AT A GLANCE

Requested by the AGRI committee

European Parliament

Support measures for farmers' income in different Member States in the context of inflation and rising production costs

Understanding farm income dynamics in the EU

Agriculture is inherently exposed to price movements in both outputs and inputs. Since 2021 the sector has experienced a number of unusually large and rapid price shocks (notably in energy and fertiliser after Russia's invasion of Ukraine, and more broadly through higher general inflation). This has amplified already volatile farm incomes in the European Union (EU). As a result, many farms have been placed under additional financial stress against a background of ongoing climatic, market and geopolitical risks which complicate further the challenges faced by EU farmers.

Key factors affecting farm income in the EU

Farm income across the EU is shaped by production conditions (weather), production costs, output prices, farm structure, and policy support. Ensuring that farmers have a fair level of income is a key Common Agricultural Policy (CAP) objective. Fair incomes can ensure that production remains economically sustainable and that future generations of farmers will be attracted to working in the sector.

FARM INCOME IN THE EU

Price & costs

Agricultural **input prices** rose sharply from 2021 onwards, e.g., fertilisers, energy, feed and other purchased inputs.

Output prices later increased in many sectors, but those price increases were not uniform in timing or magnitude.

In 2023 **output values fell** in some sectors, while input costs remained elevated, leading to a significant drop in income in some parts of agriculture.

Heterogeneous impacts

Income developments **differed** by sector, farm size and Member State.

With some exceptions, **real farm income declined** across Member States between 2022 and 2023, with inflation amplifying these effects in some countries.

Distributional patterns

Income inequality within Member States remains **pronounced**.

A small share of farms receive a large share of total farm income.

The distribution of EU income support in the form of direct payments (largely based on the farm's size in hectares) is uneven. In 2023, the top 20% of beneficiaries received 80% of support.

Policy support

Total support payments contribute around **one third** of farm income on average across the EU.

Recently the real value of support payments has been eroded by higher inflation, reducing their capacity to stabilise farm incomes.

Smaller farms are, on average, **more dependent** on policy support payments to supplement farm income levels.

Existing income measurements

Approach 1: Aggregate sector income measure, treating agriculture in each Member State as one single farm.

Approach 2: More detailed. It allows measures of farm-level income to be produced for individual farms or categories of farms.

Limitations: Timeliness of data availability could be improved. Statistics focus on agricultural earnings and do not consider other income sources available to the farm household.

Source: Authors

Farm income dynamics

In the EU, farm incomes are increasingly volatile and remain sensitive to sudden input and output shocks. Structural factors such as farm size, specialisation and location are major drivers of income differences observed across the EU. Overall, farmers are, and will continue to be, exposed to economic, climatic and geopolitical uncertainties.

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Addressing farm income volatility

There is a need for policy mechanisms that protect both nominal and real farm income. Looking at the EU, the targeting of agricultural support has improved, as measures aimed at young farmers, small farms, and disadvantaged areas have emerged. However, a substantial share of the available support is still derived from the hectare-related basic income support scheme. This study has identified a range of policy options that focus on income support and income stabilisation.

Looking to the future, the efficiency and targeting of income support could be improved by continuing to align payments more closely with farmers' needs, rather than associating payments with farm size. Moreover, some form of indexation of support might be considered to protect its real value. Expanding the effective use of risk management tools could further strengthen farmer resilience, but this will require further development of such tools. Complementing income support with measures that promote both sustainability and competitiveness will be essential to deliver long-term economic viability, environmental compliance and social sustainability in EU agriculture. These will be essential requirements to ensure generational renewal and resilience in the sector so that it can deliver on all its objectives.

Policy options

- Decoupled, coupled and redistributive hectare payments
- Payments for natural handicaps
- Price support
- Input/output subsidies
- Counter cyclical payments
- Price insurance
- Revenue/margin insurance
- Yield insurance
- Farmer precautionary savings accounts
- Crisis reserves

Overall, farm income could be supported by a mixed package of policy instruments, taking into account practical considerations in the delivery of support and distributional trade offs. Challenges that need to be addressed include practical verification, effective management of administrative burden and the continuing need for monitoring and related data collection.

KEY MEASURES SUPPORTING FARM INCOME IN THE EU – TRANSFER EFFICIENCY, TARGETING, CHALLENGES

Basic income support (CAP Pillar I)

Raise average **farm incomes**, providing a greater degree of predictability in the level of farm income.

Relatively **simple to administer**, often poorly targeted to actual needs. Their fixed nominal value has been eroded in real terms by bouts of high inflation.

Eco Schemes (CAP Pillar I)

Remuneration to farmers on the basis of **income foregone** for achievement of **environmental actions**.

They offer weaker support to farm income than basic income support.

Voluntary Coupled Support

Useful in targeting support to **vulnerable** sectors, or to ensure **strategic supply** of particular farm outputs.

Can result in perverse incentives when schemes are not well designed.

Risk-management tools

Including **insurance, mutual funds** and **income stabilisation tools**.

Useful to **reduce risk exposure**, but uptake of these instruments across the EU is low due to barriers such as costs.

National crisis measures and state aid

For **rapid crisis relief**, following adverse price or production shocks.

Made available to sectors which received little in the form of other CAP supports. Subject to national fiscal constraints.

Market interventions

Including **price support** and **subsidies**.

Could also be distortionary (influencing the level of production and international trade); constrained by international trade rules.

Source: Authors

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