Defining the Concept of "Genuine Farmer" under the Common Agricultural Policy after 2020

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Summary

The European Commission Draft Regulation on Common Agricultural Policy 2021-2027, proposes that the concept of "genuine farmers" shall be defined so as to ensure that no support is granted to those whose agricultural activity forms only an insignificant part of their overall economic activities or whose principal business activity is not agricultural, while not precluding from support pluri-active farmers. The Commission proposal has sparked debate among Member States, since defining the concept of "genuine farmer" is the basis for receiving support. The aim of the research was to determine the opinion of agricultural representatives regarding the definition of "genuine farmer". Consequently, agricultural representatives of various agricultural associations from the Republic of Croatia were interviewed in two phases. In the first phase, agricultural representatives were examined within a focus group under the project "CAP for You" funded by the European Commission. In the second phase, agricultural representatives from the Croatian Chamber of Agriculture were asked to write their own definition of "genuine farmer". The results showed that the majority of these representatives considered "genuine farmer" one whose primary business activity is agriculture.

Key words

genuine farmer, active farmer, common agricultural policy, income tax, income test, labour, primary activity, pluri-active farmer

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Introduction

Under the proposed Regulation for a new Common Agricultural Policy (CAP), pursuant to Article 4., Member States (MS) should define in their CAP Strategic Plans which farmers are not considered "genuine farmers" based on conditions such as income tests, labour inputs on the farm, company object and inclusion in registers (European Commission, 2018a). In the CAP Strategic Plans, each MS will need to decide which farmers will not be considered as "genuine farmers" and whether to keep the support for pluri-active farmers (or part-time farmers) (European Commission, 2018a). The new definition will provide a scope for eligibility of support under the CAP and ensure that it is targeted to those who are actively engaged in a farming activity in order to earn their living (European Commission, 2017). The CAP has a multifunctional role in EU agriculture and a responsibility not only for production but also for environmental protection and rural development (Pupo D'Andrea and Lironcurti, 2017).

The definition of "genuine farmer" has continued a strong discussion among farmers, Member States (MS) and European institutions, especially on whether the definition will be mandatory for MS or whether there will rather be a provision that targets support to genuine farmers and is optional for MS.

The last change to the definition of "active farmer" was performed in 2018 (European Commission, 2018b) under the current programming period 2014-2020. Due to administrative burden and costs, more than half of MS in 2018 decided to stop implementing the negative list of activities pursuant to Article 9 of Regulation 1307/2013 such as *airports, railway services, waterworks, real estate services, permanent sport and recreational ground* (European Commission, 2018b; Official Journal of the European Union, 2013).

Belgium, Bulgaria, Croatia, Ireland, Malta, Romania, Spain, Slovenia and UK-Wales continued to apply the principle of the negative list (European Commission, 2018b). Pursuant to Article 25 of Law on Agriculture, Croatia decided that the negative list should not apply to natural or legal persons who received less than EUR 5,000 in direct payments, if active farmers could prove that the annual amount of direct payments received in the previous fiscal year was at least 5% of the total receipts from non-agricultural activities, at least 1/3 of the farmer's income came from agricultural activity or that agriculture was registered as their main activity in the relevant register (Official Gazette of the Republic of Croatia, 2018).

The new CAP 2021-2027 gives more room for the environmental and climate protection. Moreover, the importance of the multifunctional role of agriculture, especially regarding the environment, is also seen in the European Green Deal (European Commission, 2019; European Commission, 2020b) and in Farm to Fork strategy (European Commission, 2020a) that is directly connected to the agri-sector. All of these changes to the CAP scope could bring about a change in the performance of farm activities and the profile of farmers who will have access to support.

Whether the Regulation will provide MS with the flexibility to voluntarily decide on the definition in their respective Strategic plans or set up a mandatory scope that will apply in all MS, it is necessary to have an open public consultation with stakeholders (European Commission, 2020c), in order to ensure that the definition will target the right beneficiaries of income support.

Therefore, the aim of the research is to determine the position of agricultural representatives on the definition of "genuine farmer".

Materials and Methods

Choice of the Focus Group Samples

The research was divided in two phases. The first phase was conducted with focus groups (Krueger and Casey 2015; Nyumba et al., 2018) where 51 farm representatives received a questionnaire on CAP in general. One of the open questions concerned active farmers. Farmers were divided into focus groups, each consisting of 6 to 10 representatives (Rabiee, 2004). The selection was made by means of a public tender in order to ensure that the representatives would have an understanding of the sector. All of the respondents needed to be entered in the national Farmers Register of the Paying Agency for Agriculture, Fisheries and Rural Development (PAAFRD), leaders of national farm associations who expressed their interest in writing, stating the reasons why they would like to attend the workshop and expressing an interest in a discussion on CAP. A committee consisting of representatives from the PAAFRD, University of Agriculture, Ministry of Agriculture and Croatian Chamber of Agriculture selected respondents in order to ensure that the focus groups would consist of relevant stakeholders.

The second phase was conducted with the sectorial comittees of the national farm organisation Croatian Chamber of Agriculture (2020) where members, after the presentation of the Commission's proposal on the new CAP, held by the Ministry of Agriculture, were requested to write down who might be eligible to be considered as a genuine farmer. Each focus group consisted of 6 to 10 farm representatives regularly involved in policy activities in the sector and entered in the national Farmers Register (Paying Agency for Agriculture, Fisheries and Rural Development, 2019).

In both phases of focus groups, a total of 87 farm representatives gave their opinion on the definition of "genuine farmer". The results were compared with the current legal framework at national and EU levels and proposals by farm representatives from other Member States and by EU institutions.

Table 1. Results from the Phase 1. focus groups (51 respondents)

Possible requirement	Answers %
Income test	23
Labour	18
Income tax	16
Primary activity	39
Pluri-active farmers	33

Processing and Data Analysis

At the beginning of the focus group activities, representatives received a presentation on the current definition, definition proposal and information collected from Copa-Cogeca. During the focus group discussions, representatives were asked to write down keywords on how they perceived a "genuine farmer" following the EC proposal. The same method was used during the second phase. Respondents were able to write down any key words they considered relevant. Upon collecting responses from both phases, the answers were processed and put into a table. The structure followed the main proposals for criteria as made by EU institutions and organisations (Table 5), such as:

- Income test - certain percentage/level of income that must come from farming.
- Taxation rules - agricultural production as a subject of taxation
- Primary activity - principal business activity is agricultural.
- Labour input - those who have a minimum labour input going into agricultural production and farmers that pay health and pension insurance from agriculture.
- Pluri - active farmers - actively farming, but also engaged in non-agricultural activities outside their farm, as their multiple activities often strengthen the socioeconomic fabric of rural areas (Official Journal of the European Union, 2019).

Table 2. Results from the Phase 2. focus groups (36 respondents)

Possible requirement	Answers %
Income test	19
Labour	36
Income tax	25
Primary activity	36
Pluri-active farmers	27

Results and Discussion

Croatian Farmers' Opinion on "Genuine Farmer"

The most common proposal for a definition in the first phase (Table 1) with the focus groups was that "genuine farmer" was one whose primary activity is agriculture (39%) or pluri-active farmer (33%), pays all obligations such as health and pension insurance for labour (18%), income tax (16%) and has income test (23%). The results from the second phase (Table 2) showed that the majority were in favour of classifying the "genuine farmer" as the one whose primary activity is agriculture (36%) or pluri-active farmer (27%), pays all obligations such as pension and insurance on labour (36%), income tax (25%) and has income tests (19%). The Commission proposes that a "genuine farmer" is not one whose principal business activity is not agriculture, while not precluding from support pluri-active farmers. If the definition of "genuine farmer" covered only those whose primary activity is agriculture, that could automatically mean the obligation to pay tax, health and pension insurance. The average monthly gross earnings per person employed in a legal entity in the Republic of Croatia amounted to HRK 9,188.00, which makes up the amount of HRK 110,256.00 per annum (Croatian Bureau of Statistics, 2020). By entering the income tax system, a physical or legal entity assumes the obligation to pay contributions for pension insurance (pillars I and II) and health insurance. Therefore, if the amount pursuant to Article 29 of Income Tax Act exceeds HRK 80,500.00, a person is obliged to pay income tax (Official Gazette of the Republic of Croatia, 2020). Currently, according to the data as presented in Table 3. from the Ministry of Finance and Tax Administration, only 22,342 farmers pay income tax and 19,213 farmers pay pension insurance (Croatian Pension Insurance Institute, 2020).

Table 3. Income tax insurance in Croatia

Structure	Number of insurances
Family farms	14,641
Crafts and trades	4,045
Companies	3,656
Total	22,342

Source: Ministry of Finance Tax Administration (2020)

Data on NKD (National Classification of Activities) 2007 - Crop and animal production, hunting and related service activities show that there are 41540 (Croatian Pension Insurance Institute, 2020) insurances. 2455 employers in the agricultural sector are exempt from the payment of contributions to salary up to five years due to financial relief for persons up to 30 years of age. The EC proposes that they be also included in the register. There are currently 170,662 entities in the national Farmers Register (Table 4) out of which 110,418 applied for the support. The results from the focus groups show a large gap between those who are receiving support and those who are included in the tax and insurance register. If the results obtained from the focus groups regarding the criteria of primary activity in agriculture, tax or labour were to be applied as obligatory, 80% of the farmers form Croatia, who are current support beneficiaries would not meet the requirements. Therefore, it is important to continue with broader research for the purpose of a clear revision of the profile of the 80% of farmers who are receiving support but are not primary producers and do not have any tax obligations or employees in agriculture. The discussion on the definition of "active farmer" in the period 2014-2020 (Official Journal of the European Union, 2013) has displayed the complexity and sensitivity of such a definition. The objective was to concentrate support on persons, natural or legal, for which the agricultural activity is not marginal (Anania and Pupo D'Andrea 2015). The intention was to cut off from direct payments companies whose primary activity was not agriculture (Erjavec and Erjavec, 2015). Some groups suggested that a new definition should be created in relation to a certain percentage of agricultural income. Another group stood against a common definition and proposed to leave the definition voluntary to MS (Jambor, 2012) due to fear of unequal treatment between farmers (Krzyzanowski, 2013).

Table 4. Register of farmers - number of agricultural holdings

Family Total	Crafts and trades	Self-sufficient farm	Company	Cooperative	Others	Grand Total	Applied for direct payments
162,966	2,251	2,032	2,846	362	205	170,662	110,418

Source: Paying Agency for Agriculture, Fisheries and Rural Development (2019)

The goal was to improve targeting of direct payments to the intended beneficiaries (Matthews, 2012). According to Table 5., the EC and EP would like to make mandatory what is currently an option for MS (Matthews, 2020) to target income support to those farmers who depend on farming to earn their living by excluding those whose agricultural activity is an insignificant part of their overall economic activities. One of the amendments proposed by Czech, German, French (European parliament, 2020a) members of the EP was that "active farmers" are engaging in at least a minimum level of agricultural activity and providing public goods in accordance with the objectives of the CAP Strategic Plan.

The group would like to preserve the family farming model of the Union but also where a holding that benefits from CAP payments is part of a larger, primarily non-agricultural structure, this must be transparent. They also suggested that, when formulating the definition, MS should apply, on the basis of objective and non-discriminatory criteria, one or more elements such as income tests, labour inputs on the farm, company object, minimum agricultural activity criteria, the appropriate experience, training and/or skills and/or inclusion of their agricultural activities in national registers.

Table 5. Positions of the EU institutions on the concept of "genuine" farmer" under Article 4

European Commision	(d) '*genuine* farmers' shall be defined *in* a way to ensure that no support is granted to those whose agricultural activity forms only an insignificant part of their overall economic activities *or whose principal business activity is not agricultural*, while not precluding from support pluri-active farmers. **The definition shall *allow to determine which farmers are not considered genuine farmers, based on conditions such as income tests, labour inputs on the farm, company object and/or inclusion in registers*.**
Council of the European Union	d) Member States may determine in their CAP Strategic Plans which farmers shall be considered as 'genuine farmers' according to objective and non-discriminatory criteria. In case Member States consider as genuine farmers those farmers who did not receive direct payments exceeding a certain amount for the previous year, such an amount shall not be higher than EUR 5 000.
European Parliament	(d) '*active* farmers' shall be defined *by Member States in such* a way *as* to ensure that no support is granted to those whose agricultural activity *forms* only an insignificant part of their overall economic activities, while not precluding from support **pluri-active farmers**. The definition shall, *in any event, preserve the family farming model of the Union of an individual or group nature, irrespective of its size, and may take into account, if necessary, the special features of the regions defined in Article 349 TFEU. Member States may exclude from these definition individuals or companies carrying out large scale processing of agricultural produces, with the exception of groups of* farmers.
Copa-Cogeca	(d) 'active farmers' shall be defined by Member States in such a way as to ensure that support is only granted to farmers who contribute to an agricultural activity or provide public goods in line with the CAP Strategic plans objectives, while contributing to an agricultural production, employment and take into account applicable conditionality requirements. The definition shall also ensure that no support is granted to those whose agricultural activity forms only an insignificant part of their overall economic activities, while not precluding from support pluri-active farmers. The definition shall, in any event, preserve the family farming model of the Union of an individual or group nature, irrespective of its size, and may take into account, if necessary, the special features of the regions defined in Article 349 TFEU. Member States shall list active farmers in their national fiscal or social security register or other relevant register and chose one or more of the following methods to define the active farmer, based on the conditions specific to that Member State (in duly justified cases Member states are also allowed to use other methods to define the active farmer than the conditions mentioned below): Income test – MS shall designate a certain percentage/level of income that must come from farming. This calculation must be based on an average over several consecutive years, not on one individual year. Taxation rules – MS shall consider as active farmers those whose agricultural production is subject to taxation. Turnover threshold – MS shall designate a minimum turnover that must come from agricultural production. Minimum agricultural activity – MS shall consider as active farmers those who can demonstrate that they carry out a minimum level of farming activity, e.g. having a minimum stocking density or a minimum area of land under tillage. Investment in agricultural production – MS shall consider as active farmers those who dedicate a minimum amount of investment to the development of their agricultural production, with the exclusion of purchase of land. Introduction of a business plan – MS shall consider as active farmers those who assume the risks inherent to their agricultural production and those who present a business plan, laying out the development of their agricultural business. The minimum requirements for this business plan may be similar to those prescribed for young farmers, as laid out in Article 69(3). Scale of business – MS shall consider as active farmer those above or below a defined threshold of eligible hectares for direct payment support. Labour input – MS shall consider as active farmer those who have a minimum labour input going into agricultural production. Additional national measures – MS shall introduce measures to guarantee that direct payments are dedicated to active farmers only.

Source: (European Commission, 2018a), Council of the European Union (2020a), (Council of the European Union (2020b), (European parliament, 2020b), Copa-Cogeca (2020)

The Croatian Presidency proposed that MS determine in their CAP Strategic Plans which farmer should be considered as a "genuine farmer" according to the objective of non-discriminatory criteria. In the case that MS consider as "genuine farmers" those farmers who did not receive payments exceeding a certain amount for the previous year, such an amount should not be higher than 5,000 euros. These definitions were supported by the majority in the Council in October 2020 (Council of the European Union, 2020a). Croatia did not give priority to family farmers like the EP which proposed a definition that shall, in any event, preserve the family farming model of the Union of an individual or group nature, irrespective of its size, and may take into account, if necessary, the special features of the regions.

At the European level, the main farmer organisation Copa-Cogeca (2020) suggested an amendment to the concept of "genuine farmer". 40 organisations from 27 MS offered their positions on the concept of "genuine farmer". They proposed that the voluntary definition should, in any event, preserve the family farming model of the EU. The decision should be made while taking into account income test, taxation rules, turnover threshold, minimum agricultural activity, minimum amount of investment, business plan, labour input, scale of business or additional national measures.

Conclusion

The aim of the research was to determine the opinion of agricultural representatives regarding the definition of "genuine farmer". The research confirmed the complexity in defining the genuine farmer and the fact that the opinions of farmers are often contrary to the real situation in different national registers. If the definition becomes mandatory for MS, as the Commission proposed, Croatia will need to define what constitutes the insignificant part of overall economic activities and the principal business activity, and also who can be a pluri-active farmer. Conditions such as income tests, tax and labour inputs on the farm could bring about changes in the structure of current users, since the majority of registered farms that are receiving support are not in these records. Croatia should work on the revision of the Farmers Register in order to make sure that the distribution of the budget is able to meet new CAP goals. Even farmers often think that CAP support is only for production, but the CAP supports three pillars of sustainability: economic, environmental and social. Therefore, the concept of "genuine farmer" will need to take into account the impact in all three sustainability dimensions, as well as a high priority of family farms which constitute the majority in Croatia.

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