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From Farmers to Farm Firms – Some Recent Changes in Norwegian Politics and Implications for Agricultural Statistics

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From Farmers to Farm Firms – Some Recent Changes in Norwegian Politics and Implications for Agricultural Statistics

Agnar Hegrenes and Anne Snellingen Bye¹

Abstract

This paper was inspired by some changes in the criteria for being entitled to subsidies in Norwegian agriculture, and the changes this induced in agricultural statistics. Although the paper is concerned with Norway only, the Norwegian experiences might be of interest to a broader audience. It illustrates some of the challenges which can occur when statistics is based on register data, and the register owner make changes in the criteria and thus in the information gathered.

Keywords

Agricultural statistics, agricultural units, Norway, organisational forms, register data,

1. INTRODUCTION

Profitability of agriculture and the income situation of the farm households have been of great interest in Norwegian agricultural policy for a long time. The regional distribution of agricultural production is another important issue in Norway. Also the structure of agriculture has been important. For some periods it has been a wish to speed up the structural change. For other periods it has been a goal to slow down the pace. Agricultural structure and changes of the structure have been measured by the number of farm holdings, total agricultural area in use, average farm size and size distribution of farm holdings. Definition of the agricultural sector, the basic unit of farming and of the farm population have been and still are important in order to get relevant statistical information. Definitions are equally important in order to get information that is comparable over time and between countries.

During a period after the Second World War the number of agricultural properties and the number of active farms were almost the same. It was easy to identify the farm units and the farmers running which unit. As will be made clear below this is not the case any longer.

The purpose of this paper is to present and discuss some of the recent changes in definitions and measurement of what is an agricultural unit in Norway. What have been the criteria for defining a unit as an agricultural holding? What activities have been recognised as a part of agriculture?

The Norwegian case illustrates some problems with defining the agricultural sector, and the basic unit in agriculture. It also illustrates some challenges in using information gathered for other purposes as the basis for official statistics, especially when the criteria used for the other purpose change over time. In this paper we will describe the changes in some detail, why they happened, and discuss implications for the agricultural statistics. We briefly touch upon legal aspects of choice of organisational form.

2 DEFINITION OF A FARM HOLDING

Since 1995, Statistics Norway has reported structural statistics to Eurostat, but only since 1999 the Norwegian definition of a farm holding has been fully in accordance with the Eurostat definition:

"A single unit both technically and economically, which has single management and which produces agricultural products. The holding may also provide other supplementary (non-agricultural) products and services."
(Office for Official Publications of the European Communities, 2002)

Thus a holding is defined by three key criteria:

- *production of agricultural products: "agricultural products" are taken from those products listed in Annex II.*

- *single management: there can be single management even though this is carried out by two or more persons acting jointly*
- *a single unit technically and economically: in general this is indicated by a common use of labour and means of production (machinery, buildings or land, etc.)*

The definition is further explained by some cases.

To be defined as an agricultural holding (farm), Statistic Norway requires that the agricultural activity should exceed certain limits or “thresholds”. Operating at least 0.5 hectare of agricultural area is the most important condition. Other units become agricultural holdings because they exceed certain threshold in various productions (operating more than 0.1 ha of strawberries, having at least 5000 broilers etc.). As late as in the Agricultural Census 1979 even smaller units, including kitchen gardens, were obliged to report, but on a simplified questionnaire. Until 1998 it was also required that the agricultural land should be in one and the same municipality. If a person farmed land in two or more municipalities, it was counted as two or more holdings, even when the operation met all three criteria for being one holding. From 1999 onwards all activity under one management is regarded as one holding regardless of it being in the same municipality or not. The number of farm holdings decreased by approximately one thousand because of this change.

Statistics Norway introduced the term “driftsenhet” (= operating unit) in the 1960s to capture that many farmers rented some land in addition to the land they owned. This operating unit as analogue to the English term holding. A holding consists of all the land a farmer run regardless of ownership. More and more agricultural land is rented; and at present approximately 35% is rented. The number of agricultural properties has been quite stable, while the number of agricultural firms (holdings) has been on the decline since the 1950s, and have declined relatively more rapidly since the late 1990s than before. This means that there is a distinct difference between an agricultural property and an agricultural holding, see Figure 1.

At present, approximately two third of the agricultural properties do not have any agricultural activity of their own. A large part of the (best) agricultural land is rented to other holdings. It seems that the politicians are becoming more interested in the properties without any agricultural activity. What happens to the agricultural land? Is the dwellings used as domestic building or second homes or for any other purposes? This interest is partly a result of increasing concerns about the development of the cultural landscape, and partly because this resources might be an important basis for rural development.

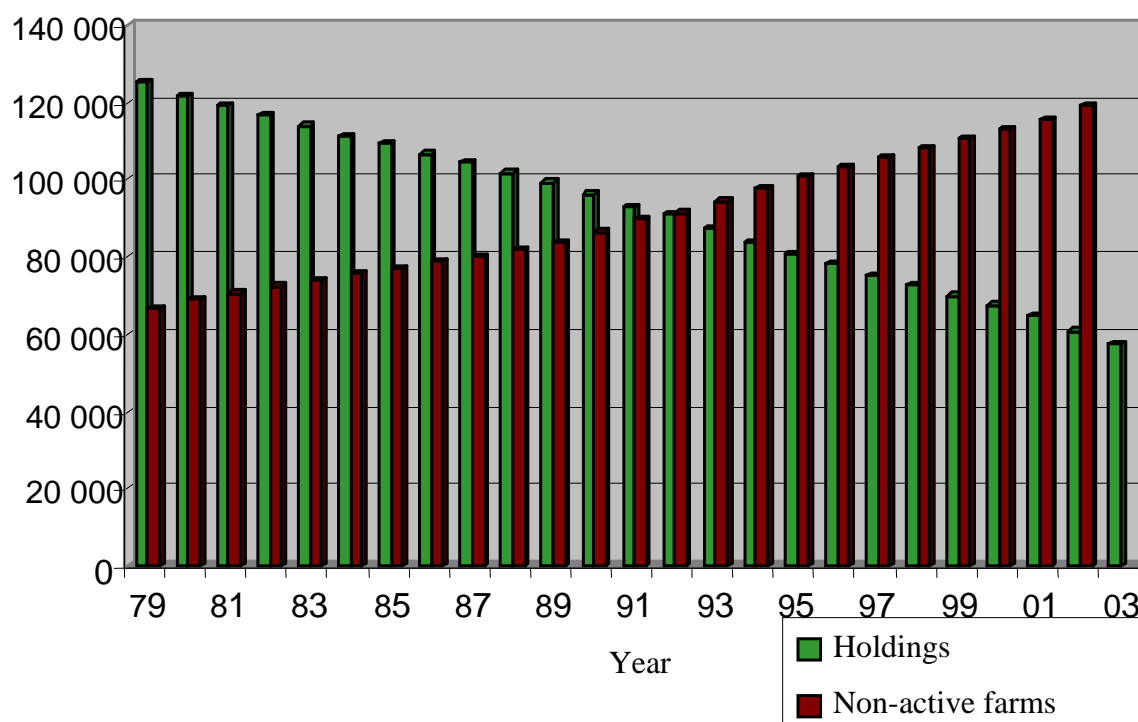


Figure 1. Number of holdings and non-active farms 1979-2003. Source Forsell (2005)

3 APPLICATIONS FOR SUBSIDIES AS A DATA SOURCE FOR AGRICULTURAL STATISTICS

Until the early 1980s, the set-up of the official agro-statistical system in Norway remained quite traditional. The backbone of the system was full censuses every tenth year and yearly sample surveys in between. In addition, a number of more or less detached statistics on input, production, prices etc. from various sources were maintained. Gradually, administrative systems for the management of governmental grants to agricultural holdings were exploited to relieve the respondent burden. Other important reasons were to save money and in some instances to improve quality (Moss, 2004).

3.1 Criteria for application for agricultural subsidies

Since 1984 the applications for production subsidies have been an important source of data for official statistics on the use of agricultural land and for the number of farm animals.

Every applicant that meets the criteria given in provisions of the law is entitled to receive the subsidies, but they have to apply twice a year (August and January). The criteria for being entitled to receive subsidies have been changed from time to time. In

this paper we focus on the changes introduced in 2002. Until 2002 subsidies were paid to persons, as the main rule, but also companies and institutions were entitled to apply for subsidies. In order to be entitled to subsidies the applicant had to run a holding with crop or livestock production, have at least 1 ha of agricultural land in use (owned or rented), and the property had to have a dwelling(s) and necessary farm building(s). In addition the holder must have (gross) incomes from the holding. The production should be reasonably large compared with the resources and possibilities on the farm. If the resources were underemployed, the application should be turned down and no subsidies paid.

In 2002 the criteria for being entitled to subsidies was changed. The terminology and focus changed from persons to enterprise (“foretak” in Norwegian). In order to apply for subsidies an enterprise had to (1) have incomes from selling of agricultural products, (2) have agricultural land and livestock at its disposal, (3) be registered in the Brønnøysund Register Centre and have an organisation number, and (4) be registered for value added tax (VAT) and be able to produce an annual value added tax report as an agricultural enterprise. The enterprise could be a sole proprietorship, a joint operation, or a limited company. A person could establish more than one enterprises. However, one person could not be the owner of more than one enterprise applying for animal subsidies and one enterprise applying for acreage subsidies for each of five crop groups (roughages, cereals, potatoes, vegetables, and fruit and berries).

The Brønnøysund Register Centre is an administrative agency responsible for a number of national control and registration schemes for business and industry. (<http://www.brreg.no/english/about.html>)

The lower limit for being obliged to register for VAT is an annual sale of NOK 30 000.² For most production lines this is more than the production of 1 ha. Subsidies are not included in the basis for VAT, except price subsidies.

Because of the change, some small farm units were no longer entitled to apply for production subsidies. However, it is possible for two or more small farmers to establish an enterprise for their combined production and thus be entitled to apply for subsidies. As mentioned it is possible for a person to establish one enterprise for the livestock production and one enterprise for each of a defined group of crop production (for instance one enterprise for cereal production and one enterprise for potato production). The enterprise(s) might be established by one person or together with one or more other persons. Each of the enterprises can apply for subsidies. If an enterprise is owned by a member of a joint operation in dairy farming (a group holding), the enterprise can still apply for other livestock productions or crop productions as long as these activities are not a part of the joint operation.

The restrictions on the establishment of enterprises are motivated by the modulation of the subsidy payments. The acreage subsidies are decreasing per additional hectare, and the headage payment per animal is decreasing with the number of animals. For animal subsidies there is an upper limit on annual payment (at present NOK 200 000 per enterprise for most enterprises). Without any restrictions on the number of enterprises, the subsidy system could give incentives for establishing more than one enterprise in order to get more subsidies. In crop production each crop group is treated

separately, and there is no upper limit on total payments. Thus it is sufficient to restrict the number of enterprises to one for each crop group.

For each enterprise there is a reduction in estimated subsidies. At present this is NOK 5 500 per enterprise. This gives an incentive not to establish “too many” enterprises. In fact, if one person establishes more than one sole proprietorship, he or she would lose money. To establish more than one enterprise is relevant when a farmer for instance cooperates with another farmer on cereal production and with a third farmer on potato production. Then he or she would be involved in two enterprises.

An enterprise with a sole holder between 67 and 70 years old gets NOK 5 000 less in subsidies than an enterprise with a younger holder. If the enterprise has a sole holder older than 70 years, the enterprise gets NOK 25 000 less in subsidies. For enterprises without a person as holder, there is no such reduction. One can argue that the change of focus from farmers to enterprises was not complete.

For many farmers the change from paying subsidies to persons to paying subsidies to enterprises, had no or very small implications. This applies to sole operators which did not change the organisational status. This is the majority of the farmers, see table 1.

It should be mentioned that the changes regarding applications for subsidies has nothing to do with the legal regulation of ownership and transfer of agricultural property.

Table 1 Number of holdings as of 31 July, 1999-2004

Year	1999	2000	2001	2002	2003	2004*
Persons	69689	67645	64485			
Other	781	984	1122			
Enterprise with sole holder				60044	56308	53571
Other enterprises				1846	1923	2126
Total	70740	68539	65607	61890	58231	55697
change from previous year, %		-3.1	-4.3	-5.7	-5.9	-4.4

* Preliminary estimate

Source: Statistics Norway

3.2 Why were the criteria for application of subsidies changes?

The abovementioned changes are partly a change of terminology, and it was an intention to bring the terminology used in these regulations in accordance with the terminology used in regulations of other industries. This might be part of a plan to bring classification of commercial agricultural units in line with classification of units in other industries. Agriculture is not regarded as unique as it once was. Another reason behind the changes from farmers (holders) to enterprises was that regulations regarding subsidy payments should not be a hinder for structural adjustments. A third, and related reason, was the growing interest in joint operations (group farming), especially among dairy farmers. It was also a growing interest in establishing companies responsible for the operation of the farm business while one or more persons retained ownership of the property. The government intended to form a

subsidy system that was neutral regarding organisation of the running of the farm activities. It was perceived to be necessary to adjust the regulations to new realities. On the other hand the government wanted a system that did not create incentives for establishing enterprises only to “harvest” subsidies.

To require VAT registration did mean that some small farms no longer were entitled to apply for subsidies. The purpose of this requirement was to secure that those who received subsidy payments should run a farm enterprise of some size and for some time. The Ministry of Agriculture and Food³ (2002) clearly stated a wish to draw a distinguishing line between commercial farms and hobby farms.

3.3 Statistical implications of using register data as a source of information for agricultural statistics

As mentioned the information from the applications for subsidies is an important data source when Statistics Norway produce official agricultural statistics and in practice define the agricultural holding. When the revised regulations regarding subsidies were implemented in 2002, Statistics Norway in close cooperation with relevant institutions, decided to retain as much of the continuity of the official agricultural statistics as possible. In Norwegian the term for “holding” changed from “driftsenhet” to “jordbruksbedrift” (agricultural firm), while the term “holder” was replaced by the term “jordbruksforetak”. The Budgeting Committee for Agriculture, which is a body preparing the material for the annual negotiations between the government and the farmers unions on agricultural product prices, subsidies and other support measures, decided to change terminology accordingly.

As already mentioned, as the main guiding rule, Statistics Norway defines every holding with more than 0.5 ha of agricultural land in use as an agricultural holding. In addition, some units with a certain size of production (horticulture, some types of animal production) are included even if they operate less than 0.5 hectares. Some units with agricultural activity do not apply for subsidies, either because the activity is too small, or for other reasons. Since 1999 Statistics Norway has constructed a total annual population of agricultural holdings. Statistics Norway uses every relevant register to get information on holdings with agricultural activity which is not included in the register of applications for subsidies. These include registers and delivery of cereals and animals for slaughter, the register for business enterprises, the Norwegian farm register, the Annual Sample surveys of Agriculture etc. This is called the Agricultural Statistical System, and it will also include information on agricultural properties. It also contains tax information on all persons owning an agricultural firm. Statistics Norway is fairly content with the sub-system of agricultural holdings, but still have a way to go on the property side. Some of the horticultural units, particularly greenhouses with production of flowers, are also missing. (Moss, 2004)

3.4 Have Norwegian farmers established other enterprises than sole enterprises?

The number of holdings has declined by 3 to 6 per cent annually since the year 1999, Table 1. The decline from 2001 to 2002 was not very different from the decline for the years just before and after. However, the number of other enterprises than enterprises with a sole holder has increased, and is now much larger than the number of non personal applicants before 2002. One reason is the increasing number of joint operations in dairy farming, Table 2. Approximately on half of the applicants that are not sole holders, are joint operations in dairy farming. Enterprises with a sole holder are (still) a great majority.

Most joint operations in dairy farming have two members. Based on the information in Table 2 one can estimate that 10-15% of the total milk production in Norway is carried out in joint operations.

Table 2 Number of dairy farms and joint operations in dairy farming, 1997-2004

Year	1997	1998	1999	2000	2001	2002	2003	2004*
Dairy farms	24292	23800	22659	20734	19817	18503	17471	16618
Joint operations**	216	265	379	488	649	811	988	1142
Of which ANS						238	142	185
DA						538	834	945

* Preliminary estimate

** The joint operations are included in the total number of dairy farm

Sources: Statistics Norway

3.5 Other statistical implications and challenges

The Norwegian Agricultural Economics Research Institute produces account statistics for agriculture. This statistics has always included information on total income, assets and wealth (equity) for the farm family, in addition to the statement of income and costs for the farm business. For joint operations in dairy farming it is relatively easy to get accounting data for the operation. It is much more difficult to get information on income from other activities than farming and information on assets and debt for the two or more households involved in the joint operation.

The solution has been not to include joint operations in the “normal” statistics, but to prepare a satellite statistics for joint operations in dairy farming. This statistics includes only the income, costs, assets and debt for the business activity.

At least some years ago the income of farmers was an important agricultural policy goal. Since the early 1990s, income has been regarded more as an instrument to reach other goals than a goal in itself. However, the annual negotiations between the government and the farmers unions have still had a focus on income and comparisons of income between farmers and other group in the society. The main focus has been on income from agriculture, but some research programmes have had focus on living standards. These programmes have studied household incomes. With a more varied agricultural sector, it might become more difficult to define the agricultural

household. As the great majority of the farm businesses is sole enterprises this is not a big problem at present.

Another trend is an increase in the use of contractors to carry out specific farm operations, and to lease machinery and other equipment. Should such entrepreneurs be included in the agricultural sector or not? The answer will have an influence on labour input, investment, and capital in agriculture.

Many farmers use their agricultural equipment for contracting work outside the farm and outside agriculture. Is the income from these activities an agricultural income or not? For tax purposes such incomes are regarded as a part of agriculture as long as the turn over is less than NOK 30 000 per year. For statistical purposes (National accounts and the Farm Business Survey) agriculture is credited by a rent for the use of equipment outside agriculture regardless of how large the turn over is.

The use of farm equipment outside agriculture is just one example of value added activities on the farm or combined with the farming activities. There are some differences in taxation of agriculture and other activities, both regarding value added tax and income tax. Therefore it is necessary to split the activities when reporting to the tax authorities. However, as long as the other activity is of minor importance (less than NOK 30 000 in turn over), it is common to regard it as a part of the agricultural activity for tax purposes. If and when the activity becomes more important, a distinguishing line has to be drawn between the various activities for taxation purposes. It might be argued that it is a single management and a single unit technically and economically because there is a common use of labour and means of production (machinery, buildings or land, etc.) The third criteria of the Eurostat definition mentioned in Section 2, might not be met; the production of agricultural products. However, the "other" activity might be processing of agricultural products, but that is usually not regarded as production of agricultural products. Thus it is probably in accordance with the definition of a farm holding not to include the other activities when defining the agricultural holding.

Only approximately 3% (ca. 1 mill hectares) of the total area of Norway is agricultural land. It has since long been a political goal to preserve the agricultural land. Thus the development of the size of the agricultural land in use, have been in interesting indicator. Approximately 15% of agricultural land in Norway is surface cultivated meadows and pastures. It is a kind of semi-natural pastures. In many cases it is questionable if these pasture are agricultural land or not. As long as it is accepted as being entitled to acreage subsidies it is defined as agricultural land. Otherwise it is not. Possible changes in the definition of land entitled to acreage subsidies, could thus have influence on the acreage statistics.

4 SOME LEGAL CONSIDERATIONS

A sole proprietorship is not an independent tax subject. The owner of the enterprise pays the tax. The owner is also fully responsible for the debt. Although it is common for husband and wife to be active in farming, only one of them is registered as owner

of a sole proprietorship. If both want to be registered as owners, they have to be registered as a partnership.

Joint operations in dairy farming are usually organised as general partnerships. Such businesses are capable of making contracts. Such partnerships can be organised as a business with *unlimited liability* (ANS) or a business with *limited liability* (DA). The difference between the two pertains to risk exposure for the partners. Members of a business with unlimited liability are accountable for the total debt of the business, while members of a business with limited liability are responsible for a predetermined part of the operation and of the debt.

The partnerships are not independent tax objects. The surplus and the net wealth of the operation are distributed to the members of the joint operation, and the owners of the partnership pay the tax. According to accounting laws, the partnership has to produce an income statement, and distribute the economic surplus and net wealth to the partners. The individual partners have to produce their own accounts. The partners own their land, and the joint operation either rent land from the owners or buy forage from the members. Approximately one half of the joint operations in dairy farming is registered as being without any agricultural area.

Also in cases when two or more farm enterprises establish an enterprise for running some agricultural operations other than dairy farming, they usually establish the enterprise as general partnerships with shared responsibility (DA).

In principle the operation of a farm holding can be organised as an independent company owned by shareholders. In most cases it would be correct to classify such enterprises as cooperatives set up as companies. As far as we know there are very few such companies in Norwegian agriculture. There are some companies which own and run farms, but these are usually a part of larger companies. Most authors writing on the choice of organisational form for agricultural firms involving more than one person strongly recommend general partnerships with limited liability, e.g. Heie and Breen (1999). Table 2 indicates that DA is the most common organisational form, and that some ANS have been reorganised into DA.

ANS is probably the most relevant form when husband and wife or two cohabitants want to establish a partnership.

5 CONCLUDING REMARKS

In this paper we have mentioned some recent changes in classifying and defining the basic units in agriculture. Some of the changes are mostly regarding terminology, but some changes reflect a more varied reality. One is the difference between ownership and utilisation of agricultural resources, especially land. While ownership structure is quite stable, the number and structure of the holdings is rapidly changing.

Modulation of subsidy schemes and criteria for being entitled to subsidies have an effect on the structure. Data for application for subsidies are an important source of data for agricultural statistics. When the criteria for being entitled to subsidies

changed, the definition of a holder and a holding had to be changed as well. This illustrates some of the problems with relying on register data for statistical purposes. The statisticians get data which is relevant for the other purpose, and that is not necessarily the data the statisticians want. Comparability over time can be reduced. On the other hand, there are many advantages with register data.

However, it is clear that the independent family farm is not the only type of farm in Norwegian agriculture any longer. The number of partnership between previously independent dairy farms, is increasing rapidly. There are also other kinds of partnerships for the running of special parts of the agricultural production. Most of these are organised as limited partnerships. There are very few incorporated companies, and a small majority, if any firms at all, are owned by shareholders in general.

¹ Agnar Hegrenes is Head of Research at Norwegian Agricultural Economics Research Institute. Anne Snellingen Bye is Senior Advisor at Statistics Norway. Paper presented at the EAAE Seminar on Institutional Units in Agriculture, held in Wye, UK, April 9-10, 2005.

² On average for the year 2004, NOK 8.3715 = EUR 1 (Norges Bank http://www.norges-bank.no/english/statistics/exchange/kurs_ae1.html)

³ Before 1 October 2004, the name of the Ministry was Landbruksdepartementet (The Ministry of Agriculture). As of that date onwards the name is Landbruks- og matdepartementet (The Ministry of Agriculture and Food). We use the present name throughout this paper regardless of which period we refer to.

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