DEVELOPMENT OF SMALL FARMS IN EU 10 (CEECS) BETWEEN 2005–2010

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The paper deals with developments and possible future of small farms in EU with special respect to EU 10 (Central East European Countries, CEECs) analyzing the structure of small farms by economic and area size on one hand and, their Standard Output (SO) as well as labor use (Agricultural Working Unit, AWU) and the farm manager aspect on the other. The main conclusions of the paper underline that importance of small farms in rural development cannot be neglected by policy makers, although, trends of development indicate certain differences in concentration in economic size, area size, standard output (SO) and engaged labor between CEECs. It was pointed out that decline of number of farms and that of small farms especially has continued between 2005 and 2010 more in EU 10 than EU 27 and more in case of farms with less than 2 ha (UAA) in EU 10. Decline was much higher in case of small farms run by managers over 65. Labor use also went back in small farms more in EU 10 than EU 27 and more in case of farms with UAA below 2 ha. Standard Output grew faster in EU 10 than EU 27, however concerning SO of small farms below 5 ha a higher declined was observed in EU 10 in compare with EU 27. Brief evaluation on effectiveness of CAP in 2006–2013 programming period and future policy towards small farms for 2014–2020 was also discussed.

Keywords: Small farms, rural development, Common Agricultural Policy, EU 10

INTRODUCTION

Issue of small farms has always been one of the key questions for EU and member states’ national policy makers the importance of which further increased by EU Eastward Enlargement. The latter has significantly changed both EU farm structure as well as smallholding sector, although, small farms are more stable in old member states than in new ones. EU 10, due to break up of previous dominating large farms, have entered into EU with a farm structure mostly dominated by small farms resulting in an increasing heterogeneity of EU agriculture.

In EU 10 farm structure show a strong dualistic face derived from transition period. The small farms and the largest ones gave significant share of Standard Output in most of EU 10 countries in the middle of the first decade of this century (Csaki, Forgacs, 2008). Small farms were in focus of the United Nations Year of Family Farming in 2014. EuroChoices, a periodical dealing with agri-food rural resource issues dedicated a full volume (EuroChoices, 2014) to small farm issue in the EU. Both documents reflect the importance of small farms as well as their need for further support and adequate policy measures helping them to maintain producing important public goods besides giving significant contribution to food supply and supporting rural communities in general and in EU in particular.

To define small farms it initiated some discussions among researchers in order to have a more clear understanding of this farm category. Hubbard (Hubbard, 2009) gives a good background to this debate and, underlines that the number of small farms had been expected quickly diminished in agriculture but it did not happen and, underlined that small farms have important economic, social and environmental role.

How to measure the weight of small farms, their economic activities, the influence of their contribution to Agricultural Output, protecting the environment and helping many families in the rural areas to survive is of great importance. Within small farms two categories are distinguished as Subsistence Farms (SFs) producing product for the family and probably relatives but not selling any of their produce on the market and, Semi-Subsistence Farms (SSFs) are those agricultural holdings where primary purpose of production is to supply the family with food, but part of the production, as surplus, is marketed mostly but not exclusively in local markets.

Two criteria are used for defining small farms by size. One is the size of land (Total Agricultural Land or Utilized Agricultural Area, UAA) the farms cultivate, although different countries use different threshold for small farms. Based
on land use those farms having less than 5 ha area are regarded as small farms. On the other side small farms can be also categorized according to the economic size by the Standard Output (SO, earlier by Standard Gross Margin, SGM). Those having less than EURO 2000 are named as very small farms and can be regarded as SFs and, those producing SO below EURO 8000 belong to small farm (SSFs) category (Davidova, 2014). The threshold of EURO 25000 is also used for categorizing small farms (http://epthinktank.eu/2014/04/24/small-farms). Another definition by which semi-subsistence farm is defined to be a farm consuming more than 50 % of their output. It is a very substantial group of 5.8 million farmers (48 % of all farms in the EU. (http://impact.ref.ac.uk/CaseStudies/CaseStudy.aspx?Id=544) In US statistics Small Farms, by definition, are those having less than $ 250,000 in annual income (http://smallfarms.cornell.edu/about/statistics-and-information-resources/), which is well above the EU threshold of small farms.

GENERAL APPROACH OF SMALL FARMS’ DEVELOPMENT

To have a deep insight into small farms’ performance and development EUROSTAT data set of 2005–2010 was used for analysis. Besides farms economic and area size labor use (Agricultural Work Unit, AWU) and age of small holders were covered. Besides that CAP policy towards small farms is also briefly discussed both for 2006–13 and 2014–2020 programming period.

In this paper, a small farm has been defined as one with either a surface of less than 5 hectares of UAA or with Standard Output (SO) of less than €25 000 but within the latter data analysis on farms below EUROs 2000 and that of below EUROs 8000 will be given, too. Statistics on small farms vary widely depending on whether economic (some 3 million farms and 20 million regular workers) or physical (more than 8 million farms and 16 million workers) criteria are used to define them. In 2010 67 % of all farms in the EU-27 have a surface of less than 5 hectares and together represent 6.8 % of the EU 27’s UAA. Farms with an output of less than € 25 000 represent 83.7 % of all EU farms, but their combined output of € 39.9 billion accounts for only 13 % of the economic output from all EU farms. In Romania, Bulgaria, Croatia, Portugal and in the majority of regions in Greece, more than 95 % of farms have an economic output of less than € 25 000. By contrast, less than 25 % of farms in 14 regions across the Netherlands, Belgium, Germany and France fall into this category.” (http://epthinktank.eu/2014/04/24/small-farms/)

CHANGE IN SIZE OF SMALL FARMS

In 2005 EU 27 had 172 million ha Utilized Agricultural Area (UAA) of which 47 million ha went to EU 10. Small farms with less than 5 ha plays important role in EU production potential cultivating 8.6 % of total UAA. Their presence in farming is even more important in CEECs by having a share of 19.5 % of UAA. Within EU 10 small farms are present in all EU 10 but 84.2 % of them support Romanian and Polish agricultural Standard Output.

A strong decline has taken place in UAA of small farms between 2005 and 2010. Total area of small farms of EU 10 declined by 23.3 % due to the decrease of number of smallholdings practically at the same rate. The larger extent of disappearing of small farms occurred in Czech Republic with a decline of 84.8 % followed by Slovakia (74.8 %). On the other end Slovenia practically could keep almost all small farms alive during this period (Figure 1). In Lithuania, Poland and Romania decrease of small farms below 5 ha did not reach 10 per cent. Smallholdings are concentrated in three EU 10 MSs. Romania, Poland and Hungary had 86 % of farms below 5 ha in 2010 mainly due to very slow disappearing rate of small farms in Romania and Poland. Average size of UAA per small farm varies between CEE countries with the highest figure of 3.2 ha in Poland in 2010 with an average above 2.3 ha in the three Baltics and Slovenia. However, the average size of holdings by area increased by 155 % in Slovakia, 19 % in Latvia, but not changing so much EU 10 average. Declining number of small farms was accompanied by a relative increase of smallholdings’ area size. In 2005 19.5 % of Total UAA in EU 10 was used by small farms of which 37 % by farms below 2 ha and 63 % by farms between 2–4.9 ha. However, the picture has changed and in 2010 only 14.5 % of total UAA in EU 10 was in the hand of small farms below 5 ha but the ratio between farms with 2 ha and that of farms with 2–4.9 ha did not change. In area size both category of small farms had the same extent of decline in land use.

Although, average of decline of small farms below 2 ha and 2 to 4.9 ha from 2005 to 2010 was the same both in EU 10 and EU 27 but behind the average rather diverse tendencies can be observed within EU 10. Number of small farms below 2 ha has increased in Lithuania (22.1 %), in Slovenia (13 %), did not change in Romania (0.4 %) but it declined by 86 % in Czech Republic and by 83.8 % in Slovakia. In small farms with UAA between 2 to 4.9 ha the number of farms have declined across EU 10 except in Slovakia (+11.3 %). In all three countries as Lithuania, Romania and Slovenia where number of farms below 2 ha has been increased or at least not decreased, the number of farms with 2 to 4.9 ha has declined. The decrease was the highest in Czech Republic (82.4 %) followed by Estonia (44.8 %), Latvia (41.2 %) and Romania (28.3 %). Part of small farms below 2 ha has increased their field and moved to small farm category of 2–4.9 ha e.g., in Poland and Slovakia, meanwhile decrease of small farms below 2 ha in Czech Republic probably were taken over by larger farms.

Farm size can also be analyzed by economic aspect using Standard Output (SO) indicator. In EU 27 farms produce altogether 286 billion EUROs Standard Output (SO) of which 14.8 % comes from EU 10. In 2005 SO of small farms below 5 ha in EU 27 accounted for 45.5 Billion EUROs (19.4 %), of which 26 % came from EU 10 (Figure 2). Small farms have significant share in contributing to national SO of CEECs. In 2005 in Romania, Bulgaria and Hungary small farms’ contribution to national SO amounted to 57.2 %, 42.2 % and 19.6 % respectively with a farm’s average of EURO 1969 in Bulgaria, EURO 1634 in Hungary and 1611 EURO in Romania. However, small farms show different dynamics within EU 10. The decline in contribution to SO between 2007 and 2010 is a general picture across EU 10. Looking at
the 2005–2010 contribution of small farms to SO in EU 10 it has been decreased by 22.1 % with a peak of decline in Latvia (65 %) followed by Czech Republic (59.4 %) and Estonia (56.5 %).

The average economic size of small farms less than 5 ha varies between EU 10 countries with 15,5 thousands EUROS in Czech Republic on one end reflecting the increased effectiveness of small farms and, 1103 EUROS in Latvia and 1512 EUROS in Romania supporting the household budget of 3,46 million households, on the other. After joining the EU decline of the number of small farms have been continuing in EU 10 reflecting that small farms could not compete on the market and, their input costs have increased very much becoming not affordable to run the farm any more but quit it in many cases.

The average SO per farm with less than 5 ha went up from 5377 EUROS in 2005 to 15511 EUROS in Czech Republic and from 1534 EUROS to 6609 in Slovakia. In EU 10 small farms achieved 10.8 % increase of average SO while practically it was unchanged in Romania. Number of small farms with zero ha is also significant in EU 10 (216 thousands in 2005 that went down to 201 thousands in 2010). Most of them are in Romania, Hungary and Bulgaria in 2005 with a decrease of 18.4 % in Hungary, 6.6 % in Bulgaria to 2010 with no significant decline in Romania.

LABOR USE IN SMALL FARMS

In 2005 as many as 12.7 million Agricultural Working Units (AWU) were used in EU 27 of which 6,2 million (49 %) belonged to EU 10. In 2005 majority of farms belonged to small farms category below 5 ha with a ratio of 82 %
in Bulgaria, 80% in Romania and 60.9% in Hungary. Although, the relative share of small farms declined in all three countries but still this farm category gave the majority of farms in 2010, too.

EU 10 agricultures, in average, offer more job opportunities for rural population than EU 27 average. However, agriculture sector offers less and less jobs for rural people over time reaching a decline of 23.2% in EU 27 and 29.2% in EU 10 during analyzed period. Within small farms AWU of farms below 2 ha (UAA) amounted to 2.47 million in 2005 and 1.56 million in 2010 in EU 10 (decrease by 36%). But more than two third of AWU used in small farms belonged to EU 10. However, the share of AWU used between farms below 2 ha and farms 2 to 4,9 ha do not indicate a homogenous picture in CEECs. In 2005 in five countries AWU used by farms below 2 ha exceeded that of farms with 2 to 4,9 ha in countries as Bulgaria, Hungary and Romania where number of very small farms had been traditionally high, but in addition, it was also the same in Czech Republic and Slovakia where large farms are the decisive sector in 2010. The more intensive labor use of farms below 2 ha maintained in 2010 in all 5 countries with a relative little decline in Bulgaria, more in Czech Republic, and even more in Slovakia, while slight increase in Hungary and a bit more in Romania can be observed. In Baltic countries and in Poland and Slovenia farms with 2 to 4,9 ha use more labor in 2005–2010 period than farms below 2 ha with strong increasing trend in Poland and Latvia and less in Estonia.

Small farms can contribute to generate more income for poor rural people. Based on a survey covering 660 households in Bulgaria, Hungary, Poland, Romania and Slovenia (SCARLED project) it was found the produce of SSFs has the potential to lift people out of the risk of poverty”. (Davidova and Bailey, 2014).
It can be concluded that between 2005 and 2010 small farms have absorbed significant labor of rural areas in EU 27 with a two third weight of it in EU 10. Small farms in many rural areas in CEECs offer the only possibility to work for older people and by this way also take social net function and the latter cannot be expected to be diminished in the near future.

**MANAGEMENT OF SMALL FARMS**

In this section attention is paid to change in number of small farms and its relation to farm manager’s age and labor use (AWU). In 2005 number of small farms below 5 ha accounted for 10,1 millions in EU 27 (69.4 % of total farms) and 6,9 million (80.3 %) in EU 10 having a share in total EU 27 farms as high as 68.5 %. These figures went down to 8,1 million (80.1 %) in EU 27 and with a sharper decline to 5,3 million (76.6 %) in EU 10. Share of farms of CEECs with land below 5 ha dropped from 80.3 % in 2005 to 76.6 % in 2010. Although, small farms play an important role in all EU 10 countries, however, their share from total holdings is differ significantly. Close to or over 80 % of farms are small ones in Bulgaria, Hungary, Romania and Slovakia. Some 50 % or less of farms regarded as small ones below 5 ha in Lithuania, Czech Republic, Latvia and Estonia in 2005. In line with decline of small farms of EU 27 it is the same in EU 10 countries in general with an exception of Lithuania (51.3 % to 58.6 %), Romania (87.8 % to 89.6 %) and in Slovenia (59.3 % to 60.5 %). The decline of small farms below 5 ha was higher in EU 10 (23.4 %) than in EU 27 (19.9 %). But within EU 10 farms with 2 to 4,9 had a higher decline than in case of small farms below 2 ha, while it was the opposite in EU 27. The two countries where decrease of farms between 2005 and 2010 were the highest in EU 10 are Slovakia (64.3 %) followed by Czech Republic (45.9 %) and it was the same in case of small farms as well. Small farms below 2 ha did not decrease in Romania and even increased in Slovenia (13 %). In case of farms with 2 to 4,9 ha the number of farms was increased in Slovakia only (11.3 %) and went down in all other CEE Ms.

In EU 10 number of farms run by manager below 35 declined from 454 thousands in 2005 to 408 thousands (10.8 % decrease) in 2010 accompanied a more severe decline of small farms with managers over 65 from 2.46 millions to 1.79 millions (27.2 %). Share of small farms run by younger managers amounted to 8.8 % in EU 10 above the EU 27 average (7.5%). The highest share of small farms below 5 ha run by young managers goes to Poland but surprisingly it is also high in Czech Republic (11.7 %). Older managers run 33.7 % of small farms in EU 10 that went down to 30.1 % in 2010. In 2005 especially higher share of small farms were managed by farmers over 65 Romania (42.6 %) and in Bulgaria (41.4 %) meanwhile it was relatively low in Poland (16.9 %) and in Czech Republic (16.7%). 87.1 % of small farms run by manager over 65 belongs to small farm category with less than 5 ha in 2005 and it went slightly up to 88.2 % in 2010. There are two exceptions within EU 10 as Czech Republic and Latvia where this share is rather low 19.9 % and 38.8 % respectively. Data show explicitly, speed of quitting farming among old farmers (over 65) is well above that of younger farmers. It can be expected this trend will be continued and that is why it is important that more young farmers should take over the farms of older managers and it should be supported by CAP policy. The sector faces a demographic challenge – a shortage of young farmers – that can question its long-term sustainability. Farming, due to limited access to land, credit and poor rural infrastructure keeps young farms away from agriculture. CAP policy has to deal with more helping young people to enter farming.

**POLICY LEARNING FROM 2006–2013 PROGRAMMING PERIOD**

According to analysis of 2005–2010 period it can be concluded that number of small farms below 5 ha declined significantly in EU 27 (19.9 %) but faster in EU 10 (23.4 %). From year to year less and less jobs are offered by agriculture across European Union. The decline is significant among older managers but young managers also cannot save their position in small farms. This phenomena generates the picture that policy measures did not provide enough help or were not adequate to small farms. Concerning the supports of Small and SSFs Thomson, J (Thomson, 2014) emphasizes the influence of CAP on small farms and especially on SSFs depending on how the measures influence these producers and their output with incomes. Small and SSFs benefit from CAP market support and direct payments (Pillar I) and measures related to Rural Development Programs (Pillar II) with variation of minimum size level between different countries. Pillar II offers greater potential for SSFs and SSFs but farms themselves also have to invest administrative costs how to access successfully to direct payments. Measure 141 supported SSFs implementing restructuring and be more commercialized but finally it became to be social (income support) rather than commercialization and reached results below the expected level. The thresholds for different Pillar II funds excluded most of SSFs and SSFs and preferred large size farms. Thompson concluded “…the current CAP is unlikely to be efficient set of measures for the various problems facing small and SSFs” (Thomson, 2014). Supports available for small farms varied significantly between EU 10. Budget allocated under Pillar I market regulation and support has proved to become more social rather than helping small farms to be up taken and be more commercialized. Pillar II also offers better chance for large farms to access support than for small ones. Reason of exclusion was either the threshold set up or indirect discouragement of small farms related to different obstacles. It was also pointed out that significant part of supports went to large farms rather than small ones in Hungary (Elek et al., 2008).

As far as the integration of small farms into modern food chains is concerned there are spaces for them to increase selling. The Protected Designation of Origin (PDO) and Protected Geographical Indication (PGI) help small producers to be more successful in marketing their products. However, the number of protected products under these schemes is not high especially not in EU 10. The poor knowledge of small producers of PDO/PGI is also preventing them to explore the possibilities. (Gordon, et al. 2014). However, the quality, quantity of products and cooperation skills and ability of
farmers with consumers may be an obstacle in this field. In some countries small producers do their best to shorten food chain and selling the products directly to final consumers including only one intermediary in the food chain. Selling fruits and vegetables at the roads is a common picture in many MSs during summer time. Local markets are of another option where producers can meet consumer once or twice a week and sell their products. In such markets in certain cases a strong cooperation between farms and consumers can be developed but it is not common at all.

FUTURE POLICY ON SUPPORTING SMALL FARMS

It is question how much policy makers learned from previous programming period about the effectiveness of support to small farms and how new measures will help to slow down the elimination of small farms where not all functions can be taken over by new land owners (especially large farms).

Briefly but not comprehensively it is shown what policy tools and measures will be used in programming period 2014-2020 and a judgment on how much extent the new measures will be more effective in the future in compare with that of previous programming period (2006–2013.) will be given.

The question is: what CAP can offer for small farms in 2013–2020 periods? Pillar I and market management can slightly increase the scope for supporting small farms but its extent depends on MSs decision. However, the area base direct payments give more financial help to large farms than small ones. Depending on fixing thresholds of eligibility and transaction costs or risk discourage small farms to apply, “... a fixed rate per year on an eligible area of up to 3 ha or up to 25 per cent of the national average payment per beneficiary, and between EURO 500 and EURO 1250 (minimum EURO 250 for Cyprus and Malta) would replace all other Pillar I payments, and participants will be exempt from greening and cross-compliance.” (Dwyer, 2014). The “redistributive” payment gives more to small farms in those countries of lower shares of very smallholdings. Under the new Small Farmers Scheme a fixed, lump-sum payment is offered practically for entire 7 years. Pillar II brings significant new measures supporting small farms. Under ‘good practice’ in rural development policy the followings are included: A. more tailored packages of measures with eligibility criteria being more attractive for small farms including six strategic goals with fewer but flexible instruments. B. Increased emphasis and support for capacity building, training, advice, co-operation and empowerment. C. Designing features seeking to lower transaction costs of participation and to reduce financial risk for small farmers. However, effectiveness of new CAP in helping small and SSFs very much depends on society’s views about current value and future importance and developments of the farms. (Janet Dwyer, 2014)

At last, success of CAP in 2013–2020 very much depends on implementation. Earlier European Network for Rural Development (ENRD) was established with aims of involving all stakeholders (governmental and non-governmental) into a policy dialogue and an effective and efficient delivery of the policy. ENRD does its best helping small farms to be able to deliver environmental services and finding the ways they can be integrated into markets through short supply chains generating benefits of networking for all involved, where knowledge transfer, information actions, advisory services and co-operation activities should be tailored to small farms’ needs (Rabinowitz, 2014). Integration of smallholdings into modern food chain was also discussed by Forgacs. (Forgacs, 2006) underlining the points where small farms have to improve their technology and supply enabling them to be more integrated into food chains.

Based on experiences of previous programming period direct payments are to be distributed in a more fair way between Member States, regions and farmers, giving an end to ‘historical references’ approach. Any farmer claiming support may decide to participate in the Small Farmers Scheme and receive an annual payment fixed by the Member State of between 500 € and 1 250 € – that will be optional for MS. MS will also have the possibility to design thematic sub-programmes to pay small farmers business start-up aid up to € 15 000 per within Rural Development measures. (http://epthinktank.eu/2014/02/15/future-of-small-farms/).

New policy tools and measures focusing on support to smallholdings will give more freedom to National Member States. Although, CAP of 2020 is intend to increase support to small farms and probably will happen so during implementation but it is a question how much extent of declining of small farms can be slowed down by new tools and measures. The main question is: does the new CAP policy take into account the special position of small farms in creating values for society in contributing to food supply, producing public goods and contribution to a more balanced rural development? Development of small farms in 2005–2010 periods raises the question what future these farms have to face. Why to be worried about small farms? This is an important question and two points should be underlined in this context: 1. Small farms are poor and they need support; 2. Small farms provide the population with important environmental benefits (Rabinowitz, 2014a).

Probably this question can be answered easier if the real losses of a possible disappearing of small farms would be more completely calculated.

CONCLUSIONS

Decline of number of farms and that of small farms especially has continued between 2005 and 2010 but has been more significant in EU 10 than EU 27 and affected more farms with less than 2 ha (UAA) in EU 10.

Decline was much higher of small farms run by managers over 65 giving a continuing warning to the need to give more support to young farmers for start-up farming and taking over farms from older generation.
Labor use went back in small farms more in EU 10 than EU 27 and more in case of farms with UAA below 2 ha offering less job opportunities for rural people that is an obstacle to generate more income for people living in less developed areas.

Standard Output grew faster in EU 10 than EU 27, however in case of small farms below 5 ha a higher declined was observed in EU 10 than in EU 27.

The sharper decline of number of small farms in EU 10 in compare with EU 27 is a strong pressure on EU 10 agriculture for maintaining a more balanced rural development in CEECs.

CAP provided more support to small farms in 2006–2013 programming period but tools and measures used have been proved not satisfactory or adequate.

Future policy towards small farms for 2014–2020 is based on experience of previous programming period and, it reduces the administrative burden of small farms to access support, and offers more flexible tools and measures to smallholdings, however, the effectiveness of the latter depends on MSs.

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