# Part Two
# EU AND NATIONAL MEASURES IN FORCE

This part of the study examines the EU and national measures currently in force which are aimed at addressing the particular problems of young farmers, as perceived by national authorities and the European institutions.

This examination is in two parts.

The first chapter describes measures introduced under EU-level rules. This chapter is in turn split into two sections – one examines measures aimed exclusively at young farmers; the second outlines how measures designed for other purposes have been formulated in ways that young farmers might derive a special benefit from them.

The second chapter analyses the situation at national level, with the same distinction being made, between measures targeted specifically at young farmers, and others from which such farmers derive a benefit.

## Chapter I
## MEASURES AT EU LEVEL

### 1. Measures targeted specifically at young farmers

**Problems of young farmers in the EU have over the years mainly been addressed via structural policy regulations. There are no regulations specifically directed at young farmers. Rather the rules for all farmers contain special measures for young farmers. The Agenda 2000 agreement of 1999 brought refinements to the structural measures operated for the agriculture sector. The main development has been to bring various measures, including those for young farmers, into one regulation. This provides for member states, in future, to operate overall Rural Development Plans designed to assist farmers and the rural economy and society in ways adapted to national and regional circumstances. Young farmer measures will be little different under the new system.**

#### *1.1. The situation in the EU-15*

Assistance for young farmers at EU level has been provided under a series of regulations, updated periodically, the essentials of which have changed little over the years.

The most recent regulation in force has been Council Regulation 950/97 of May 20, 1997 on "improving the efficiency of agricultural structures". Under Title III, Articles 10 and 11 cover the "measures specifically benefiting young farmers". This regulation has now been superseded by Council Regulation 1257/99 of May 17, 1999 on "support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF)". The most relevant sections of the new regulation are Title II Chapter I Article 4, and Title II Chapter II Article 8.

The new regulation contains the same types of aid, but the conditions for grant of such aid have altered to a degree.

These regulations provide for aid to be paid to young farmers in basically two forms, installation aid and supplementary investment aids.

#### 1.1.1. Installation aid

Member states may grant "setting-up aid" (otherwise known as "installation" aid) to young farmers under 40 years of age. Member states have enjoyed considerable flexibility over how they apply this measure. Indeed, ***it is not obligatory for member states even to apply the measure***. The main conditions laid down at EU level, in Regulation 950/97, and now in 1257/99, have been as follows (and as summarised in Table 2):

- the young farmer must be head of the holding (and thus liable or jointly liable for tax and other civil responsibilities);
- he/she must practice farming as his/her main occupation (with some flexibility, providing that non-farming activities do not account for more than 50% of the farmer's total working time);
- the young farmer must possess adequate occupational qualifications;
- the farm holding must require a minimum volume of work.

The setting-up aid may comprise:

- a single premium (aid) payment, up to a specified maximum (Ecu 15,000 under Reg. 950/97), to be paid over a maximum of five years. Member states can choose to offer the equivalent amount via an interest rate subsidy on a loan;
- interest-rate subsidies cannot exceed 15 years in duration. The capitalised value of the interest rate subsidy may not exceed the value of the single premium.

#### 1.1.2. Supplementary investment aids

Member states may grant young farmers (again under 40 years of age) supplementary aid for investments made under a "material improvement plan". Such investments have been more generally available to farmers – not just young farmers – however the measure described here provides for young farmers to receive additional amounts of aid.

The young farmer must submit the improvement plan within five years of setting up, and must be able to demonstrate that he/she possesses the appropriate occupational qualifications.

Council Regulation 1257/99 maintains the above types of measure targeted at young farmers. However, the aid amounts have been altered, and some conditions amended. The main changes are as follows:

- the maximum aid amount is now €25,000 (whether paid in the form of a grant or an interest rate subsidy), a 67% (theoretical) increase on the previous level;
- the requirement for young farmers to demonstrate that they derive a certain proportion of their income from farming is removed. This means, effectively that part-time farmers can benefit from the measures to a greater extent than previously;
- there is now a general requirement to demonstrate that the holding is "economically viable", thus removing some of the more onerous (and administratively burdensome) elements of 950/97;
- the young farmer must comply with minimum standards regarding the environment, hygiene and animal welfare.

Other main elements of the young farmer measures remain unchanged. Commission Regulation 1750/99 of July 23, 1999 lays down the detailed rules for the application of the Council Regulation.

Although Council Regulation 1257/99 does not change fundamentally the way in which the EU offers measures to assist young farmers, its overall approach is a new one. The most notable change is the introduction of the concept of grouping most farm restructuring measures (including those that affect young farmers) in national/regional Rural Development Plans. Secondly, it reduces the previous, rather mechanical conditions about proportion of time spent on farm work/level of income derived from farming while introducing more "qualitative" criteria concerned with the "standards" practised on the farm.

**Table 2. The main assistance measures available to young farmers (Council Regulations 950/97 and 1257/99).**

| Regulation 950/97 | Regulation 1257/99 |
|---|---|
| **Article 10 - Installation aids** | **Article 8 - Installation aids** |
| Member states may (voluntarily) grant an installation aid: | Member states may (voluntarily) grant an installation aid: |
| • Farmers must be under 40 | • Unchanged |
| • Farmer must be head of holding (liable for tax, management etc.). Joint liability OK | • Unchanged |
| • Must farm full time | • May farm part-time |
| • Member states can allow less than full time on certain conditions related to share of income derived from farming | • General requirement that farm must show that it is economically viable |
| • Satisfactory occupational qualifications | • Unchanged |
| • Farm requires minimum volume of work | • No longer required |
| | • Farm must comply with minimum environment, hygiene and welfare standards |
| Aid comprises: | Aid comprises: |
| • Single premium = Ecu 15,000 (maximum paid over maximum of 5 years), or | • Single premium = €25,000 (maximum) |
| • equivalent amount in form of interest-rate subsidy, paid on a loan, over maximum 15-year period | • Unchanged |
| Member states may define: | Member states may define: |
| • Installation conditions | • Unchanged |
| • Rules regarding joint liability (e.g. in case of co-operative or association | • Unchanged |
| • Agricultural qualifications | • Unchanged |
| • Conditions for maximum volume of work | • No longer required |
| **Article 11 - Investment aid** | **Articles 4-7 - Investment aid** |
| Member states may grant additional aid for investments to young farmers, provided: | Member states may grant additional aid for investments to young farmers, provided: |
| • Farmers must be under 40 | • Unchanged |
| • Farmers to submit material improvement plan | • Economic viability required and new |

| | |
|---|---|
| within 5 years<br>• Satisfactory occupational qualifications | requirement on minimum standards met<br>• Unchanged |
| Additional amount is maximum 25% of aid normally granted to farmers | Additional amount allows young farmer to be aided on 45% of investment (cf. 40% normally) and 55% (cf. 50%) in LFAs |
| **Training/occupational assistance** | **Training/occupational assistance** |
| **Article 13 – Aid for the introduction of accountancy practices** | |
| Not specific to young farmers | N/A – support withdrawn |
| **Article 14 – Setting-up aid for groups** | |
| Not specific to young farmers | N/A – support withdrawn |
| **Article 15 – Setting-up aid for farm relief services** | |
| Not specific to young farmers | N/A – support withdrawn |
| **Article 16 – Farm management services** | |
| Not specific to young farmers | N/A – support withdrawn |
| **Articles 26, 27 & 28 – Adjustment of vocational training to the requirements of modern agriculture** | **Article 9 - Training** |
| Vocational training, with wide range of applications allowed and including management skills such as organisation of producer groups | Vocational training to improve occupational skills, wide-ranging but unspecific, and up to member states to decide |
| **Separate regulation – Early retirement** | **Articles 10 - 12 - Early retirement** |
| Full-time farmers only | Eligible to part-time farmers |
| Requirement to enlarge total size of holding | No requirement |

A list of the main regulations concerning assistance to young farmers, over recent years is contained in Annex I.

As far as training and occupational assistance measures are concerned, the new situation is not quite as clear cut as outlined above. Regulation 1257/99 (and its accompanying implementing rules) do appear to allow for some training measures to continue. However, these are much less specific than under 950/97. For instance, Article 33 of 1257/99 is an article with a very wide scope. There are few guidelines given to member states, other than the clear advice that the EU will not co-fund the activities of the official advisory services of the national agricultural administrations.

Under Article 45 of Regulation 1750/99 – the implementing rules for the Rural Development Regulation (1257/99) - a mid-term evaluation report is foreseen “not later than December 31, 2003”. In the Agenda 2000 package, it was agreed to review the budget and the arable regime in 2002, and the dairy sector in 2003, and Article 6 of the Horizontal Regulation allows for support schemes to be reviewed “at any moment in the light of market developments”.

Farm Commissioner Franz Fischler has already indicated publicly the logic behind reviewing the dairy sector in 2002, rather than 2003, as it is then that the budget is being reviewed. It must therefore make sense to look at bringing forward the review of the Rural Development regulation to take place at the same time as that for the budget. This would not require any changes to current legislation as the 2002 review will indeed be "not later than December 31, 2003". Although this would have the disadvantage of taking place with limited data on the practical impact of the new Rural Development Regulation, the key role that the budget debate has taken on in any Council discussion of the CAP means that the only changes of substance to any of the Agenda 2000 regulations will in practice only be possible at the same time that the budget is debated.

A review in 2002 would also have the political advantage within the EU of making changes to the CAP rules before the first of the candidate countries accede. If nothing else, it will be considerably "easier" to reach agreement among just 15 member states!

### *1.2. The situation in the candidate countries*

**In the context of enlargement, the EU offers pre-accession assistance to the candidate countries from Central and Eastern Europe. This assistance includes PHARE, ISPA, SAPARD and the opening of some Community programmes to candidate country participation. Cyprus only participates in the Community programmes.**

During the period 2000-2006, the PHARE programme will be the main financial instrument for the candidate countries with an annual budget of €1,500 million (calculated at 1999 prices). It will focus on institution building and investment (not including projects eligible for ISPA or SAPARD). ISPA (Instrument for Structural Policies for Pre-Accession) finances major environmental and transport infrastructure measures (€1,000 million) while SAPARD (Special Accession Programme for Agriculture and Rural Development) aims to facilitate the long-term adjustment of agriculture and the rural areas of the applicant countries (€500 million). All candidate countries participate in Community programmes, in particular in the fields of education, vocational training, youth, culture, research, energy, the environment, small and medium-sized enterprises.

Under the institution building aim of PHARE one programme is of interest to young farmers. It runs across 10 countries (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia). This programme "assistance to the development of farmer, co-operative and young farmer organisations in the Central and Eastern European countries", running from July 1999 to September 2000, will provide information to farmers (including young farmers) and co-operative associations on structures in the EU. The overall aim of the project is to improve the economic well-being of private and other farmers and those involved in co-operative agri-business and related food sectors. The purpose of the programme is to give knowledge about institutional development, provide an advisory and information service, arrange high-level seminars and workshops, and prepare placement programmes for representatives of farmer and co-operative organisations as well as young farmers.

The new pre-accession instrument for sustainable agriculture and rural development, SAPARD, will provide assistance during the period 2000-2006 in particular in the following two areas:

- contributing to the implementation of the *acquis communautaire* concerning the CAP and related policies;
- solving priority and specific problems for the sustainable adaptation of the agricultural sector and rural areas in the candidate countries.

It is available to the 10 candidate countries from central and eastern Europe. The financial allocation is based on farming population, agricultural area, GDP in purchasing power, and the specific territorial situation. The SAPARD regulation is not directly applicable to applicant countries because they are non-EU countries. Instead, bilateral agreements are concluded with each country. All management tasks, from the project selection stage up to payments to final beneficiaries, are devolved from the Commission to the CEECs.

Implementation methods broadly follow the rules laid down for the member states under the rural development Regulation 1257/1999, but exclude the setting-up aid for young farmers and the early retirement measures as these are deemed to be too broad and too costly. However, candidate countries are free to target the selected measures to these groups.

The candidate countries have each drawn up an Agriculture and Rural Development Plan. In these plans a number of priorities are listed picked from a number of eligible measures in the regulation i.e.:

- investments in agricultural holdings;
- improving the processing and marketing of agricultural and fishery products;
- improving the structures for quality, veterinary and plant-health controls, for the quality of foodstuffs and for consumer protection;
- agricultural production methods designed to protect the environment and maintain the countryside;
- development and diversification of economic activities, providing for multiple activities and alternative income;
- setting up farm relief and farm management services;
- setting up producer groups;
- renovation and development of villages and the protection and conservation of the rural heritage;
- land improvement and reparcelling;
- establishment and updating of land registers;
- improvement of vocational training;
- development and improvement of rural infrastructure;
- agricultural water resources management;
- forestry, including afforestation of agricultural areas, investments in forest holdings owned by private forest owners and processing and marketing of forestry products;
- technical assistance for the measures covered by this Regulation, including studies to assist with the preparation and monitoring of the programme, information and publicity campaigns.

Development plans must give priority to measures to improve market efficiency, quality and health standards and measures to maintain jobs and create new employment opportunities in rural areas, with due regard for provisions on the protection of the environment. The Community action must complement corresponding national actions or contribute to these.

The programme may, if necessary, be revised and amended as a result:

- of socio-economic development, relevant new information and the results observed from the implementation of the actions concerned, including the results of monitoring and evaluation, as well as the need to adjust the amounts of aid available;
- of actions taken in the framework of the accession partnership and the national programme for the adoption of the *acquis communautaire*;
- of a reallocation of resources (following an applicant country's accession to the EU).

Measures financed under the Regulation must comply with the commitments given in the accession partnership and be consistent with the principles of the national programme for the adoption of the Community *acquis*. They must also be consistent with the provisions of the "Europe Agreements", including implementing provisions on State aids. They must also be consistent with the objectives of the CAP, especially with regard to the market organisations, and Community structural measures (for example, they must fulfil most requirements of Regulation 1257/1999). They must not cause disturbances on the market.

The Community will not normally contribute more than 75% of the total eligible public expenditure. In certain specific cases, it may, however, cover 100% of the total eligible. For revenue-generating investments, public aid may cover up to 50% of the total eligible cost, with the Commission contributing a maximum of 75%. The Community contribution will not exceed the ceilings on rates of aid and cumulation laid down for State aid.

The plans are currently under review by the Commission. An initial analysis shows that there are no measures specifically aimed at young farmers put forward by the candidate countries.

Finally, it is worth noting that, as defined at the March 1999 Berlin EU Summit, SAPARD and ISPA funds are only available for the candidate countries ***prior*** to EU membership. After accession, different funding would be available (according to 2000-2006 budget estimates).

## 2. Other measures from which young farmers derive benefits

**This Section examines the common market organisations of the CAP, and other EU-level measures, which may be adapted in order to give young farmers an advantage.**

Table 3 summarises these measures.

### *2.1. CAP market organisations*

Several CAP common market organisations (or support "regimes") involve EU funds being transferred to farmers with reference to their production in a given time period. For example, support payments may relate to: arable production in tonnes, arable area, milk production quota, sugar beet quota, numbers of beef cows or ewes etc. The regimes in some cases, but not all, allow member states to favour groups of farmers (including young farmers) that they feel are at a disadvantage and therefore a priority case. Favouritism is usually conferred by granting such groups additional production rights from national reserves.

There is no compulsion at EU level on member states to apply this possibility. Nor is there any particular emphasis put on the need to assist young farmers in particular. There is wide variation in the way such additional rights are conferred. Member states have their own political and philosophical reason for adopting one stance or another.

However, all young farmers' groups believe that they are being hindered in their ability to enter farming by the difficulty in obtaining sufficient production rights in the sectors concerned. Most member states have been reluctant to designate young farmers as an absolute priority group.

A major problem is that, within a system of limited production rights, in order to favour one group another has to be "penalised" (however lightly).

### *2.2. Early Retirement Schemes*

Since the 1992 Mac Sharry CAP reforms, the EU has had a separate Regulation (2079/92) on encouraging older farmers to retire early. It is not obligatory for member states to offer the scheme. Ten member states have offered the scheme, with criteria and aid rates set to suit their particular circumstances. There has been no requirement for early-retiring farmers to look for a young farmer to take over their farm.

Under Regulation 1257/99 both of the above measures continue to be optional for member states (that is, member states are not obliged to apply these elements of the regulations).

However, Council Regulation 1257/99 has altered the above schemes in the following ways: eligibility and aid calculation conditions have been made more simple and flexible. However, there will no longer be support for networks, nor for transfer organisations (other than - possibly - under the aforementioned Article 33).

Taken together these changes seem to give no specific benefit to young farmers. In fact, the removal of aid for networks and transfer organisations could harm young farmers' interests. One beneficial item, in theory at least, is the aim of "gender mainstreaming" to enable women to gain more from EU structural actions.

*2.3. LEADER (Liaison Entre Actions pour le Développement de L'Economie Rurale)*

It has been possible for member states to devise programmes under the previous LEADER Community initiatives (launched in 1991 and reviewed in 1994 and 1999) to assist young farmers. LEADER supports rural development projects designed and managed by local partners. Technical support measures and skills acquisition are major elements of the initiative. One example is a programme in the south west of England that introduced a training programme in computer and Internet use offered to young farmers' clubs.

The guidelines for the new LEADER regulation (known as LEADER Plus), approved by the Commission only on April 19, 2000 (to be published in early May, 2000) invite member states to submit applications for programmes to be co-funded by the EU. €2.2 million will be made available by the EU over the 2000-2006 period. As member state allocations within that figure are largely based on performance in previous LEADER programmes (LEADER I and LEADER II) it is already clear that France, Germany, Italy and Spain will take approximately 75% of LEADER Plus money.

The biggest differences between LEADER Plus and its predecessors are: that LEADER Plus is available in all areas (not just the old Objective 5b regions); and, that priority themes have been set at EU level, including information technology and co-operation between rural communities within and across member states. Also, under LEADER Plus, women and young farmers are supposed to be given some priority.

**Table 3. Other measures from which young farmers derive benefits**

| Area of agricultural policy | Measure/benefit to young farmers |
|---|---|
| **1. <u>Common agricultural policy</u>** | |
| Dairy regime | Access to national reserves of milk quota |
| Sheepmeat and goatmeat regime | Access to national reserve of Ewe Premium rights |
| **2. <u>Other measures</u>** | |
| **Regulation 2079/92** | |
| Early retirement | No requirement for early retiring farmers to pass on farm to young farmer, but member states allowed to adapt rules. No encouragement at EU level |
| **Regulations pertaining to LEADER I (1991) and LEADER II (1994** | Nothing specific, but:<br>• significant level of networking<br>• creation of networks<br>• co-operation between rural areas |

# Chapter II
# MEASURES AT NATIONAL LEVEL

## 1. Summary of national measures

**This section describes whether/how the EU level measures are implemented in EU member states, and includes measures introduced at national level only. For the candidate countries, where EU level measures do not yet apply, descriptions relate to national measures only.**

**Some member states (and the candidate countries) operate a variety of measures, interventions and systems that assist young farmers indirectly. As these vary so greatly, and as many of them are difficult to compare one with another, such measures are described here only because of their potential interest for young farmers in Europe.**

Member states' application of measures to help young farmers falls into three basic types:

- **structural approach**: improvements in farm productivity are the main preoccupation. Countries such as **Belgium**, **Denmark**, **Finland**, **France** and **Luxembourg** intervene actively, and in a carefully-planned way, to assist young farmers, mainly through installation and investment costs;

- **spatial/environmental approach**: countries such as **Germany**, the **Netherlands** and the **UK** put their emphasis on general measures to assist farmers to farm efficiently (e.g. education and training), but with special regard for the countryside;

- **social approach**: in **Greece**, **Ireland**, **Italy**, **Portugal** and **Spain** the priority is to try to improve farm structures but not cause social problems (e.g. heavy unemployment).

Council Regulation 950/97 allows for a high degree of flexibility in the implementation of young farmer measures, at national level. Table 4 outlines how each member state currently applies these measures (Articles 10 and 11).

The table shows the measures applied, mainly in financial terms. It shows this in three columns: one for Article 10 capital grants for installation; one for Article 10 aid in the form of subsidised interest on loans for installation; and, lastly, Article 11 investment aids.

The text which follows the table gives further details about implementation of 950/97, mainly of a non-financial character, and adds information on other national measures operated for the benefit of young farmers.

**Table 4. Implementation of Articles 10 & 11 of Council Regulation 950/97**

| Country | Article 10 2a<br>Installation grants, capital subsidies. | Article 10 2b<br>Installation loans for beneficiaries. | Article 11<br>Supplementary aid<br>(Investment in agricultural holdings – MIP: Material Improvement Plan) |
|---|---|---|---|
| **Belgium** | No capital grants on a national basis, but some in the Walloon region.<br><br>- 120,000 BEF (2,800 Ecu) outside less-favoured areas.<br><br>- 140,000 BEF (3,300 Ecu) in less-favoured areas + provincial aid. | Subsidies (**SI**) of 5% over 18 years for the amount of 20,000 Ecu covered by the EAGGF, i.e. a borrowed capital of around 3,100,000 BEF (72,000 Ecu) over 18 years, with a three-year waiver. The interest payable by the farmer may not be < 3%. If the loan exceeds the amount of 3,100,000 BEF, national state aids are used. | Capital grant equivalent to 25% of the SI granted for subsidised investments, within the framework of the plan (SI of a min. 5% of the remaining 3% payable). |
| **Denmark** | Grant linked to an investment financed by a state loan: during the first 10 six-monthly repayments of the loan (five years), a subsidy equivalent to the six-monthly repayments, increased by a contribution to management costs. 20-year loan granted by Agricultural Mortgage Bank (DLR), < 23% of the commercial value of holding.<br>Maximum = 1 million DKR (134,300 Ecu).<br>Subsidy estimated at 110,000 DKR (14,773 Ecu) by the Ministry of Agriculture. | | Capital subsidies:<br><br>- For buildings: 8.75% of building costs.<br>- For machinery and installations: 5% of purchase price or installation cost (= added to the aid agreed upon by MIP). |
| **Germany** | Federal State "*Länder*" framework scheme:<br>Grant linked to the investment: max. 15,000 DEM (7,200 Ecu) for a minimum investment of 35,000 DEM (17,895 Ecu). Some *Länder* grant less: 12,000 DEM (6,136 Ecu), others more: 18,000 DEM (9,203 Ecu, = > additional regional payment of 3,000 DEM (1,534 Ecu)). | Additional aid from the agricultural credit programme (AKP) for small- and medium-sized holdings:<br><br>Additional discount of 1 point (4% outside less-favoured areas - 6% in less-favoured areas), for a loan of up to 143,000 DEM (73,115 Ecu) per UTH (Man Work Unit) | Additional aid from the EFP programme in the form of:<br>- Discount of 1% or more.<br>- Subsidy of up to 5% of the amount of the subsidised loan, or,<br>- Subsidy: 5% of the expenses liable to obtain a grant. |
| **Greece** | Grant amount varies according to the volume of work required on the holding.<br>- 4 million GRD (11,951 Ecu) per beneficiary owning a holding that requires a work volume between 1 and 1.5 UTH)<br>- Amount > for holdings that require a work volume of > 1.5 UTH. | Maximum 5% discount over 15 years. | Subsidy increased for investments made within an improvement plan. |
| **Spain** | Variable grant of 2,000 to | Maximum discount of 5% over | Supplement of 25% on the |

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|---|---|---|---|
| | 6,000 Ecu, according to type of transmission:<br>- 2,000 Ecu if the inheritance does not involve compensation.<br>- 6,000 Ecu when setting up outside the family circle or with a co-operation or participation agreement of over 50% of the business capital.<br>- 4,000 Ecu when the co-operation and participation argument is less than 50% of the business capital. | 15 years.<br><br>Capitalised value < 7,000 Ecu. | aid towards the improvement plan. |
| **France** | Young farmer premium (DJA) modulates geographically between 52,000 FRF (7,500 Ecu) and 235,400 FRF (34,000 Ecu) (setting up of young married couples in mountain areas). | Specified medium term (MTS) loans aims at financing investments in fittings and property involved in the transfer of the business. Interest rate of 2.55% or 3.8%, depending on the area (less-favoured areas, outside less-favoured areas), with a maximum duration of 15 years. Duration of the benefit = 15 years in less-favoured areas and 12 years outside less-favoured areas.<br>The maximum amount that a young farmer can borrow at those rates is 720,000 FRF (€109,763). | Loans for investment in modernisation, within the framework of a Material Improvement Plan (MIP): similar rates to MTS loans. |
| **Ireland** | Grant of 5,600 IRP (7,500 Ecu) | No discount loans. | MIP supplement. |
| **Italy** | Grant limited to 7,500 Ecu in general. | 15-year 5% interest discount. | 25% supplement to normal aid. |
| **Luxembourg** | Grant of a maximum amount of 400,000 LUF (10,000 Ecu) | Subsidised loans:<br>Maximum 5% discount (with a minimum payable by the farmer of 20 years).<br>Limit of loans depends upon a price/ha. Equivalent to the value of the agricultural yield. | 25% supplement to normal aid. |
| **The Netherlands** | No installation grants are available. | No specific installation grants are available. | 25% increase of the MIP grant for pig farms. Grant of up to 30% (depending on the type of investment). Investment should at least amount to 20,000 HFL (€9,076) and not exceed 190,000 HFL/AWU (€86,218) or 380,000 HFL/holding (€174,436). |
| **Portugal** | Grant of 7,500 Ecu. | Discount of 5% of interest over 15 years for loans used for investments connected to the house.<br>Capitalized value < 6,000 Ecu. | MIP supplementary aid = 25% (+ national supplement). |

| | | | |
|---|---|---|---|
| **Austria** | Grant of 125,000 ATS (9,300 Ecu) depending on:<br>- a minimum investment of 200,000 ATS (14,800 Ecu);<br>- a mimimum eligibility level. | Subsidy of 25% of the cost of a maximum loan of:<br><br>-1,200,000 ATS (89,285 Ecu/UTH)<br><br>- 2,400,000 ATS (178,571 Ecu) per holding. | Compulsory minimum MIP: standards: animal welfare, environment, max. 2.5 livestock unit (LU)/ha. 2 subsidies that may be combined:<br>- subsidy on investment (between 13% and 58% of the total investment).<br>- interest discount: 50%-75%. |
| **Finland** | Maximum grant of 70,000 FIM (12,038 Ecu). The beneficiary may not receive more than 50% or 25% of this amount. | Possibility of a loan at 5% interest for a maximum amount of 70,000 FIM (12,038 Ecu). | Additional aid of up to 25% of the amount of the initial aid. |
| **Sweden** | Aid over 5 years with a payment of around 6,000 Ecu/year during the first 3 years and 3,000 Ecu the 4th and 5th year.<br>This amount may be smaller if the farmer only works part-time. | | |
| **United Kingdom** | No installation grants are available. | No specific installation grants. | 25% increase on the aid granted within modernisation schemes, in the form of subsidies. |

Source: CEJA, adapted by *RGC*

Note: *The information in this table is as up-to-date as possible however, as member states amend their implementing rules relatively frequently, individual national details should be verified if the information in the table is to be used for other purposes. Exchange rate changes (for non-Euro countries) can also alter the figures.*

## 2. Further details on national measures

### *2.1. Austria*

#### 2.1.1. National implementation of EU measures

Austria offers both installation aids and enhanced investment grants. The maximum age is 39 at the time of application. If the farm is leased then the lease must be of long duration. A diploma in agriculture, plus two years (minimum) work experience is required (though these two years can be completed after the installation).

Austria has tended to favour Article 11-type aids, though there has been a move towards more beneficiaries receiving Article 10 aids.

#### 2.1.2. Other national measures

None reported.

#### 2.1.3. Fiscal and other measures with an indirect impact

All Austrian farmers are subject to income tax. However, only some 40% of Austrian full-time farmers pay any income tax because the Austrian taxation system is based on an approximation procedure that is based on values of around 10% of market values. Net farm income is calculated by deducting business expenses from gross income. "The accrual method is mandatory if turnover exceeds ATS 2,000,000 (€145,346)". Business expenses can be reduced by a standard deductible ATS 12,000 (€872), from 2000.

Capital gains taxes from transactions defined as "speculative" are also payable on land sales re-sold within 10 years. Capital gains may be rolled over if fixed assets are sold. Any gains can be deducted from the investment costs over the period.

A real estate transfer tax of 3.5% is payable, reduced to 2% where the sale is to relatives.

A further real estate tax is payable to local authorities on the assessed value of property at 0.8%. Vacant land with an assessed value of more than ATS 200,000 (€14,535) is liable to a federal land tax of 1%, after a standard ATS 200,000 deduction. Real estate taxes are payable on buildings as well as land, but both are low because values do not reflect market levels.

Inheritance tax rates and deductions vary according to the closeness of the relation. These vary from 2%-15% (with a deduction of ATS 30,000 - €2,180) for a spouse or children, to 4%-25% (ATS 30,000) for grandchildren, and between 6%-40% (ATS 6,000 - €436) for parents, brothers and sisters, 8%-50% (ATS 6,000) for nephews, nieces, parents-in-law and children-in-law, and between 14%-60% (ATS 1,500 - €109) for others. The taxable total is based on the net value of the property. This is based on accumulating transfers within ten years, and crediting tax paid in these ten years against the total tax bill.

A preference for single-heir inheritance allows one heir to succeed to a whole farm holding in return for compensation to the other heirs. Ordinarily, descendants take on the loan and tax liabilities of the family farm. Usually, there is little more than a capital transfer tax payable by Austrian successors. From 2000, farms benefit from a tax-deduction from inheritance and gift duties worth €1.2 million effectively nullifying the taxes on agriculture.

## *2.2. Belgium*

### 2.2.1. National implementation of EU measures

Both the Flanders and Wallonia regions offer the installation aid and enhanced investment grant schemes. Both regions favour the loan assistance option under Article 10, though Wallonia offers some capital grants. The maximum age for an application to be lodged is 39 (Wallonia insists that the complete dossier be submitted before the farmer turns 40, while Flanders accepts a simple application before that date).

The two regions both require secondary or further education qualifications plus experience, the length of which varies between the two regions.

Belgium has made increasing use of both types of aid, installation aids in particular.

### 2.2.2. Other national measures

Some Flemish provinces give first-installation support of between 18,000 BF (€446) and 35,000 BF.(€868).

In the future, it is planned that non-full-time farmers should also be able to benefit from these measures. There will also be a rent subsidy of between 3% and 5%. The capitalised value of this subsidy amounts to 1,008,500 BF.(€250,000).

Young farmers should also be able to benefit from investment aid for diversification, special farm adjustments and structural improvement. Aid amounts vary by type of production.

### 2.2.3. Fiscal and other measures with an indirect impact

None reported

## *2.3. Denmark*

### 2.3.1. National implementation of EU measures

Denmark offers both installation aids and enhanced investment grants, however the number of beneficiaries for both is low. Denmark sticks quite closely to the measures outlined at EU level. The emphasis is put on reducing the costs of borrowing money when taking over the farm. Young farmers are defined as being between 16 and 35 years of age. They must have obtained a "green card" (a certificate proving a minimum qualification in farming) or its horticultural equivalent. Work experience required varies between 22 months and 3 years (depending on the type of production) with horticulturalists being required to gain experience on 2 different farms. Equivalent qualifications from abroad are accepted.

The PLS consultancy has evaluated the operation of the young farmers' support scheme in Denmark (for the year 1999). The conclusion is that the scheme has only a modest impact on the actual pattern of establishment. Nevertheless, the money on offer has undoubtedly helped the individuals involved.

The measure is considered important for the ability of newly-established farmers to invest and develop farms. There is also a positive, though limited, benefit for rural employment.

The administration of the scheme has caused few problems.

2.3.2. Other national measures

A state loan with a repayment period of 20 years is granted, via the Agricultural Mortgage Bank, on favourable conditions. On 75% of the loan amount the government pays the interest charges (over 4 years). In the following three years the government reduces its assistance. In the remaining 13 years the farmer pays the full charges himself/herself. The loan normally amounts to about 15% of the purchase price of a holding. The maximum eligible loan is €100,700. About 400 farm sales involve a loan of this sort (out of a total of roughly 1,500 to 2,000 annual farm sales, 50% of which are to part-time farmers).

The EU and national installation loans are to some extent linked to each other.

2.3.3. Fiscal and other measures with an indirect impact

Inheritance tax is payable in Denmark except in the case of a spouse. Other rates vary according to the relationship. There are no direct inheritance tax breaks aimed at farmers, nor young farmers. Children are liable to a tax of 15%, with an exemption of DKK 191,000 (€25,651). Other relatives are liable for a 25% tax, but there is no exemption, making the effective rate 36.25%. Gift taxes are payable at a rate of 15%, spouses are exempt. Children have an annual exemption of DKK 42,500 (€5,708).

Succession law allows relatives to chose one of two options when handing over a farm. The options effectively reduce the price of a farm below market levels. The law is designed to prevent the break up or subdivision of farms.

Under the two options, a purchaser either takes on the vendor's basis of depreciation and tax obligations linked to depreciation, i.e. taxes yet to be paid, in which case the vendor makes a tax gain by not paying the taxes linked to past depreciation. Or a standard sale takes place.

Under the first option, from the buyer's point of view, the succession law cuts the capital cost of the farm. However, while any capital saving under this option is reflected in increased tax burden, this is only payable in instalments, rather than as a lump sum, so reducing the borrowed capital.

Under the second option, relatives can chose to carry out a standard sale agreement, settling all outstanding taxes, including depreciation, before contracts are exchanged. This usually has the effect of increasing the price of the farm to market levels. However, the purchaser is able to claim the full investment benefits of depreciation.

The succession law effectively makes small-scale transactions between relatives more viable than they may otherwise be.

Since Denmark encourages a single-heir, and single heirs are obliged to pay compensation to other eligible heirs, large debts can accrue. Nevertheless, a preferential assessment of farmland value mitigates some of this cost. In Denmark, farmland is assessed on agricultural productive value, rather than market value. Preferential value is calculated at 60% of market value. This acts as a tax concession to the successor by reducing his or her taxable amount.

Rates of property tax in Denmark vary annually between local districts. On agricultural land in the financial year 1999/2000, the minimum payable annual land tax is 0.16%, on the basis of public valuation, and the maximum is 0.18%. In comparison, the general land tax varies between 0.16% and 0.24%. Taxes vary between municipalities, and fluctuate according to local ability to tax.

## *2.4. Finland*

### 2.4.1. National implementation of EU measures

Aid for the setting up of young farmers is granted to young farmers under 40 years of age. The main purpose of the aid is to reduce the costs of setting up on viable farms. The aid scheme is applied all over Finland. In the Objective 1 area the aid scheme is applied with EAGGF funds part-financed by the EU as part of Objective 1 programmes. Elsewhere in the country the aid scheme is implemented entirely with national funds.

Applicants must obtain a secondary school level diploma, or a training qualification (involving three years of study).

Article 10 aids are in general favoured over Article 11.

The figures shown in Table 4 conceal a rather more complicated application of the installation aids in practice, including a mix of EU and national measures. Under Article 10, where the interest-rate-subsidy option is chosen, a government loan from the Agricultural Development Fund at market interest is provided, supported by reducing the interest rate by up to five percentage units. An annual interest rate of at least 2% must always be paid on the loan. The maximum term of the loan is 25 years and the minimum period is three years. The maximum amount of the loan is 80% of the approved costs, subject to a maximum €100,000.

### 2.4.2. Other national measures

The recipient of aid (to whom a government loan has been granted as part of aid for the setting-up of young farmers) benefits from capital transfer tax exemption in relation to the real estate purchased. The tax exemption amounts to 4% of the purchase price or of the value of the transferred real estate.

The recipient of aid who has been granted, as part of aid for the setting up of young farmers, a government loan or interest-rate subsidy loan for the purchase of land, can benefit from the capital-transfer-tax exemption in relation to real estate on the same terms as in Objective 1.

### 2.4.3. Fiscal and other measures with an indirect impact

Farmland in Finland benefits from a lower rate of property tax compared to other land. Rather than based on market value, farmland is determined at 5% of market value.

Inheritance tax and gift taxes are payable on Finnish property. Inheritance taxes are imposed on each individual beneficiary's share of the inheritance, rather than the estate of the deceased. There are deductions for spouses (FIM40,000 - €6,728) and minor children (FIM20,000 - €3,363). Young farmers benefit from higher allowable deductions where the heir has been employed for at least ten years by the deceased.

Earnings from property, capital gains and earnings income are taxable capital income in Finland. However, farm incomes are calculated on exactly the same basis as other businesses. Farm income, in a country where most farmers are also forest owners, includes income from forestry operations.

## *2.5. France*

### 2.5.1. National implementation of EU measures

France offers both installation aids and enhanced investment grants. The maximum age for an applicant is 35 years, though this can be extended (by one year per dependent child, by the duration of national service performed, or to take into account exceptional circumstances, but not going beyond 40 years). A minimum age of 21 years also applies.

Professional qualifications required are relatively straightforward, with the work experience required being of six months' duration (away from the family farm, where relevant).

France has made significant use of installation aids. With an average of 10,000 beneficiaries per year it is way above the EU average of 2,000 (the EU median being 1,000). In terms of amounts proposed for reimbursement the figures are more dramatic – France has requested EU reimbursement of 190 million Ecu per year on average over the 1990-1997 period, compared to an EU average of 25 million Ecu and a median EU figure of 8 million Ecu.

France tends to favour Article 10 over Article 11 by a factor of three on average.

France's approach to installation is essentially the basis for EU policy. This extends even to the concept of allowing regional and departmental management of the installation policy.

### 2.5.2 Other national measures

France enacted the "National Charter for the Installation of Young People in Farming" (*Charte Nationale pour l'Installation des jeunes en agriculture*) in November 1995. This represents a strong political commitment to try to ensure a generational shift in farmers at a time when numbers of farmers overall are declining relatively rapidly.

The charter cannot be completely separated from the French government's implementation of EU-level regulations. In many ways the charter is the means to do this at national level. Nevertheless, there are aspects of the French application which are of note, for example:

- Installation Welcome Points (PAI) have been set up in order to prepare candidates for installation for the administrative, financial and practical problems they may face;
- Initial Installation Directories (RDI) list farmers without successors and try to match them with young farmer candidates for installation;
- The Land Support Programme for Farm Take-overs (PATRE) is an experimental programme aimed at preparing older farmers (over 50 years old) with uncertain succession for the possibilities for handing over their farms in the future;
- Regional Council funding is sometimes available to young farmers for the renovation of old houses (accommodation often being a problem during the hand-over period of a farm), for tenant farming advice, and for special training of hand-over candidates.

An essential element of the French approach is the very carefully-structured manner in which young farmer aids are applied with specialist organisations (e.g. CNASEA and ADASEA) and financial institutions (e.g. SAFER) involved.

#### 2.5.3. Fiscal and other measures with an indirect impact

In principle all eligible heirs in France should be equally treated. However, this would inevitably result in unwanted fragmentation of farms, as most successors would be unable to pay compensation to other heirs in order to farm alone. Consequently, France operates a system of "preferential allotment." This system allows a court to decide which of the heirs is the most suitable, and the successor can request the right to pay compensation to other heirs over a period of up to ten years.

In addition, farmland groupings, called "*Groupement foncier agricole*," may operate as a joint-ownership vehicle for several heirs. This also allows non-heirs access to farmland.

Children of a farmer can also claim deferred wages, "*salaire différé*," if they have worked unpaid on the farm before the age of 18. This allows a child succeeding to the farm to claim a share of the land sale profits and to pay off compensation to other eligible heirs.

French tax laws specifically exempt farmland subject to long-term leases in France from inheritance tax.

All other real estate is subject to land tax ("*taxe foncière*") on the basis of market value. If real estate which has been held for more than 32 years is sold, it is exempt from capital gains tax because of the standard annual deductions applied throughout the holding period. Real estate deemed to have a market value less than FF400,000 (€60,980), plus an allowance of FF100,000 (€15,245) per dependent, is exempt from property tax.

### *2.6. Germany*

#### 2.6.1. National implementation of EU measures

Both schemes are offered, with the maximum age for qualification being under 40 years old at the time of application. A diploma from a specialist agricultural college (or an equivalent training course allowing the applicant to be able to manage a farm) is sufficient technical qualification. In the future up to 23,500 DM (€1,202) will be available for the installation grant (if the overall investment is of 100,000 DM - €51,129 - or more); with farm mergers, the German rules also allow for the premium to be awarded to up to four young farmers.

About 3,700 farmers per year have benefited from installation aids in the 1990-1997 period, though with payment levels at a low level relative to some other member states. While the situation varies from region to region, Germany has tended to favour Article 10 aids. However, use of Article 10 fell off in the later part of the 1990-1997 period. The addition of the new *Länder*, post unification, seems to have had little impact on the use of young farmer installation aids. However, use of Article 11 has increased since unification.

#### 2.6.2. Other national measures

Some *Länder* (e.g. Hessen and Niedersachsen) have regional new entrants programmes, in addition to Federal application of the EU system.

2.6.3. Fiscal and other measures with an indirect impact

In Germany farmers pay income tax by one of three different means. Which one is applied is determined by the size of the farm, although farmers cannot themselves choose the type of procedure used. In the case of small, or unprofitable farms, a system based on the area farmed is used to estimate the tax, based on averages but only assessing up to a maximum of around 75% of income.

Net income is calculated by deducting business expenses from gross receipts, however, many farmers are exempted from the usual business methods where farm turnover does not exceed DM500,000 (€255,646) and profits are not more than DM48,000 (€24,542).

On the death of a farm owner, the holding is usually excluded from the total inheritance shared between heirs, and instead is taken on by one heir. The principal heir can be fixed by a court, where there is a dispute and in some cases courts will require the heir to be capable of managing the farm independently, and to demonstrate agricultural qualifications.

However, in southern *Länder*, a farm should in principle be divided equally between all heirs. In practice, a farmer can choose to pass on his holding to an heir and decide on the share of the relative claim of all other heirs.

As a result of the two systems, farm structures across the former Federal Republic vary between larger holdings in the north, and smaller farms in the south.

When inheriting farmland and property, a deduction of DM500,000 (€255,646) from inheritance tax can be made, and a 40% reduction on the remaining value. If the successor is a direct descendant, (child or grandchild), a further DM400,000 (€204,517) is deductible. Usually, because deductions for inheritance and gift duties are cumulative, inheritors pay no duties on farmland.

A property tax is payable on agricultural real estate and varies between municipalities. Gains on the sale of business assets are usually included in taxable income, however, any gains on the sale of an entire farm business are treated separately, and taxed at half the usual rate, after a deductible allowance of DM60,000 (€30,678) where the vendor is over 55 years old. Gains from sales considered “speculative” are treated separately. A land sale is considered speculative if it is resold within two years of purchase.

A number of changes were made in the so-called “*Sparpaket*”, or savings package, of the Schröder government in autumn 1999 covering various social security and tax reforms and introducing an eco-tax on fuel.

The net effects of the package will have made the situation for young farmers considerably worse. From an agricultural point of view the main changes are the reduction in the state subsidy of social insurance contributions in the agriculture sector. Whereas the previous subsidy - which is not seen in any other except the coal industry - assisted all farmers, the Berlin government has now introduced an income-related system, where the amount of subsidy depends on farmers’ income, with none provided for income above a fixed amount.

The new eco tax also results in an increased burden for farmers because the system of “tax-free” diesel for agriculture - funded by a 860 million DM subsidy a year from the Ministry of Agriculture - is removed, as are other global subsidies for gas, petrol, and oil. In national terms the package seeks to “offset” the additional fuel costs by reducing social security obligations for

employers. As most farms are family farms and not likely to benefit from this "compensation", German farm minister Karl-Heinz Funke has already acknowledged that some alternative form of compensation will have to be introduced. Latest thinking (April 2000) is to move back towards reduced-cost diesel for farmers, but there appear to be problems of administration over this concept. So far, there is no discussion of any measures that would particularly favour young farmers. Some point out that in the changes to the tax rules there is no longer a distinction between the type of farmer in the rules for turnover tax.

### *2.7. Greece*

#### 2.7.1. National implementation of EU measures

All the Regulation 950/97 measures relevant to young farmers have been applied. Greece implements the regulation with little variation from the suggested norms (definition of young farmer etc). 40 is the maximum age for an applicant. A minimum age of 18 is also applied.

A minimum of 150 hours of tuition on a specialist course is required.

Greece has made increasing use of Article 10 aids over the 1990-1997 period.

#### 2.7.2. Other national measures

These include:

- Low-interest loans to ease young farmers' installation costs (additional to EU aid);
- investment subsidies for young part-time farmers;
- low interest loans for land purchase;
- special tax reductions on young farmers' incomes.

#### 2.7.3. Fiscal and other measures with an indirect impact

None reported.

### *2.8. Ireland*

#### 2.8.1. National implementation of EU measures

Both installation aids and enhanced investment grants are offered. A maximum age of 35 years is applied. Young farmers must possess a "certificate in farming", or have 150 hours of further training and three years' work experience (though this option has been reserved to farmers born before 1968).

Article 10 aids have tended to be favoured, though amounts paid out under either scheme have been relatively low. With the virtual disappearance of Article 11 aid after 1995, the numbers of beneficiaries under Article 10 more than doubled.

The Early Retirement Scheme commenced during 1994. Under this scheme farmers between the ages of 55 and 65 can retire early and receive a pension with a maximum amount of £10,000 (€12,697) per annum. The scheme encourages transfers of farms to younger farmers.

2.8.2. Other national measures

A further bonus in transferring a farm was the introduction in 1994 of reduced Stamp Duty for farmers under 35 with specified educational qualifications. This is in addition to the normal reduction in Stamp Duty that applies to all transfers in the agricultural sector. The resulting rate of 1% (compared with the full 6-9% for non-agricultural transactions) came in in January 1994. This change was part of the Programme for Competitiveness and Work (PCW).

Under the Farm Improvement Programme (FIP), farmers who draw up a development plan to improve their holding can receive grant aid. Young farmers who meet certain educational requirements receive a grant rate 25°/o higher than their older counterparts for farm investments. This scheme has operated since 1986 but has now ceased for all investments except those involved in the horticulture sector.

Farmers aged under 35 and between ages 35 and 44 take out the highest number of FIP plans and as farmers under 35 are a small percentage of the farming community they are obviously investing highly. 16% of farmers under 35 take out plans in the top three sizes as opposed to 12% of other farmers. The FIP has obviously been an important source of funding for young farmers who have considerable investment needs. However on average only 47% of these young farmers are able to qualify for the additional aid under Article 11 of Regulation (EEC) No 2328/91. This is presumably due to the fact that they do not have the necessary educational qualifications to receive the additional aid.

2.8.3. Fiscal and other measures with an indirect impact

In Ireland there have been changes in the tax system of benefit to young farmers. As a result of the changes in taxes on farm transfer in 1995, no capital acquisitions tax (CAT) at all is paid on farms with an approximate asset value of £400,000 (€507,895) whether they were transferred by gift or inheritance. For farms with an approximate asset value of £500,000 (€634,869), CAT is eliminated for gift transfers and considerably reduced for inheritance transfers.

*2.9. Italy*

2.9.1. National implementation of EU measures

Both installation aids and enhanced investment grants are offered. A minimum age of 18 applies and the maximum age varies between 35 and 40 according to the region. A University level diploma or 3 years work experience is needed (though the work experience option is offered only in certain regions.

Article 10 aids have tended to dominate, though reliable figures have been difficult to obtain.

2.9.2. Other national measures

The Italian government wants to improve the unfavourable age structure in agriculture by an efficient national policy favouring the establishment young farmers. Although the relevant draft law passed the last parliament hurdle more than a year ago, it has been blocked by disagreement with the Finance Ministry over the level of state funding. In March 2000 a figure of 26 billion LIT (€13.4 million) was set for the year 2000. The law foresees "establishment" aids for farmers under 35, if they commit themselves to the condition set out under the legislation for a minimum period for four years. The then Italian minister Paulo de Castro conceded (in a speech in Caserta in March) that the relevant EU rules on set-up grants or aid for early retirement have worked

insufficiently in Italy. In the meantime 38 applications have been lodged for the new scheme, 30 in “southern” regions of the country.

An observatory for young entrepreneurs is being put in place which will monitor and help improve the situation of young farmers. One task will be to promote training activities.

In order to improve the chances for young farmers in Italy, the government is making the “giving” of land easier and also easing rules on leasing. The central points of the law are the improved financial conditions, a greater flexibility in production quotas, as well as steps to ease tax and credit burdens. Above all, the concept of “tax neutrality” will be sought within the farming family. This should mean when a son takes over his father’s farm, VAT will no longer be charged - a practice that takes up a large proportion of the installation grant at present. A further provision of the new law is that a young farmer willing to take on the farm will pay no inheritance or “gift” tax. Moreover, tax concessions for modernisation measures will become available for young farmers. Finally, the Italian government hopes to accelerate the necessary change in generations by removing income tax payable on rented land in the first five years of installation.

#### 2.9.3. Fiscal and other measures with an indirect impact

In 1998, Italy set up a law which establishes a series of provisions to encourage young farmers. The law attempts to give young farmers access priority to funding with tax exemptions (on death duties, gift taxes, land taxes, stamp duties and capital gains tax on property) as well as incentives and land unification plans. Funding is available to young farmers to help with the costs of buying or expanding farms.

### *2.10. Luxembourg*

#### 2.10.1. National implementation of EU measures

Both schemes are offered, with the minimum age being 18 and the maximum 40 (at the time of the actual installation of the farmer). Various combinations of educational and work experience are offered as proof of qualification to farm.

#### 2.10.2. Other national measures

None reported.

#### 2.10.3. Fiscal and other measures with an indirect impact

In Luxembourg, a land tax is paid to the commune which varies according to the land usage, whether agricultural or forestry. When a young farmer inherits a family farm, he or she benefits from a reimbursement in some commune costs.

### *2.11. Netherlands*

#### 2.11.1. National implementation of EU measures

Dutch governments were never enthusiastic about introducing installation aid as they feared the number of farm take-overs would increase as the take-over of non-viable farms would become financially more attractive (this was contradictory to the national structural policy).

In an evaluation of the scheme in the early 1990s almost half the beneficiaries indicated that their investments would not have been different without the grant while the other half indicated that they would have invested less. Nevertheless, over half of the respondents indicated that investments were brought forward thanks to the grant. In almost all cases the farmers responded that the take-over would have taken place irrespective of the grant.

In 1992 the Dutch government needed to make budget cuts. Following the evaluation, the installation grant for young farmers was withdrawn. One of the arguments used was that the money was not being used to fund investments but that it was flowing directly to the parents (who in practice are providing loans to the young farmer). Often it is also argued that such a grant stands in the way of farm restructuring as it helps to take over non-viable farms.

### 2.11.2. Other national measures

The Decree Promotion Investments in Pig Farms (*Besluit stimulering investeringen varkenshouderij*) offers a 25% top up for young farmers on the grant awarded. A young farmer should not be older than 35 years of age and not be in business for more than five years. This decree offers a grant of up to 30% (depending on the type of investment) on investments on pig farms. Investment should at least amount to 20,000 HFL (€9,076) and not exceed 190,000 HFL/AWU (€86,218) or 380,000 HFL/holding (€174,436).

### 2.11.3. Fiscal and other measures with an indirect impact

Farmland purchases in the Netherlands are subject to a standard 6% transfer tax. Land covered by the National Conservation Act in the Netherlands is not liable to municipal property tax. Secondly, land can be exempted from the transfer tax if the farmer undertakes to improve the farm structure. Alternatively, succession from parents to children exempts farmers from the tax. In practice, this means that very little farmland is taxed.

More than 30% of total farmland area in the Netherlands is leased, accounting for approximately half of farm holdings. Authorities in the Netherlands must approve a sale or lease, according to criteria including whether a rent is reasonable.

The national Bureau for Agricultural Land Management has pre-emptive rights over other purchasers in rural regions, but must buy land at market values and can then temporarily manage land in order to fulfil improvement or development projects.

The Netherlands imposes strict rural land use development conditions, at a municipal level.

Generally, measures targeted at a starting entrepreneur (this includes a young farmer) are of a fiscal nature. The starting entrepreneur can be of any age, setting himself up in any business activity. For the Dutch tax authorities an entrepreneur is defined as a person:

- not older than 65 years of age;
- running a business for his own profit;
- running a business at his own risk; and,
- working a minimum of 1,225 hours per year in his business (after five years at least 50% of the working time should be spent on the farm).

A starting entrepreneur is an entrepreneur not having been running a business for his own profit and risk in one or more of five years previous to the current tax year.

When a young farmer fulfils these criteria he is eligible for the fiscal measures available to (starting) entrepreneurs. Often this is the case when he enters a partnership leading to full farm take-over with (usually) his parents.

Within the Netherlands a variety of subsidies and aids is available to farmers. Besides the "normal" EU acreage and headage payments there are a lot of different schemes for the environment at large, for instance nature management, development of landscapes, control of damage by game, etc. Additionally there are financial and social measures as well as a variety of investment stimulants.

However, these measures are not geared towards assisting young farmers in particular.

The EU early retirement scheme is currently not applied in the Netherlands, with the argument that there is the Older and Partially Incapacitated Former Self-Employed Persons Income Scheme (IOAZ). The IOAZ foresees a payment to retired farmers between 55 and 65 years of age when they have a low income and little assets. The Dutch government also feels that most farmers obtain enough capital when they sell their farms on the free market. But the IOAZ does not lay down how or to whom the farm should be transferred.

## *2.12. Portugal*

### 2.12.1. National implementation of EU measures

Portugal offers both schemes, with a minimum age of 18, and a maximum of 40, at the time of the application for assistance. Various combinations of educational and work experience are offered as proof of qualification to farm. The shorter the training course the longer the work experience required is, in general, the case.

Numbers of young farmers qualifying for assistance have fallen over the 1990-1997 period.

### 2.12.2. Other national measures

None reported.

### 2.12.3. Fiscal and other measures with an indirect impact

None reported.

## *2.13. Spain*

### 2.13.1. National implementation of EU measures

Spain offers both schemes, again with minimum and maximum ages of 18 and 40 years respectively. Educational qualifications required are quite stringent. Where a combination of a diploma and work experience is chosen, the duration of the work experience depends on the type of experience being gained (a longer period is required if the work is mostly manual rather than managerial).

Approximately 3,700 young farmers per year received installation aids in the 1990-1997 period. Spain favours Article 10 over Article 11 by a factor of two in terms of beneficiaries.

2.13.2. Other national measures

None reported.

2.13.3. Fiscal and other measures with an indirect impact

None reported.

*2.14. Sweden*

2.14.1. National implementation of EU measures

The only measure specially targeted at young farmers is the installation aid. The maximum amount on offer is SEK200,000 (€24,149). The first SEK100,000 (€12,074) is usually paid, as a grant, straight after installation takes place. A second payment (of up to SEK100,000) is made available after two years as an interest rate subsidy on a loan.

Under Regulation 950/97 Sweden has defined a young farmer as being under 35 years old (now being raised to 40). Until now conditions include the need to have a sufficient education in farming, and for the farm to show economic viability. Full-time farmers are given priority if demand for loans exceeds supply. In 1999 the maximum age was raised to 40 and 250 young farmers qualified for aid.

On average 150 young farmers per year have applied for installation aid. The Swedish authorities report that all available funds are normally used up, and that all qualified applicants have received aid. Results of an assessment made in 1998 are not fully available yet, but suggest that farmers were generally positive about the system.

2.14.2. Other national measures

Swedish farmers have access to milk quota, without a charge, for up to a maximum number of cows (this is not made specific to young farmers but clearly gives them opportunities to enter dairy production).

Other measures, such as investment aids, are made available in Sweden. Investments of up to SEK1.6 million (€193,190) are eligible for grant aid (at a rate of 30%). Environmentally beneficial works qualify for a grant of the full cost, provided that the investment is non-profit-making. The maximum amount of this type of aid is SEK200,000 (€24,149).

There are a number of conditions attached to these aids, and they are “means-tested”. However, these are not geared to helping young farmers in particular.

2.14.3. Fiscal and other measures with an indirect impact

None reported.

*2.15. United Kingdom*

2.15.1. National implementation of EU measures

The UK government (indeed successive UK governments) offers none of the EU-level measures to young farmers. Nor are measures currently available in any of the UK regions.

UK government policy on many aspects of CAP spending – including early retirement schemes and agri-monetary compensation – is dominated by the possible impact of CAP spending in the UK on the UK's budget rebate. This rebate system (dating from 1985) effectively means that the UK is re-paid a proportion of its EU budget contributions, when the UK has not benefited proportionally from the CAP. This leads the UK Treasury to seek to minimise use of CAP funds within the UK, in order that the rebate can be higher.

#### 2.15.2. Other national measures

The UK government offers no particular assistance to young farmers.

#### 2.15.3. Fiscal and other measures with an indirect impact

The UK government provides a grant to part-fund the activities of the National Federation of Young Farmers' Clubs. This amounts to £36,000 (€60,150) per annum (approximately 40% of the Clubs' work in relation to training and education activities).

The government also provides funding for training of young farmers via the National Training Organisation - Lantra NTO Limited – the training organisation operative in the land-based sector. Funding amounts to approximately £1 million (€1.671 million) spread over three years. Lantra receives other regional funding also. The vocational training provided is by no means devoted exclusively to young farmers, though they may benefit from free training where other groups do not.

### *2.16. Cyprus*

#### 2.16.1. Agricultural measures

In Cyprus a person up to the age of 40 years is considered to be a young farmer. A project named "Project for the Encouragement of Youth to Stay in Rural Areas" was initiated in 1989 and is under operation until now. Young people who are interested to live in rural areas can benefit from this project which provides loans for the establishment of viable units in the field of agriculture, animal husbandry or agro-industry.

The project provides for a loan of up to C£16,000 (€27,826) for the establishment of viable units in sectors encouraged by the Cypriot Ministry of Agriculture, Natural Resources and Environment, according to the government's agricultural policy. For those who are landless, an additional loan of up to C£7,000 (€12,174) is provided for the purchase of farmland.

The loan, at 5% interest rate, is expected to cover 80% of the total investment cost for the establishment of the unit. In addition, project participants are eligible to participate in courses organised by the Department of Agriculture for a period of up to three months with an allowance of C£150 (€261) per month paid to them.

The collateral needed for the loan is provided by either the participants themselves, their wife/husband or their parents (for single persons). For those who do not possess enough property for loan security purposes, a government guarantee is provided.

Criteria to qualify for aid are similar to EU young farmer aid criteria.

Besides the "Project for the Encouragement of Youth to Stay in Rural Areas", Cyprus has a number of other projects through which loans are issued to farmers in general. These projects, promoted by the Department of Agriculture of the Ministry of Agriculture, Natural Resources and Environment, are not listed here. Nor are various ways that interest rates on loans are subsidised, as these are not specific to young farmers either.

#### 2.16.2. Fiscal and other measures with an indirect impact

All agricultural income in Cyprus is subject to income tax. However, there are special provisions for farming. Farm income up to a maximum deduction of C£3,000 (€5,217) is allowed. An investment allowance on new farm machinery of 20% is also available, which also applies to second hand imported machinery.

A wear and tear allowance is calculated for farm machinery at 15% and a further 4% for farm buildings. Farmland owned by a farmer is exempted from property taxes.

Inheritance tax is payable on an estate based on the market value of property, on a sliding scale. No duty is payable on property up to the value of C£20,000 (€34,783), then at a rate of 10% for property between C£20,001 - C£25,000 (€43,478), or C£500 (€870), up to 30% on values over C£150,000 (€260,870). Debts and taxes are deductible as well as allowances for surviving relatives. These deductions range from C£75,000 (€130,435) for a spouse, to C£150,000 for a child over 21 years old.

Farmers are exempt from capital gains on sales of farmland of up to C£15,000 (€26,087). Since July 1992, fertilisers and farm machinery are VAT-exempt.

A property tax, based on market value, is payable on all real estate in Cyprus. The value is calculated on the basis of January 1980 levels.

### *2.17. Czech Republic*

#### 2.17.1. Agricultural measures

Within the Czech Republic assistance to young farmers consists of interest subsidies which are granted within the Youth Scheme of the Support and Guarantee Fund for farmers and Forestry (PGRLF). The young farmer has to be under 35 years of age. In 1999 the credit subsidy amounted to a further 2.5 percentage point on loans provided within the framework of the Operation and Farmer programmes (see below).

Another measure that helps young farmers is the cutting short of compulsory military service from one year to three months.

According to their December 1999 position paper (submitted to the Commission as part of the EU accession process) the Czech Republic will co-operate with the Czech Young Agrarian Society to adopt the setting up aid for young farmers.

Other assistance to farmers is not listed here as it is not directed at young farmers in particular, though under some programmes an extra subsidy is available for young farmers.

2.17.2. Fiscal and other measures with an indirect impact

No inheritance tax is payable in the Czech Republic by spouses, ascendants and descendants. Otherwise, inheritance tax varies depending on the closeness of the relationship. This varies from 1% for spouses and children, to between 3 and 12% for brothers and sisters (including people who lived for at least one year with the deceased prior to death) and between 7 to 40% for all others.

When calculating taxable income, farmers have the option of making a 50% lump-sum deduction on agricultural income.

A land tax is payable by the owner in the Czech Republic, based on purchase price, of 0.75% for arable land, hop-fields, vineyards and orchards. The tax on lower value meadows, pasture and forestry is 0.25%.

Less than 10% of agricultural land is farmed by the owner in the Czech Republic and most owner-farmers are former members of the co-operative on which he or she farmed.

*2.18. Estonia*

2.18.1. Agricultural measures

In 1999 support for young farmers was introduced for the first time. This support is budgeted at EEK3.5 million (€0.22 million). The support is basically investment subsidy, which is granted on new investments in the year of application. The applicant should not have been in agriculture for more than three years and should be younger than 40 years. The major criterion to obtain the subsidy is a business plan. The rate of subsidy is 45% to 50% depending on the subject of the investment. Business plans will be evaluated and controlled by local capital grant commissions, which also approve the applications.

In the past Estonia applied input support for farmers, but not for young farmers in particular.

2.18.2. Fiscal and other measures with an indirect impact

Land tax is payable on agricultural land, calculated by district authorities and factoring in both agricultural value and its location. Estonia began taxing land based on market values in 1992, relatively early for transition economies. When calculating taxes, which vary between 0.5% and 2%, the local authority is likely to consider more than the farming value of the land. A transaction tax is also payable on sales. Many farmland transactions are considered speculative on the assumption that there will be a future improvement in values, as around one quarter of agricultural land is currently out of production.

In common with other transition economies, there is no tradition of family farms and consequently no tradition of inheritance in Estonia. Family farms larger than 10 ha have only appeared since 1994.

There are proposals to change laws relating to renting land in Estonia, but current profit levels (net income reached negative level of -EEK322 (€20.6) per farm employee/month in 1999) make renting an unattractive proposition. Most leases are only one year long, although three-year leases are possible. There are no inheritance taxes in Estonia.

## *2.19. Hungary*

### 2.19.1. Agricultural measures

Under a 1999 decree, support to young farmers was granted which is supposed to help the formation of family farms and to contribute to their running costs. Target sectors are: agriculture, horticulture, game management, forestry, and fisheries. Conditions are similar to those in the EU schemes. A particular condition is that the farm must produce an annual turnover of at least HUF1 million (€3,870). In 1998, 150 applications were submitted, of which 101 were successful. In the second year some 600 applications were submitted, of which 400 were accepted and 200 were refused because they did not meet the eligibility criteria. The average subsidy claim of the 400 applications submitted and accepted in 1999 was HUF6.6 million (€25,542). The Ministry of Agriculture and Rural Development intends to launch a call for applications for the year 2000 also. A financial resource of HUF800-1000 million (€3.1-3.9 million) will be available for these subsidies and some 300 new applications of young entrepreneurs is foreseen.

There is also special support to encourage producers to make use of professional consultants.

According to its December 1999 position paper on agriculture, Hungary wishes upon accession to set the ceiling of the combined EU and national contribution to the young farmers installation premium at €60,000 (as opposed to €25,000 in the EU regulation). The young farmer should be entitled to use this support, among other purposes, for purchasing land, and/or buying new or used machinery and farm buildings. In its draft common position the Commission appears to allow this higher installation aid under state aid rules "…in particular where this is justified by the very high cost of setting up". However, "in order to fully assess the request, the EU invites Hungary to provide further information on the conditions and costs prevailing in Hungary for setting up".

There is not a comprehensive rural development support policy in Hungary. Aid is provided through individual measures and schemes (e.g. support for certain investment in agriculture, support for quality protection and utilisation of land, support for rural tourism, co-operatives and other organisations of producers purchasing and marketing certain products etc.). Programmes and budgets are currently annual, but the government has prepared a long-term strategy as the basis for multi-annual planning.

A number of support measures exist, all of which could benefit young farmers, but none of which are targeted at them. One example is a scheme aimed at supporting land purchase with the aim of farm concentration.

The government has developed instruments to support investment (Agricultural Development Fund) and to guarantee credit (Rural Credit Guarantee Foundation, Land Mortgage Institute).

Responding to the decline in agricultural investment and the lack of bank lending, the government in 1992 created an Agricultural Development Fund within the budget of the Ministry of Agriculture. Through this instrument, farmers can receive investment grants, as well as loan interest rate subsidies. Investments can be production-related (e.g. planting, machinery) or for farm infrastructure (e.g. buildings, land improvement).

However, farmers or even farm organisations often fail to get public support for investment, simply because banks are unable to provide them with a loan in the absence of appropriate security. Banks usually require 150% collateral on agricultural loans, which prevents many holdings from obtaining credit, due to depressed asset values and insufficient equity capital.

In an effort to tackle this problem, the government created the Rural Credit Guarantee Foundation (RCGF) in 1991, with the assistance of PHARE. This provides a 50% guarantee on the loan principal and pays the first year's interest charges. It quickly met a pressing need and was very useful, but its means are still too limited to make a sizeable impact. Animal husbandry and food-production activities have received most of the loan guarantees.

On the whole, agricultural investment remains weak. However, loans to agriculture doubled from 1995 to 1996, probably more as the result of bank privatisation and the injection of foreign capital into banks than of public support for agricultural investment. Emerging small private farmers remain handicapped by their limited skills in elaborating business plans and in financial management.

The Hungarian government supports farmers in paying the fees of consultants providing agronomic and other advice. There is also subsidy for the "transfer of knowledge" improving the efficiency of farming – this is offered to schools, research institutes, consultants and publishers. It extends to the acquisition of foreign experience and on-farm training.

#### 2.19.2. Fiscal and other measures with an indirect impact

The share of land rented in Hungary is very high, at more than 85%. The rate of inheritance tax varies from 2.5% to 21%, depending on the relationship. A 10% property transfer tax is payable on real estate based on price. A 100% reduction in the basic rate of tax is possible for investments for manufacturing products. In the case of farming, this can be claimed in each year of the period 1996 to 2002, as long as the agricultural sales turnover increases by a set percentage.

The break-up of collective farms is hindered in Hungary by legislation that allows members to leave the co-operative after privatisation, but not to remove assets or land from the farm.

### *2.20. Poland*

#### 2.20.1. Agricultural measures

Within Poland, ARMA (Agency for the Restructuring and Modernisation of Agriculture) provides loans for young farmers on which the interest rate is subsidised through banks (farmer applies to bank, bank applies to ARMA). These loans can be used for setting up a farm or to improve the structure of the farm. It applies to the acquisition of a farm, modernisation of a building (through buying, building new, extending or changing) as well as for the purchase of machinery and equipment and the basic herd, i.e. purchases that lead to reorganisation or to new production.

Investments which change production technology as well as increase production are eligible as are the inputs in the first production cycle (for up to maximum of 20% of the loan). The loan could also cover the purchase of the farmhouse but only to maximum of 30% of this cost with a maximum of PLN50,000 (€12,616). The total value of the loan should not exceed PLN500,000 (€126,167) nor 80% of the investment value. In special branches of agriculture (usually capital-

intensive) loans could be as high as PLN2 million (€504,668) but in that case cover only 70% of total investment value.

The maximum loan period is 15 years. The applicant has to provide a business plan and to obtain a positive opinion of the extension service in his area.

The applicant farmer should be younger than 40 years, have an agricultural qualification or at least three years of practical experience. The farm has to be or become his main source of income and should have a size at least equal to the average in the area.

#### 2.20.2. Fiscal and other measures with an indirect impact

In Poland the current agricultural tax system can also act as a deterrent to economic development. Farmers are exempt from income tax, unless they produce certain specialised crops such as vegetables or mushrooms or also have non-agricultural activities in addition to farming. Instead, they pay a "land tax", equivalent to the price of 250kg of rye per hectare of agricultural land, directly to the *gmina*. The implications of this are that there is a lack of incentive to diversify or develop more profitable enterprises, as farmers wish to avoid being reclassified for tax purposes. The *gmina* authorities have the flexibility to reduce the tax if they consider that it is too high for some of their farmers. However, the rate per hectare must be the same for all farmers within the *gmina*, which results in a loss of income for local government, and a consequent restriction on their activities to the detriment of the entire community, if the rate is reduced to take account of the poorest farms. This system also acts as a disincentive for some farmers to register their land officially, as they fear becoming liable for more taxes.

There are proposals to reform the agricultural tax system, by switching to a method based on income level rather than a flat-rate for farms of more than 50 ha from the year 2001. In addition it is proposed to introduce value-added tax on agricultural output from 1999, which would permit farmers to reclaim tax on their purchased inputs. One of the barriers facing these reforms (apart from reluctance from the farming community) is the widespread lack of formal farm accounts. Projects have been set up, operated through the voivodship agricultural advisory offices, to introduce farm accounting techniques onto farms.

### *2.21. Slovenia*

#### 2.21.1. Agricultural measures

The Slovenian measure that is comparable with EU regulation 950/97 was first introduced in 1998 through a first joint tender of the Ministry of Agriculture, Forestry and Food (MAFF) and the Slovenian Fund for Regional Development and Maintenance of Population Density of the Slovene Countryside (RDF). In 1999 the tender was opened again. Under these tenders a young farmer had to fulfil criteria which are comparable to the EU criteria.

In 1998 €2.3 million of favourable loans and €0.3 million in grants were disbursed to 110 beneficiaries. Under the 1999 tender 185 applications were received, of which 147 were approved involving €4.5 million of loans and €2.1 million of grants.

Within the SAPARD programme, young farmers enjoy more favourable terms than other farmers for investments into agricultural holdings. The share of assistance is 10% higher than for others and amounts to a maximum of 55%. Under this measure the following investments are eligible:

- investments into buildings (production facilities, no housing facilities) and other facilities on a agricultural holdings;
- investments into the interior equipment of production facilities and other facilities on an agricultural holding;
- investments into agricultural machinery.

#### 2.21.2. Fiscal and other measures with an indirect impact

In Slovenia the fiscal regime is the same for all farmers. There is no tax on gifts, nor an Inheritance Tax.

# Chapter III
# CONCLUSIONS DRAWN FROM OPERATION OF CURRENT MEASURES

## 1. The situation in the EU-15

**The points made here derive from received opinions from the questionnaires sent to interested parties, other research sources, and *RGC's* analysis, illustrated by data wherever possible.**

### *1.1. Application of measures specifically aimed at young farmers*

It is clear that application of the various measures enacted by the Council and Commission is variable within and between the member states.

The most obvious example of this is the fact that the **Netherlands** and **UK** do not offer installation aids and **Sweden** does not offer enhanced investment grants for young farmers.

The variable detailed application of the two main measures among member states is of interest. However, *RGC's* research and analysis does not suggest that this variability is a cause for concern. Member states have simply adopted the system that best suits their administrative practices.

One of the areas of greatest variability has been that of the requirement for the young farmer to demonstrate that the farm is providing sufficient work for that farmer. Here the conditions have been different in nearly every member state. The details are not listed here since that requirement has now been removed in the new regulation, along with the requirement that farmers must devote most of their time/derive most of their income from farming. These have been replaced by a more general requirement to show that the farm is "viable".

Several member states have insisted on either a lease, purchase, inheritance or early retirement having been the circumstance whereby the young farmer has come to the farm.

**Finland**, unsurprisingly given its geography, allows more weight to be given to the forestry activities of young farmers. France also gives some recognition to this.

In Finland**,** which might be considered as typical of the experience of many member states, a start-up aid scheme has been considered a necessary form of aid for the starting farmer, because the costs of a successor farmer in the setting up stage may be high. In spite of the system Finland has to some extent fallen short of the number of generation changes that is considered appropriate in terms of controlled structural development. The major reason for this has been the general uncertainty about the profitability of production, even if the aid scheme could be implemented more effectively. The relaxation of the successor's full-time requirement in particular could increase the number of generation changes on arable farms. A postal survey found that this condition was perceived to be a problem for around 40% of respondents. In addition, around one quarter of the beginners who responded said that their skills or training had to be developed before start-up aid was received. Around 30% of those answering had difficulties with the correct timing of the generation change. Most of those responding (65%) considered that the amount of start-up aid was too small.

The Finnish government believes that agriculture forms an essential part of the basic settlement of rural areas and it also maintains the infrastructure and other business activity of remote areas. The structural development of the countryside must be managed, and in this the control of

generation changes on farms also has an important role. Although generation changes also take place without aid, aid is important for the continuation of agricultural production and the maintenance of employment all over the country, particularly in the longer term as present farmers age and especially in remote areas where alternative employment opportunities simply do not exist. Start-up aid has not halted the fall in the rural population, but it has however played a part in slowing it down. Aid has thus helped the preservation of vital agricultural communities.

The actual aid system with its terms and restrictions, however, will not in the final analysis resolve the implementation of generation change. General conditions for profitable agricultural production and certainty in regard to prices, subsidies and markets are the decisive factors when acquiring a farm or continuing production are considered.

Evaluations conducted in Finland have shown that an important criterion for the granting of start-up aid is the earlier transfer of the farm to the successor. The farm is generally transferred from parents to one of the children. On the basis of start-up aid material the Finnish authorities have ascertained that the average age of farmers who have given up has been around 60 years. No statistics are compiled for generation changes occurring without start-up aid. In spite of this lack of statistics, it can be concluded that those who give up farming without aid are clearly older than those in generation changes that receive aid. In approximate terms, the average age of those who give up farming in generation changes receiving aid is around five years lower than in changes that occur without aid. The aid scheme therefore promotes the earlier transfer of farms. The five-year target level set for the bringing forward of generation changes has therefore been achieved, even though for reasons of statistical deficiencies and other evaluation drawbacks it is difficult to present an exact picture of the development that has hitherto occurred.

In **France**, despite extensive use of measures to assist young farmers, the rate of replacement of farmers ceasing production is only one in four. However, this must be seen in the context of a rapid decline in overall farm numbers (amid significant restructuring in French agriculture). This trend is likely to continue – CNASEA has made calculations which suggest that the number of offspring ready to take over a family farm is also falling significantly.

Interest rate subsidies have been consistently offered at a rate of 5% throughout the member states offering the installation aids scheme. France is the sole exception, offering lower rates (which vary regionally).

As far as investment grants are concerned all member states have offered the maximum of 25%, with few special conditions attached.

Impressions noted in the **Netherlands**, before installation aids were withdrawn were:

- the grant did not have an effect on the number of farm take-overs. This is because the grant, in relation to the take-over sum, is small, and because the grant is only awarded after the financing of the take-over has been completed;
- the grant did not result in a higher take-over sum, i.e. the grant did not "flow directly to the parents";
- although in some cases the qualification criteria stimulated young farmers to follow courses, the scheme was not regarded as a stimulus for training as a large proportion of the rejected applications was on the grounds of not meeting the qualification criteria;
- a positive effect of the grant is that young farmers were stimulated to invest. Some indicated that they had borrowed more money because of the grant;
- it was felt that both filling in the application as judging it took a substantial amount of time while some criteria were open for manipulation (especially the financial criteria);

- age is seen as an arbitrary criterion, which always causes some people to become ineligible.

The main suggestion that came out of the Dutch evaluation report was that the authorities should be more lenient on the qualification criteria. Practical experience should be taken into account more. Also, it should be possible for the people judging the application to target those applications who are viable but more in need of some extra finances

Some governments are not inclined to help young farmers. Interviews produce comments such as: “I do not see why we should help a young farmer and not a young baker” and “People starting in farming know that the profitability is low, if they decide to do so anyway it is their choice and their responsibility to make ends meet”.

### *1.2. Fiscal and other measures with an indirect impact*

The enormously varied tax treatment enjoyed by farmers suggests that member state governments have to make fundamental choices about the kinds of farming they wish to encourage. Inheritance taxes have a clear impact on the ability of young farmers to take over a holding. In this respect, France's system of "*salaire différé*" is helpful for children to defer some of the costs associated with succession.

It is clear that member states which make few or no provisions to encourage young farmers to inherit, or simply do not offer any breaks compared with the rest of the population are making a political decision. Tax breaks for farmers on inheritance, or when for example a farmer sells land to another farmer may make very little difference to a national treasury, considering the ever declining numbers of farmers across the EU. But such measures do help to maintain farming's competitiveness when faced with external land pressures and difficult choices young farmers face when taking on a farm holding.

Exemptions or reductions in land taxes where parents hand land on to their children (as in the Netherlands, Austria and Finland) clearly benefit farming families, but could be further encouraged with age limits in an attempt to hand over land to farmers earlier.

In this respect, all inheritance tax systems which demand an equal treatment of heirs, with compensation payable by the farming heir allow not only for lengthy legal disputes, add greater financial burdens to an already difficult situation for a young farmer. A simple and single designated heir, as in the UK and Ireland, lessens the financial burden, especially in cases where other potential heirs are either not interested, or not qualified to take on the farm's responsibilities.

## 2. The situation in the candidate countries

The government of **Cyprus** believes that its support to agriculture through the guidance schemes has averted a more accelerated decline of the sector, slowed down the desertion of the rural areas and helped to maintain a more balanced structure of the economy.

The SAPARD programme does not include an installation programme. According to CEJA this is unfortunate as the programme is intended to prepare the associate countries for the full rural development programme when they eventually become members of the EU. With the current inefficient farm structure, installation measures could be particularly useful in creating a farming structure, which will offer long-term benefits.

However, one should not forget that there is a limited amount of money available for a seven-year period. It is up to the candidate country to decide which measures they regard as a priority. The possibility for changing priorities and areas eligible for aid is limited.

One of the conclusions of an EP Working Paper on sustainable rural development (see Annex V) was that potential applicants in rural regions are likely to have inadequate capital resources but a surplus of labour. Aid systems based on fixed subsidies therefore make a better choice than proportionate financing. A recommendation put forward was that, in the SAPARD programme the applicant countries should, if necessary, be allowed to make changes (within their national aid programmes) in the areas eligible for aid and in the amount of aid etc. Their proposal that it should be possible to revise the development plans in the event of major changes in the socio-economic situation is included in the SAPARD regulation (Article 4.6). However, it is unclear how easily development plans can be revised.

# Chapter IV
# IMPACT, SPECIFICALLY, OF EU ACTIONS TO ASSIST YOUNG FARMERS

## 1. The situation in the EU-15

***RGC's* research shows that there has been little evaluation of the implementation by EU member states of the various EU-level measures on offer, let alone of their success or otherwise. This has been confirmed by the recent Court of Auditors' report (see below).**

The Commission (DG Agriculture) has prepared working documents within the last year on how Regulation 950/97 (and its precursors) has been applied in the member states as regards young farmers. However, this is largely a descriptive/quantitative exercise based on a questionnaire sent annually by the Commission to member states. The impact of the measures has not been analysed. Figures available to the Commission relate to the period 1990 to 1997, those for 1998 not being available at the time of writing. The figures are not completely reliable, given uneven responses by member states and the problem of possible double counting of aid granted under the installation and investment aid systems.

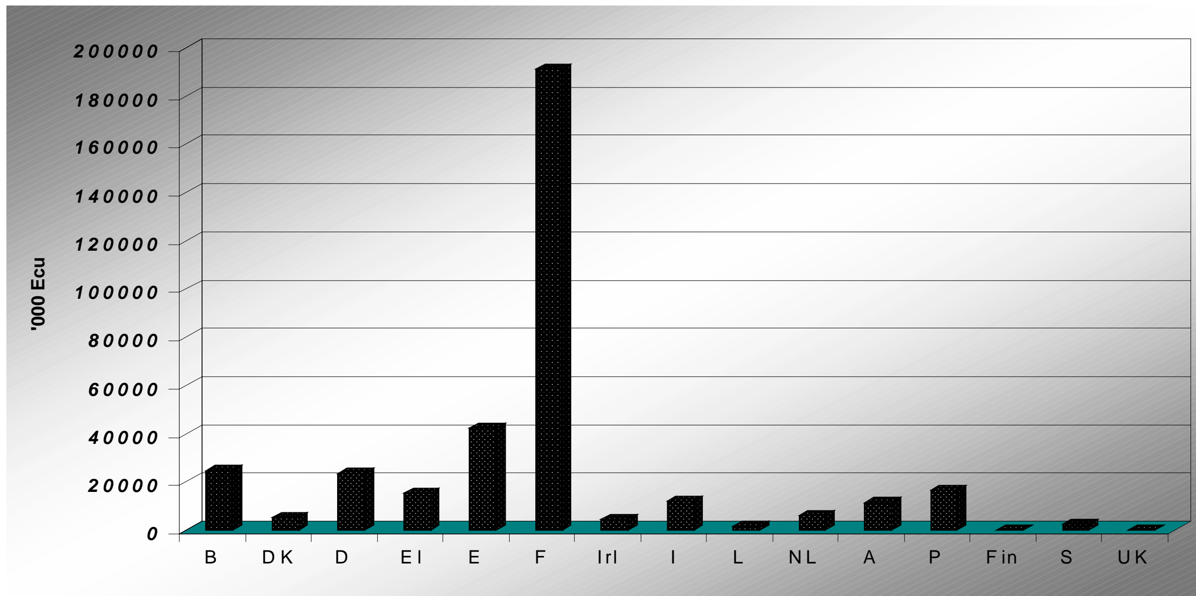
### *1.1. Commission analysis of Regulation 950/97 application*

The main points arising from this analysis are:

- the amount of aid reimbursed to member states, the number of beneficiaries and the amount of aid per farmer all increased over the period 1993 to 1997;
- this followed a decline in the period 1990 to 1992 from which beneficiary numbers did not recover, despite the unification of **Germany** and the 1995 EU enlargement;
- the high point in numbers of beneficiaries was in 1990 (31,000 young farmers);
- the Council's 1994 decisions, to allow farmers pursuing more than one occupation to claim aid, and to increase the amount of the aid by 20% are not (in the Commission's view) reflected in the figures for uptake of the aid. Such increases as there were appear to have been due more to national developments
- there were broadly twice as many beneficiaries under Article 10 (installation aids) as under Article 11 (enhanced investment grants) during the 1990 to 1997 period. This gap developed in particular during the post-1994 period when the number of beneficiaries of installation aid rose by 20%, while Article 11 beneficiary numbers remained broadly stable. The latter also experienced a rise in recent years, but by much less than the rise for Article 10, and not regaining the level of 1990;
- amounts proposed for reimbursement to member states under Article 11 in 1997 were only 4% of those under Article 10;
- the preponderance of Article 10 appears to be due largely to the increased use of this Article by certain member states (as already outlined);
- looked at in terms of amount per beneficiary under Article 10, **Belgium** is the most generous benefactor. In member states where demand for installation aid is high the level of aid per beneficiary is lower than that EU average, suggesting that the aid is being spread rather thinly;
- the southern member states, **France**, **Spain** and **Austria** appear to be the best users of the enhanced investment grant scheme under Article 11, in terms of total amounts of money involved. However, in amounts per beneficiary, France and Spain fair less well, especially compared to **Belgium** and the **Netherlands**. **Ireland** and **Luxembourg** are the best payers in terms of amounts per young farmer.

Some details of payment rates per member state are shown in the graphs below (Figures 23 and 24). Note that figures for beneficiaries in Finland are not available.

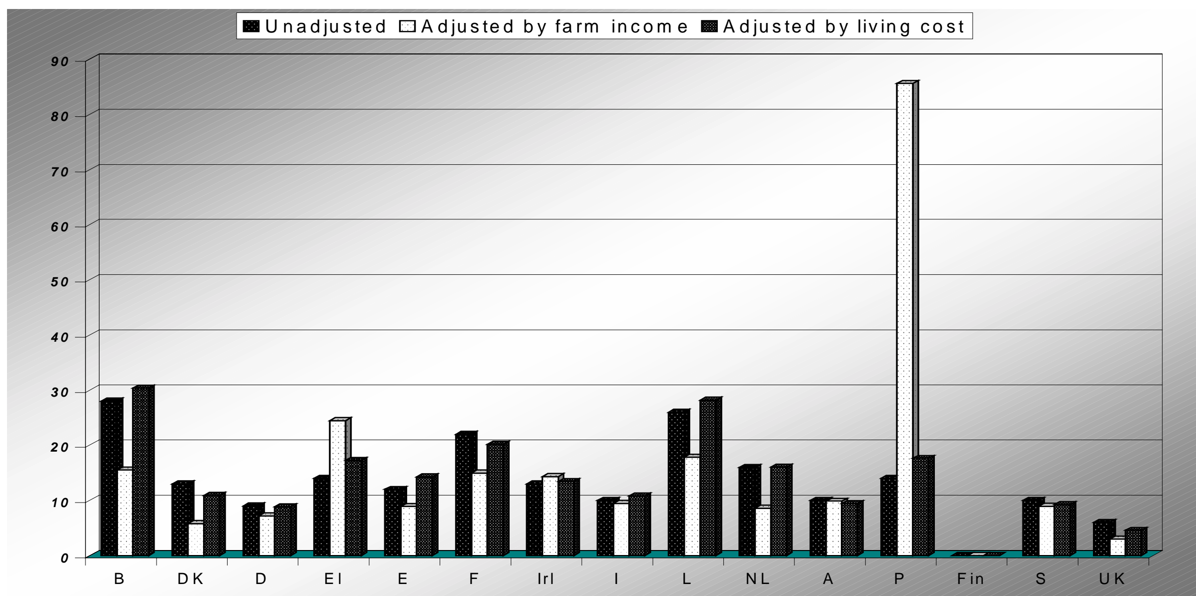
**Figure 23. Annual average aid in the EU under Regulation 950/97 ('000 Ecu, 1990-1997)**




Source: European Commission – DG Agriculture (1999); Court of Auditors

Figure 24 shows aid per beneficiary adjusted by average farm income and by cost of living. An explanatory note is given later on in this chapter alongside Table 5.

**Figure 24. Annual average aid in per beneficiary under Regulation 950/97 ('000 Ecu, 1990-1997, adjusted by member-state cost data)**




Source: European Commission – DG Agriculture (1999); Court of Auditors

### *1.2. Commission evaluation of Regulation 950/97 application*

DG Agriculture has launched such an evaluation exercise (in February 1999), as the Commission mentions in its response to the Court of Auditors' report. This consists of asking member states to respond to a questionnaire in which they give points for the application and impact of the main measures of potential benefit to young farmers. First results were expected to be evaluated by the Commission in the spring of 2000. However, it appears that the exercise has been slowed, partly as a result of national authorities concentrating their resources on the preparation and submission of their rural development plans to the Commission. The results of the evaluation exercise look like being delayed until at least 2001.

The European Commission has also devised an evaluation procedure, along similar lines to that outlined above, for the new regulation covering installation and investment aids (1257/99).

### *1.3. EU Court of Auditors report on the operation of EU measures for young farmers*

The EU's Court of Auditors has recently completed a report on the operation of EU measures intended to assist young people in the EU, in general. The report contains a section evaluating the measures designed to assist young farmers (installation aids and enhanced investment grants). The main points of note are as follows:

- the Court's report is: SPECIAL REPORT No 3/2000 on the European Social Fund and the European Agricultural Guidance and Guarantee Fund (Guidance section) - Measures to assist the employment of young persons;
- the report is thus not concerned exclusively with young farmers' problems;
- as is usual with the Court's work, emphasis is put on the administration of policies, on financial auditing, and on whether taxpayers' money is being used effectively. The latter involves some judgement being taken on the effectiveness of the measures funded;
- the part of the report which concerns young farmers does not constitute, in any case, a comprehensive review of young farmer assistance, since the Court's audit was done in only 5 member states and was based on a representative sample of young farmers;
- the main findings of the Court mirror the conclusions drawn in this study;
- the Court underlines the lack of EU or member state evaluation of the impact of the EU assistance measures for young farmers;
- in addition, the Court recommends that more attention should be given to the option to offer interest subsidies on loans;
- the Court notes that delays in implementation of installation aids and investment grants has sometimes led to young farmers becoming ineligible for aid.

The Commission, in its reply, does not contradict the Court's findings, pointing out that implementation is essentially in the hands of member states. In response to the point that young farmer assistance measures have not been properly evaluated, the Commission states that it has initiated such an evaluation. However, as this study has noted, the evaluation has been delayed.

### *1.4. RGC evaluation of Regulation 950/97 application*

Table 5 summarises aid received by young farmers over the 1990-1997 period. It includes aid per beneficiary (which is a figure derived from previously-rounded calculations and may not appear entirely accurate in the table).

It was felt that aid per beneficiary was too crude a measure to compare the performance of member states in the area of aid for young farmers, so a synthetic indicator was used, along the broad lines of the OECD's Producer Subsidy Equivalent (PSE).

In this case, the effective PSE is expressed in two ways: adjusted by average farm income, to take account of the contribution of the aid to the farmer's overall income; and, adjusted by an index of the cost of living in each member state, to take account of purchasing power.

**Table 5. Regulation 950/97 beneficiaries and total aid ('000 Ecu) 1990-1997 annual average**

| Member state | Beneficiaries | Total aid | Aid/beneficiary | Effective PSE | |
|---|---|---|---|---|---|
| | | | | 1. | 2. |
| **Belgium** | **1449** | **24789** | **28** | **16** | **26** |
| **Denmark** | **850** | **5405** | **13** | **6** | **15** |
| **Germany** | **4340** | **23551** | **9** | **7** | **9** |
| **Greece** | **1967** | **15321** | **14** | **24** | **11** |
| **Spain** | **6005** | **42181** | **12** | **9** | **10** |
| **France** | **11952** | **191210** | **22** | **15** | **24** |
| **Ireland** | **862** | **4402** | **13** | **14** | **13** |
| **Italy** | **2641** | **12041** | **10** | **9** | **9** |
| **Luxembourg** | **125** | **1620** | **26** | **18** | **24** |
| **Netherlands** | **440** | **5982** | **16** | **9** | **16** |
| **Austria** | **2341** | **11515** | **10** | **10** | **11** |
| **Portugal** | **2365** | **16569** | **14** | **86** | **11** |
| **Finland** | **852** | **?** | **?** | **?** | **?** |
| **Sweden** | **159** | **2413** | **10** | **9** | **11** |
| **United Kingdom** | **27** | **152** | **6** | **3** | **8** |

Source: European Commission

**The effective PSE is calculated from the aid per beneficiary adjusted by:**

1. **Average income per holding (all holdings in the member state) in 1997;**
2. **Cost of living in the member state concerned in 1997.**

The effect of using an effective PSE is, in some cases, to put into perspective large differences between member states in terms of benefit from the aid (although real differences do exist). For example, Portugal's aid per beneficiary (Ecu 14,000) appears low but, adjusted by lower-than-average farm income, it is seen to increase in importance.

## 2. The situation in the candidate countries

As the candidate countries are not members of the EU they do not operate the EU's measures to assist young farmers. Hence there is no evaluation presented here.

# Chapter V
# POTENTIAL IMPACT OF "AGENDA 2000" ON YOUNG FARMERS

It must be recognised that the agreement on reform of the CAP reached in Berlin on in March 1999 has opened up some possibilities for assistance to young farmers.

## 1. The situation in the EU-15

A feature of the Berlin agreement is the flexibility it allows member states in choosing whether to direct assistance to young farmers, to other categories of farmer, or to neither of these.

The potential measures of assistance (but also the hindrances) fall into two broad categories: market organisations; and, rural development..

### *1.1. Market organisations*

Table 6 provides an overview of changes to market organisations resulting from Agenda 2000 and their potential impact on young farmers.

**Table 6. Market organisations**

| Reform | Potential impact |
|---|---|
| **General** | The increases in direct aid payments foreseen for arable and beef producers will help stabilise farm incomes. This, in theory, benefits potential new entrants. However, lower support prices mean farmers will be more vulnerable to market fluctuations. |
| **Subsidiarity** | One of the most notable policy developments in the Agenda 2000 agreement is the increase in the various aspects of CAP implementation that remain up to member states. In the beef sector, for example, "national envelopes" are fixed for each member state, but it is up to the national government to decide whether to distribute this money as a top-up to the suckler cow or male beef premia, as a heifer premium, or even paid out on the basis of a payment per hectare of permanent grassland.<br><br>Nowhere is this scope for national variation more marked than in the so-called ***Horizontal Regulation*** (Reg. 1259/99 "*establishing common rules for direct support schemes under the CAP*"), which introduces a number of new concepts to the CAP:<br><br>• The concept of ***cross-compliance*** (Article 3) was already introduced under the 1992 Mac Sharry reforms, but it has now become compulsory for member states to set some form of environmental conditions for receiving direct aid payments. While this may provide an extra justification for CAP direct aid payments in the WTO context, in practice this is likely to mean pre-conditions for farmers which vary widely from one country to another.<br>• The concept of ***modulation*** (Article 4) is included, although in a much different way from the original Commission proposals. Under the concept agreed, member states may fix thresholds - relating to labour work units, overall prosperity of a farm (expressed as standard gross margin), and/or the total amount of direct aid payment received |

| | |
|---|---|
| | - at which a member state can deduct up to 20% of direct aid payments from individual farm holdings.<br>• At April 2000, France and the UK are the only member states to have outlined concrete modulation plans – although there remains discussion in other countries, notably Spain and Portugal. These two schemes alone highlight the vast variation in application, however, and a move away from any attempts at maintaining a level playing field. In France, the scheme is much more about taking aid away from the larger farm holdings (albeit after employment opportunities are considered) – an estimated 9% will be affected - in order to redistribute the funds to smaller, more needy holdings and on assisting rural development. In the UK, however, the concept is to reduce direct aids to all farmers by 2.5% in 2001, rising to 4.5% in 2006, with the money matched by the UK treasury and channelled into agri-environment schemes such as the "Countryside Stewardship Scheme" and conversion to organic farming. A further change in the UK is the move to allow the new Regional Assemblies in Scotland, Wales and Northern Ireland to define priorities for funds.<br>• As far as young farmers are concerned, these concepts (or any future ideas) have no clear advantage or disadvantage. By re-channelling money towards less profitable farms, the French scheme is perhaps providing an incentive for succession on holdings which would not perhaps be there otherwise, while reducing the attractiveness of the larger farms, which young farmers are normally keen to take over (not only by reducing the amount of direct aid, but also introducing a new unpredictable bureaucratic element) In the UK, the plan is aimed at re-channelling funds into measures far more acceptable to the British tax-payer, thereby improving the public image of agriculture, and not affecting more profitable farms more than others, but again adds an additional layer of bureaucracy for those seeking to take advantage of the opportunities.<br>• Under the ***common provision*** (Article 5), any sums deducted by member states under Article 4 or from farmers not respecting the national conditions of cross-compliance under Article 3 can be re-channelled as EU funding for various aspects of the Rural Development regulation – notably early retirement, less-favoured areas and areas with environmental restrictions, agri-environment and afforestation (covered by Articles 10-24 and 29-32). ***Targeting this money to setting up young farmers (Article 8) and Training (Article 9) is not permitted, however.*** |
| **Cereals regime** | No specific access for young farmers to durum wheat reference quantities. |
| **Oilseeds regime** | The reduction in the rate of aid will make oilseeds production less attractive, although the changes to the system remove the "Blair House" area restrictions (which have led to cuts in aid for two of the past three years). |
| **Beef regime** | No specific special access for young farmers to Suckler Cow or Special Premium rights at EU level. Member states may give young farmers access to national reserves. Newcomers, young farmers and other priority producers are mentioned explicitly. |
| **Dairy regime** | While the Commission aim in the dairy sector within the Agenda 2000 reform proposals specifically obliged member states to give priority to young farmers in the allocation of a 1% milk quota increase for all member states, the final texts agreed by farm ministers remove any |

reference to young farmers. In practice, however, a number of changes introduced could ease production expansion and/or opportunities for new entrants, likely to be of benefit to younger rather than older farmers:

- The additional production quotas (phased in over three years starting in April 2005 in most member states) will provide new opportunities, although the modality of allocation is left up to the member states.
- Changes to the framework rules on linking quota to the land - again left up to member states to implement - are likely to see further volumes of "unused" quota being returned to the national reserve. (The debate in Germany about non-producing quota holders, the so-called "sofa producers", has been the most public expression of moves in most member states to make sure that quotas are broadly held by farmers wanting to produce).
- The dairy reform commitment to review the dairy quota regime with a view to phasing it out after 2008 is unlikely to provide much help to young farmers as the political reality is different. Even if the Commission proposes to abolish quotas after 2008, a large number of member states are likely to want to continue some form of quota mechanism. It is unclear what the candidate countries will say about the issue after they join the EU, given that the EU-15 seem intent on forcing these countries to introduce quotas prior to accession.

In short, the Council statement on the future of the quota regime raises more doubts about the medium to long-term future of the regime than anything else, and may well be a hindrance to structural change. However, the Commission review of the regime in 2003 - which Commissioner Fischler has indicated might happen in 2002 (i.e. before EU enlargement) - might provide a clearer signal for the future.

**Wine regime**

Young wine producers hoped that the proposed reform of the regime within the Agenda 2000 package, would bring major benefits and grounds for optimism. The final agreement by farm ministers (that remained unchanged by EU leaders at the Berlin Summit) in March 1999 is less encouraging, however.

While the reforms do foresee additional planting rights, there is no preference for young farmers. Instead the new rights will be allotted after "complex, bureaucratic barriers have been overcome", according to the CEJA wine committee, which consider the Regulation to be "too optional". Similarly there are restructuring measures in the final agreement, but no preference given to young farmers.

Some experts welcome the moves to improve overall quality, but question the logic of turning to new grape varieties while not providing conditions to allow adequate expansion - pointing to the competitive disadvantage this may mean relative to producers elsewhere in the world. They stress the need to make the necessary investment further down the chain, notably in the "*Kellerwirtschaft*" but also in marketing terms.

**Olive oil regime**

Further reform of the regime is foreseen later this year, where the priorities are likely to be avoiding increases in spending and production - suggesting little of potential direct benefit is possible for young farmers.

**Sugar regime**

Reform of the regime is foreseen for later this year, where the priorities are likely to be budget savings and quota reductions (forced by GATT

| | |
|---|---|
| | commitments on subsidised exports). The current regime provides no special access to sugar beet quota for young farmers. |
| **Sheepmeat regime** | Reform of the regime is foreseen for later this year, where the priorities are likely to be budget savings. The current regime provides no special access for young farmers to Ewe Premium. |

### *1.2. Rural development*

Another major element of the Agenda 2000 reform was the adoption of Council Regulation 1257/99 on "support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF)", which came into force on July 3, 1999.

This introduced the concept of grouping all "structural" assistance to farmers (including to young farmers) under one regulation. Member states have been asked to submit proposed rural-development plans (RDPs) which outline how they will implement rural development measures over the period 2000-2006. The Commission is in the process of evaluating these proposals, notably to check that they conform to the regulation cited above.

It must be said that, though all structural measures now come in theory under one main regulation, in practice there is great complexity in the way agricultural structural measures actually work. This depends on whether the nation or region concerned is eligible for additional EU assistance, what measures member states seek funding for, and from which EU programme etc. It is not possible at present simply to state how a member state is implementing this, let alone to make a comparison between member states. Nevertheless, the Commission has devised a methodology for eventually evaluating how 1257/99 is implemented at national/regional level.

Initial information from the Commission and national sources suggests that very few new ideas, or changes from current national practices, have been put forward as far as young farmers are concerned. Member states are adapting to the new rules but generally continuing as before, at slightly different rates of funding.

It should be stressed that, especially as far as the rural development plans are concerned, member states' intentions are not completely clear. All member states have submitted their plans to the Commission for approval. In many cases there is more than one plan per member state (in total 69 plans have been submitted for EAGGF funding, though there are 170-odd plans to examine if plans integrating other EU-funded programmes are included). However, these are not expected to be approved by the Commission until summer/autumn 2000. Member states may well revise their intentions to take into account the opinions of the Commission. Member states' new LEADER programme ideas have not yet been submitted.

There are some early indications of alterations/improvements in the treatment of young farmers, for instance:

#### 1.2.1. Belgium

Belgium is giving priority to young farmers within its RDPs, to the extent that 10% of the Federal level RDP is devoted to young farmers (13% in the case of the Wallonia region).

### 1.2.2. Denmark

Denmark intends to continue to offer the aid scheme for young farmer's installation under its proposed RDP. The estimated cost is €11 million per year over six years, of which 50% will be EU-financed.

The state loan scheme will continue, with the maximum eligible loan raised to €130,900, of which 75% will still be subsidised by the state. However, the government's assistance on the repayment falls off more quickly under the new scheme than hitherto. Nevertheless there is still a substantial commitment. There will still be quite strict criteria applied for qualification for the loan. However, there will no longer be tax liable on the loan.

### 1.2.3. Finland

Finland is intending to continue with both EU co-funded and nationally-funded schemes to assist young farmers, the national measure seemingly linked to a young entrepreneur scheme.

### 1.2.4. France

France intends to devote 15% of funds under one of its programmes to young farmer installation, indicating a continued commitment to this priority.

### 1.2.5. Germany

The German federal government will continue to fund young farmer measures as before, though still without using the full funding possibilities available. Some *Länder* seem to wish to increase the funding on offer.

### 1.2.6. Ireland

Ireland is intending to adapt its early retirement scheme to favour the transfer of released land to progressively younger successors. However, it intends to fund its continued installation programme from national funds.

### 1.2.7. Sweden

Sweden intends to adhere more strictly to EU guidelines in future, for example by raising the maximum age to qualify as a young farmer to 40. The maximum amount of installation aid will probably be maintained at SEK 200,000 (€24,149). Sweden intends to continue to allow more than one applicant for installation aid per farm, provided there is sufficient work..

### 1.2.8. United Kingdom

The UK Government has always been against the introduction of measures to support young farmers and the current government is no exception. Indeed, the Rural Development Plan recently submitted to Brussels for approval explicitly rules out assistance for young farmers (other than via the vocational training provisions). However, it is difficult to predict whether that position will be retained by the new devolved administrations in Scotland and Wales. A recent consultation paper from the Welsh Assembly, on the modulation of direct aids, states that the Assembly is commissioning a study into the barriers facing young entrants to farming and the problems that young farmers face.

It is difficult to assess the overall impact of the CAP reforms on young farmers. CAP reform will have a significant impact on all farmers and it is difficult to separate the particular case of farmer under 40 years old.

Nevertheless, the Agenda 2000 reforms do have three broadly negative effects for young farmers:

- they are likely to result in lower prices for agricultural products, with a consequence for farm incomes;
- they perpetuate the production rights systems which raise barriers to potential young farmers entering farming;
- the budget available to assist young farmers will be more limited.

At the same time, the move towards an agricultural policy which emphasises rural development probably gives young farmers better vehicles to promote special measures to deal with their specific problems.

### *1.3. EU budget management*

Arguably the most significant outcome of the Agenda 2000 reforms is the introduction of much stricter controls on CAP spending. While the effect of this will no more marked on young farmers than other farmers, it is an important development as it will almost certainly lead to a change of culture in the way the Commission manages CAP finances. In fact the additional budget pressure has already triggered Commission moves to reduce the subsidy for the school milk scheme and policy on export refunds.

Whereas previously the upper limit (the so-called EAGGF Guideline) was so high above agriculture spending requirements that it had become irrelevant, EU leaders were intent on "stabilising" average CAP spending in real terms over the 2000-2006 period at roughly the level of the 1999 budget (€40.4 billion). In the final Agenda 2000 agreement in Berlin, EU leaders accepted a last minute dilution of cereals reforms and a 2-year further postponement of dairy reforms. This was done in order to meet the tighter budgetary concept, with a budget review in 2002, demonstrating that the ceiling on spending was by far their most important priority from the package. The postponement of the dairy reform will entail increases in spending in 2007 and 2008 - but that is a problem for the next generation of EU leaders.

A further change was to define certain structural payments (previously classified as Objective 5a and 5b spending under the EAGGF-Guidance fund) within the EAGGF-Guarantee Fund. The result was the establishment of two headings within the EAGGF-Guarantee fund for which ceilings have been set (see Table 7) - the first covers the traditional CAP market measures (Titles 1-3), the second (Title 4) is the combination of the measures on Rural Development and the Accompanying measures. Since the March 1999 Berlin Summit agreement on Agenda 2000, EU Farm Commissioner Franz Fischler has been keen to emphasise this rural development aspect of spending, referring to it as the "second Pillar" of the CAP. The new Regulation on aids to young farmers (Reg. 1257/99), providing €131 million in 2000 under the budget line B1-401, is defined under this budget heading.

**Table 7. Budget Ceilings set under Agenda 2000 for EAGGF-Guarantee spending 2000-2006 (in million €at 2000 prices)**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| CAP "market measures | 37 352 | 39 250 | 40 361 | 40 219 | 39 178 | 38 321 | 38 036 |
| Rural development & Accompanying measures | 4 386 | 4 406 | 4 417 | 4 427 | 4 437 | 4 447 | 4 457 |
| **TOTAL** | **41 738** | **43 656** | **44 778** | **44 646** | **43 615** | **42 768** | **42 493** |

This division of CAP spending into "market measures" and "rural development" measures will become more and more significant in years to come, for a number of reasons. Firstly, the main impact of the Agenda 2000 reforms on the CAP budget will be a shift in market spending further away from price-related support mechanisms (such as intervention purchases and export refunds) towards direct aid payments. The share of the CAP budget devoted to direct aid payments will rise from 55-60% to close to 80%. From an accounting point of view this has the advantage of making three-quarters of the budget predictable and relatively easily managed. The disadvantage that will very soon become apparent if the tight budget ceilings face unexpected additional financial requirements is that there is far less flexibility in this remaining 20%-25% of the budget to make savings. While the debate in early 2000 about the possible transfer of €300 million out of the "market measures" budget to help fund aid to Kosovo has suggested that Commissioner Fischler is confident of a certain amount of slack in the budget, a sudden crisis or an appreciation of the Euro against the dollar could change all that, forcing the Commission to make savings which are not necessarily justified in market terms. It is at that moment that it will become clear how solid the division is between CAP" market measures" and rural development really is. As a result, in order to have scope for some additional funding, any moves for additional support for young farmers will almost certainly have to be defined under the Rural Development/Accompanying measures section of EAGGF spending.

One anomaly with regard to this division of CAP spending into two pillars is that, through the "modulation" concept, member states also now have the possibility of effectively transferring funds earmarked for direct aid payments (i.e. market measures) into rural development and agri-environment schemes.

Under modulation there is considerable scope for taking young farmers more clearly into account. The criteria of Article 4 of the Horizontal Regulation could be ultimately modified to include wording relating to new entrants. Moreover, "standard gross margin", currently defined as "the difference between standard production value and the standard amount for certain specific costs", could be more clearly redefined to consider installation costs. Similarly, the rules could be changed such that modulated funds can be rechannelled into installation aid for young farmers and/or training. However, given the high level of flexibility left up to member states on the overall modulation concept, no amount of changes will provide certain benefits for young farmers.

### *1.4. Growing influence of the European Parliament*

One other highly significant point, particularly in the context of this study, is the fact that, following Agenda 2000, spending under the Rural Development/Accompanying measures heading is now defined as "non-compulsory" expenditure. What this means in practice is that the European Parliament can now over-rule the Council on CAP budget allocations under this heading in the process of setting the annual budget. (Until now, all CAP spending has been "compulsory" and therefore providing no obligation for the Council to include EP recommendations in its final reading of the budget.)

Indeed, in establishing the budget for 2000, MEPs forced an additional €417 million to be added to the Rural Development / Accompanying Measures budget relative to what the Budget Council had decided - equivalent to €467 million more than originally proposed by the Commission. While most of this additional funding is in the budget for agri-environment schemes, the specific budget line for "installation aids for young farmers" was increased from the €108 million proposed to €131 million.

In other words, although the direct role of the European Parliament in CAP policy decisions remains one of consultation rather than co-decision (unless there is an element of consumer protection, as foreseen under Article 152 of the Treaty of Amsterdam), its increased role in the budget-making procedure as provided in the Agenda 2000 agreement is potentially a major step forward for young farmers. Witness the additional €23 million already created for young farmers in the 2000 budget.

## 2. The situation in the candidate countries

The impact of the CAP reforms on young farmers in the candidate countries is essentially the same as for young farmers in the current EU, with one proviso. Unless farmers in the candidate countries are offered access to the same direct payments as those enjoyed by farmers in the current EU, they will be put at a serious competitive disadvantage.

The EU cannot, legally and practically speaking, demand that supply control mechanisms (such as set-aside, environmental cross-compliance, stocking densities etc) be applied by the candidate countries if the compensatory direct aids that go with those measures are not also offered in full.

For example, after general analysis done in Cyprus on the potential impact of the Agenda 2000 reforms, it was concluded that the effect of the reforms would be positive. It was noted that more flexibility on determining policies was transferred to the national governments.

# Chapter VI
# POTENTIAL IMPACT OF EU ENLARGEMENT ON YOUNG FARMERS

This Section examines, in broad terms, what the potential impact of enlargement of the EU could be for existing young farmers or new entrants in the coming years.

For the purposes of this report it has been assumed that no country will join the EU until after the 2003 review of the CAP, and in particular the review of the rural development regulation, has taken place. This does not necessarily reflect an opinion held by either the European Parliament or the author of this study. It is simply not possible to second-guess the outcome of the enlargement negotiations, and so some reasonable working assumptions have had to be made.

## 1. The situation in the EU-15

It is not the purpose of this report to analyse the impact of the forthcoming enlargement of the EU to include the candidate countries (and others) in detail. That has been the subject of other reports, and will continue to be so.

In broad terms the main impact of enlargement for young farmers is likely to be:

- due to the tough budgetary restrictions on agricultural expenditure decided in Berlin in March 1999, greater competition for scarce EU funds to be devoted to young farmer assistance measures;
- a larger number of young farmers among whom to spread whatever funds are available;
- the addition of a significant number of young farmers to the EU total, many of whose economic circumstances will be more difficult than in current EU member states;
- more difficult decision-making procedures, making further moves towards subsidiarity inevitable. A consequence may be the weakening of EU level measures to assist young farmers.

In short, with the exception of the potential new market outlets, the enlargement of the EU is unlikely to have a noticeable positive impact on the problems of young farmers within the EU.

## 2. The situation in the candidate countries

Again in broad terms, this section examines the possible impact of enlargement on young farmers in the candidate countries. This is looked at in two ways: the impact between now and the enlargement; and, the impact when the candidate countries become members.

In the period between now and the enlargement taking place the most important impact is likely to be the accelerated change in farm structure in all candidate countries as they adapt to new market realities and to adoption of CAP-type farm support schemes. Given the limited national and EU funds available to the candidates under SAPARD, and the several competing needs of the candidate countries' farming industries, this is likely to be a difficult period for new entrants to install as farmers.

Once the candidates become members, even if there are transitional arrangements, this situation is likely to improve as the new members are put on a more equal footing with their counterparts in the current EU. Indeed, the candidate countries could expect to see an increasing share of rural development-type funding.

It is worth noting that the candidate countries have started (or are intending to start) introducing production quota arrangements in some sectors, in anticipation of accession to the EU. While this is understandable, given that such production rights form part of the *acquis communautaire*, the introduction of such rights will lead to the same disadvantages for future young farmers in the candidate countries as are already experienced by their EU counterparts.

# Chapter VII
# PRIORITISATION OF YOUNG FARMERS' PROBLEMS

Part One of this study, and Part Two Chapters 1 and 2, have presented the situation of young farmers in statistical terms, and in terms of the application of rules and measures intended to assist young farmers.

This chapter attempts to display the problems highlighted in *RGC's* research. Matrices have been created (Tables 8 and 9) which show, in a simplified way, the relative importance of these problems and the degree. to which they have been addressed.

The main problems confronting young farmers are each given a rating in terms of:

- A: how serious is the problem, from 1 (= not too serious) to 5 (= serious);
- B: how well is the problem dealt with, from 1 (= badly) to 5 (= very well).

The ratings have been set by *RGC* based on information received from the countries covered in the course of researching this study. Where the category dealt with has not been specifically mentioned, it is given a (-). These ratings are very subjective but aim to show at a glance the situation for young farmers and the help which they receive for all countries concerned. It should be recognised, however, that ratings are given on a national basis and the real story is likely to vary from region to region (e.g. in Germany and Italy).

**Table 8. Prioritisation of EU young-farmer problems**

| | **Installation costs** | | **Economic prospects** | | **Availability of farms** | | **Training** | | **Administra-tive burden** | |
|---|---|---|---|---|---|---|---|---|---|---|
| | A | B | A | B | A | B | A | B | A | B |
| **Belgium** | 5 | 3 | 5 | 2 | 3 | 3 | - | - | 5 | 2 |
| **Denmark** | 5 | 3 | 4 | 1 | 3 | 3 | 1 | 1 | 5 | 2 |
| **Germany** | 4 | 3 | 4 | 2 | 3 | 3 | 4 | 4 | - | - |
| **Greece** | 4 | 3 | 5 | 1 | 5 | 2 | - | - | - | - |
| **Spain** | 5 | 3 | 5 | 2 | 4 | 2 | - | - | - | - |
| **France** | 5 | 4 | 3 | 3 | 3 | 3 | 4 | 4 | 5 | 1 |
| **Ireland** | 4 | 3 | 5 | 2 | 3 | 3 | - | - | 3 | 3 |
| **Italy** | 5 | 2 | 4 | 2 | 4 | 2 | - | - | 5 | 3 |
| **Luxembourg** | 5 | 3 | 5 | 2 | 5 | 2 | - | - | 4 | 2 |
| **Netherlands** | 5 | 1 | 5 | 2 | 5 | 2 | 4 | 4 | 4 | 2 |
| **Austria** | 4 | 2 | 5 | 2 | 3 | 3 | 1 | 3 | - | - |
| **Portugal** | 4 | 2 | 5 | 1 | 4 | 2 | - | - | 4 | 2 |
| **Finland** | 4 | 3 | 5 | 2 | 4 | 3 | 3 | 4 | 3 | 3 |
| **Sweden** | 4 | 2 | 4 | 1 | 3 | 2 | 3 | 3 | 2 | 2 |
| **UK** | 5 | 1 | 4 | 1 | 3 | 2 | 4 | 3 | 5 | 1 |

Source: Compiled by RGC

It can be seen that the biggest problems facing most young farmers are installation costs and economic prospects of the whole farming sector. In each case, the measures to tackle these problems are seen as being inadequate.

Table 9 performs a similar exercise for the candidate countries.

**Table 9. Problems of young farmers in the candidate countries**

| | **Installation costs** | | **Economic prospects** | | **Availability of farms** | | **Training** | | **Administra-tive burden** | |
|---|---|---|---|---|---|---|---|---|---|---|
| | A | B | A | B | A | B | A | B | A | B |
| **Cyprus** | 3 | 2 | 5 | 1 | 2 | 1 | 5 | 2 | - | - |
| **Czech Rep.** | 5 | 2 | 5 | 2 | 4 | 2 | 5 | 2 | - | - |
| **Estonia** | 5 | 2 | 5 | 2 | 4 | 2 | 5 | 1 | - | - |
| **Hungary** | 5 | 2 | 5 | 2 | 5 | 2 | 5 | 2 | - | - |
| **Poland** | 5 | 1 | 5 | 1 | 4 | 2 | 5 | 1 | - | - |
| **Slovenia** | 5 | 2 | 5 | 1 | 4 | 2 | 5 | 1 | - | - |

Source: Compiled by RGC

Again the biggest problems are of installation costs and economic prospects, although training is clearly neglected also. Generally, young farmers' problems are not addressed to any great extent.