

Special Report

## Is the Commission's system for performance measurement in relation to farmers' incomes well designed and based on sound data?



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**Special Report****Is the Commission's system for performance measurement in relation to farmers' incomes well designed and based on sound data?**

(pursuant to Article 287(4), second subparagraph, TFEU)

The ECA's special reports set out the results of its performance and compliance audits of specific budgetary areas or management topics. The ECA selects and designs these audit tasks to be of maximum impact by considering the risks to performance or compliance, the level of income or spending involved, forthcoming developments and political and public interest.

This performance audit was produced by Audit Chamber I — headed by ECA Member Augustyn Kubik — which specialises in preservation and management of natural resources spending areas. The audit was led by ECA Member Rasa Budbergytė, supported by the head of her private office, Tomas Mackevičius, and Maura McElhinney, attaché; Helder Faria Viegas, principal manager; Sven Kölling and Blanka Happach, core team; Ramona Bortnowschi, Els Brems, Antonio Caruda Ruiz, Vincent Ly-Sunnaram, Ioannis Papadakis, Maciej Szymura and Bertrand Tanguy, auditors.



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## **Reply of the Commission**

**CAP:** common agricultural policy

**CMEF:** common monitoring and evaluation framework

**EAA:** economic accounts for agriculture

**EAGF:** European Agricultural Guarantee Fund

**EAFRD:** European Agricultural Fund for Rural Development

**EU-SILC:** European Union statistics on income and living conditions

**FADN:** farm accountancy data network

**FSS:** farm structure survey

**OECD:** Organisation for Economic Cooperation and Development

**TFEU:** Treaty on the Functioning of the European Union

**Agricultural entrepreneurial income:** income generated by agricultural activities after deduction of the costs for employees, interest for borrowing capital and rents for land. It can be used to reward own production factors belonging to the holding (own work, own capital and owned land).

**Agricultural factor income:** income received from the factors employed in agricultural production (land, labour and capital). It is calculated by subtracting the value of intermediate consumption, the consumption of fixed capital (depreciation) and production taxes from the value of agricultural output at basic prices and adding the value of (other) subsidies on production. It does not as a general rule include income from other sources (non-agricultural activities, salaries, social benefits, income from property).

**Agricultural holding:** unit with a single management, which carries out agricultural activities within the territory of the EU, either as its primary or secondary activity. A farmer can have several agricultural holdings.

**Decoupling:** process of separation of direct aid payments from agricultural production.

**Disposable farm household income:** total income from all sources less taxes and mandatory social insurance contributions.

**Depreciation:** loss in value of an asset due to ageing or use.

**EAA:** economic accounts for agriculture, a basic tool for analysing the economic situation of a country's agriculture. They are a satellite account of the national accounts.

**Evaluation:** the periodic collection and analysis of evidence to form conclusions on the effectiveness and efficiency of 'interventions'. Interventions are judged on the basis of results and impacts at the level of the addressees of the policy.

**FADN:** farm accountancy data network, an instrument for evaluating the income and business activities of commercial agricultural holdings and the impacts of the common agricultural policy. It is based on the accounts data of a sample of more than 80 000 agricultural holdings across all EU Member States.

**Farmer:** an individual whose holding is situated within the territory of the EU and who exercises an independent agricultural activity.

**Farm net value added:** indicator of the FADN, which describes the total production value of an agricultural holding plus direct payments minus intermediate consumption and depreciation. This is the amount available to pay for all fixed production factors of an agricultural holding (land, labour and capital).

**Farm net income:** indicator of the FADN, which describes the amount available to remunerate the holding's own production factors. It is calculated by deducting wages, rent and interest paid by the holder from farm net value added.

**Family farm income:** indicator of the FADN which describes the income from agriculture in holdings with unremunerated family workers, i.e. the farmer and members of his/her family.

**Farm household income:** income of households from an independent activity in agriculture and from non-agricultural activities. Agriculture may not be the main source of income.



**Indicator:** A measurable variable that provides useful information that helps assessing the degree to which an objective has been met.

**Intermediate consumption:** the value of the goods and services consumed in the course of a production process (does not include depreciation).

**(Public) Intervention:** an 'operation', 'measure', programme or project carried out by or funded by a public authority.

**Monitoring:** the regular examination of the resources, outputs and results of 'interventions'.

**National accounts:** national accounts provide information about the structure of the economy and the development of the economic situation of each Member State.

**Satellite accounts:** accounts drawn up on the basis of the national accounts to provide complementary information and concepts adapted to the particular nature of an economic sector, for example agriculture.

**Standard output:** monetary value of gross production of agricultural holdings at farm-gate prices. The standard value is determined corresponding to the average situation in a given region.

**2003 reform:** the CAP reform, which introduced the decoupling of direct aid from agricultural production and made payments conditional upon compliance with basic standards concerning the maintenance of land, the environment, food safety, animal and plant health and animal welfare (known as cross-compliance).

**2013 reform:** the CAP reform for the 2014-2020 period. It aims to achieve a more balanced distribution of the available support and to reward farmers for sustainable farming practices via a specific 'greening payment'. It also intends to improve the market orientation of EU agriculture, while providing a safety net to defend farmers against external uncertainties, and to further support rural development in the Member States.

**I**  
The incomes and standard of living of farmers are a particular focus of the treaty and the 2013 reform of the common agricultural policy (CAP). Almost one third of the EU budget is still directly or indirectly dedicated to supporting farmers' incomes and thus contributing to ensuring a fair standard of living for farmers.

**II**  
The new framework for the monitoring and evaluation of the CAP requires the Commission to assess the combined impact of CAP measures in relation to the stated objectives. This requires not only clearly defined objectives, targets and indicators but also sufficient and good-quality statistical information on the economic situation of agriculture and on farmers' incomes.

**III**  
This report assesses whether the Commission's performance measurement in relation to farmers' incomes is well designed and based on sound data. The Court examined whether the Commission clearly established the statistical data needed, whether these data were of appropriate quality and whether the Commission defined relevant indicators.

**IV**  
The Court concludes that the Commission's system for measuring the performance of the CAP in relation to farmers' incomes is not sufficiently well designed and the quantity and quality of statistical data used to analyse farmers' incomes has significant limitations.

**V**  
The Commission has not clearly established the statistical data needed to effectively assess the performance of CAP measures in support of farmers' incomes. No representative data are available on the disposable income of farm households, which would facilitate assessing the achievement of the treaty objective of ensuring a fair standard of living for farmers. Furthermore, there is no reliable system to allow comparisons to be made between agricultural incomes and those in other sectors of the economy, which could justify EU income support for farmers.

**VI**  
The main tools currently available at EU level for measuring farmers' incomes are the economic accounts for agriculture (EAAs) and the farm accountancy data network (FADN). The EAAs are the Commission's main statistical source for monitoring farmers' incomes globally at macroeconomic level. However, their potential has not yet been fully used and they are not sufficiently informative about important factors that are relevant for farmers' incomes, as well as for the economic value of agriculture as a whole. The FADN is an important instrument for the evaluation of the CAP but it has limitations, because it covers only commercial holdings and income information is incomplete.

### VII

The Commission and Member States did not always ensure that the data used for the measurement of farmers' incomes were of appropriate quality. For both the EAAs and the FADN, the Court found weaknesses in the management by the Commission and the Member States. In addition, quality assurance procedures for the EAAs are not yet fully effective, while the audit identified certain weaknesses in the quality assurance arrangements for the FADN.

### VIII

Vague objectives of certain CAP measures and the absence of a baseline make it difficult to assess whether individual CAP measures aimed at the support of farmers' incomes have achieved their objectives. The Commission has also not defined relevant indicators for an effective performance measurement. The indicators on which the Commission has to build its assessment are not sufficiently reliable or are not linked clearly enough to CAP measures and, as such, are not useful to show whether they contributed effectively and efficiently towards the desired effects and reduced income disparities.

### IX

In respect of statistical data on farmers' incomes, the Court recommends that the Commission:

- (a) develop a more comprehensive framework for providing information on disposable income and for comparing farmers' incomes with incomes in other sectors of the economy;
- (b) further develop the EAAs so that their potential can be better used;
- (c) ensure that the analysis of farmers' incomes is based on indicators taking account of the current situation of agriculture and on sufficient and consistent data for all beneficiaries of CAP measures — this could be done by developing synergies between existing administrative data or by developing the FADN or other suitable statistical tools;
- (d) enhance the present quality assurance arrangements for the EAAs and the FADN statistics established by the Member States.

### X

With regard to the measurement of the performance of CAP measures aimed at supporting farmers' incomes, the Court recommends that, for the next programming period, the Commission define from the outset appropriate operational objectives and baselines against which the performance of the CAP measures can be compared, complement in the context of its evaluations the current framework of performance indicators with other relevant and good-quality data to measure the results achieved and assess the effectiveness and efficiency of the measures designed to support farmers' incomes.

## General objectives of the CAP and of the 2013 reform in relation to farmers' incomes

### 01

According to the treaty<sup>1</sup>, the objectives of the CAP include increasing agricultural productivity 'thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture'. The 2013 CAP reform<sup>2</sup> also focused on agricultural income, in the context of the objective of viable food production, thus contributing to ensuring a fair standard of living for farmers<sup>3</sup>.

### 02

CAP measures are financed by the EU budget through the European Agricultural Guarantee Fund (EAGF or 'Pillar 1') and the European Agricultural Fund for Rural Development (EAFRD or 'Pillar 2'). Under the current multiannual financial framework, between 2014 and 2020 up to 277 billion euro (29 % of the total EU budget) will be spent from the EAGF for direct payments to farmers and for market support in specific agricultural sectors<sup>4</sup>.

## The objectives of measures financed by the EAGF in relation to farmers' incomes

### 03

The 2003 CAP reform shifted the emphasis from production support (so-called decoupling) and introduced a system of income support that was largely based on the aid levels received by individual farmers during a reference period. The 2013 reform further detached the payments from their historical context, while gradually moving towards more uniform payments per hectare across all EU Member States. It also restructured direct payments, which, as of 2015, are broken down into a basic per-hectare payment for all farmers, a 'greening payment' by which farmers are rewarded for specific agricultural practices considered beneficial for the climate and the environment and a payment for young farmers. Within certain limits, Member States have significant leeway and can further target payments in order to address specific policy concerns<sup>5</sup>.

- 1 Article 39(1)(a) and (b) of the Treaty on the Functioning of the European Union (TFEU) (OJ L 326, 26.10.2012, p. 47). Other CAP objectives laid down in Article 39 are (c) to stabilise markets, (d) to assure the availability of supplies and (e) to ensure that supplies reach consumers at reasonable prices.
- 2 Article 110 (2) of Regulation (EU) No 1306/2013 of the European Parliament and of the Council of 17 December 2013 on the financing, management and monitoring of the common agricultural policy and repealing Council Regulations (EEC) No 352/78, (EC) No 165/94, (EC) No 2799/98, (EC) No 814/2000, (EC) No 1290/2005 and (EC) No 485/2008 (OJ L 347, 20.12.2013, p. 549).
- 3 See also preamble to Regulation (EU) No 1308/2013 of the European Parliament and of the Council of 17 December 2013 establishing a common organisation of the markets in agricultural products and repealing Council Regulations (EEC) No 922/72, (EEC) No 234/79, (EC) No 1037/2001 and (EC) No 1234/2007 (OJ L 347, 20.12.2013, p. 671).
- 4 Council Regulation (EU, Euratom) No 1311/2013 of 2 December 2013 laying down the multiannual financial framework for the years 2014-2020 (OJ L 347, 20.12.2013, p. 884).
- 5 For an overview of the options chosen by Member States see **Annex I**.

## Introduction

### 04

Although they are not particularly clearly stated in the regulation<sup>6</sup>, the Commission considers certain policy elements to be specifically related to supporting farmers' incomes, in particular direct payments. These payments intend to help keep farming in place throughout the territory of the EU by supporting and stabilising farmers' incomes, thereby ensuring the longer-term economic viability of farms and making them less vulnerable to price fluctuations. In addition, by making full payments conditional upon respecting basic standards (known as cross-compliance) and by applying the specific 'greening' component, these payments should also help ensure that agriculture provides public goods for society.

### 05

Although financially the most important, direct payments are not the only instrument that affects farmers' incomes. At EU level, they are accompanied by rural development<sup>7</sup> measures and a set of market and promotion measures which aim at specific agricultural sectors. The Commission may also intervene in specific markets in times of crisis by opening limited access to public or private intervention storage, which influences market prices and thus farmers' incomes.

### Farmers' incomes, the income of farm households and standard of living

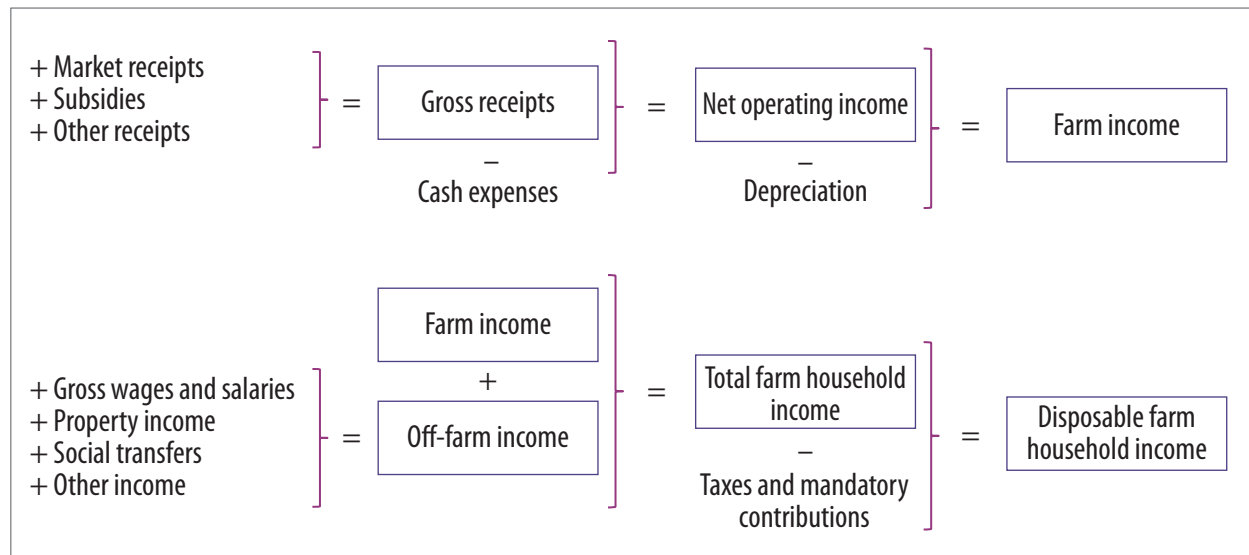
### 06

Family farming is the most common farming model in the EU, with the vast majority of agricultural holdings still managed as individual holdings<sup>8</sup>. Such holdings are typically characterised by the extensive use of family labour. The income situation of this type of farm household is displayed in the **Figure**. EU legislation has never defined the concepts of 'agricultural community', a 'fair standard of living' or 'earnings' mentioned in the treaty, but the disposable income of the farm household is a key element for assessing the standard of living<sup>9</sup>.

- 6 Regulation (EU) No 1307/2013 of the European Parliament and of the Council of 17 December 2013 establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy and repealing Council Regulation (EC) No 637/2008 and Council Regulation (EC) No 73/2009 (OJ L 347 of 20.12.2013, p. 608).
- 7 Such as investment measures or payments to farmers in areas facing natural or other specific constraints.
- 8 The term 'family farm' is used to refer to any farm under family management where 50% or more of the regular agricultural labour force is provided by family workers. According to Eurostat, in 2010 97% of the agricultural holdings in the EU were managed by individual holders.
- 9 See paragraphs 64 and 65 of Special Report No 14/2003 on the measurement of farm incomes by the Commission Article 33(1)(b) of the EC Treaty (OJ C 45, 20.2.2004, p. 1).

Figure

## Components of farm household income



Source: OECD (2003).

## The Commission's data sources for incomes in agriculture

### 07

The Commission has to define the necessary statistical framework to measure farmers' incomes, while Member States should provide the Commission with all the information necessary for monitoring and evaluation of the measures concerned. As far as possible, the information needed should be based on established sources of data<sup>10</sup>.

### 08

The Commission's principal source of general data about the agricultural population is the **farm structure survey (FSS)**<sup>11</sup>, which collects data on the agricultural situation across the EU for monitoring trends and transitions in the structure of European agricultural holdings. It is not designed to collect data on agricultural income of farmers or on EU support financed by the EAGF.

10 Article 110(4) of Regulation (EU) No 1306/2013.

11 Regulation (EC) No 1166/2008 of the European Parliament and of the Council of 19 November 2008 on farm structure surveys and the survey on agricultural production methods and repealing Council Regulation (EEC) No 571/88 (OJ L 321, 1.12.2008, p. 14). The last EU-wide FSS in the form of an agricultural census took place in 2010. The next sample survey is planned for 2016.

## Introduction

### 09

The Commission uses two main statistical instruments to monitor economic activities and income from agriculture and certain farm-related business activities:

- the **economic accounts for agriculture (EAAs)**, a basic tool for analysing the macroeconomic situation of a country's agricultural sector and changes in agricultural income;
- the **farm accountancy data network (FADN)**, a microeconomic tool whose objective is to assess incomes and business activities of commercial agricultural holdings.

### 10

The EAAs are a satellite account of the European System of Accounts (ESA 95), which provide additional information and employ concepts suited to the agricultural sector<sup>12</sup>. They follow a specific methodology and are compiled using specific rules and methods<sup>13</sup>. For larger Member States, the EAAs are subdivided into regional accounts. Data collection and aggregation at national level is entirely financed by the Member States, and national statistical institutes or ministries of agriculture are responsible for data collection and the calculation of national EAAs. The Commission (Eurostat) is responsible for establishing the methodology and aggregating the data at EU level.

### 11

The FADN is designed to estimate the income of commercial agricultural holdings as a business unit, whose production value, measured in standard output, exceeds a certain threshold of what is considered to cover the largest possible share of agricultural output, agricultural area and agricultural labour of those holdings run with a market orientation<sup>14</sup>. It is the only harmonised source of economic data on agricultural holdings at EU level<sup>15</sup> and is managed by the Commission's DG Agriculture and Rural Development. As it is based on national accountancy data networks, the Member States finance data collection but the Commission pays a standard fee per holding for the data received from Member States<sup>16</sup>. Currently, national liaison agencies (public or private bodies) collect data from more than 80 000 agricultural holdings across all Member States. Participation in the survey is voluntary. Data are used by the Commission and many other stakeholders, including Member States.

- 12 Regulation (EC) No 138/2004 of the European Parliament and of the Council of 5 December 2003 on the economic accounts for agriculture in the Community (OJ L 33, 5.2.2004, p. 1).
- 13 The calculation of agricultural income under the EAAs is shown in **Annex II**.
- 14 The calculation of income under the FADN is shown in **Annex III**. A holding is not identical to a farm household and it is possible that one farmer manages several agricultural holdings.
- 15 Council Regulation (EC) No 1217/2009 of 30 November 2009 setting up a network for the collection of accountancy data on the incomes and business operation of agricultural holdings in the European Union (OJ L 328, 15.12.2009, p. 27).
- 16 For the accounting years from 2010 to 2014 the Commission has so far paid 51.4 million euro in standard fees.

## Performance measurement of CAP measures in relation to agricultural income

### 12

Each CAP measure must be monitored and evaluated in order to improve its quality and demonstrate its achievements<sup>17</sup>. The performance measurement of CAP measures in relation to agricultural income is based in large part on the information contained in the EAAs and the FADN, which therefore must be sufficient and of good quality.

### 13

By 31 December 2018, the Commission has to present the initial report on the implementation of monitoring and evaluation, including the first results of the performance of the CAP for 2014-2020. A second report including an assessment of the performance of the CAP shall be presented by 31 December 2021.

### 14

With the 2013 CAP reform, the common monitoring and evaluation framework (CMEF), already applied for the EAFRD, was also applied to measures financed from the EAGF<sup>18</sup>. In order to fulfil its responsibility of monitoring and evaluation of the measures financed by the EAGF the Commission must establish what information is necessary and draw up a multiannual evaluation plan. Member States should ensure that such data are of good quality and available in a timely manner.

### 15

The CMEF is based on standard indicators in order to make a comprehensive and regular assessment of the progress, effectiveness and efficiency of the measures against objectives. The Commission has established a set of indicators<sup>19</sup> to describe the implementation of the CAP instruments (**output indicators**), to measure what results are achieved (**result indicators**) and to show what impact they have on the achievement of the general objectives of the CAP (**impact indicators**)<sup>20</sup>.

17 See also recital 68 of Regulation (EU) No 1306/2013.

18 Article 110 of Regulation (EU) No 1306/2013.

19 Commission Implementing Regulation (EU) No 834/2014 of 22 July 2014 laying down rules for the application of the common monitoring and evaluation framework of the common agricultural policy (OJ L 230, 1.8.2014, p. 1).

20 For details see **Annex IV**.



## Previous Court audits

### 16

The Court audited the Commission's measurement of farmers' incomes in 2002<sup>21</sup>. This audit concluded that the EU statistical instruments did not provide sufficiently exhaustive information on the disposable incomes of farm households and did not allow an assessment of the living standard of the agricultural community to be made.

### 17

In its annual report for the financial year 2007, the Court observed, with regard to the measurement of farmers' incomes, that the Commission had taken a number of initiatives regarding the EAAs and the FADN<sup>22</sup>. However, the Court considered that more complete statistics and indicators were indispensable in order to follow more closely the performance of the CAP of which more than two thirds of the budgetary resources were devoted to income support.

21 Special Report No 14/2003.

22 Annual report concerning the financial year 2007 paragraph 5.66 (OJ C 286, 10.11.2008, p. 1).

## 18

The monitoring and evaluation of the CAP requires good-quality information on the economic situation of agriculture and farmers' incomes. The most significant risk is not having sound statistical information and relevant indicators at European level. More specifically, there is a risk that the indicators and criteria for measuring farmers' incomes may not be properly defined or that appropriate data may not be available or not be of sufficient quality.

## 19

The aim of this audit was to examine the Commission's tools for measuring farmers' incomes and its use of income-related data for assessing the performance of CAP measures aimed at viable food production and supporting the income of farmers. In this context the Court also reviewed the common performance indicators which the Commission recently defined for direct payments and other measures financed by the EAGF in relation to specific CAP objectives<sup>23</sup>. It was not the purpose of this audit to evaluate the CMEF as such or to express an overall opinion on the functioning of the Member States' statistical systems.

## 20

The overall audit question was:

**'Is the Commission's system for measuring the performance of the CAP in relation to farmers' incomes well designed and based on sound data?'**

More specifically, the audit aimed to answer the following questions.

- Has the Commission clearly established what statistical data are needed for the effective performance assessment of CAP measures in support of farmers' incomes?
- Did the Commission and Member States ensure that the data used for the measurement of farmers' incomes are of appropriate quality?
- Did the Commission define relevant indicators allowing for the effective performance assessment of CAP measures in support of farmers' incomes?

<sup>23</sup> For the performance measurement of the measures financed from the EAFRD see Special Report No 12/2013, 'Can the Commission and Member States show that the EU budget allocated to the rural development policy is well spent?' (<http://eca.europa.eu>)

## Audit scope and approach

### 21

The Court established its audit criteria on the basis of the provisions in the treaty<sup>24</sup> and the regulations in force<sup>25</sup>.

### 22

Audit visits were carried out at the Commission and in six Member States<sup>26</sup>. Together, these Member States account for more than 50 % of the gross value added of European agriculture and farmers in these Member States receive more than 50 % of the EU budget for agriculture, primarily in the form of direct payments.

### 23

At the level of the Commission, the Court audited whether procedures ensured that the compilation of the EAAs and the management of the FADN were in line with the quality requirements of the framework for the development, production and dissemination of European statistics laid down in the Eurostat code of practice<sup>27</sup>. In the Member States visited, the Court reviewed the procedures in place for data collection and quality assurance in respect of both the EAAs and the FADN. The purpose of the visits to Member States was also to identify good practice in terms of measurement of farmers' incomes. Audit evidence was collected and examined against the audit criteria by means of interviews and the analysis of documents and data. In addition, the Court conducted a survey in all 28 Member States regarding the implementation of the EAAs and the FADN.

### 24

The Court also carried out a desk review and analysis of the Commission's performance management framework with regard to the objectives and performance indicators in relation to farmers' incomes. In this analysis as well as in the audit of the FADN system the Court was assisted by two external experts.

24 Article 39 TFEU.

25 Regulation (EC) No 138/2004 of the European Parliament and of the Council of 5 December 2003 on the economic accounts for agriculture in the Community (OJ L 33, 5.2.2004, p. 1) and Council Regulation (EC) No 1217/2009 of 30 November 2009 setting up a network for the collection of accountancy data on the incomes and business operation of agricultural holdings in the European Community (OJ L 328, 15.12.2009, p. 27), Regulation (EC) No 223/2009 of the European Parliament and of the Council of 11 March 2009 on European statistics and repealing Regulation (EC, Euratom) No 1101/2008 of the European Parliament and of the Council on the transmission of data subject to statistical confidentiality to the Statistical Office of the European Communities, Council Regulation (EC) No 322/97 on community statistics and Council Decision 89/382/EEC, Euratom establishing a Committee on the Statistical Programmes of the European Communities (OJ L 87, 31.3.2009, p. 164) and Regulation (EU) No 1306/2013.

26 Germany, Spain, France, the Netherlands, Poland and Romania.

27 See **Annex V**.

## The Commission has not yet established a comprehensive set of data for assessing the performance of CAP measures in relation to farmers' incomes

### 25

To address the issue of whether the Commission has clearly established the statistical data needed, the Court considered whether information on all relevant aspects of farmers' incomes is obtained, whether the EAAs capture sufficient macroeconomic data on farmers' incomes and whether the FADN includes sufficient income data at the level of individual farmers.

## The Commission still lacks information on farmers' incomes at EU level

## There is no representative data on the disposable incomes of farm households

### 26

Disposable income of farm households includes receipts from sales of agricultural products, subsidies, other receipts (farm-related income)<sup>28</sup> and other income<sup>29</sup>. Disposable income is a key element for assessing the standard of living of farmers, one of the main objectives of the treaty.

### 27

A statistical framework to provide information on the disposable income of farmers and their households has not been developed at EU level. This is despite the fact that available information points to the growing significance of incomes that are not related to agricultural activity. The Commission conducted two feasibility studies on the collection of such data<sup>30</sup>, the evaluation of which was part of the Commission's statistical programme 2008-2012<sup>31</sup>. However, the Commission has so far neither carried out such evaluation, nor taken any other action to improve its knowledge of disposable farm household income.

### 28

Data on the disposable income and living conditions of households in general, including farm households, are available through the EU statistics on income and living conditions (EU-SILC)<sup>32</sup>. The number of farm households included in this survey is, however, generally too small to draw valid conclusions on the incomes and living conditions of the farmers.

- 28 Income from other gainful activities carried out using farm resources.
- 29 Income from outside sources, such as wages or salaries from other activities of the farmer or family members.
- 30 Statistics Sweden, *Feasibility study on collection of off-farm income data and data on other income, 2006*; AgraCeas, *Feasibility study on the implementation of income of agricultural households sector (IAHS) statistics, 2007*.
- 31 Decision No 1578/2007/EC of the European Parliament and of the Council of 11 December 2007 on the Community statistical programme 2008 to 2012 (OJ L 344, 28.12.2007, p. 15).
- 32 Regulation (EC) No 1177/2003 of the European Parliament and of the Council of 16 June 2003 concerning Community statistics on income and living conditions (EU-SILC) (OJ L 165, 3.7.2003, p. 1).

## 29

Furthermore, farm household income data are only specifically collected in 10 Member States. In addition, the approaches to collecting such information and the level of detail obtained vary significantly across these Member States (see **Box 1**). This variability of approaches limits the conclusions that can be drawn on the incomes and standard of living of farmers.

## Box 1

### Farm household income statistics prepared by individual Member States

Data on the income of farm households are currently collected in Bulgaria, Denmark, Spain, France, the Netherlands, Austria, Poland, Finland, Sweden and the United Kingdom (England). However, there is no common definition of 'farm households' and methodologies applied vary. In the Netherlands, information on household income is available for more than half of the farms in the FADN sample (2013). In France, the authorities use the FADN data together with information from tax registers to calculate the income of farm households. In Poland, the EU-SILC survey is used and FADN respondents are asked to provide additional information about the income of their households on a voluntary basis. Bulgaria, Spain and Finland use only the EU-SILC survey, which contains a comparatively small number of farm households.

### There is no adequate reference system for comparing farmers' incomes to those in other sectors of the economy

## 30

It is important to compare farmers' incomes to incomes in other sectors of the economy or with the income of specific socioeconomic groups that are comparable to farmers in order to determine to what extent they may be disadvantaged and why EU income support is needed or important for the viability of the holdings.

## 31

According to the Commission, available statistics indicate that farmers' incomes are still significantly below the average income in the total economy<sup>33</sup>. However, this conclusion is based on comparing incomes which are computed on different bases and are therefore difficult to compare<sup>34</sup>. Such comparison requires careful interpretation to avoid the risk of inaccurate conclusions as to whether and, if so, the extent to which farmers' incomes are lower than those in other sectors of the economy.

33 SEC(2011) 1153 final/2 of 20 October 2011, 'Commission impact assessment — Common agricultural policy towards 2020', p. 18. According to the Commission, the level of income in the agricultural sector remains below 50% of the average salary in the total economy.

34 In its annual activity reports the Commission compares the agricultural factor income per agricultural working unit with the EU gross domestic product per capita. Another comparison used by the Commission is between agricultural entrepreneurial income per unpaid worker and gross wages and salaries per full-time equivalent in the rest of the economy.

### 32

Farm sizes and the income levels of the farming population vary significantly, as does the diversity of holdings. The averages used by the Commission to compare incomes per farm size, farm type and region in the FADN do not always demonstrate the extent to which certain groups of farmers are disadvantaged compared to others. As a result, these averages cannot be used to help determine whether the CAP measures to support farmers' incomes help to reduce income disparities.

**The EAAs are an important tool for monitoring the economic situation of agriculture but they have inherent limitations for assessing CAP measures**

**The Commission has not further developed the EAAs in order to better use their potential**

### 33

The Commission has to date not adapted the EAAs to the new standards for national accounts<sup>35</sup> and has not used the full potential of the EAAs by developing them further to provide information on the role of imports, developments in demand for agricultural products (domestic or foreign), supply to the food industry, final consumption by households, special treatment of agriculture in the tax systems or use for non-food purposes such as production of bioenergy. All these elements are, however, important factors that impact farmers' incomes.

### 34

The EAAs are not designed to help analyse the dependency of specific sectors on subsidies and their importance for viable farming in the regions, for specific types of production or for specific socioeconomic groups of farmers. The role of subsidies is only shown as an aggregate which includes both EU and national support granted to farmers. This limits the EAAs' usefulness in providing a basis for the analysis of the effectiveness and the efficiency of CAP measures in relation to farmers' incomes.

35 Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union (ESA 2010) (OJ L 174, 26.6.2013, p. 1).

**35**

Information on land prices and rents is not only important for the calculation of farmers' incomes but also for the assessment of the impact of CAP measures, because land is the main production factor for agriculture. Moreover, direct payments are mostly related to agricultural land, which can have an influence on land prices and thus on the efficiency and effectiveness of the support<sup>36</sup>. To date, there is no legal basis in EU legislation that would ensure the regular collection of data on land prices and rents in all Member States and of comparable quality. In spite of some efforts by Eurostat to gather suitable data, the available data are incomplete and do not follow a common methodology. This also affects the accuracy of the data reported in the EAAs<sup>37</sup>.

**36**

The EAAs show income results for each Member State as a whole but not at regional level. Member States provide additional regional income data only on a voluntary basis, but these are not available for all relevant Member State regions and, where available, are provided only with a significant delay of 2 years. This reduces the usefulness of the results for assessing the regional income situation in agriculture.

**37**

By definition, the EAAs measure, at the macroeconomic level, economic performance and growth as a result of market activities and their evolution over time. They do not account for public goods provided by farmers to society. The provision of such public goods is an important specific objective of measures such as the 'greening payment', which accounts for 30% of the EU direct payments. It emphasises the multifunctional role of agriculture, while also contributing to the income of farmers. The extent to which agriculture produces public goods and its evaluation by society may, however, vary significantly across regions and Member States. So far, the Commission has not considered developing the EAAs further or established any other instrument to measure the economic value of public goods produced by the agricultural sector as a whole.

36 See paragraph 97 of Special Report No 5/2011, 'Single Payment Scheme (SPS): Issues to be addressed to improve its sound financial management', and paragraph 74 of Special Report No 16/2012, 'The effectiveness of the Single Area Payment Scheme as a transitional system for supporting farmers in the new Member States' (<http://eca.europa.eu>).

37 See paragraph 56.

## The use of certain EAA information by the Commission can be improved

### 38

The EAAs are designed to provide information on changes in the income of the agricultural sector as a whole, rather than on absolute income levels, the income of individual agricultural holdings or of households employed in agriculture. As such, they are not designed for drawing detailed conclusions at a microeconomic level such as on the economic viability of individual holdings and the standard of living of farm households. Nevertheless, in its annual activity reports and its annual statistical and economic information reports, the Commission uses EAA information at micro level by employing comparisons of the agricultural factor income per worker<sup>38</sup> in absolute values as a key performance indicator. However, the EAAs are not expressly designed to provide data on absolute income levels or on the income levels of individual farmers.

### 39

The Commission uses the indicator 'agricultural entrepreneurial income'<sup>39</sup> as a proxy for 'family farm income'<sup>40</sup> and considers it to be the closest indicator for the standard of living of the farmers. However, this assumption no longer reflects the reality of agriculture in the EU, because the farming population varies significantly across Member States and no longer contains only individual ('family') holdings managed by sole proprietors who receive no payment for their work but also a significant share of legal entities or group holdings, which almost exclusively use paid labour<sup>41</sup>. The latter are often conventional companies (e.g. investors buying large land tracts for intensive farming), as in other sectors of the economy. EAA income results can thus not clearly be attributed to 'family farms' and cannot be taken as a proxy for the income or standard of living of individual farmers. As the share of individual holdings across Member States also varies significantly, income results, as provided by the EAAs, are not comparable between Member States<sup>42</sup>.

38 Agricultural factor income represents income generated by farming which is used to remunerate borrowed or rented production factors (capital, wages and land rents), and own production factors (own labour, capital and land).

39 This is the remuneration for the work performed by the farmer plus the income remaining after deduction of the costs for salaried labour and provides information on trends in the development of agricultural income of independent farm businesses.

40 See *Annex III*.

41 According to the FSS 2010, legal entities farmed 27% of the EU's agricultural area. The share increased significantly with the 2004 and 2007 enlargements of the EU.

42 See also point 5.12 of Annex I of Regulation (EC) No 138/2004.



### The FADN is a well-established source of income and business information on commercial agricultural holdings but it has limitations

#### 40

The FADN aims to collect representative accounts data on commercial agricultural holdings<sup>43</sup>. It can provide important and useful information about the business performance of agricultural holdings per agricultural sector and size class. It is thus a primary source of information for the evaluation of the performance of CAP measures<sup>44</sup>.

#### 41

Following the Court's Special Report No 14/2003, the Commission, in cooperation with the Member States' liaison agencies, has been developing the FADN methodology to take account of the evolution of the agricultural sector. It has also taken steps to bring the FADN results closer to international accounting and financial reporting standards.

### Income indicators do not fully take account of the evolution of holdings in the agricultural sector

#### 42

The main income indicator of the FADN is '**farm net value added**'. It is useful for comparing the income performance of farms irrespective of their organisational form. As it does not take into account the costs of external production factors (e.g. land rent or bank interest), which many farmers have to bear, it cannot provide sufficient information about the actual agricultural income of farmers or the profitability of the holdings.

#### 43

Historically, the FADN was designed to provide information on 'family farms', and an important indicator used is the '**farm net income per family work unit**' for holdings which use the labour and capital of the holders and their families. It is calculated only for holdings for which unremunerated family labour has been recorded. However, companies owned by single holders or a group of holders set up for tax purposes, which are similar to family farms in all but legal form, are excluded, because they do not have unremunerated labour. Such structures are however frequent in many Member States, notably in Germany, Spain and France, and their exclusion is likely to distort the results<sup>45</sup>.

43 Holdings which exceed a minimum economic size.

44 The Commission's evaluation of income effects of direct support and the impact assessment for 'Common agricultural policy towards 2020', both of which the Commission conducted in 2011, are essentially based on FADN data.

45 In Spain more than 30% of the agricultural area is farmed by legal entities, many of them set up for tax purposes. In France legal entities and group holdings farm 58% of the agricultural area and in Germany more than one third.

## Observations

### 44

Furthermore, there is no separate income indicator for farms organised as conventional companies, although such legal entities play a major role in the agricultural sector in many Member States.

### Information about other farm-related incomes of farmers is incomplete

### 45

Revenue from financial investments, capital transfers and the favourable effects of taxation on agricultural income can significantly impact the income and financial situation of a holding and its ability to react to market forces. The current FADN methodology does not, however, take such effects into account.

### 46

Many farmers also use the resources of their holdings to engage in gainful activities other than primary agricultural production or otherwise diversify their business activities to increase their income. Examples of such farm-related activities are the processing of food on farms, the direct sale of products, providing services using agricultural equipment, the production of renewable energy and agri-tourism. Such activities provide additional income, reduce income volatility and make farmers less dependent on subsidies.

### Picture

### Renewable energy can provide additional sources of income to farmers



© European Union 2008. Source: EC Audiovisual Service.  
Photo: L. Chamussy

## 47

More detailed information on other farm-related incomes has been collected only since 2014<sup>46</sup>. However, this information is included only where revenue and costs cannot be separated from agricultural activities in the holdings' accounts. Information remains incomplete, because in other cases it is not included, for example when such an activity is managed in separate business units belonging to the farmer. Data collected are also not representative, because such holdings are currently under-represented in the FADN sample and, due to differences in accounting treatment, the data are not comparable across Member States (see **Box 2**). Consequently, there is an incomplete picture of farmers' actual farm-related business activities and the role which additional sources of revenue play in the stabilisation of their overall income.

46 Commission Implementing Regulation (EU) No 385/2012 of 30 April 2012 on the farm return to be used for determining the incomes of agricultural holdings and analysing the business operation of such holdings (OJ L 127, 15.5.2012, p. 1).

## Box 2

**Inconsistent treatment of other farm-related incomes of farmers**

According to the 2010 FSS, more than 30% of the holdings in Germany declared that they had business activities outside agriculture. The governing element for the classification of the income in the FADN is however the national tax law, according to which operating revenues which do not come from primary agricultural production are only considered to be agricultural income within narrow limits. If these limits are exceeded, the revenue is not recorded in the FADN. Many holdings operate biogas plants and produce and sell electricity to the national grid. As this revenue is classified as 'non-agricultural', it is not considered to be directly related to the holding and does not appear in the FADN results.

In France, income from other gainful activities related to the farm such as the processing of agricultural products, agricultural services, renting out land or buildings (including rental income for the installation of wind energy plants or solar panels and sale of electricity) are included only as long as they are performed by the same holding and as long as the revenue from such activities does not exceed a certain amount<sup>47</sup>. Otherwise, it is not included in the FADN. In both cases the FADN only incompletely reflects the actual level of diversification.

In the Netherlands, a good practice was noted whereby data collection on other gainful activities allows for a better assessment of the income situation of farmers. According to the Dutch 2012 FADN results, holdings which had other gainful activities beside primary agricultural production received an average of 51 000 euro from these activities.

47 As a rule 30% of the holding's annual turnover or 50 000 euro, whichever is the lower.

## The FADN is not designed to be representative of CAP beneficiaries

### 48

The survey underpinning the FADN is designed to represent the largest possible share of agricultural output, agricultural area and farm labour for these holdings. For this purpose, all holdings are classified on the basis of a standardised output value, which reflects in general terms the value of their agricultural production. However, the minimum standard output threshold varies between Member States, as does the coverage of the total farming population and beneficiaries of EU support (see **Table**).

### 49

While the approach used is justified from the Member States' point of view, because the economic size of holdings varies significantly across the EU, this limits FADN-based comparisons of income across Member States. As an example, for a holding with a standard output of 10 000 euro per year in Spain, no comparable data are available in Germany, France or the Netherlands, because such holdings are not included in the survey. As a consequence, harmonised information across the EU is only available for those holdings which exceed the threshold of 25 000 euro annual standard output<sup>48</sup>. Comparisons of average income per worker across all holdings included in the FADN can thus lead to misinterpretation about the income situation of farmers across Member States.

### 50

The FADN was set up to observe incomes and business operations of agricultural holdings. However, the selection of holdings does not take into account if they are beneficiaries of EU support. This can mean that sufficiently representative information is not available on the effects of specific EU support measures and the income of specific groups such as young farmers<sup>49</sup>. Moreover, direct payments are not only paid to commercial farmers but also to a significant number of part-time or subsistence farmers who are outside the FADN's scope. The Commission has little knowledge of the income and production activities of such smaller holdings, which range from 12% of the beneficiaries of EU direct payments in Bulgaria to 79% in Slovakia<sup>50</sup>. This limits the conclusions that can be drawn from the FADN results regarding the overall effects of the support measures on different holding categories<sup>51</sup>.

48 This is the threshold currently applied by Germany, France (Continental), Luxembourg, the Netherlands, Slovakia and the United Kingdom (England, Scotland and Wales).

49 This applies also to measures financed by the EAFRD. According to the Court's survey, Denmark, Germany, Lithuania and the Netherlands already specifically include organic farms. Germany, Hungary and Lithuania also pay specific attention to legal entities which produce a significant part of their agricultural output. Austria specifically selects mountain farms. Italy significantly extends the FADN sample to obtain more accurate data on the impact of rural development measures.

50 See the **Table**.

51 In the Czech Republic, Denmark, Germany and Greece, the number of beneficiaries of direct payments was even higher than the number of holdings surveyed in the FSS, because the thresholds for inclusion in the FSS mostly exclude the smaller holdings which have no, or only very little, output. As a consequence, for a significant number of beneficiaries receiving payments from the EU budget, not only is there no data about their income, but also no structural data.

Table

## Coverage of farming population and CAP beneficiaries by FADN

Member State	Holdings in FSS 2010	National FADN threshold (in euro SO)	Percentage of FSS holdings represented by FADN	Percentage of CAP beneficiaries not represented by FADN
Belgium	42 850	25 000	72 %	30 %
Bulgaria	370 500	2 000	31 %	12 %
Czech Republic	22 870	8 000	65 %	39 %
Denmark	42 120	15 000	68 %	51 %
Germany	299 150	25 000	65 %	47 %
Ireland	139 900	8 000	74 %	36 %
Greece	723 010	4 000	44 %	no information
Spain	989 810	4 000	53 %	61 %
Estonia	19 620	4 000	41 %	55 %
France	516 110	25 000 <sup>1</sup> 15 000 <sup>2</sup>	57 %	28 %
Italy	1 620 900	8 000	49 %	38 %
Cyprus	38 860	4 000	26 %	no information
Latvia	83 400	4 000	26 %	67 %
Lithuania	199 930	4 000	27 %	69 %
Luxembourg	2 210	25 000	73 %	20 %
Hungary	576 840	4 000	18 %	45 %
Malta	12 540	4 000	24 %	37 %
Netherlands	72 320	25 000	71 %	25 %
Austria	150 160	8 000	62 %	26 %
Poland	1 506 620	4 000	48 %	50 %
Portugal	305 260	4 000	36 %	53 %
Romania	3 859 030	2 000	27 %	no information
Slovenia	74 640	4 000	54 %	33 %
Slovakia	24 460	25 000	18 %	79 %
Finland	63 880	8 000	61 %	38 %
Sweden	71 100	15 000	39 %	57 %
United Kingdom	186 650	25 000 <sup>3</sup> 15 000 <sup>4</sup>	50 %	50 %
<b>EU-27</b>	<b>12 014 740</b>			

1 Continental France

2 Guadeloupe, Martinique and La Réunion

3 Except Northern Ireland

4 Northern Ireland

Source: ECA on the basis of Commission and survey data.

### 51

In addition, information on EU support from the EAGF is not surveyed in the FSS and only a few Member States have a unique holding identification number which would make it possible to link FSS and FADN data with administrative data such as those from the integrated administration and control system on support payments and areas farmed. Such a link would allow information on EU income support to be combined with data on agricultural structures and land use. This would also help to better understand the factors determining farmers' incomes and also reduce the administrative burden on the respondents.

### **The Commission and Member States did not always ensure that available data on farmers' incomes were of an appropriate quality**

### 52

The treaty establishes the basic principles for European statistics, which should be impartial, reliable, objective, scientifically independent, cost-effective and confidential<sup>52</sup>. The principles are further elaborated in the European statistics code of practice adhered to by both the Member States and the Commission. Its implementation is facilitated by a quality assurance framework. However, neither the code of practice nor the quality assurance framework is mandatory. The specific criteria applying to the quality of the statistical information produced are set out in **Annex V**.

### 53

To assess whether the data on farmers' incomes were sound, the Court audited the arrangements in place to ensure inter alia the quality of the statistical data from the EAAs and the FADN, as provided in the European statistics code of practice.

52 Article 338(2) TFEU.

### **There were weaknesses in the Commission's management of the EAAs ...**

#### **The Commission had insufficient up-to-date information about the methodology and data sources that the Member States use for compiling the EAAs**

##### **54**

The information about EAA methodology and data sources (known as 'inventories') provided to the Commission by Member States varied significantly in terms of detail and quality and had not been updated since 2006, while for three Member States no such inventories were available. In all six Member States visited, procedures and data sources for material items varied significantly and no longer matched the description in the inventories. As a result, the Commission cannot verify whether statistical information submitted by Member States is sufficiently harmonised and comparable and its capacity to establish recommendations and develop guidelines in order to improve the overall quality of statistical information is reduced.

##### **55**

The main EAA indicators compare agricultural income at the level of the labour input of the persons employed in agriculture (expressed in agricultural working units)<sup>53</sup>. Any change to or inaccuracy in the labour input calculations impacts the income per person employed and can thus significantly affect the income results and their interpretation. Eurostat had insufficient up-to-date information about the methodologies used by Member States, which reduced its ability to assess the accuracy and comparability of the information received. Moreover, working hours laid down by Member States varied between 1 600 annual hours in France and 2 120 hours in Poland, which also affected the comparability of the results.

53 Calculated by dividing the global income by the total number of persons who work in agriculture either as salaried workers or as independent farmers.

### The reporting of agricultural income to Eurostat was affected by shortcomings ...

#### 56

The Court found various instances where data disclosed in the EAAs were not sufficiently accurate or comparable, which substantially affected the calculation of the income disclosed in the EAAs. For example, inconsistencies were found in accounting for certain products such as wine and olive oil, rents for agricultural land, the disclosure of certain non-agricultural activities, accounting for subsidies and the calculation of the agricultural entrepreneurial income (see **Box 3**).

#### Box 3

#### Examples of shortcomings in the calculation of agricultural income

In Poland, the statistical office included in the EAAs only the estimate of the rents which farmers paid for state-owned land, which did not include the value of land leased from private landowners, as this is not known by the authorities. Based on the FADN results, the Court estimates that such land, however, covers around 61 % of the rented agricultural area in Poland. Similarly, in Romania, the statistical office included only data on the value of land leased by farm companies but not by individual farmers.

Many holdings are engaged in the processing of agricultural goods such as production of cheese, forestry products, logging or agri-tourism. The value of such activities has to be included in the EAAs, if they are inseparable from the agricultural activities. However, for many Member States no data on the value of such activities are available.

In Romania, the statistical office recorded area-related subsidies in the year when they were paid to the farmers (cash based). According to the applicable standards, the subsidies should have been recorded for the year when the farmer introduced the aid application (accrual principle).

In France, data on fees for specific forms of tenant farming ('fermage') paid to owner shareholders were outdated and not correctly taken into account for the calculation of the agricultural entrepreneurial income. This form of farming covers more than half of the agricultural area utilised in France.



## Observations

### 57

Member States have to communicate definitive income data by the end of September of the following year<sup>54</sup>. However, Member States frequently modified their data in subsequent years, which had a material impact on the incomes disclosed in the EAAs<sup>55</sup>. The updates were mostly explained by the need to correct errors in the previously reported data, the late availability of source data or the fact that better data sources now provided more accurate information. Although revisions of statistical data are a standard procedure in the establishment of statistics, the updates highlight weaknesses in the procedures for compiling the EAAs in the Member States and reduce the reliability of the Commission's main performance indicators for income.

### Quality assurance is not fully effective

### 58

While Eurostat made efforts to improve the quality of the EAAs, no exhaustive and independent assessment has been conducted as to whether Member States have set up an effective quality assurance framework for EAA data collection and compilation. In 2010 Eurostat initiated a joint task force to identify EAA quality indicators and define standards for quality reports. In 2012, it coordinated a self-assessment of the national bodies in charge of their compilation. On this occasion, Member States were asked to provide their overall assessments of EAA data quality and indicate needs for improvement. The Court observed that in this exercise four Member States<sup>56</sup> had not submitted any reports, which left Eurostat without updated and complete information on the quality of the EAA data submitted.

### ... and in some Member States there were weaknesses in the operation of the FADN

### The technical implementation of the FADN survey can affect the quality of the results

### 59

Generally, three FADN survey systems can be distinguished. In one group of Member States, the national FADN liaison agencies acquire data from private accounting firms, which keep the accounts of individual holdings and use the data also for the farmers' income tax declarations<sup>57</sup>. In a second group, the liaison agency is directly involved in keeping the accounts for FADN purposes and is in direct contact with the farmers<sup>58</sup>. In a third group, the national liaison agencies contract private data collectors, who collect data directly from the holdings<sup>59</sup>.

54 Annex II of Regulation (EC) No 138/2004.

55 So for Romania the 2014 correction of the agricultural entrepreneurial income result for 2012 led to an increase of 129%, for Denmark 104%, for Luxembourg 48%, for Italy 27% and for Belgium 23%. For Germany, on the other hand, income decreased by 23% and for France by 12%. Factor income changed significantly in Belgium (+12%), Germany (-13%), Italy (+10%), Luxembourg (+28%), Latvia (+43%) and the Netherlands (+13%).

56 Belgium, Germany, Cyprus and United Kingdom.

57 E.g. in Germany and France.

58 E.g. in the Netherlands.

59 E.g. Spain, Poland and Romania.

## Observations

### 60

A directly managed system contributes to a high level of data quality. For example, a good practice was found in the Netherlands, where data collection is entrusted to a research institute which takes over the accounting work and has direct access to all relevant information regarding the holdings' business activities. Similarly, where FADN data are derived from data used for taxation, there is an incentive for greater accuracy, since incorrect accounting could be penalised under national tax law.

### 61

Under the arrangements found in Spain and Romania, the contractors received a fixed amount per farm return delivered to the liaison office. There is a risk of selecting holdings with simple structures in order to reduce the workload per holding and there is thus a higher risk for the quality of the information obtained.

### The representativeness of the sample varies significantly across Member States ...

### 62

The Commission approves the sample size proposed by the Member States but it does not have sufficient documentation about how they calculated it, what assumptions were made and whether calculations were in line with statistical principles. Critical information such as the precision of the parameters and confidence bands used is not published or reviewed by independent experts to assess the quality of the selection plans.

### 63

The sample size varies significantly between Member States and regions, as does the number of holdings represented by a holding in the sample<sup>60</sup>. Important agricultural sectors can, however, be under-represented in the FADN. An example is producers of wine and grapes, fruits and citrus fruits, olives and various permanent crops in Spain who, combined, included just 0.8% of the holdings in the respective sectors. These sectors accounted, however, for around 24% of the total production value of Spanish agriculture.

60 The number of holdings represented by one holding in the FADN sample varies between three in Luxembourg and 185 in Romania. There can be much higher variations in the various sectors and size classes.

## Observations

### 64

The Commission recommends selecting new holdings at random to provide the best statistical representativeness with respect to statements concerning the population. Only 11 Member States<sup>61</sup> selected new holdings randomly. In other Member States, however, the selection was not always transparent and was restricted by the way the data collection is organised. Thus in Germany, Spain, France, Poland and Romania the selection process depended significantly on the initiative of the accounting offices or data collectors, who had to identify 'suitable holdings' that fulfil the selection criteria. In this regard, subjective factors could influence the selection of a holding, which may have an impact on the representativeness of the income information that is obtained. In Spain, this also resulted in significant gaps in the FADN sample's coverage of subregions so that a significant part of the country and the territorial structure was not well represented. This has also an impact on future evaluations of direct payments, because Spain has introduced a system with 51 subregions, which are currently not sufficiently covered by FADN.

### 65

Participation in the FADN survey is voluntary. Member States visited had difficulties in finding a suitable number of holdings for nearly all relevant size classes. Some Member States put in place incentives to recruit holdings and compensate them for the additional burden, but the Court found that these measures were not always effective in covering all relevant types and size classes of holdings<sup>62</sup>.

### 66

Despite the incentives in place, in Germany small and very large holdings are significantly under-represented in the sample. Difficulties were also observed in the Netherlands, where 78% of the new holdings selected declined to participate. In Romania, due to the absence of specific incentives, across all size classes, fewer holdings than expected could be recruited, with particular difficulties for very small and very large holdings. It is, however, important to obtain good-quality data for all relevant size classes, as situations in larger or smaller holdings can significantly differ from those in average farms.

61 Denmark, Ireland, Estonia, Italy, Latvia, Malta, the Netherlands, Slovakia, Sweden, Finland and United Kingdom. Slovenia partly used random sampling.

62 According to the Court's survey 14 Member States paid a fee to the participating holding (Belgium (Flanders), Germany, Greece, Estonia, Latvia, Lithuania, Hungary, Malta, Austria, Poland, Slovakia, Slovenia, Finland and Sweden). In Belgium (Flanders), Croatia, Italy, Lithuania, Latvia, Hungary, the Netherlands, Finland and United Kingdom, the authorities provide privileged access to business performance information or advisory services which allows the holdings to compare their own performance with that of other holdings.

### ... and there were other shortcomings in collecting the FADN data

#### 67

FADN data derive from accounts with entries made systematically and regularly throughout the accounting year. Holdings which participate in the survey must be willing and able to keep farm accounts<sup>63</sup>.

#### 68

In Romania, where individual holdings account for around 70 % of the FADN sample, results were, however, widely based on interviews, as smaller holdings in particular did not duly fill in accounting records. Similarly, in Spain, data collection for many holdings was widely based on interviews with the farmers instead of systematic accounting entries. This reduces significantly the quality of the information reported and does not allow the information provided to be traceable to underlying supporting data.

#### 69

Inconsistencies were also found in the calculation of unremunerated labour of family members, where the Commission acknowledged that the number of hours of family workers is typically overestimated. This can result in an underestimation of the income per worker and affect the reliability of the indicators.

#### 70

As a rule, the Member States submitted FADN data within the regulatory deadlines of 12 months after the closure of the accounting year<sup>64</sup>. The quality of the data was, however, not always as expected by the Commission and required, for some Member States, extensive follow-up work. So, for the accounting year 2012, the Commission could only publish the results in November 2014, i.e. around 2 years after the end of the reference year. The Commission tried to accelerate the process by increasing the fees paid to Member States<sup>65</sup>, but without improving data quality this is unlikely to significantly shorten the process. If this situation continues, important data for the monitoring and evaluation of the measures adopted in the 2013 reform of the CAP are unlikely to be available on time for the 2018 interim report.

63 Article 2(e) of Regulation (EC) No 1217/2009.

64 Commission Regulation (EEC) No 1915/83 of 13 July 1983 on certain detailed implementing rules concerning the keeping of accounts for the purpose of determining the incomes of agricultural holdings (OJ L 190, 14.7.1983, p. 25).

65 According to Commission Implementing Regulation (EU) No 283/2012 of 29 March 2012 fixing the standard fee per farm return from the 2012 accounting year of the farm accountancy data network (OJ L 92 30.3.2012, p. 15), the fee amounted to 160 euro per valid farm return. As from 2015, Member States receive a supplement of 5 euro per farm return if they submit the accountancy data already within 11 months after the closure of the accounting year.

### Insufficient funding by Member States can impact the quality of the results

#### 71

The fees, which the Commission pays to Member States, are independent of the system for data collection and the actual costs incurred by Member States. The FADN generally functions better where the Member State also has a strong interest in obtaining good-quality data on the income and business performance of agricultural holdings and thus ensures sufficient funding. Thus, in the Netherlands, the FADN is built on a large set of data on the business activities of agricultural holdings, as well as on environmental and social aspects, which goes far beyond what is currently required at EU level. Also, in Germany, France and Poland, the national authorities have a keen interest in the functioning of the FADN system, as the results are widely used for their own policy and performance analysis.

#### 72

For the Member States visited, most weaknesses were found in Spain and Romania. Both currently face difficulties in providing the necessary national funding. In these Member States, the functioning of the FADN relies heavily on EU financing. In both Member States, the use of the data for national purposes was very limited. In Romania, data are collected solely for the purpose of reporting it to the Commission, and the authorities did not have the necessary technical means and sufficiently qualified staff for further analysis of the data. In view of the significant leeway which Member States have in the distribution of EU support, it is however indispensable for the FADN, as the most important tool for the evaluation of the performance of CAP measures, to deliver results of appropriate quality for each Member State.

### There are weaknesses in the formal quality assurance arrangements for the FADN

#### 73

The FADN is managed by the Commission's Directorate-General for Agriculture and Rural Development, which is also in charge of ensuring the quality of the data, together with the national liaison agencies. Eurostat is responsible for coordinating the statistical activities of the Commission<sup>66</sup>. In the context of the FADN, the scope of Eurostat's coordination is defined in a mutual agreement<sup>67</sup>. This agreement does not, however, provide for a supervisory role for Eurostat.

66 Commission Decision of 17 September 2012 on Eurostat 2012/504/EU (OJ L 251, 18.09.2012, p. 49).

67 Memorandum of understanding between Eurostat and the directorate general for agriculture and rural development in the area of statistics of 7.5.2015.

## Observations

### 74

In the Member States visited, a formal quality assurance procedure was only in place in the Netherlands, and only here did the authorities validate the sample with respect to the underlying population and test it regularly against assumptions. In the other Member States, the liaison offices carried out checks on the plausibility of the data received. However, with the exception of Poland, these were not completed by on-the-spot checks in order to assess the quality of the work of the data collectors or to trace the information provided to the underlying records.

### 75

The Commission is aware of FADN performance problems in individual Member States<sup>68</sup>. However, to date no timetable has been set to improve the situation, and significant weaknesses such as inadequate coverage of sectors and size classes in all Member States, absence of incentives for the recruitment of holdings in many Member States and lack of financing still need to be tackled.

### 76

The Commission is seeking to address weaknesses in the FADN and, in cooperation with Member States, is exploring ideas for a more cost-efficient data collection system. It also intends to use the FADN to provide up-to-date information on farm-level indicators for sustainability. It is, however, likely that concrete improvements will not be put into effect before the year 2017, and data will not be available before the end of 2019. This may have an impact on the evaluation of the 2013 CAP reform.

### **Limitations in available data, vague objectives of certain CAP measures and weaknesses in performance indicators impact the Commission's ability to demonstrate what has been achieved**

### 77

Data from the EAAs and the FADN form the basis of the Commission's assessment of the performance of CAP measures aiming at farmers' incomes. An effective performance assessment, however, not only requires the availability and quality of data on farmers' incomes, but also, from the outset, clearly defined objectives of measures and indicators specific to the objectives. Moreover, income is not the only objective of the CAP and it is not an exclusive objective of most CAP measures.

68 The Commission also found significant shortcomings in Greece.

## 78

The Court analysed whether CAP measures set clear objectives from the outset insofar as they are related to farmers' incomes. On this basis the Court assessed whether the Commission defined relevant indicators allowing for an effective performance assessment of CAP measures in supporting farmers' incomes. In addition, it assessed whether the performance indicators for the current programming period will enable the extent of the achievement of those objectives to be measured. The Court's analysis was also corroborated by the experts.

### Direct payments serve a multitude of objectives whose achievement is difficult to measure ...

## 79

In order to analyse the objectives of the CAP in relation to farmers' incomes, the Court used the SMART criteria — that objectives should be specific, measurable, achievable, relevant and timed — set out in the financial regulation<sup>69</sup>.

## 80

In general, commercial agricultural holdings gain their income mainly from the sale of their produce. Direct payments to farmers are per se additional revenue. Moreover, they can be expected to have a further impact on farmers' income by influencing their business decisions<sup>70</sup>.

## 81

The general CAP objective of viable food production and its impact on agricultural income has so far not been translated into measurable targets. How individual measures within the direct payments schemes should precisely contribute towards achieving this overall objective is also not specified, because neither the regulation<sup>71</sup> nor its preamble define their specific objectives in a sufficiently clear manner and there is no baseline or target against which their performance could be measured. Moreover, the relationships with the other CAP objectives such as the sustainable management of natural resources are complex and can affect farmers' incomes as well.

69 Article 30(3) of Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002 (OJ L 298, 26.10.2012, p. 1).

70 According to the Commission, in 2012 the proportion of direct payments to total receipts of commercial holdings in the EU was 11.2%. The share varies significantly across holdings and Member States, however (*EU farm economics overview based on 2012 FADN data*, p. 1).

71 Regulation (EU) No 1307/2013. The available budget largely represents the amount of EU support historically paid to farmers for cultivation of land or rearing of animals (coupled payments).

### 82

The Commission considers that direct payments, also in conjunction with other measures, should simultaneously contribute towards achieving a multitude of objectives, such as supporting the economic viability of holdings, improving productivity and competitiveness in agriculture and promoting the sustainable management of natural resources and climate action. However, due to the overall lack of clarity regarding what the general and specific objectives of the CAP are expected to achieve, it is inherently difficult to assess, on the basis of the performance indicators, whether a measure has achieved its objective. The variety of options that Member States can choose for the implementation of direct payments adds complexity, because effects on agricultural markets and income disparities of farmers can be considerably different from one Member State to another.

### ... and CAP performance indicators related to farmers' incomes cannot be clearly linked to measures and actual achievement of the objectives

### 83

Indicators should allow for the assessment of the progress, effectiveness and efficiency of the policy measures against the objectives<sup>72</sup>. They should be relevant, accepted, credible, measurable and robust and based on sound statistical information<sup>73</sup>.

### 84

The **impact indicators** are designed to show the combined effects of the CAP measures. In respect of farmers' incomes, as a part of the general objective of viable food production, the agricultural entrepreneurial income and the agricultural factor income are the most relevant impact indicators. However, they are limited to showing trends and not absolute income values, and no baselines have been established. Moreover, changes in these indicators are mainly due to changes in prices and not to the effect of CAP measures. They also cannot provide information as to what extent the CAP achieved the treaty objective of a fair standard of living for the agricultural community, as no adequate data are available at EU level.

- 72 Article 1 of Commission Implementing Regulation (EU) No 834/2014 of 22 July 2014 laying down rules for the application of the common monitoring and evaluation framework of the common agricultural policy (OJ L 230, 1.8.2014, p. 1).
- 73 As far as is possible, indicators should meet the RACER criteria: relevant, accepted, credible, easy and robust: 'Part III: Annexes to impact assessment guidelines' (European Commission, 15 January 2009 — [http://ec.europa.eu/smart-regulation/impact/commission\\_guidelines/docs/iag\\_2009\\_annex\\_en.pdf](http://ec.europa.eu/smart-regulation/impact/commission_guidelines/docs/iag_2009_annex_en.pdf)).



## 85

The Court also found that the Commission's **result indicators**, insofar as they are directly related to income, are relevant for the general objective of viable food production and thus the income of farmers from agriculture. Information provided by the indicators, however, are once again not sufficiently precise to be linked clearly enough to EU measures to show that they contributed towards the desired effects (see **Box 4**). As no targets or baselines have been set, the indicators cannot provide information about a possible gap between the desired and the actual achievement of objectives and whether the measures have contributed to reducing this gap.

## Box 4

### Weaknesses in the Commission's result indicators related to farmers' incomes

The indicator **share of annual direct payments in agricultural income**, which is calculated on the basis of the EAAs, highlights the importance of direct payments for the agricultural sector. However, the underlying data for this indicator are not sufficiently reliable<sup>74</sup>. Furthermore, the indicator is distorted by the following situations: there are holdings, which receive direct payments but do not produce and thus have no agricultural income; in contrast, in some Member States a significant share of agricultural income is generated by farmers who receive no or only marginal amounts of direct payments<sup>75</sup>; finally, the indicator does not take into account the reduction in farmers' incomes due to the increased rents which result from the capitalisation of the direct payments in land prices. Furthermore, it is also not clear if a change in the indicator is solely or mainly due to specific CAP measures, changes in markets or other factors.

The indicator **variability of farm income** depends mainly on the volatility of world market prices. This indicator, which is calculated on the basis of FADN data, can provide relevant information about the overall effectiveness of direct payments in cushioning the effects of market instabilities. However, the indicator is not sufficiently sound as it does not take into account subsidies, taxes and non-agricultural income, which can play an important role in helping farmers cope with price volatility.

The indicator **value added for primary producers in the food chain** looks at the added value of primary agricultural production in comparison to other stages of the food chain, such as the food processing industry, traders or supermarkets. The indicator is not sufficiently robust, as situations can occur where the indicator decreases while agricultural income increases. This is for example the case where there is a high demand for new food products resulting in higher product prices. In this case the share of farmers in the food chain is likely to be reduced, although the income of farmers may be higher.

<sup>74</sup> See paragraph 38.

<sup>75</sup> In the Netherlands, 39% of the agricultural output was produced by holdings which did not receive direct payments.

### 86

The Commission's indicators do not consider other results that are important for the performance of direct payments in relation to income. For example, there is no result indicator to provide information as to the extent to which the farming population uses the instrument of direct payments, to what extent the payments actually go to agricultural producers and whether the new direct payment schemes support low income farmers better than before the reform.

### 87

Also, the indicators are not informative about whether the EU payments contributed towards achieving the income objective efficiently, because the indicators cannot show whether other levels or forms of CAP support would affect agricultural income by the same amount and at the same budgetary costs, or that a specific measure was sufficiently targeted to deal with market failure in the most efficient way.

# Conclusions and recommendations

## 88

Food production, income and standard of living of farmers are a particular focus of the treaty. With the 2013 reform of the CAP one third of the EU budget is still directly or indirectly dedicated to stabilising markets and supporting the income of farmers, and thus contributing to viable food production and a fair standard of living for farmers.

## 89

In the past, the Court observed that more reliable and comprehensive statistics and indicators were required in order to follow more closely the performance of the CAP, of which more than two thirds of the budgetary resources were devoted to income support.

## 90

The new framework for the monitoring and evaluation of the CAP requires the Commission to assess the combined impact of the CAP measures in relation to the stated objectives. This involves sufficient and good-quality information.

## 91

The Court concludes that the Commission's system for measuring the performance of the CAP in relation to farmers' incomes is not sufficiently well designed and the quality and quantity of statistical data used to analyse farmers' incomes have significant limitations.

## **The Commission has not clearly established the statistical data needed to effectively assess the performance of CAP measures in support of farmers' incomes**

## 92

No representative data are available on the disposable income of farm households, which would facilitate the assessment of the achievement of the treaty objective of ensuring a fair standard of living for farmers. Also, there is no reliable system to allow comparisons to be made between agricultural incomes and those in other sectors of the economy, which could justify EU income support for farmers (paragraphs 26 to 32).

## Conclusions and recommendations

### Recommendation 1 — Developing frameworks for collecting and comparing relevant information on farmers' incomes

The Commission should develop a more comprehensive statistical framework to provide information on the disposable income of farm households and to better capture the standard of living of farmers. For this purpose the Commission should, in cooperation with the Member States and based on a common methodology, consider how best to develop and combine existing EU statistical instruments.

The Commission should also improve the framework for the comparison of farmers' incomes with incomes in other sectors of the economy.

#### 93

The tools currently available at EU level for measuring farmers' incomes are the EAAs and the FADN. Both provide essential data for measuring the performance of the CAP measures directed at promoting viable food production and supporting farmers' incomes. These instruments, however, have significant limitations and important data may not be available for an effective assessment of the CAP measures aiming at the support of farmers' incomes.

#### 94

The potential of the EAAs has not yet been fully used and they are not sufficiently informative about important factors that are relevant for farmers' incomes. Furthermore, EAA information is not always used correctly by the Commission (paragraphs 33 to 39).

### Recommendation 2 — Developing the EAAs

The Commission should further develop the EAAs so that their potential could be better used in order to:

- provide more detailed information on the factors impacting agricultural income;
- ensure transmission of regional-level data based on formal arrangements with the Member States.

The Commission should also:

- examine whether the EAAs can be further developed to provide a reasonable estimate of the economic value of the public goods that are produced by farmers;
- ensure that EAA information is used appropriately in income indicators.

## Conclusions and recommendations

### 95

The FADN is an important instrument for the evaluation of the CAP, but it has limitations. The income indicators do not fully take account of the evolution of holdings in the agricultural sector, while information about other farm-related incomes of farmers is incomplete. Furthermore, no income data are available at EU level for a large number of beneficiaries of EU-support (paragraphs 40 to 51).

#### **Recommendation 3 — Developing synergies between the FADN and other statistical tools**

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The Commission's analysis of farmers' incomes should be based on indicators taking account of the current situation of agriculture and on sufficient and consistent data for all beneficiaries of CAP measures. This could be done by developing synergies between existing administrative data or by developing the FADN or other suitable statistical tools.

#### **The Commission and Member States did not always ensure that the data used for measurement of farmers' incomes were of appropriate quality**

### 96

The Commission had insufficient up-to-date information on the EAA methodology and data sources used by Member States, reporting to Eurostat was affected by shortcomings and the quality assurance arrangements were not fully effective. This can affect the accuracy and impair the comparability of the data reported. It also calls into question the reliability of the Commission's main indicators for monitoring the performance of the CAP (paragraphs 53 to 58).

#### **Recommendation 4 — Improving the quality of the EAAs**

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In view of the importance of the EAAs for monitoring the CAP, the Commission should introduce regular quality reporting on the EAAs and obtain reasonable assurances that Member States set up a quality assurance framework to ensure that data provided by Member States are comparable and compiled in line with the quality criteria applying to European statistics.

## Conclusions and recommendations

### 97

For the FADN, in some Member States the technical implementation of the survey affected the quality of the results, and the representativeness of the sample varied across Member States. As a consequence, not all sectors, size classes and regions were sufficiently well represented in the FADN, which reduces its usefulness for analysis purposes. Furthermore, insufficient funding by Member States for the collection of FADN data can impact the quality of the results obtained (paragraphs 59 to 72).

### 98

The audit identified certain weaknesses in the quality assurance arrangements for the FADN (paragraphs 73 to 76).

### Recommendation 5 — Improving the quality of FADN

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The Commission should also address weaknesses identified in the implementation of the FADN by agreeing a clear timetable with the Member States concerned and encouraging better use of the system's potential.

The Commission should further develop the present quality arrangements for the establishment of the FADN statistics by the Member States to ensure that, in all Member States, sectors and size classes of holdings that are of interest for the CAP are adequately represented, reflecting also the choices made by Member States in terms of CAP options.

### **The Commission has not defined relevant indicators allowing for an effective performance assessment of CAP measures in supporting farmers' incomes**

### 99

Vague objectives and the absence of a baseline make it difficult to assess on the basis of the performance indicators whether individual CAP measures aiming at the support of farmers' incomes have achieved their objectives. Member States' choices for the implementation of direct payments are an additional challenge for the Commission's analysis as to whether they contributed more efficiently and effectively to achieving the CAP objectives and thus added EU value (paragraphs 79 to 82).

## Conclusions and recommendations

### 100

The Commission's indicators in relation to viable food production and farmers' incomes are not sufficiently reliable or are not linked clearly enough to CAP measures to show that they contributed effectively and efficiently towards the desired effects. Limitations in the availability of data further reduce the relevance of the indicators. They are also not informative as to whether the objectives were efficiently achieved, which requires an in-depth analysis of the factors impacting farmers' incomes (paragraphs 83 to 87).

### **Recommendation 6 — Improving the performance measurement of CAP measures supporting farmers' incomes**

Taking into consideration the weaknesses identified by the Court, the Commission should improve the reliability and completeness of performance information of the CAP measures in relation to farmers' incomes by:

- o defining from the outset appropriate operational objectives and baselines against which the performance of the CAP measures can be compared for the next programming period;
- o in the context of its evaluations, complementing the current framework of performance indicators with other relevant and good-quality data to measure the results achieved;
- o also in the context of its evaluations, assessing the effectiveness and efficiency of the measures designed to support farmers' incomes.

This Report was adopted by Chamber I, headed by Mr Augustyn KUBIK, Member of the Court of Auditors, in Luxembourg at its meeting of 13 January 2016.

*For the Court of Auditors*



Vítor Manuel da SILVA CALDEIRA  
*President*

## Member State choices for the implementation of EU direct payments

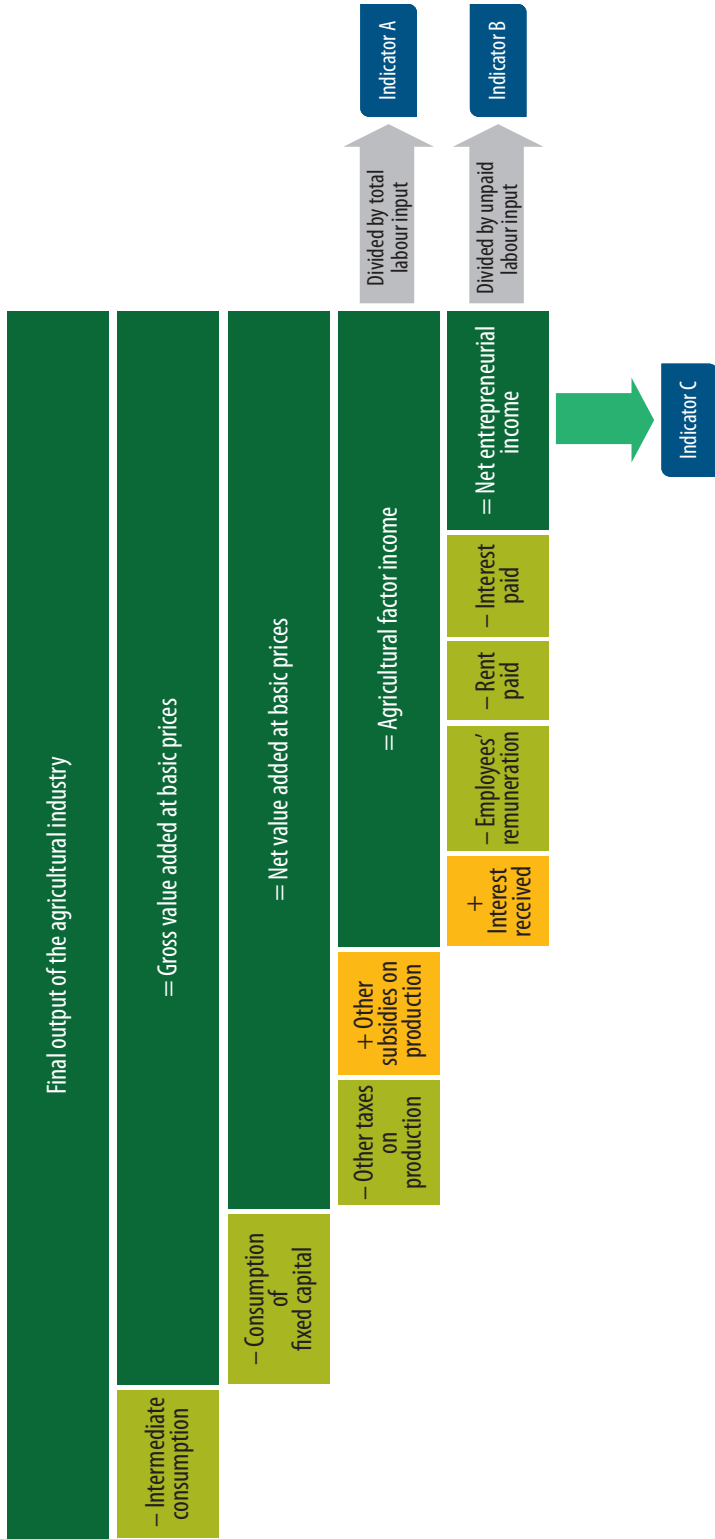
Member State	Basic payment	Single area payment	Redistributive payment	Payment for young farmers	Payment for areas with natural constraints	Payment for agricultural practices beneficial for the climate and the environment <sup>1</sup>	Voluntary coupled payments	Small farmers' scheme
Belgium	X	-	X	X	-	X	X	-
Bulgaria	-	X	X	X	-	X	X	X
Czech Republic	-	X	-	X	-	X	X	-
Denmark	X	-	-	X	X	X	X	X
Germany	X	-	X	X	-	X	-	X
Estonia	-	X	-	X	-	X	X	-
Ireland	X	-	-	X	-	X	X	-
Greece	X	-	-	X	-	X	X	X
Spain	X	-	-	X	-	X	X	X
France	X	-	X	X	-	X	X	-
Croatia	X	-	X	X	-	X	X	X
Italy	X	-	-	X	-	X	X	X
Cyprus	-	X	-	X	-	X	X	-
Latvia	-	X	-	X	-	X	X	-
Lithuania	-	X	X	X	-	X	X	X
Luxembourg	X	-	-	X	-	X	X	-
Hungary	-	X	-	X	-	X	X	X
Malta	X	-	-	X	-	X	X	X
Netherlands	X	-	-	X	-	X	X	-
Austria	X	-	-	X	-	X	X	X
Poland	-	X	X	X	-	X	X	X
Portugal	X	-	-	X	-	X	X	X
Romania	-	X	X	X	-	X	X	X
Slovenia	X	-	-	X	-	X	X	X
Slovakia	-	X	-	X	-	X	X	-
Finland	X	-	-	X	-	X	X	-
Sweden	X	-	-	X	-	X	X	-
United Kingdom	X	-	-	X	-	X	X	-

<sup>1</sup> So-called greening payment.



Annex II

Calculation of agricultural income as defined under the EAAs



### Calculation of income in the framework of the FADN

Final stock agricultural products	
+ Sales	
+ Correction livestock inventory values	– Starter stock agricultural products
+ Farmhouse consumption	– Purchases of livestock
+ Farm use	
= Output (crop output plus livestock output)	
	– Intermediate consumption
+ Farm subsidies	– Balance of VAT and farm taxes
= Farm gross value added (gross farm income)	
	– Depreciation
= Farm net value added (FNVA)	
+ Subsidies on investments	– Wages, rents and interest paid
= Family farm income (FWI)	

## Commission performance indicators for assessing the CAP

### Output indicators (who and what is supported)

#### Direct payments

Area and number of farmers under

- Basic payment scheme
- Single area payment scheme
- Transitional national aid
- Redistributive payment
- Greening (crop diversification, permanent grassland, ecological focus area, organic farmers, etc.)
- Payment for young farmers
- Small farmers' scheme
- Voluntary coupled support
- Payment for areas with natural constraints
- National programmes for the cotton sector

#### Market measures

- Public intervention (volume and duration)
- Private storage (volume and duration)
- Export refunds (volume of products exported with export refunds)
- Exceptional measures (as appropriate)
- Producer organisations (percentage of production marketed by producer organisations and associations of producer organisations)
- School schemes (Number of final beneficiaries of school milk and fruit schemes)
- Number of hectares of new vine plantings
- Number of hectares of restructured vineyards
- Number of promotion projects, projects of investment and innovation measures in the wine sector

#### Horizontal aspects

- Number of hectares and share of CAP payments subject to cross-compliance
- Geographical indications for quality policy (wine sector), number of new protected designations of origin, protected geographical indication and traditional speciality guaranteed by sector
- Number of hectares under organic farming (total and under conversion) and of certified registered organic operators
- Number of programmes (in and outside the EU) and of new proposing organisations for promotion policy
- Number of farmers advised by farm advisory system

**Impact indicators (where the CAP is expected to have an influence)****General objective: Viable food production**

Agricultural entrepreneurial income — Agricultural factor income — Total factor productivity in agriculture — EU commodity price variability — Consumer price evolution of food products — Agricultural trade balance

**General objective: Sustainable management of natural resources and climate action**

Emissions from agriculture — Farmland bird index — High nature value (HNV) farming - Water abstraction in agriculture — Water quality — Soil organic matter in arable land — Soil erosion by water

**General objective: Balanced territorial development**

Rural employment rate — Degree of rural poverty — Rural GDP per capita

**Result indicators (what CAP measures have achieved)****Specific objectives: Contribute to farm incomes, limit farm income variability, improve competitiveness of EU agriculture and enhance share in food chain and maintain market stability**

Share of direct support in agricultural income — Variability of farm income (by type of farm; by economic size) — Value added for primary producers in the food-chain — EU agricultural exports — Share of EU agricultural exports in world exports — Share of final products in EU agricultural exports — Percentage volume of products bought in intervention or private storage out of total EU production — Percentage volume of products exported with export refunds out of total EU production — EU commodity prices compared to world prices — Value of production under EU quality schemes compared to total value of agricultural and food production — Importance of organic farming — Share of organic area in total utilised agricultural area (UAA) — Share of organic livestock in total livestock

**Specific objectives: Provide public goods, pursue climate change mitigation and adaptation, foster resource efficiency through innovation**

Crop diversity (on farm and in a region) — Share of grassland in total UAA — Share of ecological focus area (EFA) in agricultural land — Share of area under greening practices — Net greenhouse gas emission from agricultural soils

**Specific objective: Maintain a diverse agriculture across the EU**

Structural diversity (in absolute and in relative terms) — Additional result indicators for rural development specified in Implementing Regulation (EU) No 808/2014

## Quality criteria applying to European statistics<sup>1</sup>

Principles of the Eurostat code of practice	
<b>Relevance</b>	Degree to which statistics meet current and potential needs of the users.
<b>Accuracy</b>	Closeness of estimates to the unknown true values.
<b>Timeliness</b>	Period between the availability of the information and the event or phenomenon it describes.
<b>Punctuality</b>	Delay between the date of the release of the data and the date by which the data should have been delivered.
<b>Accessibility and clarity</b>	Conditions and procedures by which users can obtain, use and interpret data.
<b>Comparability</b>	Measurement of the impact of differences in applied statistical concepts, measurement tools and procedures where statistics are compared among geographical areas, sectoral domains or over time.
<b>Coherence</b>	Adequacy of the data to be reliably combined in different ways and for various uses.

<sup>1</sup> Article 12 of Regulation (EC) No 223/2009.

## Executive summary

### I

The Treaty on the Functioning of the European Union (TFEU) specifies five objectives of the common agricultural policy (CAP), only one of which is linked to farmers' income (but without actually mentioning the word income).

The 2013 reform of the CAP specifies three policy objectives (viable food production; sustainable management of natural resources and climate action; balanced territorial development), the first of which mentions agricultural income specifically.

However income is not the only CAP objective and direct payments are not the only CAP instrument having an impact on income; neither is their impact limited to income as they support the joint delivery of private and public goods. As area-based payments, they contribute not just to income support for farmers, but to other objectives related to land use, such as soil protection, biodiversity enhancement and climate mitigation, jointly with other CAP instruments. It is thus extremely difficult to clearly allocate certain payments to individual impacts.

### II

The new monitoring and evaluation framework of the CAP is clearly designed by the legislator. It has been designed to capture the combined effects of the different measures as regards these different objectives. Each of these objectives will be monitored and assessed using a comprehensive set of common indicators, some specific to measures and some broader ones to reflect combined effects.

While useful as a starting point, individual indicators cannot directly assess the impact of a policy or measure; this needs to be done in an evaluation, taking into account other elements that influence the policy and its effects. Hence, the advantages or disadvantages of individual indicators will depend on how these are used in the evaluation.

### IV

Individual indicators and tools have stronger and weaker points, however the overall system provides the best possible balance between the information needs and the related costs and administrative burdens.

What is identified as limitations of the statistical data is in fact the representation of the main features of the data sources.

### V

The Commission has representative data on the income derived from agricultural activities. These data can be used to assess the performance of CAP measures in support of farmers' incomes.

In the treaty, there is a link between increasing agricultural productivity and ensuring a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture. It is thus appropriate to focus on the income derived from agricultural activities, as this income is of primary importance for the CAP.

### **VI (a) - The FADN is not designed to collect data on farm household income**

The FADN is a key data source for the CAP monitoring and evaluation framework. The objectives of the FADN are clearly laid down in Council Regulation (EC) No 1217/2009 of 30 November 2009, i.e. to collect the accountancy data needed for the annual determination of incomes on agricultural holdings coming within the field of the survey and a business analysis of agricultural holdings, an assessment of the standard of living of farmers or of farm household income is outside the scope of the FADN.

### **VI (b) - The costs of collecting data on farm household income may outweigh the benefits**

The Commission is aware of the overall analytical value of statistics covering household income in different sectors and various attempts to introduce such data collection have been made in recent years. However, also due to the resistance from the Member States to including information on taxation in statistics, the discussion has not achieved positive conclusions. Given that the CAP focuses on supporting income from agricultural and rural development activities, an overall monitoring of farm household income was not a priority, nor was it feasible to include this new data collection in the statistical work programme. Instead, a specific EU survey (EU-SILC) has been designed to collect information on the standard of living of EU households.

### **VI (c) - The information on agricultural income provided by the FADN is complete**

Indeed, the FADN sample covers only those farms with accounting and bookkeeping practices, since the inclusion of non-commercial farms would imply the presence of less reliable data based more on estimation than on hard evidence. However, the use of different thresholds per EU Member State allows the FADN sample to cover farms of different economic size and thus to take into account differences in the commercial nature of farms in the different agricultural sectors all around Europe.

## **VII**

The thorough system of data checks and validation put in place by the Commission for the FADN ensures that the high level of quality of the collected data is verified and guaranteed. Moreover, on-the-spot visits allow the follow-up of identified issues. The Court did not identify any concrete weakness in the data validation procedures put in place by the Commission services.

The extensive use of FADN data within the Commission services and by the research community ensures that primary users can effectively check the quality of the data.

## **VIII**

Regulation (EU) No 1306/2013 clearly specifies the objectives against which the monitoring and evaluation framework has to measure the performance of the CAP. While each individual indicator has advantages and disadvantages, the set of indicators defined in this context provides the best possible balance between the information needs and the related costs and administrative burdens.

### IX (a)

The Commission partially accepts this recommendation and will consider how it might be implemented.

The Commission considers that the existing framework for providing information on the income derived from agricultural activities could be strengthened but that the administrative burdens of developing a framework for providing information on the disposable income of farm households may outweigh the potential benefits. The legal basis required for such data collection would be delicate to establish.

The disposable income of farm households is a much wider concept than farm income. The CAP supports farmers' income by supporting their agricultural activities. Thus, it is important to analyse the evolution of income derived from agricultural activities to evaluate whether the objective has been met.

### IX (b)

The Commission accepts this recommendation.

The Commission intends to:

- develop the EAAs with a view to providing more detailed information on the factors impacting agricultural income;
- undertake a study to examine the issue of whether the EAAs can be further developed to provide a reasonable estimate of the economic value of the public goods that are produced by farmers;
- discuss with the Member States the possibility of formalising the operational arrangements to cover regional EAAs;
- review whether EAA information is used appropriately in income indicators.

### IX (c)

The Commission accepts this recommendation.

FADN data already cover almost the totality of EU subsidies.

### IX (d)

As regards the EAAs, the Commission accepts the recommendation. The Commission intends to introduce regular quality reporting on the EAAs and compliance assessment with a view to obtaining reasonable assurances that Member States set up a quality assurance framework.

As regards the FADN, the Commission intends to address weaknesses identified in the implementation of the FADN by **agreeing a clear timetable** with the Member States concerned and encouraging better use of the system's potential. The Commission is aware of the FADN's performance problems in individual Member States and actions are already ongoing to tackle existing weaknesses. An annual plan of on-the-spot visits is realised, together with action plans and follow up meetings to assess the progress made on agreed points. In recent years this approach has led to considerable improvements in several Member States.



## Reply of the Commission

### X

The Commission accepts this recommendation.

The indicators as defined are only the starting point for the evaluations. In this context, it is good practice for evaluators to use additional information for judging on the results achieved. Evaluations judge — amongst other things — the effectiveness and efficiency of the CAP measures against their objectives.

## Introduction

### 03

For direct payments, the 2003 CAP reform initiated a shift from payments linked to the type of production to payments **decoupled** from production. This was done to strengthen the market orientation of agriculture (no more constraints on farmers' production choices) and in line with our World Trade Organisation commitments. But both types of support, pre-2003 and post-2003, were a form of farm income support.

Other CAP instruments also play a role in supporting farmers' income, such as investment aid or payment in areas with natural constraints (rural development) and market measures (single market organisation).

Moreover, one of the main trends in the last 10 years is a growing emphasis on environmental and climate concerns, not just through the introduction of the green payment in 2013, but also through cross-compliance and many other environmental measures. CAP support is expected to provide farm income support, but **at the same time** contributes to environmental (and climate) improvements.

### 04

The objectives of the CAP and the specific rationale for direct payments and other instruments have been largely discussed with stakeholders and other institutions in the preparation of the reform. There has been a public debate, a communication and, for example the Commission legislative proposals for direct payments contained an explanatory memorandum which set out the rationale for the reform (COM(2011) 625 final/2).

Besides, the three general objectives of the CAP have been embedded in Regulation (EU) No 1306/2013 (Article 110) and the specific objectives are set out in Implementing Regulation (EU) No 834/2014 (recital (2)).

### 06

The CAP supports farmers' income by supporting the agricultural activity (area-based support, a few sector-specific supports, investments, market measures, environmental activities in agricultural areas). Therefore, it is consistent to monitor the income generated from these agricultural activities. Monitoring the total farm household income at EU level is interesting, but should not be the basis for determining the need for support which is targeted at the farming activities.

The Commission considers that the concept of overall disposable income of the farm household (total income minus taxes and social security contributions) is not the most relevant for the purposes of the CAP. The fair standard of living for the agricultural community is to be ensured in particular by increasing the individual earnings of persons engaged in agriculture.

### 12

Recital 68 of Regulation (EU) No 1306/2013 also stipulates the objectives against which this has to be done. To do this, the indicators defined in Implementing Regulations (EU) No 808/2014 and (EU) No 834/2014 are used.

### 15

The indicators provide the basis for an assessment of the performance of the CAP against its objectives, i.e.: effectiveness, efficiency, relevance, coherence and EU value added. However, indicators as such, in particular when taken in isolation, do not allow for assessment of the performance of a policy, measure or activity, since the evolution of the indicator value over time needs to be assessed and understood in the context in which it occurs.

### 16

Following the Court's audit, the Commission revised the legal framework of the FADN by including, amongst other things, income derived from other gainful activities.

## Observations

### 25 - Common Monitoring and Evaluation Framework (CMEF) of the CAP

The common monitoring and evaluation framework (CMEF) has been clearly defined in the legislation, including in relation to farmers' incomes. It sets out a hierarchy of indicators linked to various levels of CAP impacts, results, outputs and context. For each of these indicators, the corresponding data sources have been identified, with an emphasis on established data collection tools. While improvements are always possible, a set of data clearly exists.

### 26

Article 39(1)(b) TFEU links the objective of ensuring a fair standard of living for the agricultural community with agricultural productivity. This link is already enshrined in the provision itself, which refers specifically to 'persons engaged in agriculture'. This reference does not cover persons not engaged in agriculture (such as household members carrying out other professions), nor the activities of a farmer that are clearly not related at all to agriculture. Accordingly, Article 39(1)(b) TFEU is also clearly linked to Article 39(1)(a) TFEU ('increase agricultural productivity'), as is underlined by the word 'thus' at the beginning of Article 39(1)(b) TFEU. The Commission therefore considers that it is appropriate to focus on the income derived from agricultural activities (including ancillary activities), as this income is of primary importance for the CAP (and not the overall household income outside of agriculture and rural development).

### 27

The statistical framework to provide information on the income from agricultural activities is represented by the FADN and the EAAs. Information on the income of agricultural households is collected in the framework of EU-SILC and the size of the sample is designed to cover the population as a whole. It does not, in general, allow for disaggregated data for the agricultural sector in most Member States.

Due to the fact that available information points to the growing significance of incomes that are not related to agricultural activity *sensu stricto* but to the diversification of farming activity, the FADN survey has undergone a thorough revision which includes a completely new set of data on income from other gainful activities related to the holding in the farm income calculation.

The Commission has indeed studied the feasibility of collecting micro-level data on farm household incomes. However, the project on the income of the agricultural household sector (IAHS) was not further pursued in the context of the Standing Committee for Agricultural Statistics (CPSA).

## Reply of the Commission

### 28

The size of the EU-SILC sample is designed to cover the population as a whole and does not, in general, allow for disaggregated results for the agricultural sector with an acceptable precision in most Member States.

### 30 - Income comparison across sectors of the economy

The Commission considers it to be important to compare the **income from agricultural activities** to the average wages in other sectors of the economy and that there is a reference system for this<sup>1</sup>.

The CAP supports farmers' income by supporting the agricultural activity (area-based support, a few sector-specific supports, investments, market measures, environmental activities on agricultural areas). Therefore, it is consistent to monitor the income generated from these agricultural activities and compare it to the opportunity costs, namely to the wages that could be received in other sectors. Monitoring the total farm household income at EU level is interesting, but it should not be the basis for determining the need for support which is targeted at the farming activities.

### 32

Comparisons of income levels of different groups of farms are regularly done on the basis of FADN data. Such a differentiation is not possible in national accounts, either for agriculture or for other sectors of the economy. Obtained values serve as indications on how agriculture compares with other sectors of the economy, which are likewise highly diverse.

### 33

The EAAs are compiled in accordance with the basic concepts and rules of ESA 95<sup>2</sup>. Regulation (EU) No 549/2013, however, does not apply to EAAs and application of ESA 2010 (the revised version of ESA 95) can only be made through changes to the EAAs legal act, which are in progress.

The main changes from ESA 95 to ESA 2010 were not specifically connected with agriculture. Certain Member States examined the consequences of the change: some concluded that the impact was minor, others that there was no impact.

### 34

Indeed, the EAAs have not been designed to help analyse the dependency of specific sectors on subsidies and their importance for viable farming in the regions, for specific types of production or for specific socioeconomic groups of farmers.

Therefore, the Commission uses the FADN to evaluate the impact of subsidies at farm level.

<sup>1</sup> Figures should be interpreted with care owing to conceptual differences between the measurement of farmers' income from agricultural activities and average wages in the economy, and to the lack of reliable data on full-time equivalent labour statistics for the total economy for some Member States.

<sup>2</sup> ESA is the European system of national accounts and regional accounts used by the Member States of the European Union and beyond.

### 35

The Commission agrees that data on land prices and rents are important for assessing the impact of the CAP. In November 2014 and July 2015, the Commission presented to the CPSA and the DGAS, respectively, a draft Commission regulation on land prices and rents, which would be an intermediate step towards an eventual Parliament and Council regulation. In the CPSA and DGAS there was no consensus in favour of the Commission regulation. It was concluded that land price statistics were sensitive and that small numbers of transactions could lead to unreliable statistics. The 'Strategy for agriculture statistics 2020 and beyond' foresees the potential inclusion of agricultural price statistics in a framework regulation on agricultural input/output statistics.

### 36

Agreements in writing as a mean for implementing the European Statistical Programme are recognised in Article 14(1)(c) of Regulation (EC) No 223/2009 and such agreements are concluded between the national statistical authorities and the Commission.

The arrangements in this case predate Regulation (EC) No 223/2009 and were concluded on the basis of gentlemen's agreements.

The Commission will take steps to formalise the operational arrangements with respect to the provision of regional EAA data.

### 38

The EAAs present both absolute values and indices. While indices are clearly meant to monitor changes over time, the absolute values can be used to compare average income levels between Member States when put in context. A presentation per annual work unit does not pretend to show income levels for individuals or households (and even less so the standard of living of agricultural households). Rather, it is meant to show the impact of structural changes (i.e., the reduction in the number of agricultural jobs) on average agricultural incomes over time. Moreover, the Commission is well aware of the limitations that are — inevitably — linked to the use of indicators. Hence, the use of an individual indicator to assess performance or indeed the judgement of its advantages or disadvantages in isolation has only a limited value.

### 39

According to Eurostat FSS 2010, 97 % of the agricultural holdings in the EU were managed by individual holders (see the Court's paragraph 6), although legal entities farmed 27 % of the EU's agricultural area.

In its description of the indicator 'agricultural entrepreneurial income' for the monitoring and evaluation system of the CAP, the Commission has made it very clear that this is no indicator of total income or of the disposable income of households employed in agriculture, because the latter, in addition to their purely agricultural incomes, may also have income from other sources (non-agricultural activities, remuneration, social benefits and income from property). In other words, agricultural entrepreneurial income must not be regarded as farmers' income<sup>3</sup>.

It is important to analyse available statistics in a comprehensive manner. Information originating from the FADN can complement the information originating from the EAAs.

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3 See [http://ec.europa.eu/agriculture/cap-indicators/context/2015/2015-10-01-context-indicators\\_en.pdf](http://ec.europa.eu/agriculture/cap-indicators/context/2015/2015-10-01-context-indicators_en.pdf)

## Reply of the Commission

### 41

Major developments in the FADN have also been driven by the successive reforms of the CAP. Some agri-environmental variables and a new set of subsidy variables, including greening, were added to the FADN questionnaire (Regulations (EU) No 385/2012 and (EU) 2015/220) to respond to the CAP post-2013. Similarly, the 2008 CAP reform resulted in FADN changes in Regulation (EC) No 868/2008, the 2003 CAP reform in FADN changes in Regulation (EC) No 2253/2004, etc.

### 42

External production factors are taken into account in other indicators, such as farm net income and farm net income per annual work unit. A broad range of indicators derived from the FADN results can be used and adapted to specific analytical needs.

### 43

The income indicator FNVA/AWU is applicable also to these farms. It is important to stress that the FADN collects information through a complete set of individual accounting variables which allow their reaggregation following specific analytical needs.

### 44

Income indicators for farms organised as conventional companies can be built if needed for analytical purposes.

### 45

Non-monetary income is not explicitly recorded in FADN data collection, but is considered in the analyses based on FADN data (for example in indicators of remuneration of family labour and farm profit). Analysing the effect of income taxation at Member State level goes beyond the scope of the FADN.

### 46

The latest version of the FADN farm return includes other gainful activities directly related to the holding.

### 47

If an activity is managed in separate business units than the farm belonging to the FADN sample, it does not contribute to the farm income.

While grey areas may exist between agricultural and non-agricultural activities, the Commission considers that additional sources of revenue which are clearly non-agricultural are of minor importance for the CAP.

### Box 2

Since the data on other gainful activities directly related to the holding are only collected in the FADN as from the accounting year 2014 and these data are due to be delivered to the Commission by 31 December 2015 (a few months later for the United Kingdom and Germany) the assessment of the inconsistent treatment is mostly based on registration practices prior to the introduction of the new farm return.

All EU Member States are expected to deliver their data following harmonised rules that they have contributed to creating and voted on within the Committee for the FADN. An evaluation of the treatment of other gainful activities directly related to the farm will be only possible once all the validated 2014 data are available.

### 48

As explained in the FADN legislation and methodology, the different thresholds and coverages across Member States are preconditions to build the FADN sample and to obtain meaningful results, considering the scope and objectives of this survey. Varied thresholds actually reflect and thus take into account the varied farm structures of particular Member States. As for the coverage of the EU subsidies, the annual comparison between the total amount of direct payments granted to EU beneficiaries and the aggregate results obtained from FADN data collection present good coverage across the EU, e.g. over 90 % of coverage for decoupled direct payments. This is testified by the extensive use of FADN data in impact assessments and economic analyses of the effects of the CAP subsidies on farms' income.

### 49

As FADN farms represent the largest possible share of agricultural output, agricultural area and farm labour of holdings run with market orientation, it is the income of this type of farm that the FADN aims at comparing. Comparing farm income between Member States with the FADN is meaningful exactly because the different structure of farms at country level is reflected in the sample. If a farm with a standard output of 10 000 euro per year is not representative of the FADN-targeted farms in a certain Member State, there is no reason to include them in the comparison. Thus, comparisons of average income per worker across all holdings included in the FADN can lead to misinterpretation about the income situation of farmers across Member States only if the data are not accompanied by detailed explanations on which part of the farm population is represented by the data.

### 50

The FADN was set up to collect the accountancy data needed for, in particular:

- (a) an annual determination of incomes on agricultural holdings coming within the scope of the survey; and
- (b) a business analysis of agricultural holdings.

It was designed neither to be representative of beneficiaries of EU support, nor to be a monitoring tool for rural development measures. This would require an adaptation of the sample at each policy reform, thereby jeopardising data continuity and reliability.

Nonetheless, the FADN covers more than 90 % of direct payments. Beneficiaries not covered are mostly part-time or subsistence farmers, who fall below the respective survey thresholds and who receive only a small part of the total budget. These beneficiaries are not likely to keep farm accounts that could be used in the FADN.

Structural adjustments in the agricultural holdings of the EU have reduced the number of farms; as a result, the number of beneficiaries of direct payments has also decreased (– 12 % in the EU-15, – 7 % in the EU-N10 since 2005, – 4 % in Bulgaria and Romania since 2008). A smaller share of beneficiaries receives low amounts of direct payments and thus a higher average amount is granted per beneficiary, particularly in the Member States which joined the EU in 2004 and 2007.

### 51

The Commission and the Member States are already working together to allow information on EU income support to be combined with data on agricultural structures and land use. A task force on linkages between administrative data sources, statistics and the FADN was launched in 2012. Various EU Member States participated, by sharing experiences on the different level of integration of their data sources. This work continues in Eurostat's work on a strategy for agricultural statistics towards 2020 and beyond, which places great emphasis on the integration of different data sources. While various technical and legal problems need to be overcome, the better use of administrative data in statistics is clearly envisaged.

## Reply of the Commission

### 52

The statistical principles governing the production of European statistics are included in Regulation (EC) No 223/2009 on European statistics. They form the backbone of the quality assurance framework and are legally binding. The code of practice is a self-regulatory instrument adopted by the ESSC; its implementation in the ESS is monitored on the basis of peer reviews and improvement actions. In accordance with the amended Regulation (EC) No 223/2009, Member States and the Commission shall take all the necessary measures to maintain confidence in European statistics via commitments on confidence in statistics.

### 54

The Commission has relaunched the request for EAA inventories.

A new inventory exercise was launched in December 2014. The provision of inventories was set for 30 September 2016.

### 55

The new inventory exercise as mentioned under paragraph 54 will provide up-to-date information on methodologies, which can then be used to assess the issues mentioned in this observation.

### 56

The Commission has been working on the inconsistencies found for wine and olive oil, in the context of the Working Group on Agricultural Accounts and Prices in December 2014, and this work is still ongoing.

### Box 3 - Second indent

The extent to which the same non-agricultural secondary activity is separable or not depends on administrative rules which vary across Member States. In fact, Regulation (EC) No 138/2004 explicitly states that each country has to compile its own list of inseparable non-agricultural secondary activities, depending on the characteristics of its agriculture (Annex 1, 1.30).

### Box 3 - Third indent

According to Romanian authorities, the treatment of subsidies is in accordance with the provisions of Regulation (EC) No 138/2004. The subsidies in question are those arising from the single area payment scheme (SAPS), which is the simplified version of the single payment scheme, applicable in Member States which acceded to the European Union in 2004 or later.<sup>4</sup>

Romania contends that payments under the SAPS are subsidies which are not directly linked to production or the factors of production within the meaning of paragraph 3.065 and are direct income support within the meaning of paragraph 3.066. This issue will be followed up by the Commission.

### Box 3 - Fourth indent

For France, the issue will be followed up by the Commission.

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<sup>4</sup> According to Regulation 138/2004, Annex, Section 2 Other subsidies on production,  
 3.065. Applying the accrual principle to the recording of other subsidies on production can be a delicate matter ... In the case of subsidies which are not directly linked to production or the factors of production, it is difficult to determine the time of the transaction which gives rise to them and to distinguish it from the time when the subsidies are paid. In this particular case, subsidies are recorded when they are received.  
 3.066. The following special treatments are recommended:  
 ...  
 other subsidies not directly on products or factors of production (direct income support, aid to less-favoured areas, etc.): it is recommended that the criterion depending on the time of payment continues to be used, because it is difficult to determine when the application for compensation was filed and whether the amounts in question are accurate

### 57

Revision of statistical data is a standard and world-wide applied approach in all domains of statistics. Revisions are made when new information becomes available that can be integrated into the results to achieve better quality. Revisions improve the quality of the results. Validation procedures trigger reactions from the Commission to the sender when updates exceed certain thresholds.

### 58

The Commission has reminded the four Member States to provide the self-assessment.

### Common Commission reply to paragraphs 60 and 61

The way the chosen system is implemented contributes to a high or low level of data quality.

### 62

As clearly stated in the EU legislation (Article 7 of Council Regulation (EC) No 1217/2009), the national committee first approves the selection plan before submitting it to the Commission. National statistical institutes are represented in the national committees, where they provide expert advice on precision parameters and confidence bands.

In the past, the Commission did not have the complete information mentioned by the Court. However, the situation has improved in recent years.

### 63

The sample size shall not depend exclusively on the total number of farms, but it shall ensure coverage of agricultural activities according to the diversity of the agricultural sector in terms of farm types and sizes in each region. Therefore, a certain share of farms can be considered representative or not depending on how similar the farms in the same cluster are.

As regards the Spanish sample, the Court's analysis is based on data collected under the previous contract, which did not always ensure the desired representativeness. This contract has been revised and improvements are reflected in the data regarding the following years.

### 64

The Commission is aware of the methods used to select sample farms, as this information is included in the selection plan factsheet to be sent every year by the Member States (Article 3 of Commission Implementing Regulation (EU) 2015/220). This knowledge of the methods allows further analyses of any influence that subjective factors could have on the representativeness of the income information that is obtained.

As regards the Spanish sample, the subregions are not one of the dimensions of the coverage. In fact, the FADN data shall be representative of the FADN division (region), and the sample size is determined to ensure this level of coverage. However, this does not mean that evaluating direct payments will be impossible only because the policy regions do not fully correspond to the statistical regions. Finally, the representation of territorial structures is ensured at higher level of geographical aggregation (as it is often the case for sample surveys).



## Reply of the Commission

### Common Commission reply to paragraphs 65 and 66

The Commission is aware of these difficulties and adequate measures are undertaken when analysing the data for those clusters with fewer sample farms. It is worth stressing that the FADN analyses are mainly run by economic analysts who work at the Commission in close cooperation with data checkers and the liaison agencies. Also, for each external data request coming from researchers, data analysts provide all necessary assistance and information to ensure proper interpretation of the data.

### 68

The Commission is aware that, in smaller farms, bookkeeping practices are less common. This is why, for countries such as Romania and Spain, more attention has been put into analysing possible solutions to the risk of collecting poor-quality data.

After analysing the structural development of the agriculture sector, the Spanish liaison agency proposed an increase in the threshold as from the 2015 accounting year data, with the same number of sample farms, which will generate substitution of small farms with no bookkeeping with more representative reporting farms.

As for Romania, given the complex structure of agriculture in this country, where around one third of all of the EU's smaller farms are found, the FADN sample and the data quality have been kept under strict observation since the first years following accession to the EU.

### 69

The FADN results are presented by AWU (e.g., income indicator FNVA/AWU), which makes them comparable irrespective of the amount of hours of work involved in particular holdings.

### 70

A balance needs to be found between fast publication and satisfactory data quality. As information on farm income is fundamental for the CAP and cannot be used without validation, priority is given to data quality, though continuous efforts are made to have faster availability of the data (2 000 variables questionnaire asked annually in 28 Member States to about 85 000 farms).

Moreover, availability of validated FADN data is not lengthier than the availability of any other data source where thorough data checks and validation of individual farm data are needed.

The FADN based analyses published by the Commission include estimates which allow analysing the data with longer perspective than available yearly datasets.

Furthermore, joint efforts put in place by the Commission and the Member States have already clearly improved the quality of the data which will be available for the evaluation of the 2013 CAP reform.

### 72

The potential EU financing in Romania equals 160 euro times 6 000 sample farms, i.e. 960 000 euro per year. The Commission is aware of difficulties encountered in this Member State in using available funding (though the most recent information suggests that money is now being used to improve the IT system for data collection), but it does estimate that this would be enough to improve the FADN system in Romania.

Following recent years' improvements in the FADN in Spain, the Ministry of Agriculture has restarted the publication of FADN-based data on its website and in the *Anuario de estadísticas agrarias*. This is a much-welcomed first step towards the use of the data for national purposes.

See also Commission reply to paragraph 68.

### 73

A quality framework for FADN exists, and is composed of legal, organisational and procedural parts.

- requirements for FADN and for FADN data are set in its basic regulation;
- verification of quality of data received from Member States and measures foreseen to improve it are described in the official procedures of the unit in charge of the FADN.

The rules governing the FADN clearly include the concept of 'duly completed farm returns' and verification by the Commission (Article 11 and Article 13 of Commission Implementing Regulation (EU) No 2015/220).

### 74

The accuracy of the data delivered to the Commission is assessed following the same procedure for all the Member States (i.e., annual verification of data quality as described at: [http://ec.europa.eu/agriculture/rica/collect\\_en.cfm#tnfqc](http://ec.europa.eu/agriculture/rica/collect_en.cfm#tnfqc) and on-the-spot visits to 3/4 countries every year).

### 75

The Commission is aware of FADN performance problems in individual Member States and takes actions to deal with identified weaknesses. An annual plan of on-the-spot visits has been put into place, together with action plans and follow-up meetings to assess the progress made on agreed points. This approach has led to considerable improvements in several Member States, for example:

- following visit to Spain in 2014 and its follow-up, the Spanish authorities have reinforced the FADN staff, modified the terms of the contract with data collectors and investigated the weak points of the data, so that the use and publication of FADN data has restarted;
- following visits to Denmark in 2013 and Finland in 2015 and their follow-ups, some issues in the implementation of the respective samples have been analysed, and solutions have been proposed and are being implemented.

The Greek FADN is part of an action plan and a protocol of cooperation between the various national authorities involved in agricultural statistics which aim to integrate agricultural statistics and administrative data in a united system of primary sector administrative and statistical data. This action plan is included in the 2014 revision of the memorandum of understanding for Greece that includes a list of actions and benchmarks agreed between the Commission services to address issues of concern in respect of which the Greek authorities committed to achieve set targets.

## Reply of the Commission

### 76

See Commission reply to paragraph 70.

### 81

The objectives of the direct payments system as a whole are set out in recital 24 of Council Regulation (EC) No 1782/2003. The objectives of the constituent payments concerning 'greening', areas facing natural constraints, young farmers, voluntary coupled support and small farms are set out in recitals 37, 46, 47, 49 and 54, respectively, of Regulation (EU) No 1307/2013.

See also Commission reply to paragraph 82.

### 82

The Commission considers that assessing whether the CAP's income-related objectives are being achieved will always involve skilled evaluation based on a wide range of information. This is partly due to the diversity of the EU farm sector. It is also partly because underlying adjustments may be taking place — in the farm sector or outside it — which are positive (or negative) for long-term farm income prospects but are not clearly communicated by a few simple indicators. All interpretations of objectives set out in the treaty, and all approaches to evaluating their achievement, must be sufficiently broad to do justice to this complexity.

The fact that direct payments help to achieve several objectives simultaneously, and the variety of options available to Member States in implementing direct payments, may not lessen the difficulty of evaluation. However, the advantages of this situation outweigh the disadvantages. Pursuing both economic and environmental objectives through direct payments is in some respects an efficient approach to policy and emphasises that 'sustainability' has more than one dimension.

### 83

The indicators should follow the RACER criteria mentioned by the Court **only where possible**. If necessary, proxy indicators might need to be used to represent a phenomenon in the absence of a direct indicator<sup>5</sup>.

### 84

The data on agricultural income (factor income and entrepreneurial income) are available and published online by the Commission. The changes in the indicator values need to be interpreted and put in context to be able to make the causal link with the policy measures. This is the role of the evaluator in a policy evaluation, since no indicator will give information about what caused its change in value.

### 85

Even if there is no fixed target, the indicators allow observation of whether income is increasing or not. Only at the evaluation stage, taking into account context, intervening factors, etc., is it possible to assess the net effect of measures and whether they contributed to an evolution. This can never be directly read from an indicator.

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<sup>5</sup> See: [http://ec.europa.eu/smart-regulation/guidelines/docs/br\\_toolbox\\_en.pdf](http://ec.europa.eu/smart-regulation/guidelines/docs/br_toolbox_en.pdf), p. 250-251

### Box 4 - First indent

The Commission, together with the Member States, has developed a set of indicators which **combined** should allow to give the evaluators the information needed.

The indicator is intended to inform about the dependence of farmers on the direct payments, not about their income as such.

See also Commission reply to paragraph 38.

### Box 4 - Second indent

The indicator variability of farm income, which is based on the FADN data, cannot provide information about effectiveness of direct payments, since in its calculation direct payments are not taken into account. The indicator measures the instability of farm income in the absence of direct payments (or any other relationship with the public sector, e.g. taxes).

### Box 4 - Third indent

The indicator value added for primary producers is not intended to give information about income, but about the competitive position of the farmers in the food production chain.

### 86

Relevant data are available (e.g. as output indicators).

### 87

The indicators in isolation do not provide information about efficiency or alternative scenarios. This is the role of evaluation and impact assessment respectively.

## Conclusions and recommendations

### 88

The audit often links the available income indicators to the analysis of the effectiveness of direct payments. Yet income is not the only CAP objective and direct payments are not the only CAP instrument having an impact on income; nor is their impact limited to income as they support the joint delivery of private and public goods. Article 110(3) of Regulation (EU) 1306/2013 clearly requires assessment of the combined impact of all CAP instruments in relation to the CAP's common objectives. More specifically, direct payments in their form of area-based payments contribute not just to income support for farmers, but to other objectives related to land use, such as soil protection, biodiversity enhancement and climate mitigation. With other CAP instruments, such as the agri-environmental climate measures in rural development, direct payments jointly contribute to these objectives.

### 89

While direct payments indeed make up the more than two thirds of the CAP's budget, 30% of this amount will be linked to European farmers' compliance with sustainable agricultural practices which are beneficial to soil quality, biodiversity and the environment in general.

## Reply of the Commission

### 90

The Commission also uses established sources of information and strives to avoid unnecessary administrative burdens. The added value of information needs to be assessed against the burdens and resources in generating this information.

### 91

Individual indicators and tools have stronger and weaker points, however the overall system provides the best possible balance between the information needs and the related costs and administrative burdens.

Moreover, what is identified as limitations of the statistical data is in fact the representation of the main features of the data sources.

### 92 - The common monitoring and evaluation framework of the common agricultural policy

The CMEF presents a comprehensive set of indicators for the assessment of the impacts, results and outputs of the CAP as a whole. For each indicator, the corresponding data sources have been clearly identified.

In the treaty, there is a link between increasing agricultural productivity and ensuring a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture. It is thus appropriate to focus on the income derived from agricultural activities, as this income is of primary importance for the CAP. Accordingly, it is of primary importance to have representative data on the income derived from agricultural activities (as opposed to the disposable income of farm households). These data can be compared to average wages in other sectors of the economy to justify EU farm income support.

### Recommendation 1 - Developing frameworks for collecting and comparing relevant information on farmers' incomes

The Commission partially accepts this part of the recommendation and will consider how it might be implemented.

The Commission considers that the existing framework for providing information on the income derived from agricultural activities could be strengthened but that the administrative burdens of developing a framework for providing information on the disposable income of farm households may outweigh the potential benefits. The legal basis required for such data collection would be delicate to establish.

The disposable income of farm households is a much wider concept than that of farm income. The CAP supports farmers' income by supporting their agricultural activities. Thus, it is important to analyse the evolution of income derived from agricultural activities to evaluate whether the objective has been met.

The Commission accepts this part of the recommendation.

### 93

What is identified as limitations of the statistical data is in fact the representation of the main features of the data sources.

### 94

The Commission takes note of the observation and the scope for possible further developments in the EAAs.

### Recommendation 2 - Developing the EAAs

The Commission accepts this recommendation.

The Commission intends to:

- develop the EAAs with a view to providing more detailed information on the factors impacting agricultural income;
- undertake a study to examine the issue of whether the EAAs can be further developed to provide a reasonable estimate of the economic value of the public goods that are produced by farmers;
- discuss with the Member States the possibility of formalising the operational arrangements to cover regional EAAs;
- review whether EAA information is used appropriately in income indicators.

### 95

The FADN was set up to collect the accountancy data needed for, in particular:

- (a) an annual determination of incomes on agricultural holdings coming within the field of the survey; and
- (b) a business analysis of agricultural holdings.

It covers more than 90 % of direct payments. Beneficiaries not covered are mostly part-time or subsistence farmers, who fall below the respective survey thresholds and who receive only a small part of the total budget. These beneficiaries are not likely to keep farm accounts that could be used in the FADN.

The Commission is of the view that the existing indicators for income derived from agricultural activities reflect to the extent possible the current situation of agriculture and provide sufficient and consistent data on the largest possible share of beneficiaries of CAP measures.

Information on other farm-related incomes (other gainful activities directly related to the holding) has been partly included in the FADN since 2010. This aspect has been further strengthened in the new set of data to be collected from the 2014 accounting year onwards.

### Recommendation 3 - Developing synergies between the FADN and other statistical tools

The Commission accepts this recommendation.

The Commission is of the view that the existing indicators for income derived from agricultural activities reflect to the extent possible the current situation of agriculture and provide sufficient and consistent data on the largest possible share of beneficiaries of CAP measures.

FADN data already cover almost the totality of EU subsidies. As regards the coverage of small farms/beneficiaries, since these farms do not have data of sufficient quality to ensure that their participation in the FADN would be based on accountancy and bookkeeping practices, the Commission will rely on the better use of administrative sources of information.

### 96

The Commission has relaunched the request for EAA inventories to obtain up-to-date information on the EAA methodology and data sources used by Member States.

## Reply of the Commission

### Recommendation 4 - Improving the quality of the EAAs

The Commission accepts this recommendation.

The Commission intends to introduce regular quality reporting on the EAAs and compliance assessment with a view to obtaining reasonable assurances that Member States set up a quality assurance framework.

#### 97

The sample size shall not depend exclusively on the total number of farms, but it shall ensure coverage of agricultural activities according to the diversity of the agricultural sector in terms of farm types and sizes in each region. Therefore, a certain share of farms can be considered representative or not depending on how similar the farms in the same cluster are.

As for the insufficient funding, in some of the countries visited by the Court, such as Romania, potential EU financing is estimated to be enough to improve the FADN system.

#### 98

The Commission is aware of FADN performance problems in individual Member States and takes actions to deal with the identified weaknesses. An annual plan of on-the-spot visits has been put into place, together with action plans and follow-up meetings to assess the progress made on agreed points. This approach has led to considerable improvements in several Member States.

### Recommendation 5 - Improving the quality of FADN

The Commission accepts this recommendation and is already implementing parts of it.

The Commission is aware of FADN performance problems in individual Member States and actions are already ongoing to tackle existing weaknesses. An annual plan of on-the-spot visits is realised, together with action plans and follow-up meetings to assess the progress made on agreed points. In recent years this approach has led to considerable improvements in several Member States. Moreover, some of the weaknesses found in the previous Court audit have been already addressed and solved.

#### 99

The objectives of the direct payments system as a whole are set out in recital 24 of Council Regulation (EC) No 1782/2003. The objectives of the constituent payments concerning 'greening', areas facing natural constraints, young farmers, voluntary coupled support and small farms are set out in recitals 37, 46, 47, 49 and 54, respectively, of Regulation (EU) No 1307/2013. The Commission considers that assessing whether the CAP's income-related objectives are being achieved will always involve skilled evaluation based on a wide range of information. All interpretations of objectives set out in the treaty, and all approaches to evaluating their achievement, must be sufficiently broad to do justice to this complexity.

The variety of options available to Member States in implementing direct payments may not lessen the complexity of evaluation. However, the advantages of this situation outweigh the disadvantages, as the various options available in terms of direct payment implementation help Member States to address the particular situations of their respective farm sectors more effectively.

### 100

The Commission considers that the indicators as defined in the context of the monitoring and evaluation framework as it currently exists provide the best balance between the need for information to assess the CAP's performance and the related costs and administrative burdens.

Each indicator inevitably has some limitations. For this reason the Commission uses a set of indicators and data. Indicators as such cannot provide information if objectives are efficiently achieved, but in-depth analysis is needed. Only at the evaluation stage, taking into account context, intervening factors, etc., is it possible to assess the net effect of measures and whether they contributed to an evolution. This can never be directly read from an indicator.

### **Recommendation 6 - Improving the performance measurement of CAP measures supporting farmers' incomes**

The Commission accepts this recommendation.

The Commission will further stimulate the good practice for evaluators to use additional information, complementing — on a case-by-case basis — the data collected through the monitoring and evaluation framework, for judging on the results achieved, yet extending the framework with additional data will create unwarranted administrative burdens.



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The incomes and standard of living of farmers are a particular focus of the EU's common agricultural policy. Almost one third of the EU budget is still directly or indirectly dedicated to supporting farmers' incomes. The Court examined the system which the Commission set up to measure the incomes of farmers and the performance of the EU measures aimed at supporting their income.

The Court observed that the system is not sufficiently well designed and that the quantity and quality of statistical data used to analyse farmers' incomes has significant limitations.

The Court recommends that the Commission develop a more comprehensive framework for providing information on the incomes of farmers and enhances the present arrangements for assuring the quality of income data. The Commission should also define from the outset appropriate operational objectives and baselines against which the performance of the EU measures aimed at supporting farmers' incomes can be compared.



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