

# 1 GENERAL PRINCIPLES OF THE NEW CLASSIFICATION SYSTEM OF AGRICULTURAL HOLDINGS

Agricultural holdings in the frame of the European Union are characterized by a huge diversity. To enable comparison of structural and economic outcomes of homogeneous groups of holdings, a classification system was developed which allows classification of agricultural holdings by its type of farming, economic size and, newly, also by importance of other gainful activities (OGA). This generally applicable classification system can be used in various analyses evaluating outcomes of agricultural holdings. Typology of European agricultural holdings is used especially in Farm Structure Surveys (FSS) and in Farm Accountancy Data Network (FADN). The newly established system has been applied for the first time for the purpose of Agrocensus 2010. In total, 22 864 agricultural holdings were classified according the EU typology. This publication presents results of the new classification.

Since its establishing in 1985, the classification system was based on Standard Gross Margin (SGM) coefficients. The SGM expressed mean financial value of a production unit for particular sectors of crop and animal production minus corresponding direct costs. This system included also value of coupled payments connected with respective products. However, due to changes in the Common Agricultural Policy, the connections with agricultural production were eliminated (decoupling) in a majority of direct payments. As a consequence of these changes, the SGM coefficient might have reached negative values for some of the product in case that the direct payments were not involved; therefore it began not to be possible to use SGM as a classification criterion. For this reason there was a need to develop a new classification system based on an economic criterion which always reaches positive values. This new criterion is the **standard output**, on which a new classification of agricultural holdings is based as described in Commission Regulation (EC) No 1242/2008 of 8<sup>th</sup> December 2008 establishing a Community typology for agricultural holdings<sup>1</sup>. The new typology has been valid since the accounting year 2010. Besides transition from SGM use to standard output use, the most important changes include introduction of three-level classification of farming type (formerly four-level), establishment of 14 economic size classes (formerly 10), expression of economic size in Euro instead of formerly used economic size units and introduction of a new classification variable which reflects importance of other gainful activities.

The **Standard output** expresses mean monetary value of gross agricultural production of particular sectors of crop and animal production. Standard output coefficients are calculated for all important crops and animal categories. Full list of these products is involved in Annex I of the Regulation 1242/2008/EC. The standard output is calculated by multiplying the production per unit by the farm-gate price; VAT, taxes on products and direct payments are not included. The physical measurement unit of standard output is euro per hectare or euro per animal head in particular categories (with an exception of poultry for which values per 100 heads are used). Standard output is the sum of the value of the principal product and, if applicable, secondary products. Standard output values correspond to a production period of 12 calendar months. For crop and livestock products for which the period of production is less than or exceeds 12 months, a standard output corresponding to growth or production in 12 months is calculated. The standard output coefficients are calculated consequently as arithmetical means for the period of five successive calendar years.

For purposes of Farm Structure Survey in year N, the reference period of year N-3 is taken, involving five successive years (N-5 to N-1). It means that coefficients of standard output 2007 for the period 2005 to 2009 were used for the classification of agricultural holdings involved in Agrocensus 2010. The Liaison Agency FADN CZ calculated the standard output coefficients. The coefficients are updated in the years in which the Farm Structure Survey is conducted.

The economic size of the holding is equal to the total standard output of the holding. Its value is expressed in euro. Total standard output is calculated as a sum of values for particular agricultural products. These values are computed by multiplying acreages of particular crops and numbers of heads belonging to one holding by relevant standard output coefficient. There are fourteen economic size classes in total; their list including threshold levels of standard output is given in Table 1.

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<sup>1</sup> The new classification system given by the Community is defined as a generally valid rule, not as a rule applicable for concrete support receiving bodies

**Table 1 - Economic size classes of the holding**

Economic size class	Total standard output limits in EUR	Total standard output limits in thous. CZK <sup>1)</sup>
I	less than 2 000 EUR	less than 51 thous. CZK
II	from 2 000 to less than 4 000 EUR	from 51 thous. to less than 101 thous. CZK
III	from 4 000 to less than 8 000 EUR	from 101 thous. to less than 202 thous. CZK
IV	from 8 000 to less than 15 000 EUR	from 202 thous. to less than 379 thous. CZK
V	from 15 000 to less than 25 000 EUR	from 379 thous. to less than 632 thous. CZK
VI	from 25 000 to less than 50 000 EUR	from 632 thous. to less than 1 256 thous. CZK
VII	from 50 000 to less than 100 000 EUR	from 1 256 thous. to less than 2 529 thous. CZK
VIII	from 100 000 to less than 250 000 EUR	from 2 529 thous. to less than 6 323 thous. CZK
IX	from 250 000 to less than 500 000 EUR	from 6 323 thous. to less than 12 647 thous. CZK
X	from 500 000 to less than 750 000 EUR	from 12 647 thous. to less than 18 970 thous. CZK
XI	from 750 000 to less than 1 000 000 EUR	from 18 970 thous. to less than 25 294 thous. CZK
XII	from 1 000 000 to less than 1 500 000 EUR	from 25 294 thous. to less than 37 941 thous. CZK
XIII	from 1 500 000 to less than 3 000 000 EUR	from 37 941 thous. to less than 75 882 thous. CZK
XIV	equal to or greater than 3 000 000 EUR	equal to or greater than 75 882 thous. CZK

<sup>1)</sup> Recalculation based on mean exchange rate for the year 2010: 25.294 CZK/EUR

The **type of farming of a holding** is based on the relative contribution of the standard output of different production sectors to the total standard output of the holding. Holdings are classified into types of farming according to an exactly defined algorithm which specifies the share of particular sectors of crop and animal production in the total production of the holding. There is a three-level classification system of farming types; it consists of 9 general types, 21 principal types, and 62 particular types of farming. Classification of particular types of farming and share of particular sectors of crop and animal production is shown in Annexes A1 and A2.

The category **“Other gainful activities (OGA)”** is a new classification variable defined as the share of the turnover of the activities other than agricultural and directly related to the holding in the total turnover of the holding. It includes activities for which either resources of the holding or its products are used; e.g. processing of farm products, contractual work inside or outside the agricultural sector, forestry etc. Estimation of the share of OGA can be defined according to the formula:

$$\text{Share} = \frac{\text{Turnover of other gainful activities related to the holding}}{\text{Total holding's turnover (agricultural and OGA directly related to the holding) + direct payments}}$$

Classification of the holdings according to the importance of OGA is shown in Table 2.

**Table 2 - Classes of importance of other gainful activities of the holding**

Classes	Limits of OGA share
I	From 0 % to 10 %
II	From more than 10 % to 50 %
III	From more than 50 % to less than 100 %

In conclusion, Commission Regulation (EC) No 1242/2008 of 8<sup>th</sup> December 2008 establishing a Community typology for agricultural holdings within the European Union has been valid since accounting year 2010 and for Farm Structure Survey 2010. The Regulation cited is obligatory in its whole range and is directly applicable for all EU Member countries. Presented publication fully respects its methodological principles in their whole context.