprises, fields and farms. Most new farm equipment is designed for medium- or large-scale farming rather than small-scale operation. Even operational practices required by policy such as land mapping, livestock tagging, and market labelling involve expenditure of effort and money which is more easily afforded by larger units.

By contrast, much if not most new agricultural technology does not lead to lower-cost or higher production in small-scale farming, with some exceptions such as new crop varieties and mobile phones, where scale is largely immaterial. Household food needs are obviously small-scale and varied, for example, vegetables, fruit, eggs, meat and milk. The adoption of technological innovation may require the acceptance of risk-taking and entrepreneurship which may be rare amongst the often older producers found on small and SSFs. It has been reported that in Romania because of the elderly farm population, "*innovation in promising technologies and farm enlargements are hardly to be expected"* (Salasan and Fritzsch, 2009).

A further factor to be considered is that the installation and efficient use of much new technology usually requires advice and often occasional servicing by supplier agents or experts such as engineers, agronomists or veterinarians. Farm visits by such personnel are expensive (unless made by state paid extension services, but they are seldom experts in a particular technology), while visits by the farmer to service points can be time-consuming, costly and frustrating.

The net result is that larger farms have tended to become more efficient over time as they take up technological innovations, while small-scale farms have had more limited opportunities to do so. Thus, the former can generally out-compete the latter via lower cost production, allowing them to sell at market prices which permit the generation of profits and the purchase of land and other inputs, a process which stimulates structural change.

2.2.3 Changes in the farm structure in the EU in the decade since 2000

There are two patterns of structural change common to all EU members: first, the exit of labour from agriculture; and second, changes in the number of holdings and their average size (Blandford and Hill, 2005).

Looking first at the most recent data concerning the exit of labour from agriculture, agricultural labour in the EU-27, measured in annual work units (AWU)[1], decreased by 27% between 2003 and 2010 (Table 4).The important message revealed by the data is that after 2003, on average, the highest rate of labour exit from farming was recorded in the NMS-12, and particularly in the smallest holdings of less than 2 ha.

The exit of labour from agriculture is often associated with part-time farming, which is becoming more and more typical in the EU. Often (though not always, especially in the EU-15), part-time farming is related to a survival strategy of farm households who use non-farm income to support their farm operations. This is particularly true for small farms. Therefore, the exit of labour from small farms does not necessarily correspond to the disappearance of these farms and can have the opposite effect – making them more resilient.

Table 4: Agricultural labour directly employed by all farms and by farms smaller than 5 ha and 2 ha, EU-27 and MS sub-groups, 2003 and 2010 (in thousand AWU)

EU groupings	In all farms			In farms smaller than 5 ha			In farms smaller than 2 ha		
	2003	2010	Change 2010/ 2003 (%)	2003	2010	Change 2010/ 2003 (%)	2003	2010	Change 2010/ 2003 (%)
EU-27	13,351	9,761	-27	6,527	4,093	-37	3,866	2,326	-40
EU-15	6,326	4,903	-23	2,111	1,419	-33	1,107	754	-32
EU-15 NW*	2,783	2,267	-19	381	244	-36	173	113	-34
EU-15 S*	3,543	2,636	-26	1,730	1,175	-32	935	640	-31
NMS-12*	4,025	4,859	-31	4,415	2,674	-39	2,759	1,572	-43

*EU-15 NW comprises all the EU-15 countries except Greece, Italy, Spain and Portugal; EU-15 S comprises Greece, Italy, Spain and Portugal; NMS-12 comprises all the NMSs which joined the EU in 2004 and 2007.

Source: Authors' calculations using Eurostat FSS 2003 and 2010 database.

The average data in Table 4 hides a variety of situations in individual MSs. In some countries with a high predominance of small and SSFs the rate at which agriculture lost labour was very slow. For example, between 2003 and 2007 there was no decrease in family labour in Poland, and the decrease in Malta was only 8%.

The desirability of the exit of labour from agriculture is much debated. From an economic point of view, it is a positive development which results in increased labour productivity and incomes for those still engaged in farming, which tend to lag behind other sectors in these respects. However, if the scale of exit from farming and the substitution of capital for labour are large and persistent, rural depopulation can undermine the vitality of rural communities in case that the labour released from farming moves to urban areas. It is reported that the disappearance of smaller family farms in the USA has resulted in the decline or even death of some rural towns and communities (Moore, 1999). The potential impact on the rich cultural heritage in Europe has also to be considered. Therefore, the effects of the exit of labour from agriculture are mixed - positive for sector competitiveness, but possibly negative for rural communities and ultimately therefore, rural resilience. This ambivalence has to be considered when future CAP measures affecting structural change are proposed and assessed.

[1] AWU is equivalent to one person full-time employed in agriculture.

The second typical pattern of structural change is a decrease in the number of farms and increase in their average size, as larger units absorb land formerly managed in a more fragmented fashion. In the UK, early industrialisation and liberalised trade saw rapid reductions in farm numbers and increases in average farm size throughout most of the nineteenth and twentieth centuries. SSFs and very small farms became few in number as workers left agriculture for more rewarding careers in other sectors and were preserved (with legislative protection) only in remote regions. In most other MSs among the EU-15, this pattern has occurred much more recently than in the UK – for instance in France it has been a marked phenomenon of the 1960s to 1990s.

Table 5 presents the change in the number of farms and in particular in the smallest ones in the period between 2003 and 2010.

Table 5: Numbers of all farms and farms smaller than 5 ha and 2 ha, EU and MS sub-groups, 2003 and 2010 (in thousands)

EU groupings	Total no. of farms			Farms smaller than 5 ha			Farms smaller than 2 ha		
	2003	2010	Change 2010/ 2003 (%)	2003	2010	Change 2010/ 2003 (%)	2003	2010	Change 2010/ 2003 (%)
EU-27	15,021	12,015	-20	10,588	8,056	-24	7,535	5,637	-25
EU-15	6,239	5,225	-16	3,452	2,728	-21	2,174	1,728	-21
EU-15 NW*	1,951	1,586	-19	442	267	-40	194	119	-39
EU-15 S*	4,288	3,639	-15	3,009	2,461	-18	1,980	1,609	-19
NMS-12*	8,782	6,789	-23	7,137	5,328	-25	5,361	3,909	-27

*EU-15 NW comprises all the EU-15 countries except Greece, Italy, Spain and Portugal; EU-15 S comprises Greece, Italy, Spain and Portugal; NMS-12 comprises all the NMSs which joined the EU in 2004 and 2007.

Source: Authors' calculations using Eurostat FSS 2003 and 2010 database.

Similar to the exit of labour, structural change in terms of farm numbers has been slightly more pronounced amongst the smallest farms, although the decline in the number of farms smaller than 5 ha and 2 ha (with the exception of the North-Western MSs) was not consistently different from the average for all size groups.

As a result of the decline in the number of farms, average farm size has increased everywhere although the differences between the South and East of Europe on the one hand, and the MSs in the North-West of Europe on the other, are still large. In 2010, the average holding size in the EU-27 was 14.2 ha, while in the North-West it was 50.1 ha, in the South 12.0 ha, and in the NMSs 7.1 ha.

The number of SSFs has been relatively stable in the EU-27: between 2007 and 2010, it declined by only 1%. However, this average change hides two different developments – a decline of 5.7% in the NMSs and a substantial increase of 35% in the Southern EU MSs. Both developments have been pronounced most of all in the smallest size group, as measured by the value of SO, i.e. SSFs with SO smaller than €2,000. The deeply rooted traditions of semi-subsistence farming in some MSs, the relative rural poverty in some areas, and the hardship stemming from the economic recession are factors contributing to the relative stability and in some cases the proliferation of SSFs.

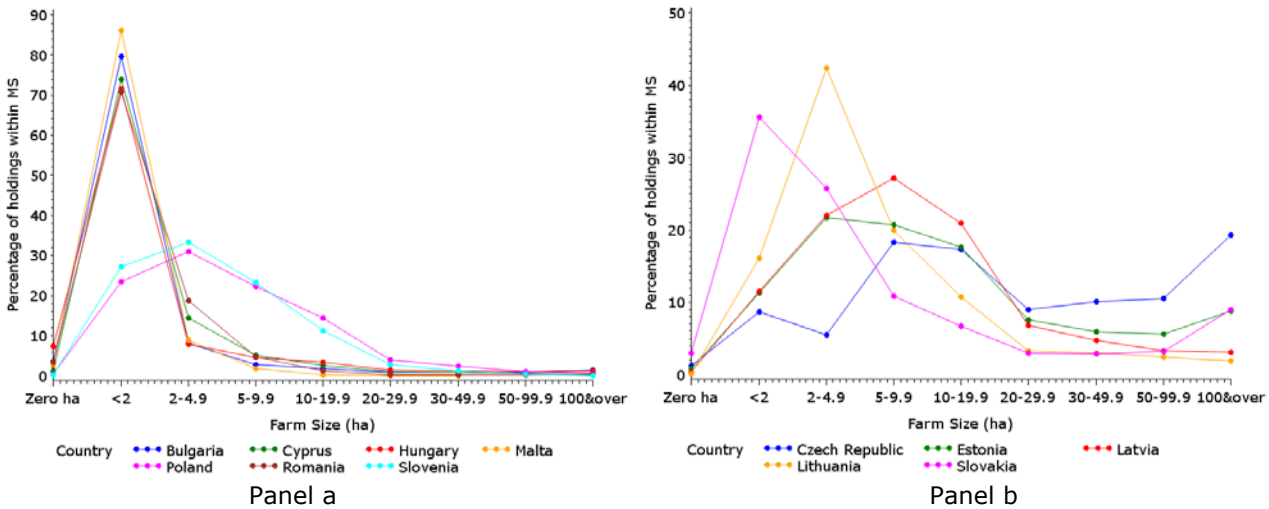
2.2.4 Farm structure in the EU today

While the previous section presented recent changes in farm structures in the EU-27, this section provides insights into the spatial distribution and importance of small, SSFs and larger farms across the territory of the EU in 2010, the last year for which there are comparable statistics provided by the Eurostat FSS. The information is consistent with the data presented in Table 1.

In 2010, there were 8.1 million farms with utilised agricultural area (UAA) less than 5 ha, incorporating 5.6 million holdings up to 2 ha. Farms smaller than 5 ha accounted for 67% of all farm holdings in the EU-27, including 78% of the farms in NMSs. They utilised only 11.8 million ha agricultural land, or 7% of the EU UAA, but engaged 42% of labour in full-time equivalents (AWU), and this proportion was 55% in the NMSs. These statistics reveal two salient features of small-scale farming in the EU: first, that it is very labour-intensive, with a high labour-to-land ratio of 0.34 full-time employed per ha; and second, that it is socially of key importance providing income and keeping millions of farmers and their households in rural areas, which without the contribution of the small-farm sector might well have been further depopulated.

However, significant cross-country differences exist. Within the NMSs, for example, the Czech Republic where most of the agricultural area is cultivated by large corporate farms is also home to a significant number of very large farms. In the case of Latvia, the most numerous farm size class lies between 5 and 10 ha. In Romania, Bulgaria, Slovakia, Malta and Cyprus, the most numerous farms are less than 2 ha, while in Slovenia, Poland, Lithuania, and Estonia, they are between 2 and 4.9 ha. Figure 1, a and b, summarises the relative importance of small farms, as measured by land area, in the total number of farms in each of the NMSs. The countries depicted in *Panel a* include those for whom large farms are relatively few, while the countries depicted in *Panel b* possess an important number of farms larger than 20 ha.

Figure 1: Farm size (ha) distributions in the NMSs, 2010



Panel a Panel b

Source: Authors' calculations using Eurostat FSS 2010 database

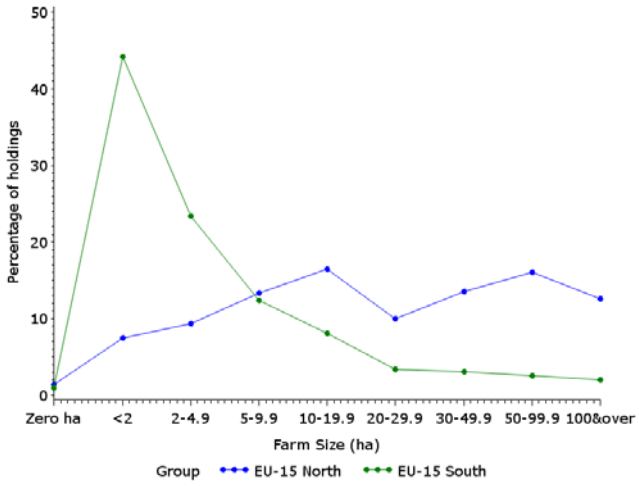
Box 1: Farm fragmentation: Poland

As is widely known, farm holdings in Poland are very fragmented. To illustrate this, it should be noted that in 2010 the average agricultural area of a farm holding was 6.81 ha (GUS, 2012) which is much less than the average in most of the EU-15 MSs and in some NMSs. This situation has slowly changed over the years (for example, in 2002 this average was 5.76 ha) but can be seen as an inherent feature of the Polish agricultural sector. Both the economic and social dimensions of small farms, in general, and SSFs, in particular, in Poland have been traditionally very important.

Source: Falkowski (2013), Case study Poland

However, the importance of small farms in the overall number of farms is not a feature confined only to the NMSs. Figure 2 presents equivalent data on the proportions of farms by area size groups for the North-Western and Southern MSs of the EU-15. It can be seen that small farms in the Southern MSs are the majority, and that the bulk of farms are less than 2 ha, in stark contrast to the distribution in the North-West of the EU-15.

Figure 2: Farm size (ha) distributions in the North-Western and Southern EU-15 MSs, 2010



Source: Authors' calculations using Eurostat FSS 2010 database.

In almost all EU MSs, older farmers manage small farms. Table 6 describes the average farm size, measured by UAA in ha, by age group of the farm holder. In some cases, the farm size by age group differs significantly from the national average farm size.[2]

The data reported in Table 6 uncovers an interesting story. First, for all countries with the exception of Romania, it is the oldest age group of farm holders which is most constrained in terms of land holding. In these countries, generational change may promote structural change if land markets are helped to function well, and if all policy induced restrictions on farm size and land transactions are removed. If land markets do not function well (for lease as well as for sale), the next generation of younger inheriting farmers may find itself forced to enter the same small-scale farming structure. Second, in Romania it is the youngest age group which has the smallest land holdings. This suggests that, in Romania, in addition to well-functioning land markets, there is a particular need to support land acquisition by young farmers.

However, as indicated previously, land area has some shortcomings as an indicator of size. When economic size is considered, the prevalence of small farms in Europe is even more

[2] The national average includes all family owned and managed farms but excludes corporate and "other" farms.

striking: 8.5 million holdings, or 73% of all holdings, have SO below €8,000. Rural areas in the NMSs are the home of 5.8 million of these farm holdings, accounting for 89% of all holdings in these countries. In the EU-15, these farms are typical of the Southern MSs only. Farms with SO below €8,000 employ a considerable amount of resources - 4.1 million full-time labour equivalents, which translates into nearly 13 million persons. They utilise 22.6 million ha or 14% of all UAA in the EU-27, including 26% of UAA in the NMSs. In the current world situation of high food prices and competition for agricultural land between food and biofuels production, the decisions of small farmers about the use of agricultural land in Europe appear to be important. However, the contribution of these farms to the overall SO produced in the EU-27 is marginal: holdings with SO less than €2,000 produce only 1% of the SO in the EU (6% in the NMSs), and the shares of holdings smaller than €8,000 are 6% and 22% respectively. Thus, from a production point of view, these farms have some importance in the NMSs only. Having in mind the large amount of people they employ, the small farms appear to be more "social units" than agricultural production ones.

Table 6: Average farm sizes by farm holder age in MS, 2010 (in ha)

Member State	65 years or over	From 35 to 44 years	From 45 to 54 years	From 55 to 64 years	Less than 35 years	Average UAA for family farms
Austria	8.2	19.7	18.4	16.5	19.2	17.5
Belgium	13.1	40.1	36.4	30.9	39.0	31.0
Bulgaria	1.4	10.8	7.3	4.1	9.7	4.8
Cyprus	2.2	3.6	3.2	2.5	4.0	2.7
Czech Republic	34.3	60.9	52.5	50.8	52.0	51.2
Denmark	36.0	79.9	68.4	54.8	84.3	61.4
Estonia	14.5	35.0	32.5	24.9	26.7	25.2
Finland	20.0	45.4	38.4	28.8	46.7	35.8
France	10.5	57.6	49.8	37.3	61.3	43.2
Germany	36.9	48.0	48.3	46.2	43.6	46.8
Greece	3.1	7.0	5.3	4.3	8.4	4.8
Hungary	2.4	5.1	5.5	4.7	5.1	4.3
Ireland	28.3	37.5	34.2	31.7	34.4	32.6
Italy	5.1	10.8	8.6	6.4	12.6	7.2
Latvia	11.8	31.1	25.8	19.6	30.6	21.5
Lithuania	6.5	16.9	14.7	10.3	26.9	11.9
Luxembourg	22.5	73.9	68.8	59.3	77.4	60.6
Malta	0.7	1.1	1.0	0.9	1.1	0.9
Netherlands	16.6	31.9	28.0	26.0	27.0	26.0
Poland	4.1	9.2	9.1	7.9	9.9	8.6
Portugal	6.5	13.8	10.9	7.7	16.9	8.4
Romania	1.84	2.0	2.1	2.0	1.77	1.9
Slovakia	6.4	23.7	20.3	16.2	25.5	16.5
Slovenia	4.6	8.5	7.1	5.5	9.8	6.1
Spain	12.3	24.7	20.7	18.1	26.0	17.9
Sweden	24.8	43.1	43.1	39.5	39.2	37.0
United Kingdom	65.3	88.0	87.7	79.1	77.4	77.7
EU-27	**5.8**	**14.2**	**14.6**	**11.1**	**12.9**	**10.9**

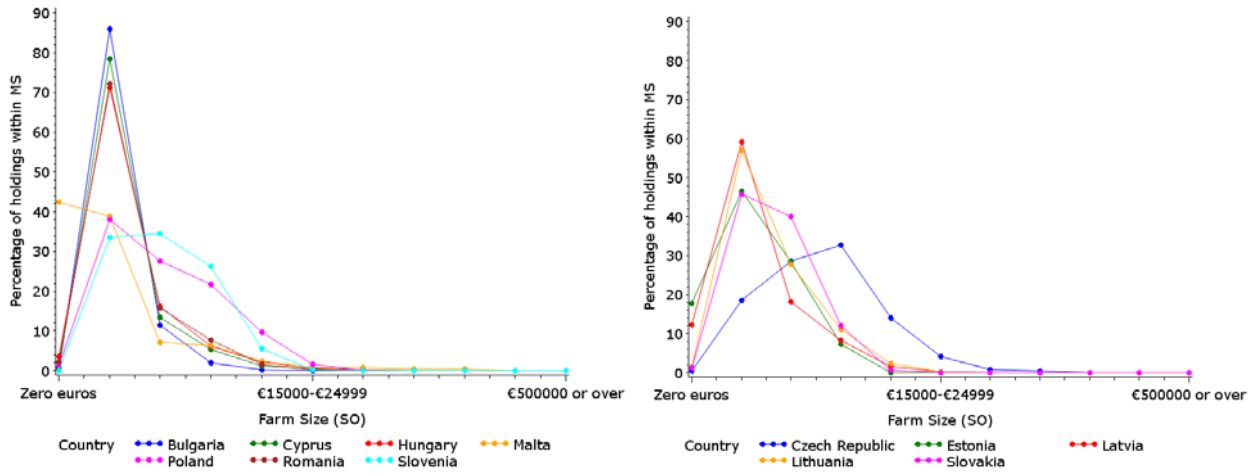
Source: Authors' calculations using Eurostat FSS 2010 database.

When the focus is on semi-subsistence, SSFs are often simply small farms measured by economic size. As presented in Table 1, in 2010 there were 5.8 million SSFs: the majority are located in the NMSs and in the Southern EU-15. An extreme case is Romania, with 3.6 million SSFs which account for 93% of the overall number of farms in the country.

There is no comparable data on the size of SSFs, measured in ha, for all EU-27, but there is information about their economic size. Only a very small proportion (2%) of SSFs has a zero SO. At first glance, there is a contradiction between farms having no SO but still covering some of the consumption needs of the farmer's household. However, the products of kitchen gardens are not valued in terms of SO. Kitchen gardens are areas of an agricultural holding devoted to the cultivation of agricultural products which are not intended for selling but for consumption by farmers and their households (Eurostat, 2013b). Kitchen gardens are spread more widely than only in the group of SSFs with zero SO, but overall they occupy a negligible land area in the EU-27 (346 thousand ha).

There is a pattern in the EU that semi-subsistence disappears with the increase in economic size of the farm. Figure 3, a and b, presents the proportions of SSFs within each SO size group for the NMSs (for ease of comparison, the countries in each panel are the same as in Figure 1). There is no country where semi-subsistence appears important above a SO of €25,000. However, for a number of MSs - Bulgaria, Estonia, Hungary, Latvia, Lithuania, Romania and Slovakia - semi-subsistence is confined to those farms below an SO of €8,000.

Figure 3: Semi-subsistence farms as shares of all farms classified by SO, NMSs, 2010 (in %)



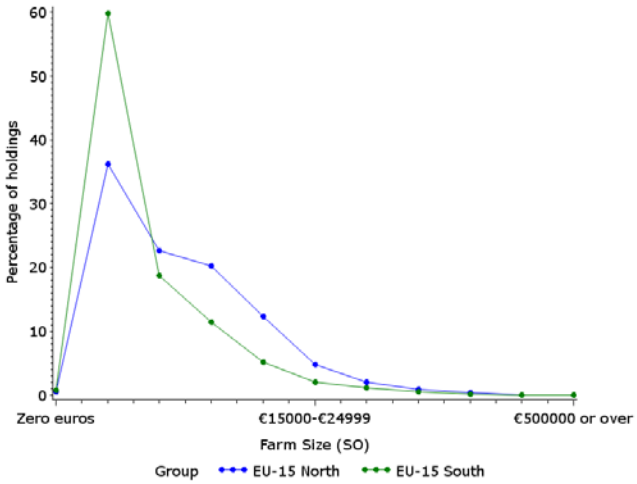
Panel a Panel b

Source: Authors' calculations using Eurostat FSS 2010 database.

Figure 4 demonstrates the importance of semi-subsistence across the EU-15. Semi-subsistence farming is far more common in the smaller farm groups in the Southern MSs. Again, it disappears as farm sizes increase.

Overall, the analysis of farm structure today reveals that, despite structural change, farm fragmentation and semi-subsistence are still pervasive in the EU.

Figure 4: Semi-subsistence farms as shares of all farms classified by SO, EU-15, 2010 (in %)



Source: Authors' calculations using Eurostat FSS 2010 database.

Box 2: Semi-subsistence farms: Poland

In Poland, the share of farmers consuming more than 50% of their output in 2007 was 63% for farms in the size class 0-1 ha, 48% for farms 1-2 ha, and 2.4% for farms over 100 ha. In 2010, these shares were 54%, 48.3% and less than 1% respectively (GUS, 2008). Over the years, the share of households producing only for their own purposes, and thus the typical subsistence farmers, was the highest among pensioner households. In 2007 and 2010, this share amounted to 54.7% and 56% respectively (GUS, 2008, 2012).

Source: Fałkowski (2013), Case study Poland.

3. ROLES OF SEMI-SUBSISTENCE AND SMALL FARMS IN RURAL EUROPE

KEY FINDINGS

- In the context of high under- and un-employment, inadequate state pensions and cuts in public sector salaries, small-scale and semi-subsistence farming represents an important contribution to household budgets, increases food security at household level, and mitigates rural poverty.
- Due to the variety of consumption needs, semi-subsistence farms often practise **mixed farming**, which contributes to a **scenic landscape** and to **biodiversity**, though not necessarily **much** more than other types of farming. Their role in supplying traditional and consumer-trusted food products is valuable though limited.
- Where available, **off-farm employment** can help to **improve the living standards** of semi-subsistence and small farm households. Facilitating **entrepreneurship** in rural areas and providing incentives to **small- and medium-size enterprises** to create and sustain rural jobs may be more important than supporting semi-subsistence and small farms directly through CAP measures.
- Small and SSFs in the EU appear to follow three development paths:
  1. **disappearance** due to absorption into larger commercial farm holdings, or to land abandonment;
  2. **transformation** into small commercial farms via greater market integration; and
  3. **continuation** of SSF status in the longer term, through (a) diversification with on- or off-farm enterprises; (b) through non-agricultural wage employment and part-time farming; or (c) through "forced" re-entry of successive family generations due to the lack of alternative income sources.
- No single policy support measure, even a well-targeted one, is likely to be wholly appropriate for all types of farms and all development paths: **this is not a one-size-fits-all situation.**
- A SWOT analysis of small and SSFs identifies a number of relevant strengths, weaknesses, opportunities and threats.

As mentioned in Chapter 2, SSFs appear to be more a "*social*" than a productive unit. As such, they play an important role as a safety net in the poorer of the EU MSs and regions, and as a buffer even in the richer countries in periods of economic recessions and increasing unemployment. At the same time, they may provide public goods through the use of extensive land management and livestock grazing, and maintain the natural environment and its biodiversity. Customarily, they preserve local traditions and food crafts, and create attractions for rural tourism. In his speech at the ENRD conference on "*Semi-subsistence farming in the EU: current situation and future prospects*" in Sibiu, Romania, European Commissioner of Agriculture and Rural Development, Dacian Cioloş, emphasised: **"***Within the European Union there are entire regions where small farms play a vital role, not only in economic terms, but also from a social and environmental point of view. There are regions, such as the one that is the location for today's event, where the small-scale producer represents the cornerstone of rural life and the guardian of traditions and rural consciousness*" (Cioloş, 2010).

One of the key questions, however, is to what extent there is evidence of SSFs and small farms' value to rural areas. This chapter provides some evidence and devises possible paths of development of small-scale farming in Europe. At the end, it summarises the strengths, weaknesses, opportunities and threats (SWOT) of SSFs and small farms in the EU.

3.1 Value of semi-subsistence and small-scale farming to rural Europe

3.1.1 Welfare

One of the most important roles of SSFs and small farms, particularly in the NMSs and in the poorer regions in the Southern EU-15, is their function in supporting social and economic welfare. In the context of high under- and un-employment, inadequate state pensions and cuts in public sector salaries, small-scale farming represents an important contribution to household budgets, increases food security at household level, and mitigates rural poverty. The EU-funded collaborative project "*Structural Change in Agriculture and Rural Livelihoods*" (SCARLED) valued the subsistence production of 660 farm households in Bulgaria, Hungary, Poland, Romania and Slovenia, and measured its contribution at market prices to household incomes and its potential to lift people out of poverty. Table 7 exemplifies the welfare importance of subsistence production, particularly for poor households.

Table 7: Contributions of subsistence production to incomes and poverty alleviation (in %)

	Bulgaria	Hungary	Poland	Romania	Slovenia
All households	28.3	6.0	23.5	32.7	12.5
Poor households[3]	39.5	19.1	40.4	50.8	23.3
Proportion of poor lifted out of poverty through subsistence production	12.1	4.8	7.5	2.3	8.6

Source: Davidova *et al.* (2011).

As can be seen, semi-subsistence farming in Romania plays a critical role for poor households for whom the value of food that is non-marketed or informally traded accounts for more than 50% of income. In Bulgaria, SSFs have the largest effect in lifting households out of risk of poverty.

The unfavourable age structure of SSF holders emphasises the welfare function of semi-subsistence farming. Over 35% of semi-subsistence farmers in the EU are 65 years old or over, 23% are between 55 and 64 and only 41% are younger than 55. Europe 2020 formulated the adequacy and sustainability of pensions as one of the challenges for Europe and presented the retirement income in EU-27 and by MS in relation to its adequacy to prevent people aged 65 and over from being at the risk of poverty (European Commission, 2013a). Pensioners in eight EU NMSs, including countries with a large SSF sector such as Bulgaria, Poland and Romania, and the Southern EU-15, face higher risks of poverty than that of the average for this age group in the EU. Bulgaria is an extreme case with a very low pension adequacy. In these countries, SSFs are essential to top-up incomes and cover part of household food consumption under conditions of underdeveloped welfare systems.

[3] These are households at the risk of poverty, as defined by Eurostat, having income below 60% of the median income in the particular country.

Box 3: Welfare function of semi-subsistence farms: Romania

Semi-subsistence farming in rural Romania represents more than a lifestyle. It is "a way of surviving", as shown by the large share of the imputed value of agricultural self-consumption within the total food expenses of an average Romanian household. Dumitru (2010) estimates that some 70% of Romania's poor people live in rural areas. The economic crisis beginning in 2008 hit Romanian society very hard, with people on fixed incomes being most affected. In 2010, public sector workers saw their salaries cut by 25%, and pensioners had their income sliced by 15%. Additionally, a value added tax of 25% applies to all food products. All of these factors forced not only rural but also urban households to rely on food produced within the household or provided by relatives from the countryside. Currently, as in the early 1990s, subsistence and semi-subsistence farming acts as a social buffer.

Source: Hubbard (2013), Case study Romania.

Box 4: Welfare function of semi-subsistence farms: Italy

In past decades, there was little interest in the role played by small farms in terms of household food security and income contribution, i.e. the mitigation of rural poverty. Since the start of industrialisation, farming has been perceived as a low-income, "old" (as opposed to modern) activity. These decades were characterised by an abundance of food and low proportions of low-income households. However, as a result of the current recession and increasing unemployment, the incidence of low-income and poor households has increased, and access to food has become a social and political issue once again, and people have started looking again at farming and farm businesses as a way to supplement household incomes.

Source: Salvioni (2013), Case study Italy.

3.1.2 Environmental benefits

Agriculture is widely recognised to be multifunctional in the sense that it jointly produces multiple outputs - a range of marketable food and fibre outputs alongside environmental outputs, both positive, such as landscape amenities and biodiversity, and negative, such as nitrogen surplus and other pollutants. These environmental outputs are rarely produced as a deliberate decision of the farmer. They are externalities of the farming process.

It could be expected that there would be differences in the production of environmental externalities between small and large farms, and between subsistence and commercial farms. Farmers managing commercial farms have a larger financial capacity to purchase inputs, including fertilisers and pesticides, in order to increase the intensity of production, while most SSFs would be likely to use more extensive land management and produce fewer pollutants than commercial farms. In the EU-15, a continuous trend towards extensification has been observed since 2004. On the other hand, in the 10 MSs which joined the EU in 2004, the share of UAA managed by medium- and high-intensity farms has increased while the share of UAA managed by low-intensity farms has decreased (to about half), indicating intensification (European Commission, 2012c).

Usually, SSFs produce a range of crops and animal outputs in order to meet their households' dietary needs. On the other hand, market engagement and scale economies encourage commercial farmers to specialise in the production of products in which they hold a comparative advantage. This difference may result in a greater output of landscape and farmed biodiversity by SSFs. For example, it is reported that SSFs in Romania produce

a variety of crops, from maize (which is used both for human and animal food) to potatoes, beans, vegetables and fruits, and most have 1 or 2 dairy cows, a few poultry, and several sheep or goats (Alexandri and Luca, 2012). Due to the variety of consumption needs, SSFs often practise mixed farming, which contributes to a scenic landscape and to biodiversity. In 2010, in countries with a large SSF sector, e.g. Bulgaria, Poland, Portugal, Romania and Slovenia, between 15 and 20% of SSFs were mixed farming. Page (2010) argues that the fragmented management of SSFs "*creates a complex mosaic which is very biodiversity-friendly*".

However, the beauty and ecological value of a landscape are both likely to be positively affected by the scale of that landscape. A small-scale but diverse farm landscape made up of fields, hedges and meadows placed within a wider landscape of large mono-cropped fields system is likely to be far less valuable than it would be if set within a similarly diverse wider setting. These network-type relationships are likely also to extend to other important dimensions including the protection of water courses and drinking waters (Winqvist *et al.*, 2011). Therefore networks (groups) of SSFs and small farms producing positive and "connected" environmental externalities might be a reasonable option in order to maintain and increase the value of these farms for the environment.

In order to provide some insights for this study, we tried to quantify the relationship between biodiversity on the one hand, and farm size and market integration on the other, using a detailed survey of 557 agricultural households conducted in Bulgaria, Poland and Romania as part of the SCARLED project. Market integration is considered as a share of output sold, farm size is expressed in hectares, and a farm biodiversity index is used as a proxy for positive environmental output; diversity decreases with pollution (Suta, 2011).

The result of the analysis indicates that a unit increase in farm biodiversity is associated with a 0.34 point reduction in market integration. Therefore, *SSFs do appear to produce more farmed biodiversity than commercial farms*. However, while the relationship is strongly statistically significant, the estimated effect is rather small. This suggests that the promotion of market integration by SSFs (as currently by the Pillar 2 Measure 141 supporting SSFs undergoing restructuring) may have a cost to the environment but this cost will be small. On the other hand, no significant relationship between small farms, as distinct from SSFs, and farm biodiversity was found in our analysis therefore we cannot provide strong evidence than small farms offer more or better environmental public goods than larger holdings on a like by like basis (i.e. per hectare or per ESU). However, these conclusions are based on a small sample of farms and other anecdotal evidence of both positive and negative impacts suggests that more research is necessary in this area. There is no a priori reason why small farms should not be better than larger farms in view of environmental public goods, except insofar as to date there are MSs where farm advice on input use has only really targeted the larger and more commercial producers, particularly where such advice is itself a private sector-driven phenomenon.

3.1.3 Food supply chain and traditional cuisine

Small family farms may preserve local culinary traditions and cuisines, with knowledge about how to produce, grow and prepare food in specific localities passed down informally from generation to generation (Fonte, 2008). For much of the post-war period in both Western, and Central and Eastern Europe, local knowledge and traditional cuisines were often regarded as of little importance, with modernisation, intensification and consolidation of farming viewed as imperative for feeding growing urban populations cheaply and safely. However, in some countries such as Italy, traditional cuisine remained integral to local

identity. There, small farms have been central to the recent rapid growth of local supply chains as an alternative to globalised food sold in supermarkets. Food sold by local farmers is perceived by consumers as being of higher quality, specifically as fresher, more diverse, tastier and more environmentally friendly (fewer "food miles", and often organic). In addition, local food is perceived to carry social benefits since its consumption boosts local economies (Brunori *et al.*, 2012; Kneafsey *et al.*, 2013).

In Central and Eastern Europe, during the socialist era, home production and traditional foods endured in large part due to failures and shortages within socialised food supply chains (Gorlach *et al.*, 2006). Household plots and small farms remained the "*connective tissue*" of rural communities, preserving habits and lifestyles largely unsupported by the state.

Local cuisines and food traditions are endogenous resources which can be valorised and marketed (Bowen and De Master, 2011). This may be of considerable economic value where consumers wish to (re)connect with farmers, to sample speciality foods or to consume products from their own region to establish a firmer sense of local identity. However, using traditional production methods and cuisines as a basis for rural development strategies is not without problems. The relevant markets are quite limited, highly fragmented (e.g. by product and sourcing) and vulnerable to economic downturns. Moreover, it is not clear that small farms have a comparative advantage over larger enterprises, which are often in better touch with supply channels and consumer preferences. In some places, traditional foods have largely vanished, and involvement in small-scale farming is decreasing rapidly in countries such as Hungary and Slovenia. In these countries, the prevalence of rural households keeping livestock is waning, so that fewer know how to make, for example, traditional sausages or smoked meats. Concerning the role of SSFs and small farms in the local food chains the authors of the Slovenian interview report said: *"In the last decades this aspect was constantly losing its importance, coinciding with gradual development of market relations and with strengthening of a new class of professional large family farms. Possibilities of small farms to enter the formal markets, including local food supply chains, are diminishing"* (Erjavec and Juvančič, 2013).

3.1.4 A vibrant rural non-farm economy

As presented in Chapter 2, small farms with SO less than €8,000 occupy 13 million people, full- or part-time. They and their households inhabit rural areas, and maintain land, cultural life, and some services in the villages. Their disappearance would not only result in agricultural and perhaps environmental loss in terms of land abandonment in some marginal agricultural areas, as reported for the phenomenon of "crofting" in Scotland, but may mean depopulation in more geographically remote areas. In the following text the value of crofts - small pluriactive farms in the more remote parts of Scotland - for the countryside is emphasised:

"Absenteeism and neglect were the most frequently mentioned issues in the evidence submitted to the Crofting Inquiry in 2007, along with the need to help the young generation into crofting…There has been a long-running debate about whether crofts should be amalgamated to form viable agricultural holdings or if they should continue to follow a pluriactive tradition, drawing most of their income from off-farm employment… While it had generally been recognised that amalgamation of holdings on the necessary scale would empty the countryside of people, nevertheless crofting has continued to be viewed by policy makers (and especially civil servants) as essentially small-scale farming" (Shucksmith and Rønningen, 2011).

The above quotation, characterising the debate in Scotland, identifies the role of small-scale farming beyond its agricultural contribution, i.e. in keeping rural areas populated. On the other hand, as presented in Chapter 2, SSFs are often run by old farmers, many of pensionable age. To slow down rural out-migration and increase the appeal of rural areas to younger people, the interlinkages with the non-farm rural economy are of key importance. This is particularly necessary in view of the abundance of labour in small and SSFs, a proportion of which is either underemployed or not fully employed for some seasons of the year.

There are likely to be important interdependencies between small farm households and their local rural economy. Off-farm employment is an important feature of farming throughout the EU, even on larger farms, and a major source of income on all but the largest farms (Hill, 2012). While some farm family members may be fully engaged in off-farm activity, others may do so at times when their labour is not required on the family farm. On the other hand, the supply of labour from small and SSFs can improve efficiency and welfare in other sectors of the rural economy. Small farm holders and other household members are often employed on a seasonal or part-time basis in local retail shops, agricultural supply and marketing businesses, restaurants and other (possibly tourist) services in the villages and small rural towns. In areas with a significant population of small farms, labour supply from farms can be large enough to ensure that the rural non-farm economy remains vibrant. Beyond the direct wage benefits that small farm household members may enjoy, the work in rural non-farm sector may help by improving their skills.

3.2 Diversification of small and semi-subsistence farms: the importance of farming activity within farm households

Diversification can take various forms, usually beneficial for small farmers themselves and for the rural economy. Farm holders may combine capital and labour and start a non-agricultural business on- or off-farm, or they can diversify their income sources through non-agricultural activity. Often, diversification develops through the establishment of new enterprises on the farm using novel equipment and/or methods. Policy measures in these cases may favour small producers, e.g. subsidies for renewable energy installations (Möller, 2009), or exemption from business taxation for tourist enterprises, but significant initial capital costs or uncertainty over revenues are frequent barriers to diversification, especially for small producers. All the case studies indicate that a lack of capital and difficult access to credit by SSFs and small farms are major constraints to their development and diversification.

Box 5: Off-farm diversification: Portugal

Off-farm diversification activities include jobs inside and outside agriculture, small agro-industries and rural tourism, among others. The main barriers to diversification of SSFs include the difficulty of access to credit, the advanced age of many farmers (whose average is 55 years old), their low education, and sometimes remoteness.

Source: Dos Santos (2013), Case study Portugal.

Table 8: Shares of farms with a main other gainful activity by the farm holder-manager in the total number of farms by economic (SO) and physical (ha) size in selected MSs, 2010 (in %)

	Bulgaria	Slovenia	Czech Republic	Cyprus	Malta	Poland	Slovakia	Hungary	Latvia	Lithuania	Estonia	Portugal	Greece	Italy	Romania	Spain
Less than 2 ha	78	75	52	48	43	43	41	38	35	31	30	25	25	23	21	17
Less than 5 ha	77	69	48	47	43	41	42	38	34	31	32	25	22	22	20	18
Less than €2,000	82	n.a.	54	49	44	46	n.a.	39	35	33	33	25	26	24	21	21
Less than €8,000	80	n.a.	49	48	45	40	n.a.	39	34	32	31	25	23	23	20	20

Note: n.a. - not available

Source: Authors' calculations using Eurostat FSS 2010 database.

Concerning activity diversification, comparative data for the EU MSs is provided by Eurostat on whether different types of household members engage in other non-farm gainful activity. This information is available for two qualitative levels, Main (activities which occupy more time than farm work done for the holding) and Subsidiary (activities which occupies less time than farm work done for the holding). Table 8 reports the proportions of small farms by SO group and by area for which the holder-manager holds a second, but more important, occupation than farming (i.e. a "Main other gainful activity"). The countries are arranged according to the relative importance of the main other gainful activity for the smallest farms with less than 2 ha. For Bulgaria, part-time farming is a feature of more than half of the small farms, irrespective of whether the size is measured in economic or area terms. It is also very important in Slovenia and to some extent in the Czech Republic. However, in Romania, where farms under 2 ha account for about 90% of all farms, only about one fifth of the holder-managers of these farms have another gainful activity more important than farming.

The interpretation of such data needs care: it is possible that part-time farming acts as a coping strategy for the smallest holdings in the face of low farm incomes, but, conversely, it may emerge from "hobby farming", or farming to derive non-pecuniary benefits. However, one important policy point emerges from the above data. The creation of non-farm jobs is crucial to sustain some of the small and medium-sized farms, and to provide cash income which may decrease the reliance on subsistence production as a safety net. Facilitating entrepreneurship in rural areas and providing some incentives to small- and medium-sized enterprises to create and sustain rural jobs may be more important than supporting SSFs and small farms directly through CAP measures.

3.3 Do semi-subsistence farms have a political voice?

In order to influence the policy process and to promote their interests (in agriculture or the rural economy in general), farmers need political representation and some form of formal organisation. In practice, some interests are better represented than others because some groups are better organised, more active and more capable of showing the intensity of their preferences. Large producers have an advantage in this respect because they are not too numerous and spatially scattered, and are likely to have more educated managers with

greater competence and better information about current and potential agricultural, rural and regional policy measures. SSFs and small farms do not appear as an effective interest group. They are significant in number, heterogeneous and often run by old holders with low levels of education. Further, there is evidence to suggest that they are difficult to organise, and often not eager to cooperate, at least formally. The SCARLED project study of 245 SSFs and small farms in Poland showed that farmers cooperated – mainly informally – for field work, machinery use or transportation, but not for exchange of information or political lobbying (Milczarek-Andrzejewska *et al.*, 2011).

Based on the case studies and interview reports, it can be said that in all studied MSs there are national farmers' organisations (sometimes more than one), often trade unions, chambers of agriculture, and specialised organisations of different commodity producers, e.g. dairy, sugar. Notionally, SSFs and small farms are represented by these organisations together with the large farm businesses. However, the case study authors indicate general weaknesses as well as some positive experiences.

Although in some EU-15 MSs farmers organisations are a very active actor in the agricultural policy process, farmers organisations in some NMSs with a large SSF sector (e.g. Poland and Romania) are judged as fairly weak actors. They may benefit from state subsidies and be legitimised in law, but are often "umbrella organisations" which are remote from farmers in the field. For example, in Romania AGROSTAR (*Federaţia Naţională a Sindicatelor din Agricultură, Alimentaţie, Tutun, Domenii şi Servicii Conexe*) brings together 150 unions representing agriculture, food, tobacco and other services linked to the agro-food sector. However, Page (2010) highlights that in practice small-scale farms have *"no lobbying for them, at a national scale, and the many agencies with whom smallholders need contact for assistance measures are poorly coordinated and hard to access"*.

In some countries (e.g. Slovenia), particular organisations (e.g. chambers of agriculture) seek to support small farmers mainly at a very practical level, such as by providing technical or administrative advice how to fill an application form for CAP support, but they do not lobby politically for them. Non-governmental organisations can play a key role in facilitating organisation amongst farmers and undertaking policy dialogue with the regional and national authorities. One of the best practices in this area is the activities of foundation ADEPT Transylvania and the Centre for Rural Assistance in Timisoara, Romania.

In MSs where there are specific small farmer organisations, their interests are better represented. In Italy, *Coldiretti* (with more than 1 million members) aims to support and protect family farmers and traditional rural values which have suffered due to changes in rural life as a result of the industrial and post-industrial stage of development. There are also several other organisations in Italy that try to promote "*peasant farming*", e.g. the Italian Rural Association which actively supports the policy interests of small farmers within the CAP.

3.4 Semi-subsistence and small farm development paths

The heterogeneity of SSFs and small farms calls for the development of a systematic typology of these farms to help consider possible development paths for them. Below, some existing typologies are summarised.

Hawkins *et al.* (1993) identify three types of farm household adjustment patterns in Western Europe: 1. engagement in agriculture; 2. disengagement from agriculture including exit; and 3. stability. Disengagement is typical for smaller farms (in this particular study, found to be around 7.7 ESU and 13 ha respectively). Various paths may characterise

disengagement - exit due to retirement, increased pluriactivity, or closure of production enterprises due to lack of profitability (ENRD, 2010).

Daskalopoulou and Petruo (2002) identified three main types of farm households in Greece – 1. subsistence; 2. survivalist; and 3. productivist. The types differed by the presence or absence of off-farm employment, rented land, hired labour and the degree of mechanisation. "Subsistence farms" in this typology are small (less than 1 ha), and produce either for self-consumption, e.g. olive oil, or as a result of a CAP quota allocation. The authors argue that these households will most probably exit agriculture in future. "Survivalist farms" range from 1-5 ha to 20-50 ha size groups. What is important is that their survivability is based on farming part-time. This emphasises the role of pluriactivity for the sustainability of small and SSFs.

JRC report on S-Farms (Fritzsch *et al.*, 2010) profiled rural households in Bulgaria, Romania and Poland as 1. rural diversifiers; 2. rural pensioners; 3. farmers; and 4. rural newcomers. The rural diversifiers have the highest share of non-farm income sources. Rural newcomers are young but have limited education and very low incomes, and seem most in need of specific support.

Using the SCARLED sample of agricultural households in Bulgaria, Hungary, Poland, Romania and Slovenia, Davidova *et al.* (2009) defined farms as either 1. part-time; 2. subsistence; 3. small commercial; and 4. large commercial. The most widespread type was that of small, commercially oriented farms, with an average size of 6.3 ha. Their market integration was helped by location close to urban centres.

This review of typologies and the previous sections in this chapter enables the identification of some possible **paths of development** for SSFs and small farms in the EU, as follows:

- **Disappearance** of SSFs due to absorption into larger commercialised farm holdings, or to land abandonment (e.g. in remoter areas).
- **Transformation** of SSFs into small commercial farms via greater market integration, with increasing farm output sales and reduced subsistence dependency. This is the main development path sought by EU RD policy.
- **Continuation** of SSF status in the longer term, through (a) diversification with on- or off-farm enterprises; (b) through non-agricultural wage employment and part-time farming; or (c) through "forced" re-entry as successive family generations are forced to take over the farm with similar technologies, lifestyles and incomes due to the lack of other income sources.

The country case study authors confirmed that all three development paths are a good representation of the reality in their countries, and that they exist simultaneously. From a policy point of view, this means that no single support measure, even a well-targeted one, is likely to be wholly appropriate for all types of farms and all development paths: this is not a one-size-fits-all situation.

The relative importance of these development paths in different countries and regions of EU MSs varies according to a number of factors, including the general prosperity of local agriculture, and the macroeconomic circumstances, locally and generally. Within this context, individual SSFs are likely to follow one or other path depending on the age, abilities and resources of the holder, and his/her possible successors.

Box 6: Semi-subsistence and small farm development paths: Slovenia

All three development paths are present in Slovenian circumstances, but the prevailing path of structural adjustment differs among regions.

The disappearance of small and SSFs is a phenomenon that occurs more often in remote rural areas, usually characterised by marginal conditions for mechanised agricultural production. There, apart from leaving agricultural production and transferring land to larger commercial farms, undesirable structural developments can be perceived in terms of permanent abandonment of agricultural land and loss of output.

In more accessible rural areas, small farms and SSFs are sustainable, although with modified work organisation or marketing strategies. As a rule, these farms have narrowed down their agricultural production portfolio, mainly by shifting to less labour intensive products.

In peri-urban fringes, some small farms and SSFs manage to add value to their agricultural production effectively by adopting innovative marketing channels.

In areas hit by economic crisis and facing difficulties on local labour markets, subsistence agricultural production occurs as a "distress-push" strategy to improve the income status of rural households.

Source: Erjavec and Juvančič (2013), Interview report Slovenia.

Box 7: Semi-subsistence and small farm development paths: Portugal

All three paths are feasible. The first, i.e. "disappearance due to absorption into larger commercialised farm holdings", was found in the last decade, mainly in Alentejo where a large number of small farms have disappeared, giving way to larger farms. This development path is typical for Ribatejo and Alentejo regions where large farms predominate. In central and north Portugal, this path is rare.

Regarding sustainability through greater market integration, this path can be possible with assistance policy, and with direct and indirect aid to the current young farmers who are set up in agriculture in the north and centre of the country. Diversification with on- or off-farm enterprises is also associated with the entrepreneurial potential of the new generation of farmers.

Sustainability through which successive family generations are forced to take over the farm with similar technologies, lifestyles and incomes is a possible path for some farms due to the lack of job opportunities, largely related to the economic crisis the country is experiencing. Currently, the unemployment rate is 16.2%, and is expected to rise.

Source: Dos Santos (2013), Case study Portugal.

3.5 Semi-subsistence and small farms: SWOT analysis

Based on the above discussion and evidence, it is possible to present a short SWOT analysis of SSFs and small farms in many parts of Europe.

Box 8: SWOT analysis of semi-subsistence farming

Strengths	Weaknesses
• Resilience to market shocks • Food security to vulnerable and disadvantaged rural households • Mitigation of rural poverty and absorption of labour during recessions • Diversity of farm output, supporting farm biodiversity and landscape interest • Often less intensive technologies with lower negative environmental externalities • Maintenance of the population of rural areas • A flexible potential supply of abundant family labour to the non-farm economy	• Lack of economic viability if income is not diversified • High age of farm holders • Low education of farm holders • Low entrepreneurship and innovation • Sometimes, geographical remoteness • Relative lack of political representation • Reluctance to co-operate • Related to the above, poor ability to market with adequate added value those products which are not home-consumed
Opportunities	**Threats**
• Pluriactivity (depends on availability of rural jobs) • Supply of traditional local food respected for freshness and taste (in some countries and regions only) • Structural change arising from early retirement and retirement of older farmers	• Disappearance due to market competition and absorption into larger fully commercialised farm holdings • Increased poverty, if farming continued without innovation or size increase

4. ASSESSMENT OF EXISTING CAP AND NON-CAP MEASURES

KEY FINDINGS

- Area-based **single farm payments under Pillar 1**, the main CAP funding stream, are **inherently biased against small farms** including most SSFs. For the EU-27 as a whole, beneficiaries receiving less than €500 constituted over 40% of all direct payment beneficiaries but received just under 2% of all such payments.
- MSs with many SSFs have generally chosen thresholds for single farm payments with higher minimum rates but lower minimum areas than the EU "standards" of €100 and 1 ha (0.3 ha for the single area payment scheme).
- Remaining CAP market price support, and coupled direct payments (whose application is voluntary for Member States), are not focused on sectors of major importance to SSFs. However, some market regulation, such as planting rights and milk quotas, may benefit SSFs by creating a protected asset.
- Pillar 2 currently contains a wide range of measures and approaches with potential to be used to help achieve goals for very small and SSFs in the EU. However, **such use in a targeted, tailored or explicitly designed way appears relatively rare**, and falls considerably short of constituting an adequate policy response in most countries and regions where these farms predominate.
- The legislative design of the CAP instruments, and both deliberate and non-deliberate exclusion of small and SSFs by the implementation rules in individual MSs, lead to **very small benefits for these farms from current CAP.** To some extent, this reflects the weak political representation of small and SSFs at national and European levels, e.g. via the failure of general farmer organisations to promote their interests.

This chapter assesses the effects of existing EU policy measures and practices on small and SSFs and farming. It should be borne in mind that many policy areas do not fall within EU competence, such as fiscal (tax and spending) policy, social security systems, land use planning, and governmental structures (e.g. the division of powers between national, regional and local authorities). Food health and safety, animal welfare and some environmental policy come under non-CAP EU legislation. All these can be of major importance in considering the design and implementation of policies which affect small and semi-subsistence farming, and farm households.

4.1 Pillar 1

Pillar 1 of the CAP combines two components: (i) interventions in farm commodity markets by means of regulation (e.g. production quotas, planting rights) and price support (commodity market organisations, CMOs) and (ii) support for farm incomes, mostly via direct payments but also aid to producer groups. About three-quarters of the annual CAP budget is spent on Pillar 1, mostly on direct payments; the rest goes to Pillar 2 (rural development), discussed in section 4.2. Pillar 1 differs from Pillar 2 in being more "common", e.g. less scope for flexibility in MS implementation, fewer voluntary provisions, and in being 100% funded from the EU budget.

The income and structural effects of Pillar 1 on small-scale farms, and in particular on SSFs, depend primarily on the applicability and influence of its instruments on such small producers and their output, but there are also indirect effects through impacts upon other larger producers.

4.1.1 Market regulation and support

SSFs benefit from CAP market price support to the extent that they sell their produce, even if outside formal markets, at prices higher than would prevail without CAP. What this alternative price level would be without Pillar 1 (and the CAP as a whole) depends on the "counterfactual" policy situation: a country not subject to the CAP could operate "free" trade at world price levels, which are generally lower than those in the EU. Before EU accession in 2000s, most NMSs provided lower levels of support to agriculture than the EU (Swaminathan *et al.*, 1997; Baker, 2003; Ryan, 2005), although there were variations, e.g. between cereals and livestock products, exceptions such as Malta, and complications such as subsidies for farm input and food processing sectors.

Arguably, this applies even to self-consumed output, which is worth more as a result of the support. EU market prices may be raised above world levels by CAP border measures and/or by domestic supply restrictions such as production and marketing quotas which are now consolidated into a single CMO - Council Reg. (EC) No. 1234/2007. During 2008-2010, prices received by EU beef and sheep producers were between 20% and 30% higher than world levels, while those for poultry producers were some 50% higher (OECD, 2013). On the other hand, EU prices for cereals, milk, pigmeat and eggs were close to world levels during that period. Similar information is not available for products such as fruits, vegetables, wine and olive oil, but it is likely that general EU market prices for these products are kept higher than world prices by EU market regulations such as planting rights and quality criteria.

Although statistics on the share of total farm commodity supplies by size of farm holding are not available, information on the shares of small farms suggests that in many countries – but especially in Bulgaria, Hungary, Romania and Slovakia – farms under 2 ha constitute a significant percentage of all farms in each specialisation, particularly horticulture, fruit and vineyards, pigs and poultry. They are not strongly associated with products with high levels of CAP market support, such as cattle and sheep.

Pillar 1 assistance to producer groups goes mostly to groups composed of, or led by, larger producers – often of fruit and vegetables – with good links to the marketing network. It is therefore probable that SSFs and small farms do not benefit from this support proportionately to their sold output, and certainly not proportionately to their total output or producer numbers. The proposed by the EC expanded product coverage for recognition of producer organisations (European Commission, 2011c) may benefit small and SSFs if, and only if, such organisations are set up in sectors of importance to small and semi-subsistence producers and their participation is facilitated.

Thus, many SSFs can be said to benefit in income terms from market regulation and price support under Pillar 1, though only in proportion to their low levels of output per holding, and probably to a lesser degree than larger farms, especially those which specialise in cattle and sheep production.

4.1.2 Single payments

By far the largest proportion of CAP Pillar 1 expenditure is accounted for by single payments made directly to producers, currently under Council Reg. (EC) No. 73/2009. The integrated administration and control system of each relevant country (or region) is required to identify agricultural parcels of land, payment entitlements (which are based on these areas, under a variety of formulae), and each farmer who submits an aid application. Single payments have been introduced gradually in the NMSs, with complementary nationally funded payments allowed and used to reduce the differential with EU-15 levels. Nevertheless, during the phase-in period, it can be argued that NMS farmers have been forced to operate under unfair conditions which have advantaged EU agribusiness companies in attempting to control productive farmland in those countries.

Table 9: Minimum* levels for direct payments by MS

Member State	Farms less than 2 ha		Minimum Payment	Minimum Eligible Area
	Share of total no. of farms, 2010	% Change in no. of farms less than 2 ha, 2003 to 2010	Euros	Hectares
Austria	11	-17	200	2
Belgium	10	-42	400	2
Bulgaria	80	-50	200	0.5
Cyprus	72	-10	300	0.3
Czech Republic	9	-88	200	5
Denmark	1	-16	300	5
Estonia	11	-71	100	3
Finland	2	-22	200	3
France	13	-24	300	4
Germany	5	-51	300	4
Greece	51	-6	400	0.4
Hungary	72	-27	200	0.3
Ireland	2	+36	200	3
Italy	51	-24	400	0.5
Latvia	12	-69	100	1
Lithuania	16	-6	100	1
Luxembourg	9	-23	300	4
Malta	86	+15	500	0.1
Netherlands	11	-30	500	2
Poland	24	-62	200	0.5
Portugal	50	-12	200	0.3
Romania	71	-11	200	0.3
Slovakia	27	-84	200	2
Slovenia	36	+17	300	0.3
Spain	27	-18	300	2
Sweden	1	+12	200	4
United Kingdom	2	-87	200	5
Standard levels (Art. 28)			100	1 (NMSs 0.3)

*In some cases, MSs negotiated the above minima but have applied different ones in practice, e.g. Malta does not in fact apply its €500 minimum and Greece applies a minimum of €200.

Source: Authors' calculations using Eurostat FSS 2003 and 2010 database, Articles 28(1) and 28(2) and Annex VII, Council Reg. (EC) No. 73/2009.

Minimum requirements for receiving direct payments are specified in Council Reg. (EC) No. 73/2009 Article 28(1) as: (i) an amount of €100 or (ii) an eligible area, which includes kitchen gardens, of 1 ha (0.3 ha for the Single Area Payment System (SAPS); Art. 124).

However, MSs may adjust these values in light of "*the structure of ...* [their] *agricultural economies*", and all except Latvia and Lithuania have in fact done so (Table 9).

It can be seen from the table that, by comparison with the standard minimum levels, presented in the last row of the table, all minimum payments were adjusted upwards, while minimum area adjustments were made in both directions. There is no obvious correlation between the payment minima and the shares of small farms under 2 ha, in each MS. However, countries with a high share (above 20%) of such farms show a strong tendency to have reduced the area minimum to nearer the SAPS minimum of 0.3 ha (or even below in the case of Malta, which has secured a special exemption), while those with a low share (15% or below) of small farms tended to specify a higher direct payments minimum, up to 5 ha. A notable exception is Slovakia which has a high share of small farms but about 93% of its farmland in large corporate farms: it specified a higher minimum.

This suggests that nearly all governments were (and presumably still are) concerned over the administrative costs of making a large number of small payments, but that some sought to include as many small under 1 ha farmers as possible. Producers themselves incur transaction costs as well in finding out how to apply and submit an application for direct payments. For EU-15 farmers, in 2003-2005, when the single payment system was introduced, this usually involved records of payments, land uses and production levels in the base period 2000-2002. For NMS farmers applying for direct payments for the first time in 2004 or 2007, it involved proof of management of the holding (and its individual parcels, if any), often after a period of considerable land restitution. Especially for small farmers, advice and assistance from chambers of agriculture, farmer unions and other advisory services are reported (e.g. for Slovenia and Malta) as being very important in this respect, but provision varies by MS.

Table 10 shows the numbers of direct payment beneficiaries, i.e. successful applicants, and their payments if under €500 per year in 2007 and 2011. For the EU-27 as a whole, such beneficiaries constituted over 40% in 2007 and 37% in 2011 of all direct payment beneficiaries but received just under 2% of all such payments. However, the shares are very different between MSs, even between those with roughly similar farm structures. For example, in 2011 small beneficiaries in Romania constituted 86% of the total number of recipients and received 26% of payments, while in Bulgaria the shares were 66% and 3% respectively. Other countries with many small claimants included Greece (23% and 2%), Italy (42% and 3%), Poland (36% and 7%) and Spain (26% and 1%). MSs in which small claimants received over 10% of total direct payments comprised Cyprus and Malta, in addition to Romania. MSs in North-West EU tended to award small claimants a very low (under 0.5%) share of total payments.

Table 10: CAP direct payments beneficiaries receiving less than €500/year, by MS, 2007 and 2010

Member State	Beneficiaries receiving less than €500/year				Payments to beneficiaries receiving less than €500/year			
	No. ('000)		% within MS		Total value ('€000)		% within MS	
	2007	2011	2007	2011	2007	2011	2007	2011
EU-27	**3,051**	**2,848**	**43**	**37**	**669,417**	**710,835**	**2**	**2**
Austria	16	12	12	10	3,989	3,405	1	0
Belgium	4	3	9	8	714	790	0	0
Bulgaria	N/A	62	N/A	66	N/A	10,025	N/A	3
Cyprus	32	22	83	54	5,110	4,657	30	14
Czech Republic	4	4	18	15	1,116	1,202	0	0
Denmark	11	1	18	1	2,436	72	0	0
Estonia	11	6	58	35	2,341	1,492	7	2
Finland	1	1	2	1	340	297	0	0
France	33	23	8	6	7,353	6,195	0	0
Germany	49	35	13	11	12,593	9,913	0	0
Greece	369	168	39	23	80,220	54,077	3	2
Hungary	107	59	54	33	23,660	16,347	5	2
Ireland	6	5	4	4	1,411	1,239	0	0
Italy	719	514	50	42	154,521	135,025	4	3
Latvia	62	33	78	51	12,644	8,699	26	8
Lithuania	168	92	79	54	33,242	25,166	26	9
Luxembourg	0	0	5	7	24	40	0	0
Malta	4	4	95	79	183	588	17	16
Netherlands	11	0	15	1	2,547	75	0	0
Poland	945	496	65	36	218,115	146,560	22	7
Portugal	138	74	60	41	26,353	18,771	5	3
Romania	N/A	960	N/A	86	N/A	190,679	N/A	26
Slovakia	9	6	57	37	1,718	1,649	1	1
Slovenia	29	19	61	32	6,551	5,256	15	5
Spain	282	237	31	26	62,420	64,596	1	1
Sweden	10	1	13	1	3,209	167	0	0
United Kingdom	31	12	16	7	6,607	3,853	0	0

Note: N/A - not applicable.

Source: Authors' calculations based on European Commission (2010a, 2013b).

The numbers of small beneficiaries are not directly comparable with the numbers of small farms under 2 ha for various reasons, such as the ineligibility of most pig and poultry production for direct payments and the variation in production intensity between, e.g. high-yielding arable areas and extensive grazing, but comparison may be suggestive. Table 11, where both small beneficiaries and small farms are presented for 2010, indicates that for the EU-27 as a whole there were 75% more small farms than small direct payment beneficiaries. The equivalent comparisons for individual MSs vary widely, from ten times more small beneficiaries than small holdings in Sweden, six times more in Denmark and about three to four times more in Germany, Latvia and the United Kingdom. On the other hand, some other countries had fewer small beneficiaries than small holdings, e.g. Belgium and France (i.e. small beneficiaries about 45% of small holdings in each), Malta (37%), Romania (36%), Bulgaria (17%) and Hungary (16%). These ratios suggest that, in general, countries with highly developed agricultural sectors and economies are capable of administering relatively large numbers of small payments, and are willing to do so. The countries with fewer small beneficiaries than small holdings find it difficult to deal with small farms probably because of both a lack of experience and the absence of acceptable applications from small producers who lack good administrative support. In some MSs a

number of small farms are receiving more than €500/year due to relatively high payment per hectare.

Council Reg. (EC) No. 73/2009 maintained the previous exemption of direct payments up to €5,000 (the "franchise") from modulation, i.e. small percentage reductions in such payments in order to increase funds for RD purposes. The same franchise is being used in the Commission's current proposals for applying financial discipline to direct payments in 2014 (European Commission, 2013c). This arrangement benefits, i.e. does not penalise, smaller beneficiaries, but the limit is a relatively high one. However, the absolute effect of shielding SSF claimants from a (say) 10% reduction in payments may be significant, especially in lower-income countries.

Single payments are subject to cross-compliance, i.e. farmers must meet certain statutory management requirements as regards public, animal and plant health, the environment and animal welfare, and they must maintain their eligible land in GAEC, as regards e.g. soil and water management. These criteria seem to have little effect in most EU countries. For example, the European Court of Auditors (2012) found that "*SAPS beneficiaries received in most cases full payment or are only subject to very moderate reductions even where the authorities found that they have not used their land for several years*". This is likely to be even more true for small and SSFs; the costs of visiting such a farm to observe non-compliance and impose penalties are likely to outweigh any possible reductions in direct payments. This is a reason for the exemption of small and SSFs from on-the-spot checks.

Since they are decoupled from current levels of production, single payments constitute a relatively certain annual income stream for a number of future years. Taken together with the remaining CMO and coupled payments, Pillar 1 therefore provides significant income support for almost all EU farmers. It is thus regarded by most agricultural economists as a significant barrier to structural change in agriculture, since the viability of many holdings is maintained by these payments, which "end up" in the value of land - rents or prices. In simulating the impact of decoupled payments on non-Mediterranean EU-15 regions, the agent-based AgriPoliS model suggested that single payments reduce the adjustment pressure and could slow down structural change. Grassland management to (low) GAEC standards becomes more profitable than off-farm work and thus disincentivising pluriactivity (Ekman and Rabinowicz, 2007). However, the introduction of a single payment scheme may have led some SSFs, e.g. in Greece, to merge in order to ensure or increase eligibility, and in some NMSs, e.g. Malta, the introduction of Pillar 1 aid may have increased the area of farm-registered land. The latter is not necessarily a positive achievement if the land remains relatively unmanaged.

Table 11: Numbers of farms smaller than 2 ha and numbers of small direct payments beneficiaries by MS, 2010 (in thousands)

Member State	No. of farms smaller than 2 ha	No. of beneficiaries receiving less than 500€/year
EU-27	**5,637**	**3,224**
EU-15	**1,728**	**1,302**
NMS-12*	**3,909**	**1,922**
Austria	16	15
Belgium	4	2
Bulgaria	295	49
Cyprus	29	26
Czech Republic	2	4
Denmark	1	6
Estonia	2	6
Finland	1	1
France	67	30
Germany	14	47
Greece	367	278
Hungary	413	66
Ireland	2	5
Italy	819	522
Latvia	10	38
Lithuania	32	105
Luxembourg	0	0
Malta	11	4
Netherlands	8	9
Poland	355	606
Portugal	152	91
Romania	2,732	988
Slovakia	9	7
Slovenia	20	23
Spain	270	269
Sweden	1	11
United Kingdom	4	16

*NMS-12 comprises all the NMSs which joined the EU in 2004 and 2007.

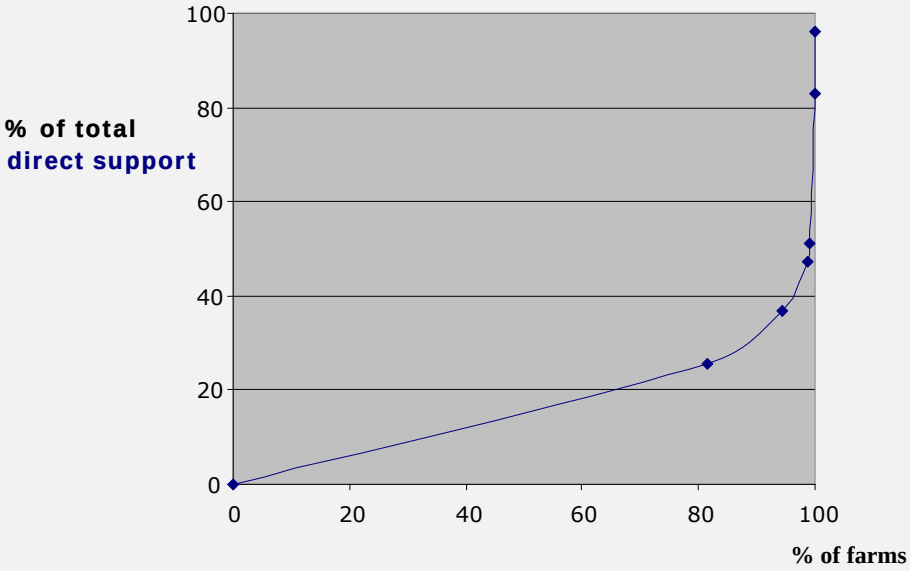
Source: Authors' calculations using Eurostat FSS 2010 database.

Box 9: Direct payments: Romania

Like most of the NMSs, Romania applied the SAPS. It set the minimum threshold for farm eligibility at 1 ha (made up of parcels of at least 0.3 ha), for reasons of farm efficiency as well as to avoid administrative burden. Under this approach, only 30% of all Romanian holdings are eligible for direct farm income support. Between 2007 and 2010, the total number of beneficiaries of direct payments exceeded one million annually, with more than 80% of them having less than 5 ha. They account for about 20% of the eligible agricultural area for direct payments (Alexandri and Luca, 2012).

Amongst the eligible farms, distribution of the (national and EU) direct support is highly uneven (see Figure 5), with 90% of beneficiaries receiving less than €500 per year. This accounts for a third of the total value of payments (Alexandri and Luca, 2012). In contrast, 1% of beneficiaries receive a third of the total value of direct payments. Hence, the main recipients of direct subsidies are not those (the majority) in need, but a small number of large-scale operators (legal entities above 100 ha).

Figure 5: Lorenz curve for total direct support, Romania, 2008



Source: Cionga *et al.* (2008)

There seem to be no studies which examine the impact of direct payments on small farms in Romania, but a possible outcome is that the current SAPS may have slowed down structural change in Romanian agriculture, by allowing some small and relatively inactive holdings to survive longer than they otherwise would have done. The amount of direct payments (although relatively small) is regarded as additional and welcomed income for these farms. Nevertheless, the majority of subsistence and SSFs (accounting for 70% of total Romanian holdings) are not eligible for any kind of subsidy, including direct payments.

Source: Hubbard (2013), Case study Romania.

Box 10: Structural effects of direct payments in NMSs

In the current study, national experts and subject literature supplied several comments such as the following:

- "*The income and development effects of direct payments have been negligible for SSFs in the first phase of accession. A large part of the agricultural households have either been excluded or have been receiving relatively low amounts from €50 to €200. They have some provisional social effects, but no impact on development or incomes, let alone on the environment, as is the case in some old EU MSs*" (Erjavec and Juvančič, 2013).

- The dualistic farm structure in many NMSs "*implies that the majority of the s*emi-subsistence farm households *will reap only limited benefits from CAP Pillar 1 measures, notably the SAPS. They are likely to benefit more from the RD measures of CAP Pillar 2*" (Fritzsch *et al.*, 2010).

- In Slovenia, where the extension service (an arm of the Chamber of Agriculture and Forestry) assists small farmers in preparing applications, "*the wide accessibility to CAP Pillar I direct payments can be seen as a factor that decisively contributes towards the maintenance of present farming structures, as they can be seen as an important reason for the persistence in agricultural production. The role of direct payments can therefore be seen as negative in terms of structural change, though positive in terms of maintaining SSFs*" (Erjavec and Juvančič, 2013).

4.1.3 Specific support and coupled payments

Under Articles 68 and 69, Council Reg. (EC) 73/2009 allows MSs to utilise up to 10% of their national financial ceilings for specific support such as to types of farming and agricultural activities important for the environment, and to product and marketing improvement. About €1.5 billion is allocated in this way. Out of this 10%, up to 3.5% may be used for coupled payments for certain "sensitive sectors", often dairy and suckler beef cattle, and sheep. Such payments are also made in some countries with significant proportions of SSFs under post-accession derogations allowing continuation of pre-accession measures. However, it seems unlikely that SSFs and small farms benefit much from coupled payments under Pillar 1, since they tend to produce other commodities, and/or are too small to meet the necessary requirements.

4.1.4 The Farm Advisory System

Under the horizontal provisions of CAP Pillar 1 direct payments, MSs are obliged to establish a FAS "*advising farmers on land and farm management operated by one or more designated authorities or by private bodies*" and "*covering at least the statutory management requirements and the good agricultural and environmental conditions*" which comprise cross-compliance. Farmers may participate in the FAS on a voluntary basis, but MSs may determine priority categories of farmer with access to the FAS. In principle, therefore, the FAS could be a valuable mechanism for offering targeted advice and information to small and SSFs in those MSs and regions where these are significant. However, the actual value of FAS in this capacity will depend upon how the service is currently designed and operated. A review of FAS in 2009 found that in many MSs, but particularly in NMSs, the system had been set up largely to inform farmers about their obligations under cross-compliance and targeting was mainly to those farms receiving the largest Pillar 1 payments on the basis that these were more likely to be subject to

compliance checks (ADE, 2009). It has been suggested that this results in several MSs in farmers seeing the FAS as tantamount to being "enforcers", rather than "enablers". Other research, examining how best to encourage positive behavioural change among farmers, concluded that for advice to be effective trust in the source of that advice is important, as well as the ability for advisers to be sensitive to the capacities and concerns of target groups of farmers (Dwyer *et al.*, 2007). The ADE report noted in a number of cases a lack of trust that FAS advisers were not simultaneously cross-compliance enforcers. These factors suggest that at present FAS may not be the optimal vehicle for improving advice and training to small and SSFs. However, there could be some potential to develop this capacity in future.

4.1.5 Concluding Remarks

The above analysis suggests that, in themselves, CAP Pillar 1 measures have only a limited effect on SSFs and small farms, though they are probably mildly income-supportive in terms of market price support and for SSFs eligible for direct payments. Evidence from national experts is that an efficient advisory service and a cooperative ministry can assist in making Pillar 1 funds available to SSFs and small farms.

On the other hand, by providing income support, and by raising the price of farmland for those holdings seeking to expand their area, Pillar 1 probably slows the rate of structural change in agriculture, by maintaining small and medium-sized farms which might otherwise go out of business in current economic circumstances.

4.2 Pillar 2 measures and semi-subsistence farms

4.2.1 The potential of Pillar 2

Pillar 2 of the CAP provides multi-annual programmes of support for RD, currently focused, through four "axes", upon improving the competitiveness of farming and forestry, protecting the rural environment and maintaining sensitive farming activity where this is important for environmental reasons, diversifying the rural economy and promoting quality of life for rural inhabitants. As such, its aims may be consistent with supporting very small farms and SSFs for both social and environmental reasons. In addition, Pillar 2 aid could be used to promote a successful transition of these farms towards greater commercial orientation, as a means to enhance sector competitiveness particularly in those regions and territories where SSFs and small farms are a dominant feature.

In contrast to the annual direct payments offered in Pillar 1 of CAP, Pillar 2 aid can be offered in a wide variety of forms including both investment aid and regular annual payments within a multi-annual contract, and the basis of aid can vary according to the precise mix of purposes for which it is intended, in ways which reflect the characteristics of the local situation. Thus it need not suffer from the scale effect that applies to Pillar 1 payments, in which funding is determined largely by land area, significantly limiting its potential value to very small holdings. It also enables rural development programmes (RDPs) to incorporate specific projects and initiatives tailored to the needs and situations of small and SSFs. In addition, the multi-annual nature of some payments – those for natural handicap, for agri-environment and for early retirement – offers to beneficiaries a valuable element of stable income, which may be particularly attractive to those small and potentially vulnerable SSFs which have few other income sources.

For these reasons, *ex-ante* consideration of the potential for CAP to support very small and SSFs suggests that Pillar 2 aid shows greater potential than Pillar 1 aid, especially if employed in "deep and narrow" approaches rather than in "broad and shallow" ones, at least for agri-environmental purposes (European Court of Auditors, 2011b).

The ENRD paper on SSFs prepared for the Sibiu conference made an "in principle" assessment of the potential value of Pillar 2 measures to SSFs.

Box 11: Assessments of the value of Pillar 2 measures to semi-subsistence farms

- *"Support for accessing advisory services and training under axis 1 can be essential first steps to help SSF understand available opportunities and participate in RD support programmes. Alongside the specific support measure for SSF undergoing restructuring, additional investment support for restructuring and modernisation is possible under M121, or for diversification into non-agricultural activities or micro-business creation (e.g. small-scale tourism, local craft production) under axis 3. In certain conditions, support under the early retirement (M113) and/or young farmers measure (M112) can assist in the restructuring process by facilitating the process of land transfer, and exit of older farmers. Support for setting up producer groups in NMS (M142) can be a means to help SSF overcome the difficulties they face in accessing markets. RD support can also be used for facilitating access to credit, which can be a significant barrier for SSF (e.g. a credit guarantee scheme has recently been added into the Romanian RDP).*
- *Where SSF can fulfil any minimum size thresholds set in MS RDPs to access [Less Favoured Area] LFA payments (M211 & M212) or agri-environmental payments (M214) under axis 2, such annual payments can be a valuable contribution to household income, to maintaining farming activity on land that might otherwise be abandoned, and to the continuation of traditional farming practices which generate public goods.*
- *Support under axis 3 for upgrading of basic public infrastructure in rural communities, while not directly targeting SSF can be a key tool to help alleviate rural poverty and remoteness, and facilitate the diversification and restructuring efforts of SSF. The local development strategies drawn up and implemented by Local Action Groups [LAG] under the Leader axis, seek to capitalise on specific local assets. This could include developing and promoting specific food specialities or crafts from the LAG area; developing local tourism trails or small-scale accommodation etc. The local focus and typically smaller projects supported under Leader may be better adapted to SSF needs and strengths."*

Source: ENRD (2010).

As Commissioner Cioloş said in his speech at the conference devoted to SSFs in Sibiu:

> *"Rural development policy already offers a raft of measures to support small-scale farmers and respond to their needs in relation to restructuring, modernisation, development of local markets and human capital, and developing entrepreneurial culture. However, all of these are possible only if MSs, regions and the farmers themselves know how to take advantage of these opportunities"* (Cioloş, 2010).

As previously mentioned, the JRC report on S-Farms (Fritzsch *et al.*, 2010), identified four types of SSFs which were statistically distinct from each other and showed clear differences with respect to household, farm, and behavioural characteristics, as well as in their external environment and viability. Analysing "optimal responses" by these types of SSF to different rural policy scenarios, econometric modelling suggested the following:

- for rural non-farm oriented households, pensioners and deprived households, an explicit social policy (i.e. providing income aid over a multi-annual period) may be more effective than a development policy seeking to commercialise farm output;
- for farmers and newcomers to semi-subsistence farming in particular, sectorial development approaches may be effective as a form of support.

It is certainly the case that countries with significant proportions of small and SSFs have made wide use of a range of Pillar 2 measures in their RDPs. However, what is much less clear is the extent to which this use has included making the measures accessible, or indeed explicitly targeting the small and SSF sector. The evidence on this point from available literature is rather sparse.

For example, in its 2004-06 and current RDPs, Poland has made significant use of the early retirement measure, as a mechanism to encourage older farmers to release their land to a younger generation, with the aim of facilitating restructuring and modernisation of farms to increase competitiveness. However, a spatial analysis of uptake of this measure, along with aid to support the installation of young farmers, found that the uptake was highest in those regions of Poland which already had the most structurally advantageous characteristics, with larger farms and a higher proportion of young farmers than other regions in the country (Rudnicki, 2009). In a review of the use of the early retirement scheme in EU-15 MSs, Bika (2007) concluded that it had little impact upon restructuring, and was acting mainly as a social measure (providing enhanced retirement pensions), rather than one fostering competitiveness through the modernisation of production structures. This point may help to explain the Polish experience, also.

Assessing the measures in Pillar 2

Within the Pillar 2 menu of aid, one measure – number 141 – is specifically designed to help SSFs through the transition from semi-subsistence towards greater commercialisation as farm businesses. It was negotiated and introduced within the context of EU enlargement in 2004 and thus is particularly targeted at NMSs. However, there are many other measures in the Pillar 2 menu, under all its axes, which could be of value in a small or SSF context. This section assesses the evidence in respect of the availability and use of Pillar 2 aid to support or target SSFs and small farms across the EU-27.

The assessment is split into three main sub-sections. The first deals with dedicated support to SSFs under Measure 141. The second section addresses the broader issue of rural development funding for other measures and its accessibility to SSFs and small farms; and the third section discusses the evidence concerning Axis 4 measures, otherwise known as the LEADER approach, and their use by SSFs and small farms.

4.2.2 Use of Measure 141 supporting semi-subsistence farms undergoing restructuring

This measure was first introduced into RDPs during the 2004-06 period, but exclusively for the use of NMSs. It had been identified during the pre-accession period that the challenges of supporting SSFs in several of the accession countries were a significant cause of concern due to their very large numbers. It is important to note that the design of Measure 141 is explicitly intended to enable SSFs to increase their engagement in commercial agriculture: i.e. to help them to become more commercial farm businesses and thus gradually move away from their current status whereby a significant share of product is for household consumption. It is clearly *NOT* a measure simply designed to maintain SSFs with their existing balance of marketed and self-consumed production, as a kind of income support.

The transformational role is reflected in its being largely targeted to the upper size end of the SSF and/or small farm spectrum, i.e. concentrating upon holdings with more potential to become commercial, and in the nature of the aid that it gives out.

In the current programme period, Measure 141 remains exclusively available to NMSs, although not all of these have made use of it. In the EU-27, only eight MSs have made active use of Measure 141 in 2004-2006 and/or 2007-2013 RDPs: Bulgaria, Hungary, Poland, Romania, Slovakia and the three Baltic MSs, but by far the greatest absolute expenditure on this measure occurs in Bulgaria, Poland and Romania (European Commission, 2012c). Among the case studies and interview reports for this project, there are four countries that use Measure 141, including the above three largest users.

In Poland, Measure 141 has been offered only to farms which fall between 2 and 4 ESU, and the calls for uptake was made during the 2004-2006 programme. However, as all contracts ran for five years, there is still a significant expenditure on this measure in the current programme period. The number of farms which benefited from Measure 141 between 2005 and 2012 was 150,000 at a total cost of more than €300 million during 2004-2006, and €500 million from 2007 to date. Support was conditional upon having and pursuing a "household development plan". Considering its performance, Falkowski (2013: Case study Poland) makes the following comments:

"Four general remarks can be formulated with respect to this measure pointing to its main shortcomings (FAPA, 2005):

a) getting support was not in any way related to household income - so some support might have gone to SSFs receiving considerable income from outside agriculture;

b) intermediary goals were not precisely defined: e.g. purchasing animals could be fulfilled by buying, for instance, one pig; to what extent this purchase would contribute to increased farm sales is questionable;

c) most of the intermediary goals were related to agricultural production; this strong preference for agricultural activities was not merited - the ultimate goal should be to facilitate the household to improve its income no matter whether it comes from agricultural or non-agricultural activities; and

d) *part of the intermediary goals overlapped with other measures offered in the Rural Development Plan 2004-2006."*

In Bulgaria, Measure 141 has been programmed since 2007. Its conditions are similar to those in Poland and are as follows: beneficiaries with farms between 1 and 4 ESU; support €1,500 per year for up to 5 years. At the end of the third year, farmers should prove that they have completed the obligatory mid-term targets: to increase the economic size of the farm by 1.5 ESU; to comply with veterinary and phyto-sanitary requirements; and to meet prescribed environmental, hygiene, safety and labour conditions, plus at least one of the following selective conditions: keeping current and starting new activities; replacement of part or all current activities with new ones; switching to organic production; increasing the arable land of the farm; or increasing the number of animals either by buying new animals or by breeding. In addition, farmers receiving support are obliged to participate in training courses under Measure 111 (vocational training) and to participate in information activity connected with environmental protection. To receive the support in the fourth and fifth years, farmers should be able to prove that they have completed all mid-term targets according to the plan.

The measure was not implemented until 2010 due to lengthy preparation and poor promotion earlier in the programme. But by 2012, it had nearly 10,000 beneficiaries and a cumulative spend of €14.5 million. However, the author of the case study (Mishev, 2013: Case study Bulgaria) comments that its main impact so far appears to have been social (income support) rather than economic supporting commercialisation, and that both uptake and results are significantly below target.

In Romania, Measure 141 targets farms between 2 and 8 ESUs, but further conditions limit eligibility to farmers under 62 years old, who have a five-year business plan for the holding. Aid is given in a similar 3+2 year process as described above for Bulgaria, but the size increase must be 3 ESUs and the share of marketed output must reach 20% by the end of year 3. As with Bulgaria, uptake has been only about half of what was targeted under the programme, although specific targets have almost been achieved in respect of uptake among LFA farms and those with an agri-environmental orientation. Some authors, e.g. Luca and Toderita (2012), have pointed out that even this level of performance could be seen as a relative success, when compared to the uptake of other measures within the RDP.

In Hungary, take-up of Measure 141 has also been below expectations. The suspected reasons, according to Forgacs (2010), are the low level of the grant (€1,000 per annum for 2004-2006 and €1,500 for 2007-2013) and the requirement for the farmer to be registered (fear of tax implications).

It seems highly likely that the reasons for lower than planned uptake of this measure in the countries examined are similar to those discussed below in respect of other RD measures, particularly the "indirect" barriers to access. However, as the figures from Poland indicate, it nonetheless represents a significant element in RDP spending in these countries. It is therefore unfortunate that it is not yet possible to assess the impact, in respect of meeting its objectives, of Measure 141 in Bulgaria, Hungary, Poland, Romania and the Baltic states on the basis of the evidence available. The JRC report on S-Farms (Fritzsch *et al.*, 2010) suggested that the policy would be insufficient, on its own, to make a significant difference to the development of the SSF sector, and that wider economic development measures were also needed. Nevertheless, the relative sophistication of the measure in respect of its components and its criteria for funding suggests that, where used, outcomes should be significant for beneficiaries, and encourage a trend away from semi-subsistence farming and towards commercialisation. In the *ex post* meta-evaluation of the 2004-06 RDPs in NMSs, it was concluded that *"[the measure:] Semi-subsistence farms undergoing restructuring provided an important contribution to social and economic cohesion"*. Positive impacts were summarised as follows:

[although] "the brief implementation period (2004-2006) did not allow for the generation of substantial impacts on incomes, employment or the environment, it is evident that positive trends were recorded. Positive results are more evident at the farm level, for instance increased sales or better farm organisation, in the context of the semi-subsistence measures activated in Poland and Lithuania respectively. Furthermore, the RDP measures initiated a process of labour productivity improvements as evidenced in Lithuania, Slovakia and Hungary in the context of the semi-subsistence measure. This is clearly an indication towards more competitive semi-subsistence farms while facilitating a move towards larger farm sizes (e.g. Poland) and supplying the market, rather than producing purely for self-consumption (e.g. Lithuania)" (Kantor and IfLS, 2012).

4.2.3 Use of other Pillar 2 measures

Evidence from the Eurostat Farm Structure Survey

The EAFRD measures require voluntary engagement by farmers, since they are not mandatory. However, it is necessary to distinguish between programmes designed to encourage the provision of environmental benefits from those designed to develop competitiveness and/or the rural economy. This is because the former are supposed to only compensate farmers for the costs incurred, including transactions costs, in providing these benefits. This distinction has two implications. The first is that in principle the income effect of environmental programmes on farm welfare should be neutral, on average; they are not designed to transfer welfare to the farm or rural sector. Nevertheless, those who choose to contract into the programmes may make some modest income from this choice, as their costs may be lower than the average. The second point is that where SSFs and smaller farms do produce environmental public goods, they should in principle be equally as able to receive compensation under environmental schemes as larger farms. This implies that minimum size thresholds should be considered with care; factors that impede small farmers from engaging in environmental programmes should be addressed in the design of the measures; and the environmental output of small farms should be explicitly addressed in scheme design and delivery, as well as monitoring and evaluation. For RD measures, there should be no technical reason why small and SSFs cannot productively contribute toward RD aims, and it should be ensured that they are able to engage fully.

Table 12 reports the percentages of farms, both above and below 5 ha of UAA, who engage with 12 EU RD and environmental measures. The countries are arranged according the number of measures they implement. Only Greece and Italy implement all 12 measures to both small and larger farms. With the sole exception of compensation for meeting conditions arising from the Water Framework Directive in Spain, the proportion of small farms benefiting from payments is significantly smaller than that of their larger counterparts.

Farms in the MSs of the EU-15 considered here do appear to be engaged in a larger range of RD activities than do those in the NMSs, but it should be pointed out that a number of schemes had yet to be fully implemented in some NMSs in 2010, the last year for which data is available e.g. Natura 2000 in Romania. Table 12 also suggests that agri-environmental schemes have been well received by farmers in the NMSs of the Czech Republic, Estonia, Malta and Slovenia, albeit with a lower uptake among small farms, while take-up in the remaining countries, including those EU-15 MSs considered, was low. For its part, the Bulgarian Ministry of Agriculture is now using mini advertisement videos placed on its website (http://prsr.government.bg/index.php/en/) to improve the visibility and awareness of the RDPs to farmers and to give information on how to qualify and apply.

Table 12: Shares of small and larger farms engaged in, and benefiting from, rural development measures (in % of the total number of farms in size classes in ha)

Larger Farms (>=5 ha UAA)	**Greece**	**Italy**	**Spain**	**Poland**	**Slovenia**	**Estonia**	**Czech Republic**	**Hungary**	**Lithuania**	**Slovakia**	**Portugal**	**Latvia**	**Romania**	**Bulgaria**	**Cyprus**	**Malta**
Agri-environment	5.70	9.93	6.84	13.77	58.34	37.77	56.20	9.05	12.19	12.28	9.99	11.06	9.43	2.53	7.92	39.29
Modernisation	1.02	3.16	2.14	4.12	4.48	9.92	7.14	5.77	3.41	10.33	1.13	3.59	0.29	5.88	4.95	14.29
Agri-environment, organic	3.12	3.99	0.50	2.32	34.28	8.85	12.15	0.72	3.08	3.90	1.26	4.45		0.03		
Advisory services	1.89	1.32	1.16	1.42	3.14	9.92	12.82	8.00	2.06	4.82	0.22					
Natura 2000	0.41	0.02	0.00	0.23		9.69	1.24	4.72	0.96			8.64				
Diversification	0.04	0.26	0.01	0.53	0.27	0.54	1.09			0.11		0.07	0.02	0.13		
Tourism activities	0.02	0.08	0.00		0.14	0.38	0.57	0.07	0.02			0.02				
Adding value to products	0.27	0.46	0.33	0.01			0.88	0.15	0.01	0.34	0.47		0.02	0.09		
Food quality scheme	1.70	1.02	0.22	1.33	0.07						1.76					
Animal welfare	0.99	2.59	0.13			15.92				4.02					0.50	
Community standards	2.15	0.67	0.48		57.48											
Water Framework	0.21	0.04	0.06													
Small Farms (<5 ha UAA)																
Agri-environment	1.21	1.91	2.09	1.69	18.89	10.99	14.20	0.33	3.12	0.33	4.30	2.07	1.72	0.10	3.44	14.36
Modernisation	0.23	0.39	0.22	0.09	0.13	0.31		0.05	0.01	0.07	0.15	0.07	0.01	0.02	0.26	0.92
Agri-environment, organic	0.69	0.43	0.14	0.39	10.42	1.70	2.16	0.02	0.11		0.05	0.07				
Advisory services	0.71	0.24	0.16	0.07	0.27	0.62	1.23	0.20	0.02		0.24					
Natura 2000	0.06	0.01	0.00	0.01		4.95		0.21	0.38			5.90			0.03	
Diversification	0.02	0.04	0.00	0.09	0.11								0.00	0.01		
Tourism activities	0.01	0.01			0.07	0.15		0.00	0.01				0.00			
Adding value to products	0.07	0.24	0.28	0.00			0.31	0.00			0.13		0.00	0.01		
Food quality scheme	1.35	0.12	0.09	0.23	0.13						0.39					
Animal welfare	0.16	0.06	0.02			1.70									0.06	
Community standards	1.16	0.23	0.28		16.37											
Water Framework	0.02	0.01	0.07													

Source: Authors' computations using Eurostat FSS 2010 database.

For RD measures, including advisory services (Measure 143), diversification (Measure 311), tourism (Measure 313) and adding value to agricultural and forestry products (Measure 123), a number of countries considered in the table have little or no activity. For those countries that have activity in these areas, there remains a large farm bias to some degree, suggesting that smaller farms may benefit from efforts to improve their engagement in these measures. All countries have taken advantage of modernisation (Measure 121) to some extent, but here the larger farm bias is particularly large.

Box 12: Options for addressing low uptake of Rural Development measures by small and semi-subsistence farms

The fixed costs of application and contract are one factor that acts as a barrier for small and SSFs to engage in RD measures. The following three design approaches could be considered to compensate for the scale bias.

- A streamlined application process could be adopted for smaller farmers. However, this may generate weaker contracts and a reduced level of provision by smaller contracted farmers.

- The completion of application forms could be helped through publicly funded farm advisors.

- Fredriksson (2012) discussed how some very small farmers in Bulgaria have helped each other to prepare the necessary paperwork to claim the single area payment and support from a number of other schemes targeted at farmers. This degree of cooperation among farmers is, perhaps, something the authorities might be able to use in order to increase the uptake of CAP measures. Further, Emery and Franks (2012) summarise the literature on the potential ecological gains resulting from *collaborative* agri-environment schemes, and present findings that suggest that these schemes encourage greater farmer participation.

This last approach may have considerable merit in MSs with a large number of very small farms. First, it has the potential to reduce the size of the fixed application costs faced by individual farmers. Second, it could increase positive externalities because small farmers, in isolation, are unlikely to be able to produce significant ecological benefits without similar action by their neighbours. These benefits were recognised by the ENRD seminar on collaborative approaches to agri-environment held in 2011.

Evidence from the Case Studies

In the majority of countries examined via case studies and/or focused interviews in the present study, experts conclude that in some ways SSFs have lower access to Pillar 2 measures than other farms. However, this conclusion arises from at least two contrasting causes: one is direct exclusion from one or more measures as a result of thresholds and other criteria; the other is indirect and relates to the particular characteristics of, and obstacles facing, small and SSFs in the countries concerned (as discussed above). Many of these obstacles appear common across all countries.

In some MSs – Hungary, Malta, Slovenia – with a significant number (at national or regional level) of very small or SSFs, it is likely that most measures in Pillar 2 will be technically available to most farms, with exclusions applying either only to the very smallest holdings (e.g. under 0.1 ha, or 10% of all farms, for LFA aid in Malta), or not at all.

However, in many of these cases, the national experts note that it is generally more difficult for SSFs to access these funds due to their low capacity in respect of: awareness or familiarity with claiming such grants; ability to prepare a robust application (by doing it themselves or by paying a consultant); or ability to raise matching finance for capital investment which requires some funding from private sources. This *indirect* (non-deliberate) exclusion appears to be most likely in respect of Axis 1 measures for physical investments (modernisation, young farmers, adding value); followed by Axis 3 investments (diversification, tourism, crafts etc.). It may also apply to training, where poor take-up seems to reflect a low level of visibility of small farms within the policies and practices of the Managing Authority (MA).

A sizeable share of SSFs is owned and/or managed by older people with little or no formal education in agriculture, who have no other gainful activity, and for whom semi-subsistence farming represents an important strategy for survival. In these instances, socio-cultural and economic barriers to accessing any Pillar 2 aids may be particularly high. In Hungary and Romania, the fact that many such farms are currently outside any formal taxation system is a disincentive to engagement with investment funding, since, in order to receive such funding (Axes 1 or 3 measures), farmers must be registered businesses, which makes them visible to fiscal authorities.

In MSs with dispersed SSFs or with a more overt agenda for farm enlargement and productivity gains, the size thresholds for applying for various Pillar 2 funds exclude the majority of SSFs and very small farms. This apparently reflects presumptions that either the measures are not appropriate for such micro-farms, or these groups would not be interested in the payments on offer, because of their particular characteristics. Examples of exclusions include a minimum size of 2 ha for LFA (which could exclude around 30% of holdings in Greece), or 1 ha for agri-environment measures (excluding around 50% of recorded holdings in Hungary). The farm modernisation Measure 121 is not available to farms under 4 ESU in Poland. In Romania, Redman (2010) states that there are additional criteria attached to particular measures such as 112 (setting up young farmers) which further restrict eligibility; also the main Axis 2 area payments (Measures 211, 212, 214) for LFAs and agri-environment all have a lower size threshold of 1 ha. In Bulgaria, the national government defines eligibility for all these aids through registration as a farm, for which the production unit must have at least 1 ha of land, or 1 cow, 2 sheep or goats, or 2 pigs. The Bulgarian case study (Mishev, 2013) notes that, when registration was introduced in 1999, about 50% of farm holdings were too small to register, and the implication is that holdings which could not register have therefore been completely excluded from Pillar 2 aids.

Some exclusions from investment aids are for those farms which are not the principal source of income for the farm holder; this will exclude many small farms or SSFs where a greater degree of pluriactivity is the norm. Other exclusions on investments concern profitability measures – as in the EU requirements for Measure 121 for farm modernisation – which may not be appropriate for SSFs, or minimum numbers of stock, e.g. for the meeting standards measure, in Poland.

In respect of those Axis 2 and other RDP measures which are paid as a fixed-rate payment per ha for following prescribed management or for certain land types, it is possible that, even with a low minimum size threshold for claimants, a proportion of farmers will decide that it is not worth applying for support from these instruments because the impact on the holding income will generally be extremely small (i.e. a payment of €250 per hectare per year becomes a payment of only €25 per year if the farm is only 0.1 ha in size). On holdings such as these, there may be important environmental features in need of restorative management (e.g. field boundaries, ditches or reservoirs). In these

circumstances, the agri-environment measure is clearly inappropriately designed to support what would effectively be a form of non-productive capital works. It is therefore unfortunate that non-productive investments are much less used in RDPs than agri-environment management aids, and that they are not included within the current requirement for RDPs to spend a minimum 25% on environmental measures (in 2007-2013 this focuses exclusively on the area-based payments in Axis 2). In addition, in one country case study it is noted that very small farmers dislike taking risks, and that, in this particular area of policy, they are likely to regard contracting into a multi-annual management agreement as a high-risk activity, because it potentially reduces their room for manoeuvre for a significant period of time.

As a result, most of the case studies experts conclude that SSFs and small farms are likely to be less prominent recipients of Pillar 2 aids than larger farm businesses. The knock-on implication of this pattern, if sufficiently pronounced, would be for Pillar 2 aid to effectively favour larger farms, and thus render more vulnerable, or hasten the demise of, existing clusters of very small farms.

In contrast to this picture, case studies in Italy and Scotland, and to a lesser extent Romania, Malta and Slovenia, suggest that among SSFs there are examples where farmers are actively developing and thus making good use of certain elements of RDP funding. One group of such cases is linked to situations where the SSFs are able to add value and/or sell products or services direct to consumers, resulting in direct incentives to improve product characteristics and experiment with cost-reducing or alternative agricultural strategies. The other group is more related to the role of SSF holders as landscape managers, where they have been able to access Measures 211/212 or 214 in support of that role, notwithstanding the relatively low levels of payment and the medium-term commitment that these represent.

Box 13: Small farm crofting: Scotland, UK

Crofts (small holdings in coastal and mountain areas, usually with extensive grazing rights over land owned by large "estates") have had particular socio-cultural and politico-historical importance for many years, with special protection of tenure overseen by a dedicated agency. About 30,000 family members live on about 12,500 crofts – about half the total number of agricultural holdings in the region. Within the Scottish RDP 2007-2013, aids to crofters are available under Pillar 2 (as well as Pillar 1 payments) as to other farmers and landowners under a variety of schemes. In addition, a special Scottish RDP scheme, the Crofting Counties Agricultural Grant Scheme, has the aim "*to sustain the economic basis and way of life and so help retain population in crofting areas. Support is available to eligible applicants for land improvement, agricultural buildings, access and facilities for keeping livestock. In doing so, Crofting Counties Agricultural Grant Scheme contributes to maintaining and preserving an agricultural base in severely disadvantaged areas and encourages investment in the economic potential of the land*". Until 2011, Crofting Counties Agricultural Grant Scheme grants were means-tested (i.e. dependent on household income), but no longer. In addition, a Croft House Grant Scheme outside the CAP is available to needy cases "*for new houses and the rebuilding and renovation of existing croft houses*". Additionally, crofters are eligible, like all others in the region, for EU-approved assistance for economic development.

Given the virtual disappearance of semi-subsistence smallholdings in the UK over the last century, the survival of crofting in the Scottish Highlands indicates that this approach of combining legislative protection with economic assistance (about €6 million per year, currently) can be successful. Especially since the introduction of RDPs, CAP and non-CAP instruments have both been appropriately designed and effectively taken up by beneficiaries in these areas. Nevertheless, after a public inquiry, an agency reform was undertaken in 2012, in order to attempt the revival of unused croft holdings, to promote more effective land use, and to revitalise crofting communities.

Source: Thomson (2013), Case study Scotland.

In Scotland, there is a specific, targeted funding package for crofts because these pluriactive farms in the more remote parts of the country have particular socio-cultural and politico-historical importance, i.e. the maintenance of the crofting communities. A variety of Pillar 2 aid is available to crofters alongside aids paid under Pillar 1 and others offered through national policies, all designed and overseen by a dedicated institutional apparatus. The evidence suggests that this approach has been successful in ensuring that CAP and non-CAP instruments are both appropriately designed and effectively taken up by beneficiaries in these areas.

In Italy, there is fairly widespread evidence of participation by small and SSFs in respect of adding value to agricultural products and food marketing, as well as agro-tourism, within which context it seems likely that some Pillar 2 aids are being effectively used.

In Romania, the case study (Hubbard, 2013) notes some good use of Axis 3 measures among SSFs, particularly for micro-enterprise and tourism ventures. In Slovenia, the availability of widespread farm advisory services in many locations characterised by very small farms is cited as a critical ingredient in enabling these farms to access a variety of payments in Axis 2. The interview report (Erjavec and Juvančič, 2013) emphasise that "*a well-developed network of agricultural extension offices enables access to their services to every small farmer*". The available evidence suggests that the Slovenian RDP also includes some design features which seek to ensure that smaller farms can participate in measures.

Box 14: Access to Pillar 2 aids: Slovenia

To a large extent, measures of the Slovenian RDP 2007-2013 are designed in a way to allow eligibility to a wide array of applicants. Thus, there are no formal obstacles to small or SSFs participating in these measures. We illustrate this finding by three measures, one for each RD priority axis.

In the case of farm investment support (Measure 121), all farms employing at least one AWU are eligible for support. There are simplified application and implementation procedures for so-called "simple investments" (investments below €50,000). Each call for tenders allocates a part of the funds to simple investments. The project documentation is less demanding, applicants prepare simplified business plans, and the scoring system is different.

In the case of agri-environment measures and LFA compensatory allowances, the minimum size of farm is 0.3 ha (with some individually tailored exceptions in some schemes) and the minimum eligible land parcel is 0.1 ha, whereas 0.3 ha is the minimum area that can be included in an individual agri-environment sub-measure.

In the case of farm diversification support (Measure 311), eligibility thresholds and minimum rates of support (min. €3,500, max. €200,000) are low and therefore attainable by small farms.

Source: Erjavec and Juvančič (2013), Interview report Slovenia.

In view of the widespread *informal barriers* to the participation of small and SSFs in Pillar 2 measures and axes, the often-reported low levels of advice, education and training designed and promoted specifically to these groups are notable. In these situations, it would appear that more emphasis upon knowledge exchange, and knowledge transfer and advice would be a necessary "first step" in seeking to engage more small and SSFs in EU-funded RD activities.

With regard to support for training, the Kantor and IfLS *ex post* evaluation of Pillar 2 rural development 2000-2006 concluded as follows:

"Training show(s) high relevance, but low complementarity and even lower coherence [of application, results and impacts] which deserve(s) systematic analysis, relying in particular on the findings, conclusions and recommendations of this ex-post evaluation: its coherence could improve if training priorities are identified in advance, activities are related with other rural development measures and good coordination takes place between programme managers and training delivery entities. At the same time, its complementarity with other funds and instruments can clearly improve order to reap the benefits of synergies with the European Social Fund" (Kantor and IfLS, 2012).

Another possibility which is not mentioned in any of the case studies would be the use of financial engineering in order to facilitate access to investment funding among very small farms with limited access to credit. Again in the *ex-post* evaluation it was noted that this measure was hardly used by the MSs. The authors therefore refer to other evidence in their evaluation:

"A study by "Coldiretti Economic Department" analyses why "there was lack of use of this pivotal measure" in Italy. The objectives of the financial engineering measure comprised to promote new financial instruments, to help and assist agricultural enterprises to talk with banks and to create a new financial environment for farmers. The measure in Italy was available only in 5 out of 21 Objective 1 [Operational Programmes] OPs and only in the

Marche Region it was put into action. After the mid-term programme review, in 2004, the measure was inserted in two OPs and cancelled in one. The study concludes that the financial engineering measures faced various difficulties, mainly due to both programme Managing Authorities and to the credit environment at regional level. The main reasons for this were:

• *lack of knowledge of the credit risk subject;*

• *lack of knowledge of State Aid rules in agriculture and risk capital;*

• *the credit environment for the agricultural sector was not well developed everywhere in Italy;*

• *all the financial engineering measures inserted in rural development programmes financed only the constitution or the integration of guarantee funds [loan guarantees, not loans themselves]"* (Presentation made by Coldiretti in Budapest, "Rural Credit Guarantee Schemes", 12-13 January 2006, cited in Kantor and IfLS, 2012).

However, it is not universally evident that these kinds of measures would be explicitly supported by the MSs themselves. In some cases, national experts infer that MAs would prefer to ignore small, subsistence and semi-subsistence producers on the grounds that they have no future in the development of agriculture and rural areas. Nevertheless, to the extent that this opinion indeed exists, one could question its realism, given the existing and apparently enduring significance of very small and SSFs in most of the countries covered by this study.

4.2.4 LEADER and semi-subsistence farms

The copious literature on LEADER suggests that this small-scale, multi-sectoral and multi-actor local development approach (Lukesch, 2003) should be particularly well-suited to addressing some of the needs and the potential of small and SSFs. However, the evidence for this in the case studies is particularly weak. One significant reason is the predominance of NMS examples. In the NMSs, there were almost no active LEADER groups in the period 2004-2006, and in the new programming period very few groups were approved and able to disburse funds before 2010, due to rather protracted competitive procedures for LAG selection and strategy agreement with the Paying Agencies and/or MAs. Hence, the assessment of the potential for LEADER (Axis 4) to assist small and SSFs in these countries is hampered by a relative lack of evidence. For example, the Bulgarian case study states: "*Generally application of LEADER initiatives are very delayed in the country. There is no information whether there is any funding under this scheme already. The approved LEADER projects /plans for development/ are only in some regions in the country and include SSF in the LAGs*" (Mishev, 2013).

Moreover, several experts report that LAGs tend not to target farming among their main priorities for action: in most MSs, a strong link was made between Axis 4 and the delivery of Axis 3 measures to the non-farm population, such as support for tourism and crafts, village renewal, support for micro-businesses and non-agricultural training. Even in those case studies where LAGs are noted as supporting actions from which SSFs might well benefit, the evidence to detect whether this is indeed what is happening is lacking because LAGs do not provide details of the size of farms assisted, when aid goes to farm households. It was beyond the resources available to this study to make a more detailed analysis based upon micro-level geography (i.e. looking at farm structures in those places where LAGs support relevant actions). Nonetheless, there are a few positive examples given in the case study

for Portugal, where a parallel approach to LEADER – PRODER – was originally created as a national aid during the 2000-2006 period and appears to be well-used in the north and centre of the country, where small and SSFs predominate. The most popular PRODER actions in these regions among non-public beneficiaries (i.e. excluding funds used by local authorities) included farm diversification for agro-tourism, micro-enterprises and support for tourism.

The wider literature on LEADER, particularly that relating to previous programming periods and the experience in the EU-15, provides a few examples of LAG actions being successfully tailored toward the situations and needs of very small farms, among other types of rural micro-business.

A report on financial engineering (LEADER II archive, 2000) gives details of three successful initiatives where LAGs set up loan guarantee funds to enable small and micro-business ventures to gain access to investment funds which were not accessible from conventional lenders like banks. Comparing the processes, results and impacts of these three cases (in Sardinia, Brittany and Mid-Pyrenees, France), the analysts conclude the following:

- the approaches are quite new and are still being refined (this was in 2000);
- they are small-scale instruments which will remain small because of their local focus;
- they are financial instruments and not subsidies, and the financial role is always accompanied by other roles, e.g. technical assistance, co-ordination;
- their complementary role favours access to other sources and retains resources in the local area;
- for success, they require explicit support by the local public authorities (chambers of commerce and Conseils Generaux) as well as private shareholders.

4.2.5 Concluding remarks

The analysis and evidence presented here make it clear that Pillar 2 of CAP currently contains a wide range of measures and approaches with potential to be used to help achieve goals for very small and SSFs in the EU. However, the critical issue is that such use in a targeted, tailored or explicitly designed way appears relatively rare, such that it falls considerably short of constituting an adequate policy response in most countries and regions where these farms predominate.

4.3 Non-CAP measures

Like other businesses and households, small and SSFs are potentially affected by a number of EU policies and measures in addition to those of the CAP. This section briefly considers some of these effects, which are more likely to be indirect (e.g. via the improvement of public infrastructure) than direct as regards individual small and SSFs.

Through a number of Funds, EU cohesion policy plays a supporting role in promoting social, economic and environmental development via a hierarchy of regions led by "convergence regions" mostly in the NMSs and in Iberia. In the NMSs, cohesion budgets often surpass the CAP ones and lead to high public investment relative to GDP. Cohesion policy instruments may thus be expected to have a substantial impact on economic performance in the respective regions. However, the Fifth Cohesion Report (European Commission, 2010c)

finds that public investments (including cohesion expenditure) in convergence regions often target non-lagging behind regions, despite large internal disparities (Italy, Spain, Portugal), or focus their actions in capital regions (most NMSs, excluding the Czech Republic, Slovakia and Hungary). From the perspective of rural development, and particularly SSFs, such courses of action are not very beneficial.

Structural actions targeting business support and employment (SME support, vocational training, innovation, research and technological development) have a "pull" effect on the local labour market. This includes members of agricultural households with capacities to compete for new (and/or better) jobs. Likely impacts on farm structures include (irreversible) abandonment of farming on marginal farms, or increase of farming on a part-time basis (Weiss, 1997; Juvančič and Erjavec, 2005). If such effects take place, welfare gains for SSFs from non-CAP policies may be higher than the positive impacts of CAP instruments. On the other hand, aged or low-skilled members of small and SSFs are unlikely to participate in these types of structural action, and the development gap between them and the rest of the local community may grow.

Improvements in transport and communications bring knock-on effects for rural population, including members of small- and semi-subsistence agricultural households. Infrastructural improvements facilitate daily commuting and/or distance-work, increasing the attractiveness of countryside as a living space. Experience in countries such as the UK, Germany and the Nordic countries suggests that high-income country residents can provide work for nearby small and part-time farmers as caretakers, gardeners, repairers, etc. Similar positive impacts can be expected from structural actions affecting the quality of life in rural areas (schools, public health, culture). These actions particularly address the younger population needs, including younger household members on small and SSFs.

Rural households are also potential beneficiaries of actions supported by the European Social Fund (e.g. social inclusion, education, training). It is however questionable to what extent these actions assist socially vulnerable members of the farming community, including SSF households, especially in regions with weak social security systems.

In terms of EU policy for SMEs, SSFs, with almost no employees except the farm household itself, barely qualify even as "micro" enterprises. They are almost certainly not registered as "businesses". However, intermediaries such as marketing cooperatives for farm products and services, and information networks, may be able to benefit from assistance available from EU structural funding (in addition to CAP Pillar 2 LEADER funding), such as start-up support, EU business centres and the Enterprise Europe Network.

In summary, EU cohesion and policies have the potential to improve the economic and social status of small and SSFs. The question of whether these potentials are utilised depends largely on the structure of development programmes, regional absorption capacities, and the skills and mobility of local labour. However, the (potential) impacts should not be overestimated. Investments that result in job creation (bringing the desired "pull" effects) are rarely implemented in regions with large numbers of small and SSFs. These regions usually do not boast a rich industrial tradition or other elements that would sustain the level of available skills and competences on local labour markets.

4.4 Food chain

This section considers issues that impinge on the welfare and prospects of small and SSFs via their involvement in EU food networks. First, as food processing and retailing has become ever more concentrated, the share of consumer food prices that is received by

farmers has diminished (Dobson *et al.*, 2003), threatening the viability of small-scale producers. This has stimulated high-level interest in alternative (short/direct) supply chains and their potential to restore farmers' value added (Cioloş, 2012; Kneafsey *et al.*, 2013). Second, as SSFs lack economies of scale, concerns have been raised that EU hygiene regulations impose disproportionately high costs on such producers (Van Goethem, 2012), jeopardising their viability. This has motivated investigations into whether MSs have exploited opportunities to grant derogations and exemptions from certain requirements in the Hygiene Package to benefit small-scale producers (European Commission, 2010b). Finally, much attention has been focused on whether protected geographical indications (PGI) and other food quality schemes can improve the economic viability of small farms (Tregear *et al.*, 2007; London Economics, 2008). At the centre of the recent Quality Package (QP) (Reg. (EU) No. 1151/2012) is an attempt to improve the operation of EU food quality schemes and it is appropriate to consider the extent to which such initiatives will benefit SSFs.

4.4.1 Current situation and short supply chains

In terms of marketing, SSFs may be part of short/direct or longer conventional supply chains. The former are typically conceptualised as those having no more than one intermediary between the farm producer and the final consumer, e.g. delivery service, village shop/stall (Ministère de l'Agriculture de l'Agroalimentaire et de la Forêt, 2009) with "*the foods involved identified by, and traceable to a farmer*" (Kneafsey *et al.*, 2013). Types of short supply chains include: farm shops, farmers' markets, box schemes and community-supported agriculture (Ilbery and Maye, 2005). Such supply chains are usually distinguished from conventional ones that involve one or more processors and supermarkets, and have attracted attention as a potential means for improving returns to farmers (Plewa, 2012).

Short/direct food supply chains can indeed provide opportunities for *some* small farms to add value to their output and improve livelihoods, but the establishment of farmers' markets depends on local authorities and public bodies identifying and releasing suitable sites. Previous research (FAAN, 2010) documents that the LEADER programme can aid co-operation between farmers and successfully support the establishment of farmers' markets and collective brands. Co-operation between farmers may be particularly helpful in sharing the time and transport costs of attending farmers' markets. However, applicants for LEADER funds continue to complain of inadequate or unclear information disseminated through LAGs (FAAN, 2010).

European and international evidence points to the pivotal role of marketing co-operatives and agricultural extension agencies in aiding the inclusion of small farms in conventional food supply chains and in accessing Pillar 2 supports. Individually, small farms typically cannot meet the volume and certification requirements of supermarkets and large food manufacturers, so that their inclusion in conventional food supply chains typically depends on membership of marketing co-operatives (Viaggi and Cuming, 2013).

The engagement of small farms in short food supply chains varies across MSs. Direct selling by farmers to consumers has been relatively uncommon in Northern Europe. For instance, Raley and Moxey (2000) estimated that only 2.8% of the value of agricultural output in Northern England was sold directly to retailers, consumers or caterers. Even for small farms, direct sales were relatively rare. Since the Raley and Moxey (2000) study, direct sales are likely to have risen in the UK but remain "*currently not an option for the majority of farms*" (Kneafsey *et al.*, 2013). Direct sales are more prevalent in Mediterranean countries and in some NMSs such as Poland and Romania.

In some NMSs, the prevalence of direct sales reflects longstanding traditions of small farmers taking produce to weekly or other "green" markets (Forgacs, 2010). Yet, engagement in short supply chains can be either voluntary or involuntary. For some farmers, short supply chains offer an attractive strategy for higher margins although, as noted by Kneafsey *et al.* (2013), few studies thoroughly document the financial benefits. In other cases, engagement of small-scale farmers in short supply chains reflects their exclusion from conventional ones, because they lack sufficient volume of output or quality certification (Fałkowski, 2012). Excluded from these "formal" supply chains, such farmers engage more or less directly in informal sales to neighbours and the wider public.

Box 15: The importance of direct farm sales: Poland

Direct sales are much more important for Polish small farms compared with their larger counterparts. In 2007, there were 384,995 farms for which direct sales accounted for more than 50% of the value of total sales. If SSFs are defined in terms of 2-4 ESUs, there were 57,600 such farms for which direct sales exceeded 50% of the value of total sales, equivalent to 19% of all SSFs of between 2-4 ESUs. In terms of hectares farmed, 69% of those farms for which direct sales account for more than 50% of total sales are less than 5 ha in size.

Table 13: Numbers and shares of individual farms in Poland in farm size classes in ha for which direct sales account for more than 50% of total sales, 2007

Farm size (ha)	No. of farms	% of farms
0-1	79,609	21
1-2	70,874	18
2-3	48,947	13
3-5	63,666	17
5-10	74,926	19
10-15	23,644	6
15-20	8,911	2
20-30	7,809	2
30-50	3,822	1
over 50	2,786	1
Total	**384,995**	**100**

Source: GUS (2008) and Fałkowski (2013), Case study Poland.

In understanding the potential to provide better returns to farmers, it is important not to overgeneralise the degree to which consumers have engaged with attempts to stimulate short food supply chains (Tregear and Ness, 2005). A significant proportion of consumers continue to be rather uninterested in food generally and in provenance / food miles specifically (Food Standards Agency, 2007). Some consumer groups remain very price-sensitive, and, while often acknowledging benefits stemming from small-scale food production, are unwilling to pay a price premium (Weatherell *et al.*, 2003). For others, purchase (and food preparation/cooking) convenience remains critical, so that speciality retailers, box schemes and markets are eschewed in favour of the "one-stop" shopping offered by supermarkets and hypermarkets (Geuens *et al.*, 2003). To be successful, direct marketing initiatives must identify and target a suitable niche of consumers.

Box 16: Farmers' markets: Hungary

The Hungarian interview report identifies that direct marketing schemes should be established where demand for value added produce is located, targeting "concerned consumers". Market research data (Medián, 2012) indicate that 13% of Hungarian consumers buy directly from farmers with three-quarters of respondents agreeing it is "*important that their buying could help the livelihood of farmers*". However, only 37% said they would pay a 10% price premium to improve the livelihoods of local food producers. Those willing to pay extra were more likely to be living in Budapest, possess a university degree and belong to higher income categories. Attempts to create new farmers' markets in the countryside have been rather unsuccessful as inhabitants or their relatives produce similar products to what is on offer for sale and purchasing power is low. The most successful farmers' markets, in terms of improving farmers' sale prices, have been in Budapest, which attract middle-class "concerned consumers" (Szabadkai, 2010).

Source: Gorton (2013), Interview report Hungary.

Among the case study countries, direct marketing of farm products is probably most well developed in Italy where between 2001 and 2009 the number of farms involved in such activities rose by 64%. A study by Rocchi *et al.* (2010) identified two clusters of consumers who patronise farmers' markets and shops. The first group is motivated by a positive attitude towards environmental and rural development goals, and by willingness to participate in food-related "social" events. In this cluster, those aged between 34 and 56 years, educated to degree level and with above-average incomes are overrepresented, and price is not the primary criterion in food choice. The second group is characterised by lower levels of education and more modest incomes. They lack confidence in the formal system of certification for credence characteristics such as geographic origin or organic production methods, and have greater trust in local products. As a consequence, an important motivation for frequenting farmers' markets/shops is the direct relationship with producers, which is considered as the main guarantee of quality. Price is a salient criterion in food choice, and these consumers regard such marketing channels as a good compromise between the quest for quality foods and the need to economise.

In Italy, the main supply side initiative related to direct farm sales is the programme *Campagnamica* (friendly countryside) developed by *Coldiretti,* which organises approximately 1,100 farmers' markets. The programme seeks to create and re-vitalise local farmers' markets, with emphasis on delivering competitive consumer prices while still providing farmers with improved returns for their produce. Market research suggests that offering lower prices than supermarkets for fresh produce is central to the long-term sustainability of Italian farmers' markets (Coldiretti, 2008; Vecchio, 2010).

On the demand side, one innovation has been solidarity-based purchase groups (GAS)[4] of consumers who purchase collectively through direct relationships with producers, according to shared ethical principles (the "solidarity" concept). Reviewing the experiences of these schemes (Meloni *et al.*, 2009; Brunori *et al.*, 2012) suggest that, while there are opportunities for expansion, significant barriers to farmers' participation exist. The latter include: that not all farms possess the communication skills required for building close relationships with consumers, a lack of logistical services and infrastructure, and the significant amount of time farmers have to devote to marketing and travelling instead of primary production. This implies that involvement in direct marketing schemes necessitates organisational changes in farming practices.

[4] *Gruppi di acquisto solidale*.

4.4.2 Food quality schemes

RD Measure 132 seeks to increase participation of farmers in food quality schemes which may be EU or national initiatives. The main EU food quality schemes are protected geographical indication (PGI) and protected designation of origin (PDO) for agricultural products and foodstuffs (Council Reg. (EC) No. 510/2006), traditional speciality guaranteed (TSG), certified organic production, and quality wine in specified regions (Commission Reg. (EC) No. 382/2007). Underpinning these initiatives is a belief that the future international competitiveness of European farms, especially small-scale operations, is likely to hinge on a quality rather than a cost/commodity focus. Funds under Measure 132 may be used to reimburse the costs for entering a supported scheme, annual contributions for participation, and inspections to verify compliance with the specifications of the scheme.

Our case study evidence reveals that engagement with food quality schemes varies significantly between countries. Food quality schemes appear most developed in Italy, while Bulgaria and Romania, by March 2013, each had only one approved designation (PGIs *Gornooryahovski sudzhuk* and *Magiun de prune Topoloveni* respectively).

Box 17: Food quality schemes and small farms: Italy

Agricultural census (2010) data indicate that just over 9% of Italian farms of 5 ha and larger were part of a PDO/PGI scheme. The corresponding figure for farms smaller than 3 ha was 6.8%. While small farms are thus less likely to be part of a certified food scheme in Italy, many are, and the barriers to inclusion should not be overstated. In some instances, protected designations maintain price premiums to farmers. For example, in the cases of Toscano extra virgin olive oil and Mela Val di Non apples, farmers receive a significantly higher share of the final retail price compared with comparative non-designated products (London Economics, 2008). In these cases, the PDOs benefit from strong and well organised consortia. However, in other instances, retail price premia for PDO products are negligible or appear to be captured largely by wholesalers and retailers rather than by farmers (IPTS, 2006). There are many PDOs in the south of Italy where consortia are not well organised and fail to deliver economic benefits for farmers (Belletti *et al.*, 2006; Arfini *et al.*, 2010). Quality certifications *per se* do not guarantee improved returns for small-scale farming.

Source: Salvioni (2013), Case study Italy.

In Slovenia, while initial enthusiasm for the promotion of food quality schemes was high, results have been mixed. After EU accession, national policy and Slovenia's 2004-2006 RDP actively supported the establishment of certified agricultural and food products. As a result, more than 40 products were officially registered under the food quality schemes (PDO, PGI, organic). However, later analysis revealed (Erhart *et al.*, 2009) that one half of these products had no functioning consortia (e.g. lack of active/certified producers). In too many cases the establishment of certified products was accompanied by insufficient economic potential, or suffered from poor marketing and branding. Publicly supported (and co-financed) certification raised the expectations of producers regarding reputation and brand visibility, increased demand and higher prices. However, after withdrawal of (temporary) public support, producers were obliged to cover the costs of participation and monitoring themselves. In cases where certification did not deliver benefits in terms of increased sales or added value, members of consortia withdrew. Within the Slovenian 2007-2013 RDP, Measure 132 has not generated expected outcomes. By the end of the programming period, it was anticipated that 1,500 farms should be included in various quality schemes. However, by 2011 only 147 applications for this measure had been approved, and just over 1% of the budget for the measure had been spent (Kmetijski Inštitut Slovenije, 2012). Overall, the operation of food quality schemes in Slovenia has been adversely affected by a lack of trust

between producers, a top-down bureaucratic approach to registration which often failed to realistically assess marketing opportunities, and insufficient controls and sanctions against violators, which undermined trust in the labels (Černič Istenič, 2010).

In Scotland, Measure 132 has similarly failed to generate the outcomes expected. In the Scottish RDP 2007-2013, Measure 132 provides 50%, up to a maximum of £150 (about €173) of the joining fee or on-going membership subscription for eligible food quality assurance schemes. A survey of 20 beneficiaries as part of the Mid-Term Evaluation indicated that they would have been members of the food quality assurance schemes regardless of receiving support under the measure (Rural Development Company Ltd, 2010). Most respondents reported that the Measure's impact on improving access to markets and increasing the value of outputs was negligible. At the mid-point of the RDP, only 11% of the total Measure 132 budget had been committed and only €18,523 (3%) actually spent. Given the low ceiling for payments and requirement of co-financing, the poor take-up of support is unsurprising. Ultimately, the sustainability of food quality assurance schemes will depend on them delivering improved returns to farmers and this, rather than the kind of support schemes typified in the Scottish case, will determine farmers' long-term participation.

An evaluation of the food quality certification schemes by the European Court of Auditors (European Court of Auditors, 2011a) raised concerns that most MS "*do not carry out checks aimed at the detection and suppression of cases of disallowed practices on a regular basis*" and that there is a lack of effective EC oversight of MSs' checks. The issue of inspections affects SSF involvement in such schemes. To maintain the credibility of schemes, on the spot inspections by Competent Authorities (CAs) in the MS are deemed essential. However, many SSFs are fearful of such inspections and this is a barrier to their involvement in the schemes. Moreover, as MSs are authorised to charge a fee to cover the costs of inspection, the more rigorous the inspection system, the greater the likely costs of involvement, which may be disproportionately high for low-volume, small-scale producers.

4.4.3 The "Milk Package"

Much interest in short supply chains arises from data which suggest that in conventional food supply chains farmers' share of retail prices has declined in recent years, as the bargaining power of producers *vis-à-vis* retailers and processors is waning. Such concerns underpin the so-called "Milk Package" (Reg. (EU) No. 261/2012) which grants MSs the right to make formalised written contracts between dairy farmers and processors compulsory. In an attempt to improve farmers' bargaining power, the regulation also allows producer organisations constituted solely of dairy farmers to jointly negotiate contract terms, including prices, on behalf of their members.

Given the novelty of such measures, there is little evidence to date of their impact on dairy supply chains in general or, specifically, on SSFs and small farms. However, other changes in dairy policy are likely to affect small farms adversely. Analysis based on general equilibrium modelling suggests that the abolition of milk quotas will lead to a significant decline in raw milk prices and a modest increase in output (22% and 3% respectively) (Lips and Rieder, 2005). The negative effect of the abolition of milk quotas on farmers' gross margins is likely to be greater for smaller and extensive farms relative to larger and intensive units (Jongeneel *et al.*, 2010). The impact of measures within the Milk Package should be monitored to establish whether they fulfil the objective of improving the position of milk producers in the dairy supply chain. If beneficial results emerge, the case for extending such measures to other supply chains should be considered.

4.4.4 Food hygiene package and flexibility measures

Hygiene regulations at the European level are documented in the General Food Law (Reg. (EC) No. 178/2002) and in three Acts which form the "Food Hygiene Package" (Reg. (EC) Nos. 852/2004, 853/2004 and 854/2004). To protect traditional methods of production and to prevent the closure of small food processing establishments, provisions were included in the legislation for flexibility at the MS level (European Commission, 2009). This gives CAs in each MS the ability to introduce national measures, subject to the agreement of the EC and other MSs, granting derogations, adaptations and exemptions from certain requirements outlined in Annexes of the Hygiene Regulations, and to exclude some activities from the scope of the Hygiene Regulations (European Commission, 2010d; Van Goethem, 2012). Evidence to date suggests that *"MS may not have availed of all flexibility possibilities offered in the legislation"* (European Commission, 2009).

Case studies of the application of hygiene regulations (European Commission, 2010b) identify that the application of flexibility measures has varied enormously between MSs. Specifically, Austria, Germany and the UK have made extensive use of many flexibility provisions, whereas very little use has been made in most NMSs (European Commission, 2010b). The latter countries largely transposed EU hygiene regulations in preparation for membership without introducing national measures to exclude from the scope of Reg. (EC) No.853/2004, the direct supply by producers of small quantities of primary products to final consumers and/or local retail establishments.

Evidence from the Hungary (FAAN, 2010; Szabadkai, 2010; Balázs, 2012) suggests that failure to introduce flexibility measures in the early years of EU membership harmed SSFs. Flexibility was only introduced two years after accession under the decree for small producers (14/2006, II.16), adopted jointly by the Ministries of Agriculture and Rural Development, and Health, which permitted exemptions only for natural persons selling very small quantities of selected products locally. Following accession, many abattoirs shut down, leaving a lack of adequate facilities for small-scale meat processing in much of the country (FAAN, 2010). A 2010 amendment increased the quantities permitted for sale and allowed small-scale producers based anywhere in the country to sell their products in Budapest. The latter was important to stimulate farmers' markets in the capital city. Previously sales had been restricted to producers' villages where there were many similar producers and very limited demand (Szabadkai, 2010).

The evidence thus suggests that the main problem rests with the failure of some MSs to introduce flexibility measures that are allowed for under existing legislation, rather than a need for additional derogations. The capacity of CAs could be raised by effective training and by establishing linkages between CAs in NMSs and in acceding countries with those most experienced in the introduction of flexibility measures in the EU-15.

4.5 Synthetic summary

The analysis of current CAP measures reveals three important features responsible for the observed large farm bias in the CAP.

Since its outset, the CAP has provided the bulk of its support to larger farmers who either produce more (as in the case of price support per unit of output), or have more agricultural land (as in the case of Pillar 1 single payment and Pillar 2 Axis 2 rural development measures which are paid as a fixed rate per ha). Therefore, SSFs and small farms are not "equitably" treated by Pillar 1 instruments, whose design and annual basis can have only limited (if any) effect on this farm subsector, nor by Pillar 2, whose mix of measures

designed to achieve social, environmental and economic goals in a multi-annual perspective is supposed to be valuable for the small-scale sector.

Nevertheless, only some of the obstacles faced by SSFs and small farms to use, and benefit from, CAP measures stem from the legislative regulations and the eligibility criteria they provide for. The evidence suggests that the main problem – especially for Pillar 2 – rests with the failure of MSs to introduce implementation rules conducive to the needs and capacity of SSFs and small farms. One aspect of this failure in some MSs is the introduction of minimum eligibility thresholds (in area in ha, or in economic size) for different CAP measures, which exclude the bulk of small and SSFs. As underlined in Section 4.2.1, only 16 and 17% of small farms in Hungary and Bulgaria respectively are beneficiaries (receiving less than €500 per annum) of Pillar 1 payments.

However, even more powerful than this deliberate barrier are non-deliberate, indirect ones, which relate to the lower capacity of small and SSFs to find matching funds when private co-financing is necessary, to secure good-quality advice in the application process, and to submit high quality and acceptable applications.

The legislative design of the CAP instruments, and both the deliberate and non-deliberate exclusion of small and SSFs by individual MSs, lead to very small benefits for these farms from current CAP. To some extent, this reflects the weak political representation of small and SSFs at national and European levels, e.g. via the failure of general farmer organisations to promote their interests.

5. RECENT PROPOSALS

KEY FINDINGS

- The proposed **exemption of many small farms from provisions of standard Pillar 1 payments** will mean that the effect of reforms such as greening requirements, "active farmers", etc. on most SSFs will be very limited.
- Since, under the proposed payment scheme, basic payments are still to be based on holding area rather than "income need", **Pillar 1 will remain biased against small and SSFs**, the more so since convergence towards more similar payment rates per hectare between MSs is to be very slow and limited.
- The **small farmers scheme offers a substantial simplification** of the standard direct payment arrangements, and should – in line with the European Parliament amendments – be made compulsory for all designated farmers in those MSs which choose to implement it.
- A reformed **Pillar 2 requires appropriate design and delivery mechanisms for measures to be targeted at small and SSFs**. The RDPs of those MSs with a significant proportion of small and SSFs should state clearly the strategic goals for these farms, and how it is intended to ensure appropriate access by these groups to the measures of most relevance within the RDP, including capacity-building, knowledge transfer, advice, cooperation and training.
- As regards food sector policy proposals, there is often **a mismatch between the location of those farms which are most in need of adding value** (e.g. remote rural NMS areas) **and market potential** (i.e. significant numbers of consumers with both interest in high-value products and sufficient income to purchase them).

On the basis of the analysis of Chapter 4, this chapter focuses on the current proposals for CAP after 2013. The analysis is not comprehensive but covers in more detail those aspects of Pillar 1 and 2, and the QP which are more relevant to SSFs and small farms.

5.1 Pillar 1

Under Article 10(1) of the proposed regulation establishing rules for direct payments, minimum limits for the single payment are specified as €100 and 1 ha. However, Annex IV specifies alternative "coefficients" for each MS, the same as those in the current Council Reg. (EC) No. 73/2009. In nearly all cases (Latvia and Lithuania being exceptions), the MS payment threshold is higher than €100 (e.g. €200 for Poland and many other MSs, up to €500 for Malta and the Netherlands), while the area thresholds are both higher and lower, e.g. 5 ha for the Czech Republic, Denmark and the UK, down to 0.1 ha for Malta. The restriction to "active farmers", and reductions to be made in the light of "financial discipline" (keeping within national ceilings) are not to apply to farmers receiving less than €5,000 of direct payments.

Coupled support (i.e. direct payments based on crop areas, livestock numbers or output) is to be allowed within strictly defined limits, e.g. under 5% or 10% of the national ceiling, and only to sectors or regions with "certain difficulties" or which are "particularly important".

These proposals, and their subsequent development in discussions in the European Parliament and elsewhere, are discussed below as they relate to small or SSFs. Given the €5,000 exemption threshold specified above, and the low levels of direct payments available (if all) to such farming, only the basic payments and the small farmers scheme receive extensive treatment.

5.1.1 Basic payments

These payments represent continuation of the current area-based system of farm household income support which (i) is intrinsically biased towards larger producers (rather than targeted at those who need income support), and (ii) excludes very small producers who are prevented from registration by either official thresholds (see Section 4.1.2 above) or by the perceived transaction costs and risks (e.g. of becoming involved in taxation) of attempting to do so. Insofar as small beneficiaries are more dependent on direct payments as a regular and reliable income source, the general reduction in payment rates (of about 30% to allow various types of top-up payments) will bear more heavily on small beneficiaries.

Most attention in initial analyses of the EC proposals focused on the implications of the convergence or "flattening" of direct payments across the EU. These elements would do little for small-scale beneficiaries of direct payments such as eligible SSFs and small farms, because the suggested "progressive adjustment" is very limited, i.e. closure by 2019 of one third of the gap between the MS current level and 90% of the EU average. The only significant increases in rates of direct payments per hectare would take place in the Baltic States (European Commission, 2011b).

However, later amendments, confirmed in the Plenary vote in March, introduced a "complementary" or "redistributive" payment by which a MS could use up to 30% of its national financial ceiling to top-up payments on the first (up to 50) hectares. According to Matthews (2013), this proposal has "*received broad support among the Ministers. So a redistributive payment on the first hectares of a farm now looks likely to be part of the new CAP*". According to his "illustrative simulations", farms below 5 ha (with an average size of 2.5 ha) would receive about 21% more in direct payments than without the redistribution. Matthews's calculations are based on the holding pattern in Ireland, where such farms account for about 6% of all holdings; the outcome in countries with much larger shares of very small holdings is likely to be less.

Most NMSs have argued strongly for a quicker convergence towards a "fairer" system of direct payments, i.e. higher rates of payment per ha in their countries (and, according to this study's national experts, sometimes an expanded national eligible area, e.g. Romania). Insofar as this is eventually achieved, it would benefit small farmers in those countries who receive direct payments.

As regards SSFs, the fundamental point about direct payments remains in the CAP after 2013: many SSFs – in fact, most SSFs, given the very large numbers in Romania – would continue to be excluded from these payments because they are too small to qualify under the eligibility criteria.

5.1.2 Small farmers scheme

In the 2010 Public Consultation, it was reported that: "*Targeting payments towards small farmers was more welcomed* [than capping]*; although a few organizations feared that*

structural adjustment might be hindered, affecting the long-term competitiveness of EU agriculture" (European Commission, 2011a).

The EC proposed that any farmer claiming support in 2014 may decide to participate in a new Small Farmers Scheme and receive a fixed lump-sum annual payment. This support, based on an eligible area of up to 3 ha, or up to 15% of the national average payment per beneficiary, and being between €500 and €1000 (€200 for Cyprus and Malta), would replace all other direct payments and coupled support. Farmers participating in the scheme would be exempted from greening and cross-compliance, and benefit from simplified procedures. Farmers under 10 ha will not lose out on the greening payment as it will be included in the calculated value of the Small Farmers Scheme payment. Entitlements would be transferable only through actual or anticipated inheritance, not sale. National administrations would initially incur increased costs while setting up the new scheme, but it was expected that the scheme would, in the longer term, reduce "red tape". As stated in the proposals, "*The objective of that scheme should be to support the existing agricultural structure of small farms in the Union without countering the development towards more competitive structures*" (European Commission, 2011a).

In respect of this proposal, national experts reported:

- Bulgaria: "no important reaction", although some small farmers would welcome **reductions** in Pillar I subsidies to others (Mishev, 2013, Case study Bulgaria).
- Greece: an governmental amendment to the Commission's proposal specified a range of €500 to €1000 for small farmers scheme payments, in order to "*be fairer to the farmers as there will not be major winners ... or losers*" (Papadopoulou, 2013, Case study Greece).
- Romania: the introduction of the small farmers scheme is particularly important for the country, as farms which enter the scheme will be eligible for compensation under the Pillar 2 farm exit measure if they give up farming after 2014 (Alexandri and Luca, 2012).

Although the EC initially favoured a scheme mandatory in all MSs (European Commission, 2012d), discussions with the Council and Parliament seemed to favour a voluntary approach.

In theory, all farmers may apply for this simplified payment, but it is expected that – due to the level of the payment – mainly farms up to 3 ha will apply for the scheme. According to the EC impact assessment, approximately 30% of the beneficiaries of CAP funding in the EU have an area of 3 ha or less. The impact assessment of three options for a small farmers scheme suggested that "*The number of beneficiaries ... differs widely between Member States*", but would average 29% of all direct payment beneficiaries across the EU. Although lack of information on the incomes of very small farms prevented full analysis, it was concluded that "*a small farmers scheme could lead to considerable benefits for the farmers targeted by the measure while the impact on the farm population not benefiting from the scheme would be small*". The largest beneficiary income impacts depended on the option chosen for assessment but were typically for Bulgaria (13.6%), Cyprus (10.2%), Hungary (4.7%) and Romania (2.7%). The assessment concluded that "*The small farmers scheme would allow to keep in place the varied field structures with diversity of crops, field margins and hedgerows and niches of unproductive land that often goes together with these types of farms ...* [and] *could also help to alleviate some of the environmental problems of small scale farms*" via development opportunities for e.g. input management. Such a scheme "*could considerably simplify the overall management of the direct payments scheme for Member States*", and would "*mean a much less burdensome access to support*" for farmers.

"*However, provisions aimed at preventing artificial "splitting" of farms could be complex to draft*" (European Commission, 2011a).

The Groupe de Bruges (2012) considered that "*the proposed small farms measures in Pillar I are not ... a small farms policy, but merely an attempt to simplify the CAP*", and suggested that a group of small farmers could collectively be eligible for direct payments.

According to this study's national experts, an alliance of environmental non-governmental orgnisations and European farmers' organisations (e.g. Groupe PAC 2013, European Forum on Nature Conservation and Pastoralism - EFNCP) has called for an ambitious reallocation of the Pillar 1 payments to livestock producers who use extensive techniques based on natural pastures and organic farming. Their proposals also include special (coupled) payments to support the protein production in Europe, again using extensive production techniques. An original feature is that these payments should have an explicit distribution objective, which could be addressed by basing payments on labour units rather than hectares, taking into account income from non-agricultural sources in the household. If practicable, this approach might significantly alter the distribution of direct payments, but the problems of eligibility criteria and obstacles would remain, and (as with any labour-based payment scheme) would tend to perpetuate underemployment and low labour productivity on small farms.

5.1.3 Other single payment measures

The proposal for additional voluntary (for MSs) area payments for farmers in **areas under natural constraints**, up to 5% of the national financial ceiling for direct payments, is a limited one, which is not expected to affect small and SSFs in any particular way, except in regions and areas (yet to be defined) in which such farms are particularly important. In the case studies, national experts did not identify it as a topic of much discussion in their countries.

In general, basic payment levels are to be reduced below current levels by at least 30%, the amount of the national ceiling to be used for top-up payments such as those for the greening requirements (multiple crops, permanent pasture, and ecological focus areas). Matthews (2012) has estimated that "*it is the smaller farms that are affected disproportionately*" by the multiple crop requirement, and might incur high compliance costs. However, entrants to the small farmers scheme with an arable area under 10 ha will not suffer this reduction.

Amongst this study's national experts, attention to this aspect of the proposals is noted in Italy, Portugal and Romania (whose Government is reported as supporting the greening of the CAP by supplementing direct payments). This signals that the interests of small farmers with less than 3 ha have not featured highly on their policy agendas.

The European Parliament has proposed several relaxations of the rules for greening and ecological focus areas, e.g. reduction or removal of the crop diversification requirement, and inclusion of further forms of permanent grazing land. These would exempt many small direct payment beneficiaries such as SSFs from some of the complications of the reformed Pillar 1.

Amongst the case studies, it was noted that the Romanian Government has welcomed the proposal for **payments to young farmers**, up to 2% of the national financial ceiling, and farmer union support is reported in Greece.

The EC proposed that MSs should be allowed to **transfer ("modulate") funds from Pillar 1 to Pillar 2**, and in the opposite direction for those MSs with a level of direct support lower than 90% of the EU average, i.e. Bulgaria, Estonia, Finland, Latvia, Lithuania, Poland, Portugal, Romania, Slovakia, Spain, Sweden and the UK. The European Parliament suggested that unspent "greening" funds should be added to the first of these transfers.

Under the Commission's proposals for "progressive reduction and **capping**", direct payments which after subtraction of labour salaries etc. are above €150,000 would be reduced at increasing rates up to 100%. The Capoulas Santos amendments added contractor costs to the allowable deductions. These provisions would hardly affect SSFs, except perhaps indirectly as employment of such farmers on neighbouring large farms might be utilised as a way of avoiding capping penalties.

In the 2010 Public Consultation, it was reported that "*There seems to be agreement on the fact that those receiving payments should ideally be **active farmers**, but how this should be defined is a concern for many responding parties*" (European Commission, 2011a).

The EC proposed to exclude as "active farmers" all "natural and legal persons" whose direct payments would be less than 5% of their total receipts from non-agricultural activities, but to exempt beneficiaries receiving less than €5,000 "for the previous year". The latter would cover most SSFs and small farms, even those with a significant wage from a non-farm occupation. The European Parliament has proposed the removal of this criterion, but added explicit exclusions for non-agricultural enterprises, such as campsite operators. It also proposed that MSs would be given the option of applying the €5,000 exemption, rather than it being mandatory across the EU. The MSs most likely to drop this exemption would seem to be those with few SSFs and effective social security systems, i.e. those in the North-West of Europe.

5.1.4 Market support and regulation

Reform proposals in this area are usually limited to a continuation of the Health Check reforms, such as elimination of milk and sugar quotas. The Commission's 2011 proposals contain a number of relatively minor changes, and suggest extending support for producer groups under RD policy.

As mentioned above, the EC (European Commission, 2011d) proposed that up to 5% (10% in special cases) of national financial envelopes could be used for "*direct payments for coupled support in certain sectors in clearly defined cases*". In its impact assessment (European Commission, 2011a), EC suggested that such support is particularly important for specialist beef breeders (especially in mountainous areas) and sheep meat (rather than milk) producers. These payments would not seem to impact much on small and SSFs, except where (as in Malta, according to a national expert), the coupled support instruments may be designed in a way which shifts funding away from the smallest eligible producers towards larger ones.

As regards the possible loss of vineyard planting rights, at least 12 MSs (both from EU-15 and NMSs) fear a number of negative effects, including "*the possible abandonment of small farms*" (Sardone *et al.*, 2012).

France's decision to adopt a historical model of the single payment scheme combined with Health Check regulation (Articles 63 and 68) enables it to transfer payments to areas with natural handicaps. Modelling the expected effect of this decision shows that it is likely to give rise to a redistribution of direct payments from regions specialising in the production of

arable crops, to regions with natural handicaps, and a reduction of direct payments to large farms by 30% in favour of smaller farms (Chatellier and Guyomard, 2008).

5.1.5 Concluding Remarks

The current position over proposals for the reform of the CAP's Pillar 1, as they are likely to affect SSFs and small farms, can be summarised as follows:

- The main proposals for direct payments, if applied to all farms, would have only limited effect on SSFs and small farms, due to low-area and low-payment exemptions, but direct payments would remain beyond the reach of many SSFs and small farms because they lie below the minimum criteria for these payments, or find it difficult to apply.
- The small farmers scheme offers a substantial simplification of the standard direct payment arrangements, especially compared with complications of greening, "active farmers", etc. introduced in the proposed reforms.
- However, the purpose of the small farmers scheme is rather unclear, as demonstrated by the "objective" statement quoted above: it is to "*support the existing agricultural structure of small farms"* but should not "*counter the development towards more competitive structures"*. This points towards a long-term, "pure" income support scheme of a "social welfare" nature, rather than the standard "development" objective of most EU instruments and funds.
- In time, the small farmers scheme may offer an alternative "Pillar 1a" which will be clearly separated from standard direct payments, both financially and in terms of objectives.
- Changes in market support and regulation, and in coupled payments, are unlikely to affect SSFs and small farms more, or differently, than at present, except where MSs use the available flexibility to design and modify the various schemes (e.g. for coupled payments, or planting rights) in ways which disadvantage those farms.

Behind these specific policy impacts, SSFs and small farms are exposed to relentless demographic, commercial and technological pressures which seem unlikely to improve their position as farmers. Although it is the main CAP component, Pillar 1 can do little to ameliorate these pressures, and the main strategy should be to emphasise the "public good" justifications for the very large funding stream directed at European agriculture. In this context, SSFs and small farms may have less to fear; in general, they are seen to offer environmental, social, and cultural resources and services which fully commercial and intensive farms are often seen to threaten and degrade.

5.2 Pillar 2

The EC draft regulations on support for rural development by the EAFRD beyond 2013 contain several important changes which should be positive, in enhancing its capacity to be used to address the needs and opportunities for small and SSFs. Based on the analysis of the current Pillar 2 measures in Section 4.2 of this report, the areas for improvement in this respect could be identified as:

1. more design of **tailored packages of measures for small and SSFs**, with special eligibility criteria, and without the minimum size and other thresholds that apply more

generally to many RDP measures and which effectively exclude or discourage access to these groups;

2. **support for capacity-building, training, advice, cooperation and empowerment** in order to increase the ability of these types of farm household to articulate their needs, develop their aspirations and become more engaged in shaping policy agendas for rural development;

3. dedicated, and perhaps **devolved, small-scale grant-giving mechanisms** which avoid excessive bureaucracy by adopting more simplified or streamlined application, award and disbursement processes, as is appropriate to the lower financial risk arising from very small-scale expenditures; potentially, **enhanced access to micro-credit;**

4. promoting more **effective application of Pillar 2 aids** for SSFs and small farms.

The draft rural development regulation for 2014-2020 is therefore assessed by reference to these four points.

5.2.1 Tailored packages of measures

There is a clear strengthening of the elements within RDPs which promote more strategic and co-ordinated use of measures to reflect local circumstances, and match local opportunities, more effectively than before. The key changes can be summarised as follows.

- The former four-axis structure and the minimum spending thresholds per axis have been removed in favour of a structure focused around six strategic goals. The scope and purpose of all existing measures are retained but consolidated into fewer, more flexible instruments, and there is an obligation upon MSs to use whichever measures they choose to deliver against the strategic goals (i.e. no pre-determined link between measures and goals). The new goals are: knowledge transfer; improved competitiveness; innovation in products and processing; protection of biodiversity and landscapes; more efficient and sustainable use of water, energy and low-carbon technologies; and tackling rural poverty and social exclusion through local economic development and improved rural viability. This more strategic and flexible framework should increase the opportunities to combine instruments at a local level in order to tailor them more closely to specific conditions, such as those in respect of small and SSFs.

- There is explicit support for RDPs made up of a number of focused "sub-programmes", tackling specific themes or challenges which may qualify for higher co-funding rates from the EAFRD. "Small farms" is amongst the list of suggested topics for which sub-programmes may be particularly appropriate.

- A new measure for collaboration significantly increases the types of collective and partnership-based planning and delivery that can be assisted. For example, it can involve partnerships between farmers, local authorities and environmental experts to manage agri-environment-climate actions; and partnerships to develop local strategies or improve local knowledge exchange. If appropriately designed and implemented, this measure has potential to build social capital in areas and situations where small and SSFs are currently excluded from the reach of RDPs.

- A reinvigorated approach to LEADER reinstates its relative independence from the wider measures' architecture, requires all EAFRD programmes to spend at least 5% of their total funds on it and promotes funding from all EU funds, as appropriate. There are also

new measures to promote capacity-building in LEADER-type delivery approaches. Both these changes appear to liberate the LEADER approach from the heavy bureaucracy which has held back its ability to operate effectively in the 2007-2013 period (Maye *et al.*, 2010; Strahl and Dax, 2010). This could enable LAGs to develop a clear focus upon small and SSFs in territorial contexts where these are an important group of stakeholders in rural development.

The basic architecture of the proposed RD policy is more similar to that which has formerly characterised European Regional Development Fund and European Social Fund funding programmes, in giving more choice to MSs about which measures they wish to use, in which combinations, and for which aims. All these changes should facilitate improved targeting and performance at local level compared to the current situation.

5.2.2 Fostering capacity-building, training and advice among small and semi-subsistence farms

The following priority is especially relevant:

Fostering knowledge transfer in agriculture and forestry, focused on promoting human capital and smart networking; fostering innovation and the knowledge base; and strengthening links between the sectors and research and development. Actions under this priority include "*cooperation between the agriculture, food and forestry sectors and other actors and the creation of clusters and networks*"; "*the establishment and use of advisory services….[and] enabling farmers, forest holders and small and medium size enterprises to access advisory services in order to improve economic and environmental performance*"; and "*strengthening the links between agriculture and forestry and research and innovation through setting up operation groups….[as] part of the European Innovation Partnership for agricultural productivity and sustainability*" (European Commission, 2012a). This priority could be used to help to increase the skills and knowledge of small and SSF holders, and farm households. Knowledge transfer and networking can also be a key part of identifying opportunities to develop specialist supply chains for produce, which may offer greater returns to small producers.

It may be necessary for the EC to require all those MSs with a significant proportion of small and SSFs to state clearly in their RDPs:

- what their strategic goals are, for small and SSFs within RD, in their country; and
- how they intend to ensure appropriate access by these groups, to the measures of most relevance within the RDP, including knowledge transfer, advice and training.

5.2.3 Designing small-scale accessible and potentially devolved grant schemes and access to credit

In this role, all the main priorities of the new EAFRD have potential to be pursued by small and SSFs. What is essential, however, is an appropriate delivery model for whichever measures from the Regulation are to be targeted at these types of farm (for example, measures for physical investments, including for restructuring of holdings; and/or support for establishing new groups, including producer groups, for more cost-effective delivery of various RD goals). The proposed regulation requires MSs only to 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. There are no specific requirements for particular kinds of delivery.

A good regulatory framework on its own is insufficient to ensure good performance at the local level; this depends upon creative and enthusiastic engagement by MAs with the value, needs and opportunities surrounding small and SSFs. In that sense, it seems likely that path-dependency, the audit culture and innate conservatism within MAs will act to reduce innovation on the ground in response to better meeting these needs and opportunities. To coin a metaphor: an effective plumber needs more than a good toolkit in order to perform effectively.

Most notably, the sub-programme option for small farms, enabling RDPs to contain bespoke and targeted packages for small farms, is immediately *dis-incentivised* because of the need to effectively write a separate RDP. Each sub-programme is required to have its own plan, its budget, its measures, and targets and indicators for each measure to be tracked, monitored and reported on separately to the rest of the RDP to the EC. The additional bureaucracy thus required may well be sufficient to dissuade many MAs from adopting this approach, despite its potential to facilitate more tailored design and delivery of appropriate instruments for small and SSFs.

In respect of small-scale grants and access to micro-credit, it would seem important for the EC to require MAs to state whether they intend to operate simplified fast-track implementation processes for small-scale grants to smaller beneficiaries, including small and SSFs. This could be done within the current requirement, which is for all MAs to consider the scope for simplification in the planning and implementation of RDPs.

5.2.4 Promoting more effective application of Pillar 2 aids for semi-subsistence and small farms

There would certainly appear to be an important role for the ENRD in the next programme period - to build capacity among stakeholders representing small and SSFs, by means of *promoting a continuing theme* on small farms within its portfolio of working groups, conferences and other exchange opportunities. Further research on RD needs and development options for small and SSFs could be undertaken, as part of this.

5.3 Food chain: the "Quality Package"

The QP (Reg. (EU) No. 1151/2012) attempts to: simplify the operation of the PDO and PGI schemes, particularly reducing the length of time involved in the application process; reform the system for Traditional Speciality Guaranteed (TSGs)[5]; and consider the potential for new quality terms, e.g. a local farming and direct sales labelling scheme. The QP emerged after extensive consultation and debate, and represents an attempt to cast the future of European farming in terms of a quality orientation so that the "*quality and diversity of the European Union's agricultural, fisheries and aquaculture production is one of its important strengths, giving a competitive advantage to the Union's producers and making a major contribution to its living cultural and gastronomic heritage*" (European Parliament and the Council of the European Union, 2012).

[5] The QP notes the current TSG scheme has "*failed to realise its potential*". Previously the scheme granted the option to register a name without its reservation in the EU. This will be discontinued, so that all names included in the scheme should be reserved and registered at EU level. The time required to demonstrate the traditional character is increased, from 25 to 30 years of proven usage on the domestic market.

Evidence presented in Section 4.4 indicates that engagement with PDO/PGI designations varies markedly across MSs, but in general these designations play currently a limited role in increasing returns to small-scale farmers. In some MSs, despite the importance of the small farm sector, the number of protected designations is negligible (e.g. Bulgaria and Romania), and this is unlikely to change in the short to medium term. Even when the establishment of PDOs/PGIs is enthusiastically embraced by national policy makers (e.g. Slovenian case), the long-term success of quality certification schemes depends on a sufficient number of consumers being willing to pay a price premium for the certified good. The official certification of products does not in itself create such demand.

The findings for Italy illustrate that the impact of PDO/PGI designations depends on the existing prestige and market of the product prior to designation, effective leadership of the consortium, and consumer recognition of the product and willingness to pay a premium. In general, protected designations have most impact in safeguarding a product with pre-existing widespread prestige rather than serving as a mechanism for creating one.

Article 55 of the QP requires the EC, by January 2014, to prepare a report to the European Parliament on the case for a new local farming and direct sales labelling scheme, to aid producers in marketing their produce locally. If necessary, this report should be accompanied by legislative proposals for the creation of a "local farming and direct sales" labelling scheme. While direct sales can improve the economic fortunes of *some* small farms, a labelling scheme is likely to be difficult to enforce, generating problems of credibility, and "local" in itself may not deliver the attributes expected by consumers. There is a tendency to equate local with small-scale production, short supply chains, environmental benefits and superior sensory qualities of food. While there are numerous examples of local foods with these characteristics, local does *not guarantee* these outcomes – large "industrial" farms must be close to somewhere, and the output of small farms can be of poor quality. As local *per se* guarantees very little, its use as a quality mark appears limited.

There is often a mismatch between where those farms which are most in need of adding value are located (e.g. remote rural areas in the NMSs) and market potential (i.e. significant numbers of consumers with both interest in high-value products and sufficient income to purchase them). As the Hungarian experience of stimulating farmers' markets illustrates, local direct food sales as a strategy for increasing returns to farmers will be limited in sparsely populated regions with low purchasing power. Wider lessons can be learnt also from the Italian case. The *Campagnamica* initiative has benefitted from following a national strategy and seeks to develop new and alternative outlets for farmers' markets (Brunori *et al.*, 2013).

Article 31 of the QP details the establishment of "mountain product" as an optional quality term. The definition of mountain areas covers those stipulated in Reg. (EC) No. 1257/1999. The term can only be applied to agricultural products that come "essentially" from mountain areas or, in the case of processed products, where processing takes place in mountain areas. There is no clear evidence that the introduction of another quality scheme will benefit small and SSFs. MSs with mountainous areas have not universally welcomed the innovation, with worries raised about enforcement and how derogations will be defined by the EC. This highlights wider concerns: that the proliferation of quality schemes may heighten consumer confusion, and that, if one quality scheme suffers from enforcement difficulties, confidence in others would also be affected detrimentally.

6. CONCLUSIONS AND RECOMMENDATIONS

KEY FINDINGS

- SSFs represent a major EU agricultural subsector (about half of all EU holdings), and play a number of roles: economic (on-farm household welfare, specialist food production and off-farm labour supply), environmental and socio-cultural.
- EU SSFs appear to follow three development paths:
  1. **disappearance** due to absorption into commercialised farm holdings, or to land abandonment;
  2. **transformation** into commercial farms via greater market integration, reduced "subsistence" dependency; and
  3. **continuation** of SSF status, through (a) diversification with on- or off-farm enterprises; (b) non-agricultural wage employment and part-time farming; or (c) "forced" succession by family generational takeover.
- The various **CAP reform proposals for Pillar 1** seem unlikely to alter the large farm bias of the CAP in any fundamental way, except for the **small farmers scheme**. Per-hectare rates of payment are not a solution for small and SSFs.
- A **reformed Pillar 2** must reduce both explicit direct obstacles and indirect barriers to participation of small and SSFs through **careful design and implementation of programmes and measures.**
- Major recommendations are:
  - Implementation of a small farmers scheme in line with the European Parliament proposals, i.e. voluntary amongst MSs but encompassing all holdings under certain thresholds.
  - Specific provisions within RDPs to encourage the take-up of measures capable of helping some SSFs and small farms to integrate further with the market and increase the living standards of farm households.

This chapter contains the main conclusions drawn from this study of semi-subsistence farming in the EU and provides some specific policy recommendations arising from these conclusions.

6.1 Conclusions

This study's analysis suggests a number of **development paths** that might be followed by SSFs and very small farms in the EU:

1. **Disappearance** of SSFs due to absorption into larger commercialised farm holdings, or to land abandonment (e.g. in remoter areas), often after the death or disablement of the present holder. This path has clearly been followed in many Northern EU-15 countries, and is likely to account for much of the recent decline in small and SSFs in the NMSs.

2. **Transformation** of SSFs into small commercial farms via greater market integration, with increasing farm output sales and reduced "subsistence" dependency. This is the main development path sought by EU RD policy.

3. **Continuation** of SSF status in the longer term, through (a) diversification with on- or (more likely) off-farm enterprises; (b) non-agricultural wage employment and part-time farming or (c) "forced" succession by family generations taking over the farm with similar technologies and lifestyles, due to lack of other income sources. A version of (c), with relatively high living standards, applies in heavily protected small pluriactive holdings in Scotland and some mountainous regions of the North-West EU-15.

SSFs and small farms have a welfare role, keep rural areas populated and contribute to the rural non-farm economy, provide environmental public goods and supply (in some MSs) specialty food. These various roles and development paths, which vary in significance both between EU MSs and amongst individual SSFs, and the uncertain extent to which SSFs should play a unique part as a supplier of their "joint products", explain some of the **difficulties of designing policy for SSFs**. Moreover, in relative terms, there are considerable **transaction costs** of engaging in policy measures, for both public actors and farmers. However, EU policy-making has to start from "where we are", recognising the nature and structure of the CAP as a whole, as well as budgetary and other constraints.

The largely **area-based design of Pillar 1**, for markets and income support, exhibits **the problem of large farm bias** in stark form: almost by definition, farms which sell only a limited share of their (usually small) output to the market cannot benefit fully from market support, although they may escape the full rigours of farm and product regulation. Moreover, most remaining CAP price support is focussed on sectors, e.g. suckler beef, which are not major ones for small and SSFs. Direct payments are very largely based on size of farm and not on income "need", so that the poverty of many SSF households is very inefficiently addressed. Moreover, many SSFs are too small to be eligible for Pillar 1 payments, despite efforts in some, though not all, MSs to include small and very small holdings, and there are considerable and probably unavoidable transaction costs incurred by both private and official sides in registering for and processing direct payment claims. These costs would be considerably increased if "need" were to become a major criterion for eligibility. Some, but probably relatively few, SSFs and small farms do benefit from CAP non-price support (e.g. planting rights) and "coupled" payments, but again the policy benefits are heavily skewed to size rather than need.

The various CAP reform proposals for Pillar 1 seem unlikely to alter this situation in any fundamental way. The EC original proposals have been considerably modified in the European Parliament, in such a way as to exempt small farmers such as most SSFs from the complications of "greening", "capping", "active farmer", but not so as to alter much the current distribution of direct payments between MSs or between producers. **The small farmers scheme offers a real simplification compared to the standard post-2013 regime, but remains area-based, and limited to current Pillar 1 beneficiaries**. Hence, it represents neither an efficient approach to a "*fair standard of living for the agricultural community*", nor a way "*to increase agricultural productivity*", except when linked to Pillar 2 proposals for business development and exit from agriculture of some small and SSFs in favour of more viable holdings.

There is no escaping the conclusion that Pillar 1, as currently envisaged, cannot satisfactorily address the problems of "disappearing" or "continuing" SSFs. "Disappearing" SSFs may benefit from retirement-type schemes (in Pillar 2) but these schemes are limited

in duration, and, by requiring the transfer of land to neighbouring holdings, remove the mainstay of these SSF households.

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 and SSFs**, as it offers the flexibility and a range of objectives that are relevant to the needs and opportunities of these types of farm. However, the evaluation of existing provision highlights the generally lower use by small and SSFs of Pillar 2 aids, compared to their use by larger farms. Furthermore, it reveals that the barriers to access are probably as much or 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. Nonetheless, 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 implementation of programmes and measures, as in Slovenia (basic measures) and Italy (quality and marketing initiatives).

Assessing the current proposals for Pillar 2 reform, the prospect is on balance positive, but **MSs may not make full use of the scope offered in the new EAFRD Regulation to provide adequately for small and SSFs**. 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, creates its own disincentive** to adoption by requiring additional efforts and costs on the part of Managing Authorities if they decide to use this scope.

Engagement with **food quality schemes** (e.g. PDO/PGI) varies significantly between MSs. In some MSs (e.g. Romania), despite the importance of the small farm sector, the number of protected designations is negligible, and this is unlikely to change in the short to medium term. However, in some but not all Italian cases, the involvement of small-scale farmers in quality schemes has led to a significantly higher share of the final retail price. The current Measure 132 (participation of farmers in food quality schemes) has often proved disappointing. The new local farming and direct sales labelling scheme is likely to be difficult to enforce, generating problems of credibility, and a proliferation of labelling schemes may heighten consumer confusion. Problems with EU hygiene regulations stem largely from the failure of NMSs to introduce flexibility measures that are allowed for under existing legislation, and do not suggest a need for additional derogations.

As regards **agri-environmental measures**, a number of MSs have applied minimum thresholds based on farm size, below which farms are not eligible for funding under some measures. This may have been done in order to limit administration and monitoring costs or in response to overt discrimination against small farms, e.g. in order to achieve significant gains in the production of environmental "public goods" via a focus on large farms. In areas where small farms dominate land use, "patchy" uptake of policy measures designed to promote environmental and other public goods may generate only small-scale benefits for society. Where small farms dominate, there exists the opportunity to act, and to enter contracts, collectively. Not only will this option increase public good provision, but it may also reduce the costs faced by farmers in making applications for funding, and reduce monitoring and enforcement costs for the contracting authorities.

6.2 Policy Recommendations

6.2.1 Pillar 1

The design of policy payments and entitlements to Pillar 1 direct payments will play a crucial role in the direction and pace of structural change in EU agriculture. Current proposals for reform of these payments recognise the situation of SSFs and small farms in some ways, e.g. by exempting them as low-value beneficiaries from most conditionalities (e.g. greening), by "convergence" towards a flatter EU-wide rate structure, and by containing a small farmers scheme.

The following moves would improve Pillar 1 as regards to small and SSFs:

- **Per-hectare rates of payment** should be moved faster towards the EU-27 average; this would favour many of the countries with large numbers of SSFs.
- **Per hectare rates of payment are not a solution for small and SSFs** due to low-area and low-payment exemptions. Direct payments would remain beyond the reach of many SSFs and small farms because they lie below the minimum criteria for these payments, or find it difficult to apply.
- The **simplified small farmers scheme** should, as proposed by the European Parliament, be made available in (but not be compulsory for) MSs, but **with standard annual payments of e.g. €1,000 for all scheme entrants**. Failing this, annual payments should fall within a restricted range, e.g. €500 to €1,000, depending on the MS and the size of the standard direct payment entitlement rate (for some MSs, derogations from this range might be necessary). This would provide small and SSFs with a **secure payment** which is clearly designed to act as income support.
- Entrants to the small farmers scheme should comply with GAEC and Statutory Management Requirements. However, due to large numbers of small farmers the costs of visiting their farms to observe non-compliance with the standards and impose penalties are likely to outweigh any possible reductions in direct payments. Participants in the small farmers scheme should be **exempt from on-the-spot checks and from reductions in the standard annual payment**.
- Entrants to the small farmers scheme could be offered a **one-off lump-sum payment based on the present value of annual payments until 2020**, to be available at any time during the period 2014-2020. This would constitute an immediate "**policy exit**" from Pillar 1 for SSFs and small farms **for the period until 2020**, thus saving future transaction costs for both farmers and administrative agencies for cases where a lump-sum is more attractive to the holder than annual income support.
- The use of direct payments for **coupled support** in certain sectors in clearly defined cases may be used for sectors with large share of semi-subsistence and small farmers, e.g. sheep production in remote regions.
- In line with the assessment of existing measures and their potential, the requirement for MSs to establish a **Farm Advisory System** could be expanded to require specialised and targeted provision of a FAS service for small and SSFs, in any MS where these form a significant feature. This **FAS should have a remit broader than that currently**

specified, which could include raising awareness of, and facilitating these farms' access to, appropriate support under both pillars of CAP.

- The proposed by the EC **expanded product coverage for recognition of producer organisations** (European Commission, 2011c) may benefit small and SSFs if, and only if, such organisations are set up in sectors of importance to small and semi-subsistence producers and the participation of these producers is facilitated.

6.2.2 Pillar 2

The recommendations for policy actions related to RDPs take account of the much greater scope and MS flexibility of Pillar 2 measures, and the co-funding aspect of this Pillar.

If a MS or region has a sufficient number or territorial coverage of very small and/or SSFs for them to be significant in economic, environmental or social terms, it should be required either:

1. **to demonstrate how the RDP takes special account of the needs of small and SSFs** through design and implementation, such that these farms have access to appropriate types and levels of support in line with achieving the strategic objectives of the EAFRD; or
2. to design one or more **sub-programmes** specifically targeted at small and SSFs.

If the MS or region chooses option 2, they should be granted an additional element of **technical assistance funding**, not exceeding say 4% of the total EAFRD budget for that MS or region, to cover the costs associated with design and implementation of the sub-programme(s). In addition, it should be permitted to plan and implement such a targeted programme one year later than the date for implementation of the rest of the RDP, without financial penalty.

Within any RDP or sub-programme designed to be accessible to small and SSFs, the MA should incorporate design or delivery features to ensure cost-effective operation, as follows:

- The programme or sub-programme should contain a **SWOT analysis of the small and SSFs within the territory**, and propose a strategy which clarifies the particular contribution to be made by these farms and farm households towards the six EU priorities for RD for 2014-2020. This could, for example, be in maintaining biodiversity and landscape values, in supporting rural quality of life, or in improving territorial competitiveness through diversification of the rural economy, increased productivity and market engagement, and/or the production of quality products and services (agricultural or non-agricultural).
- The programme or sub-programme should develop targeted actions to promote and strengthen these contributions, in line with the overarching priorities for EAFRD, supported by measures drawn from the new EAFRD menu.
- **Delivery structures** and processes for targeting small and SSFs should be tailored to their specific characteristics and designed to achieve reduced transaction costs, increased simplification and enhanced access for beneficiaries, compared to previous approaches.
- Adopting **a quarterly cycle of approval decision-meetings** for all applicants to the programme or sub-programme. This would enable multi-measure single applications to

be considered in a holistic manner and appraised against their contribution to the main objectives of the programme as a whole, rather than on a measure-by-measure basis.

Guidance should be prepared on how best to design and deliver RDPs or sub-programmes effectively targeted at small and SSF. It should advise the MAs to select and justify the use of one or more from the following:

- Supporting delivery by the use of **facilitators**, employed at the local level by the MA or Paying Agency, with the role of promoting the availability of funding for rural development among small and SSF households, giving initial information to potential beneficiaries about what sorts of action can be supported, holding promotional events in suitable locations, and encouraging collaboration between groups of potential beneficiaries wherever possible, with the aim of stimulating appropriate types and scales of application for EAFRD funding.

- Working with an approved group of **pre-existing co-operatives, network organisations or other independent advisers** in order to encourage them to bring forward appropriate applications for the measures on offer. This could include measures to stimulate direct sales and short food supply chains.

- Providing a small **"starter fund"** under the co-operation measure Article 36 in the EC proposal for RD regulation for approved facilitators or advisers to award small grants to people or groups who come forward with promising ideas for funding, to enable them to meet and/or plan their projects and initiatives professionally.

- Developing a tailored "scheme" in which a number of EAFRD measures are compiled into a simple menu, budgeted as far as possible **using standard or average costs to pre-determine payment rates** (so that the beneficiary chooses from a pre-defined menu of individually priced menu items, in order to compose a package of aid suitable for their own individual situation), and assessed in a holistic way against the strategic objectives of the small and SSF programme or sub-programme.

- Designing **training, advice and capacity-building** approaches which are **welcomed and supported by target groups of beneficiaries** such as small and SSFs, and which build as far as possible on pre-existing social networks and capacities. To the extent that these criteria are met by the FAS within the member state or region, this system could play a significant role in this activity. Where experience suggests that the FAS does not meet these criteria, steps should be taken to identify developments which will provide an accessible, tailored and trusted advisory and training service for small and SSFs.

- **Applying special lower-than-usual eligibility thresholds** in respect of minimum holding area, minimum economic size or minimum levels of turnover or qualifications for beneficiaries, as appropriate to this sector. For the agri-environmental measures any minimum threshold applied by a MS should be justified by either establishing that farms smaller than the threshold do not produce environmental public goods, or farms smaller than the threshold do not incur costs in producing that environmental public good.

- Defining a **maximum size (upper threshold) of aid payment per beneficiary per year,** which is linked to a lower level of controls and conditions than would apply to larger-scale grants or payments under EAFRD, tailored as appropriate to the specific characteristics of small and SSFs (i.e. with simpler conditions, where these are necessary and justified).

- Specifying any other reasonable conditions for receipt of aids under the programme or sub-programme which are particularly designed to improve its ability to deliver against its main priorities and strategy. These could include, for example, making receipt of investment aid or agri-environment aids conditional upon first attending training events or upon securing some form of co-operation to increase the territory or number of individuals benefiting from one contract for aid. They could also include the restriction of aid for training to young farmers or younger members of farm households, or make training in entrepreneurial skills conditional upon the beneficiary committing to a staged programme of training over a sustained period, rather than just one-off events of limited cumulative value. Aid to individual beneficiaries could be conditional upon evidence that they have had a visit from an approved facilitator and been awarded a **"starter grant"** in order to develop their proposal with professional help. Finally, aid for investments could be extended to cover investment in functioning second-hand machinery and equipment, on condition that the equipment is retained and used by the beneficiary for at least 5 years following receipt of the grant.

- Ensuring **adequate provision for financial engineering instruments** (e.g. micro-credit facilities, loan guarantees) which effectively remove the barriers to uptake that might otherwise exist in respect of securing match-funding for investment aids of any kind.

- Identifying and facilitating the establishment or strengthening of links and groups which can bring together small and SSFs or farm household members to co-operate in the development of new RD actions within their territories. In order to capture any **environmental and public good network effects**, and/or where there is potential for more cost-effective delivery, appropriate forms of group should be encouraged (e.g. including LAGs or producer groups as well as new groups, depending on the situations considered. This may require that the EC and MS Governments clarify responsibilities in cases of non-compliance.

As proposed by the EC and amended by the European Parliament, **entry into the small farmers scheme in Pillar 1** should entitle applicants to one-off payment at a higher rate for Pillar 2 farm and business development assistance, if they **permanently transfer their holding to another farmer to create a viable economic unit** and stop all commercial farming activity definitively. This will facilitate the exit of small and economically non-viable holdings from agriculture, and stimulate structural change. FAS should provide advice to farmers managing non-viable holdings and facilitate the uptake of this measure.

6.2.3 Food supply chain

- Support for **short/direct supply chains** in the EU-15 may best be achieved through LEADER and similar national programmes (e.g. PRODER in Spain), rather than introducing any new, additional Pillar 2 measures. In the NMSs, it may be better to set up new supply chain groups under the new Pillar 2 programmes than using existing NMS LAGs. The existing NMS LAGs, which have almost exclusively been non-farm in character, and have often focused upon local government preoccupations.

- At national or regional level, efforts should be made to **encourage contracts with producer organisations,** as outlined in the Milk Package**.** Given the novelty of measures contained within the Milk Package it is difficult to fully evaluate their impact at this stage, but there is a need to monitor outcomes and consider whether such measures could be beneficially extended to other supply chains.

- **Producer groups,** which tend to be more flexible than producer organisations, should be encouraged to develop initiatives within the proposed Pillar 2 sub-programme specifically targeted at small and SSFs.

- There is a need for the collation and better dissemination of **best practice** on organising and promoting farmers' markets and other direct marketing initiatives (e.g. box schemes, community-supported agriculture).

- While consumer interest in short supply chains and local foods has risen, a **new local farming and direct-sales labelling scheme**, as introduced as a policy option in the Quality Package (QP), **is *not* recommended**. Such a scheme would be difficult to enforce and there is no evidence that such a label is desired by, or would influence the decision-making of, consumers. Any proliferation of EU labelling schemes is likely to add to consumer confusion. A strategy should be developed to improve consumer awareness and understanding of the Protected Designation of Origin (PDO)/ Protected Geographical Indication (PGI) schemes.

- Marketing bodies and agricultural extension agencies should be included in any list of approved agents if SSFs are to be encouraged to form **group marketing schemes**. This would be within the proposed new Pillar 2 sub-programme specifically targeted at small and SSFs.

- A strategy should be developed to **improve consumer awareness and understanding of the PDO/PGI schemes**. This is not a novel recommendation (European Court of Auditors, 2011a), and the problem is acknowledged by the EC. However, to date, no meaningful action has been taken, and it is noticeable that the QP, despite promoting the economic importance of the quality schemes, fails to address the problem of poor consumer awareness and understanding.

- It is important that marketing bodies and agricultural extension agencies are included in any list of approved agents if small and SSFs are to be encouraged to form **group marketing schemes**. Past experience suggests that, for stimulating the inclusion of small-scale producers in "conventional" food supply chains, the main beneficial actions are technical assistance to help understand and meet buyer requirements, assistance for group formation, and leasing or sharing equipment (e.g. machinery rings, storage facilities, transport). Group-based support is often more appropriate for small/SSFs than measures that are based on independent applications from individual farmers and which disperse small sums of money with relatively high administrative and monitoring costs for each application.

6.2.4 Other

- Small and SSFs have been adversely affected by the failure of some MSs to take advantage of **flexibility measures within the Hygiene Package**. For the most part, this failure stems from a lack of knowledge and experience, particularly in NMSs (European Commission, 2010b). In order that flexibility measures are in place at the time of accession, it is recommended that the capacity of Competent Authority in new and acceding MSs is raised. This could be achieved via **twinning arrangements** which establish linkages with those most experienced in the introduction of flexibility measures in EU-15.

- The principal EU-wide dataset for evaluating the financial performance and impact of the CAP at the farm level is the **Farm Accountancy Data Network (FADN)**. FADN includes

only commercial farms, defined as those "*large enough to provide a main activity for the farmer and a level of income sufficient to support his or her family*". Size thresholds for inclusion in FADN vary between MSs[6] but, particularly in the NMSs, significant small-scale agricultural activity, which may be of critical importance for low-income groups, is not captured by FADN. This means that it is very difficult to adequately assess the impact of the CAP on small farms or their economic wellbeing. It is thus recommended that in those MSs where the small and semi-subsistence farm sector is significant, the **FADN should be extended** (in a modified and simplified form) to adequately capture the wellbeing of small farms and the impact of support measures on the sector. This would aid greatly the development, and monitoring the impact, of future policy measures targeted at the small-scale and semi-subsistence farm sector.

- While EU **non-CAP measures** can potentially play an important role in promoting social, economic and environmental development in rural areas, **better targeting of public investments towards and within lagging behind regions** is necessary since many of these regions are populated by small and semi-subsistence farmers.

[6] In 2012, from €2,000 in Bulgaria and Romania to €25,000 in Belgium, France, Germany, Luxembourg, Netherlands and the UK (excluding Northern Ireland).

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ANNEX 1: CASE STUDY AUTHORS: CONTACT DETAILS

Case study Bulgaria: Mr. Plamen Mishev

University of National and World Economy, St.town "Ch.Botev" , 1700 Sofia (Bulgaria)

Case study Greece: Ms. Eleni Papadopoulou

Aristotle University of Thessaloniki, School of Engineering, Department of Spatial Planning and Development, Agia Barbara 59100 Veria (Greece)

Case study Italy: Ms. Christina Salvioni

University of Chieti-Pescara, 42, Viale Pindaro, 65127 Pescara (Italy)

Case study Poland: Ms. Jan Falkowski

University of Warsaw, Faculty of Economic Sciences, Warsaw (Poland)

Case study Portugal: Ms. Maria Dos-Santos

Lusófona University of Porto, Rua Augusto Rosa, nº 24, 4200 Porto (Portugal)

Case study Romania: Ms. Carmen Hubbard

Centre for Rural Economy, School of Agriculture, Food and Rural Development, Newcastle University, Agriculture Building, NE1 7RU Newcastle upon Tyne (United Kingdom)

Case study Scotland: Mr. Kenneth Thomson

University of Aberdeen, St. Marys, Elphinstone Road, Aberdeen, AB24 5UA (Scotland)

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