



Institute for
European
Environmental
Policy

**AN EVALUATION OF THE LESS FAVOURED AREA
MEASURE IN THE 25 MEMBER STATES OF THE
EUROPEAN UNION**

**A report prepared by the
Institute for European Environmental Policy
for DG Agriculture**

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SHORT EXECUTIVE SUMMARY

This report presents the results from a 10 month study conducted in the 25 Member States of the European Union between December 2005 and September 2006, which aimed to provide an evaluation of the LFA measure. The study evaluates the implementation of the LFA measure (themes one and two), along with its effects on farm structures and incomes (theme three), and its impacts on land use, the environment and the viability of rural communities (themes four, five and six). All six evaluation themes are investigated in the EU-15 Member States, whereas the study focuses exclusively on implementation issues in the EU-10 Member States given the recent introduction of the measure in these countries. The study is accompanied by a report on the 'Implementation of Articles 18, 19, 20 and 16 of Council Regulation (EC) 1257/1999 in the 25 Member States of the European Union'.

The LFA Measure

Since its introduction in 1975, the objectives of the LFA measure have evolved, reflecting a shifting constellation of social and environmental needs in less favoured areas, and a changing set of priorities. In most of these areas, the social need has lessened, and under Council Regulation 1698/2005, the measure is no longer seeking to address rural depopulation. At the same time, concern for the maintenance of a certain type of agricultural land use and environmental protection has increased.

Under Council Regulation (EC) 1257/99, an area may be classified as less favoured according to one of four categories.

Under Article 18, **Mountain Areas** are characterised as those areas handicapped by a short growing season because of a high altitude, or by steep slopes at a lower altitude, or by a combination of the two.

Under Article 19, **'Other' Less Favoured Areas** are those areas in danger of abandonment of agricultural land-use and where the conservation of the countryside is necessary. They exhibit all of the following handicaps: land of poor productivity; production which results from low productivity of the natural environment; and a low or dwindling population predominantly dependent on agricultural activity.

Under Article 20, **Areas Affected by Specific Handicaps** are areas where farming should be continued in order to conserve or improve the environment, maintain the countryside, and preserve the tourist potential of the area, or in order to protect the coastline.

Under Article 16, payments are made for costs incurred and income foregone by farmers in **Areas Subject to Environmental Restrictions** resulting from the implementation of limitations on agricultural land use imposed by Community environmental protection rules.

Classification of LFAs

To compensate farmers in areas with permanent natural handicaps and environmental restrictions, the EU Regulations establish overarching criteria for the classification of LFAs. Flexibility is afforded to the Member States in the interpretation of these criteria.

For areas classified under Articles 18 and 16, the EU criteria are well defined and measurable and Member States have adopted them in a consistent way. There is a clear correspondence between the classification criteria used and the handicaps they seek to identify. For the classification of 'Other' LFAs, Member States use a wide variety of criteria. Most are well defined, although the severity of disadvantage varies and the criteria are not all directly comparable across the EU-25. Some of the classification criteria under Article 19, and in particular those which relate to rural population issues, no longer reflect the core objectives of the LFA measure. Article 20 areas are defined according to a wide range of criteria which are often qualitative in nature and refer to local conditions.

The proportion of the total UAA classified as less favoured has risen from 33% in 1975 (EU-9) to 55% in 2005 (EU-15), which equated to a farmed area of approximately 69 million hectares. Much of the expansion in area has been in 'Other' LFAs, which in 2004/5 accounted for 66% of the total LFA, whilst there has been a decline in the extent of Mountain LFAs. The new Member States have also classified significant areas of land as less favoured, equivalent to 52% of the total UAA in 2005. Enlargement in 2004 led to an increase in the number of beneficiaries by nearly 90%, with a quarter of all beneficiaries in Poland, in 2004.

Eligibility

Under Article 14.2 of Council Regulation (EC) 1257/1999 three mandatory eligibility criteria are established: a requirement to farm a minimum area; to undertake to farm for at least five years; and to apply Good Farming Practice. In addition, Member States apply a range of specific eligibility criteria, which reflect a variety of objectives and administrative requirements. The effect of the eligibility rules has been to exclude many potential beneficiaries. In the period from 2000 – 2003, the number of beneficiaries of LFA payments was less than half the total number of farms in the LFA in the EU-15. This figure conceals broad differences between Member States, however. In Spain and Italy, for example, 85% of holdings in the LFA fall below the eligibility thresholds, whereas in Ireland, Finland and Austria, more than 90% of farms in the LFA receive an LFA payment.

Expenditure

Total public expenditure on rural development measures was €0.15 billion in 2003, of which a fifth, or €2.3 billion, was committed to the LFA measure in the EU-15. Seven Member States (France, Finland, Germany, UK, Ireland, Poland and Austria) accounted for more than two thirds of total LFA expenditure. Prior to EU enlargement, resources have been concentrated in north west Europe rather than in Mediterranean countries.

Expenditure on LFA compensatory allowances has risen over time in most Member States, with considerable fluctuations between years in some cases. Some increases took place around the time of the switch from headage to area payments and seem to have been motivated partly by a desire to reduce negative impacts on farms which otherwise would have lost out financially as a result of this transition.

Compensation Payments

Member States have had a prominent role in fixing the level of the LFA payment which, in principle, should reflect the degree of handicap affecting farmers. Council Regulation 1257/1999 provides guidance for the differentiation of payments according to the situation and development objectives of the region. A majority of Member States actively differentiate payments, with the exception of Malta, the Netherlands and Estonia which apply a flat rate. Farm size is the criterion most widely deployed to differentiate payments, with the effect of distributing resources in favour of small farms. Levels of payment vary significantly between Member States, ranging from a national average payment per eligible hectare of €15 – 55 in Spain, Estonia, Sweden, Poland, Lithuania and the United Kingdom, to €75 – 250 in Austria, Finland and Malta.

Member States deploy a mix of quantitative and qualitative approaches to measure the severity of the handicap as a basis for determining the level of payment. The process is less systematic than that deployed in the classification of areas. There is a strong element of path dependency in the setting of payment rates in many national schemes, which, while providing stability for farmers, leads to a divergence from the measure's present day objectives.

Contribution to Farm Incomes

The contribution of the LFA payment to farm income is small in many Member States, however a marked north - south divide can be observed. Aggregate LFA payments per Family Working Unit (FWU) represented less than 10% of Family Farm Income (FFI) per FWU in Spain, Greece, Italy and Belgium in 2003. In contrast, it was 20 – 30% of FFI/FWU in the Mountain LFAs of Austria, France and Finland and 45% in the Swedish Mountain LFAs. In Germany, the UK, Ireland, Luxembourg and Sweden it was 20 – 30% of FFI/FWU in the 'Other' LFA, rising to 50% in Finland. Contributions to farm income are more significant for livestock than crop farms in

most Member States, however a gap remains between farm incomes in the LFA and non LFA in most Member States even when the LFA payment is taken into account.

Maintaining Agricultural Land Use

Data from the Farm Structure Survey reveal that the area of land under agriculture has been maintained in the LFA over the period 1995-2003 although this cannot be attributed solely to the LFA payment because many potential beneficiaries do not receive a payment and its contribution to farm income tends to be small. Europe-wide data, however, mask some more significant trends at a micro scale. There is evidence of a progressive withdrawal of agricultural management in some areas, particularly on permanent pasture and steeper slopes. Portugal and Italy are among those Member States where such marginalisation could lead to a cessation of agricultural activity.

Environmental Impacts of LFA Payments

The LFA measure is targeted at areas with natural handicaps, so a majority of these areas are characterised by low-input, low-output farming systems due to the physical and socio-economic constraints farmers face. Consequently, there is a sizeable overlap between areas of high environmental value, especially those dominated by low intensity livestock production, and areas currently classified as less favoured.

In areas currently classified as LFA, the processes of agricultural intensification, specialisation and progressive marginalisation represent key threats to environmental value. The LFA measure has been part of a set of policies which has proved successful in maintaining farming but with variable results at the more specific land management level. The focus on livestock farms has helped to address the key environmental issue of continued grazing and this has made a major contribution to meeting nature conservation and landscape goals over a significant area.

Achieving environmental objectives through the LFA measure requires it to be applied in such a way as to incentivise practices that characterise systems of high environmental value. This implies a more precise targeting on low intensity systems, with irrigated land excluded, and on farms where the threat of land abandonment is greatest. Good Farming Practice standards have played a useful role in this respect but need to correspond more closely to key environmental conditions within the LFA.

Impacts on Rural Communities

The LFA compensation payments resulted in a transfer of about €3.07 billion to recipients in the EU-25 (2004 figures), making a contribution to farm incomes in those rural areas where more vulnerable communities are most likely to be concentrated. Some additional income and employment opportunities will arise from economic activities upstream and downstream of agriculture, and from recreation and tourism dependent on open farmed landscapes.

Conclusions

Relevance of Objectives

The core objectives of the LFA measure are to contribute to ‘maintaining the countryside’, through the continued use of agricultural land, and also to ‘maintain and promote sustainable farming systems’. Continued agricultural management contributes most to the countryside where it supports the maintenance of valued open landscapes, semi-natural habitats and biodiversity or underpins good soil and water management. It happens that the farms and farming systems where these forms of management arise are generally subject to natural handicaps which act as a constraint on more intensive practices. As a result, the objective of the LFA continues to be relevant at the present time because of the public goods that are a product of the continuation of a certain type of agricultural activity in these areas. However, the original objective of seeking to prevent rural depopulation through the continuation of farming has ceased to be relevant in most parts of the EU-15 as the share of employment directly dependent on agriculture has declined.

Impacts and Effectiveness

Relatively little farmland in the LFA has ceased to be managed by agriculture. The area of outright abandonment is small although it is not possible to determine this precisely from the data available. Thus the principal goal of the measure has been reached in the EU-15. This contrasts with substantial areas of farmland abandonment in other industrialised countries, for example, in parts of the United States.

The LFA measure is one of a number of policies that have contributed to this outcome. It has been most effective on livestock farms, which have been the focus of compensatory payments in most Member States and where the contribution to farm incomes has generally been higher.

Changes in agricultural employment since the 1990s have been broadly similar in the LFA to those outside it. This is true in those Member States where the application of the LFA measure has been light, as well as in those where most farmers have received payments.

Efficiency

The EU Regulation provides a flexible framework for an efficient system of targeted LFA payments. The present combination of classification criteria, eligibility rules and payment structures at Member State level, however, does not result in resources being targeted sufficiently precisely on areas where public goods are most apparent and the hazard of abandonment is greatest. Expenditure is skewed towards a limited number of Member States and it is difficult to reconcile payment rates to the severity of handicap at a European level.

To improve efficiency, the wide scope of the measure could be reduced to focus more on areas where the benefits of continued agricultural land use are most evident or at greatest risk from abandonment. In addition, greater clarity could be sought about the relationship between the intensity of the handicaps faced and the level of payments.

Future Role of the LFA

The objectives of LFA policy have always been different from those of other policy measures within the CAP however with the advent of decoupling and support for farmers under the Single Payment Scheme (SPS), there is growing convergence between Pillar One payments and LFA compensatory allowances. The SPS is not connected to specific types of production, takes the form of an annual area payment, and is subject to cross-compliance, including the obligation to keep the whole farm in 'Good Agricultural and Environmental Condition' (GAEC).

Complying with GAEC is potentially more onerous for farms in the LFA where the presence of handicaps is often associated with low yields and where the potential for scrub invasion and land marginalisation is relatively high. At the same time, the Single Payment generally will be lower per hectare than on farmland outside the LFA because of low historic yields. Hence there is an argument for focusing LFA policy in future on compensating farmers in such regions for continuing with land management in the face of handicaps and increasing legislative requirements. As such, payments need to be concentrated on areas where there is a clear need for agricultural management and there are genuine risks of inappropriate land use change or abandonment.

Recommendations

On the basis of this evaluation, the following recommendations are advanced:

- A more explicit approach is needed to ensure the complementarity of the LFA measure and the mechanisms and objectives of the Single Farm Payment Scheme.
- The classification criteria for other LFAs and those areas affected by Specific Handicaps need clarifying at EU and Member State levels to ensure greater objectivity and comparability between areas.
- Better guidance to the Member States is needed on the measurement of handicaps in order to afford a more effective and transparent implementation of LFA policy.
- The eligibility criteria need to be revised to align them more precisely to recognised environmental priorities and region-specific land management requirements.
- Given the high degree of path-dependency in establishing payment levels perceived today, payment levels need to be revisited to better reflect the handicaps to be compensated for.
- Improvements should be made to systems for the collection of land use and land management data, including the frequency of data collection and greater sensitivity to the abandonment of agricultural land.