



Annexe 12 du rapport d'évaluation

Evaluation of the impact of community measures
concerning set aside

Regional study of Denmark

Copenhagen, July 2001

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1. DENMARK

1.1 Overview of the region from an agricultural point of view

Denmark is in this study considered as one single region since all farmers in Denmark are subject to the same basic rules regarding set aside, the basic areas eligible for hectare premiums is one and all farmers receive the same compensation rates irrespective of where their farms are located in Denmark.

1.2 Climate

Central climate characteristics are given in illustration 1.1. The climate is temperate; humid and overcast; mild, windy winters and cool summers. The country is flat to gently rolling plains. The lowest point is Lammefjorden which is 7 meters below sea level, and the highest point is Yding Skovhøj, which is 173 meters above sea level.

Illustration 1.1 Climate characteristics of Denmark (average, 1971-1990)

Location	Rain/snow (mm/year)	Days with rain/snow (year)	Temperature (°C)			Days with frost (year)	Sunshine (hours/year)
			Maximum	Average	Minimum		
Denmark without Bornholm	712	171	31,3	7,7	-20,6	84	1701

Source: Danish Meteorological Institute

1.3 Population, economic value and land use

The total population of Denmark is 5,4 mill. (2001), corresponding to a population density of 126 inhabitants/km². The total employment in the agricultural sector is 70.016 (1999) or 3% of the total workforce. In industries down the value chain from primary production, most notably the food processing companies 52.900 persons are employed or 2% of the total workforce. The major economic sectors, measured in terms of employment, are trade and services (ca. 70%) and industry (ca. 25%).

In the past decade, the number of jobs in primary agricultural sector decreased with 29.800 (30%) jobs. At the same time the average age of the farmers/owners have increased. The numbers of heads/owners of farms under the age of 30 decreased from 2909 in 1995 to 1413 in 1999 see illustration 1.2.

Illustration 1.2 Breakdown of agricultural farms as personal business by age of the head of the firm

Year	Age class						Total number of units
	<30	30-39	40-49	50-59	60+	total	
1995	4.3%	17.9%	22%	25%	30.8%	100%	68 771
1997	3.9%	18,9%	22.4%	25.7%	29.1%	100%	63 151
1999	2.5%	18.4%	23.9%	25.7%	29.5%	100%	57 831

Source: Statistics Denmark

The economic value of the primary agricultural sector (Gross Domestic Product at factor cost) was in 1999 according to the agricultural statistics 22 464 mill. DKK (~ 3 thousand Mill €) or 1.8 % of the total Danish GDP at factor cost.

Denmark covers a land surface area of 42,396 km² (and 700 km² is water) and is situated in Northern Europe bordering Germany. The main parts of Denmark are Jutland a peninsula north of Germany; Funen and Zealand, two large islands east of Jutland; and over hundred populated small islands. With regard to the administrative structure, Denmark is divided into 14 counties and 275 municipalities.

The illustration below shows that the three main categories of land use in Denmark in 1995 was agriculture, built areas and wood land, whit agricultural as the largest with 63%. Looking at the development in the natural areas (exclusive forest), there has been a constant declining to 6% in 1995. This development signals a need for protection of the natural areas a need for introducing measures which can change this situation.

Illustration 1.3 Land use in the Denmark

Land use category	1965		1982		1995	
	ha	%	Ha	%	ha	%
Agricultural	2 693 000	63	2 651 000	62	2 726 000	63
Water (excl. sea)	68 000	2	64 000	1	65 000	2
Wood	472 000	11	501 000	12	445 000	10
Built area*	389 000	9	535 000	12	818 500	19
Natural grounds	548 000	13	444 000	10	255 000	6
Other	137 000	3	113 000	3	0	0
Total	4 307 000	100%	4 308 000	100%	4 309 500	100%

Source: Statistics Denmark

* Including traffic installation and scattered buildings

Illustration 1.4 Breakdown of cultivated area by type of agricultural production

Type of use	1980	1990	1999	1999
	1.000 ha			%
Arable crops	2 061	1 889	1 637	62
Seed for industrial use	104	272	151	6
Seed for sowing	46	52	81	3
Grass in rotation	414	326	410	16
Permanent grassland	252	217	160	6
Horticultural products	25	28	21	1
Other crops	2	4	1	0
Fallow with grass	0	0	183	7
Total	2 904	2 788	2 644	100%

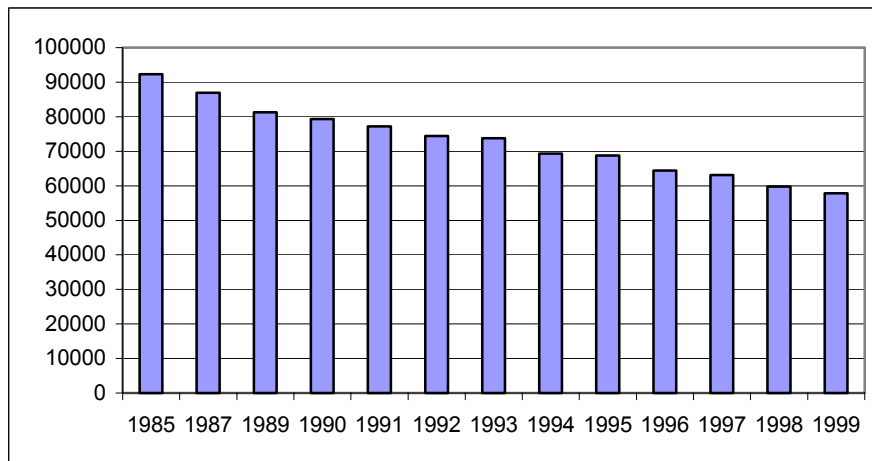
Source: Statistics Denmark

1.4 Development of arable land and the number of farms

The agricultural sector is of great importance in both economic and physical terms. The utilised agricultural area constitutes approximately 26,440 km², corresponding to 62 percent of the surface. Land use varies considerably between localities illustrated by the fact that the proportion of farmed land varies from 41 percent in the metropolitan area to 70 percent in the county of South Jutland of the county's total area.

The trend in the number of agricultural holdings is steadily moving towards fewer but larger holdings. The number of agricultural holdings fell from 92,354 in 1985 to 57,831 in 1999, corresponding to a reduction of 37 percent. At the same time, the number of large holdings is increasing.

Illustration 1.5 Number of farms in Denmark

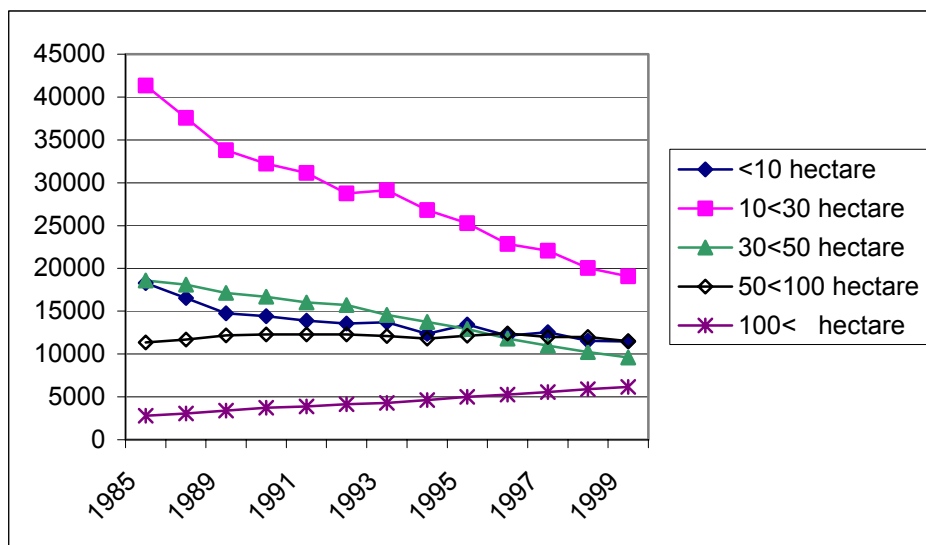


Source: Statistics Denmark (2000)

Since 1985, the proportion of holdings over 100 hectares has increased from 3.0 percent to 10.6 percent of all holdings. This increase is caused by a reduction in the group of medium-sized holdings (10-50 hectares), whereas the number of smallholdings (below 10 ha) has increased slightly. This is due to the fact that smallholdings are run as part-time farms, where the income from agriculture is of secondary importance. Of the present 57,831 agricultural holdings about 59 percent are run on a part-time basis, which is an increase of 9 percent point since 1985, see illustration 1.6.

There is a great difference between the two types of holdings as regards size, yield and labour input. Whereas the average Danish agricultural holding in 1999 was 45.0 hectares, a medium full-time holding covered 81.5 hectares, and a medium part-time covers 19.8 hectares (The Danish Institute of Agricultural and Fisheries Economics, 2001).

Illustration 1.6 Number of farms according to size



Source: Statistics Denmark

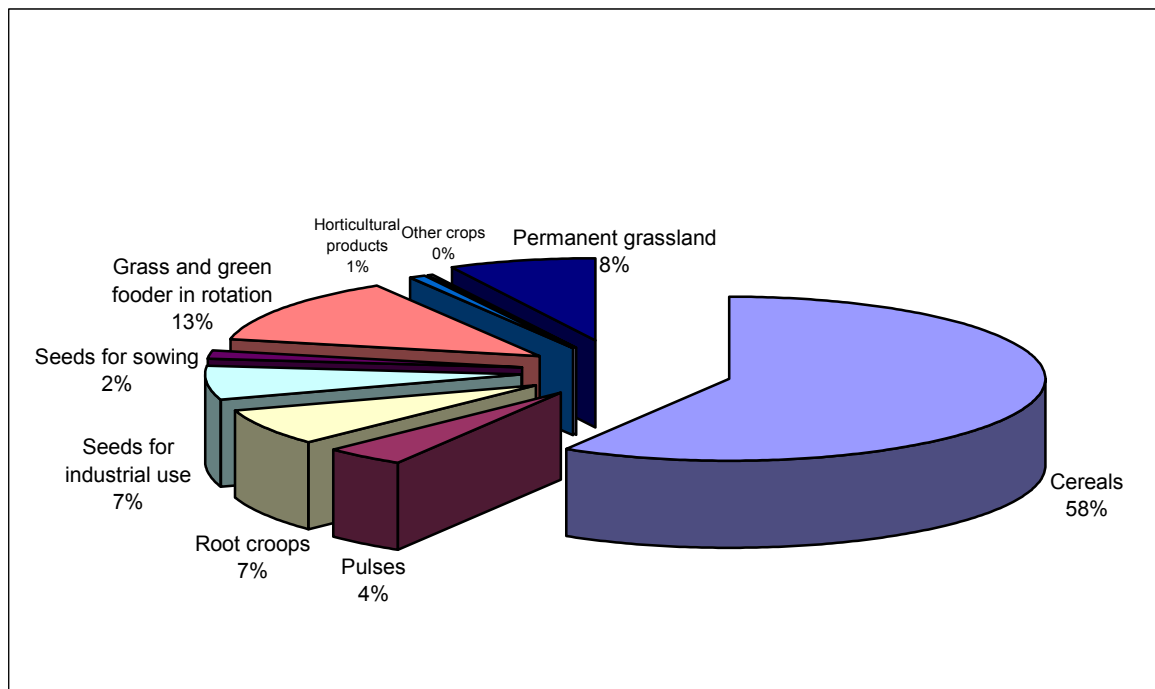
1.5 Irrigation

Irrigation in Denmark is closely connected to the actual soil type and the availability of water. It is mainly in the southern and western parts of Jutland, where there are very light soils that irrigation is used. In total 10 422 or 18% of all farms, have some sort of irrigation system. This gives a potential irrigable area of 446 921 ha or 16.7 of the agricultural area. There are no available data on the actually irrigated area.

1.6 Arable products

In 1992 68% of the utilized agricultural area was used for production of COP crops. As it can be seen from the figure below the main crop was cereal that makes up 58 percent of the area.

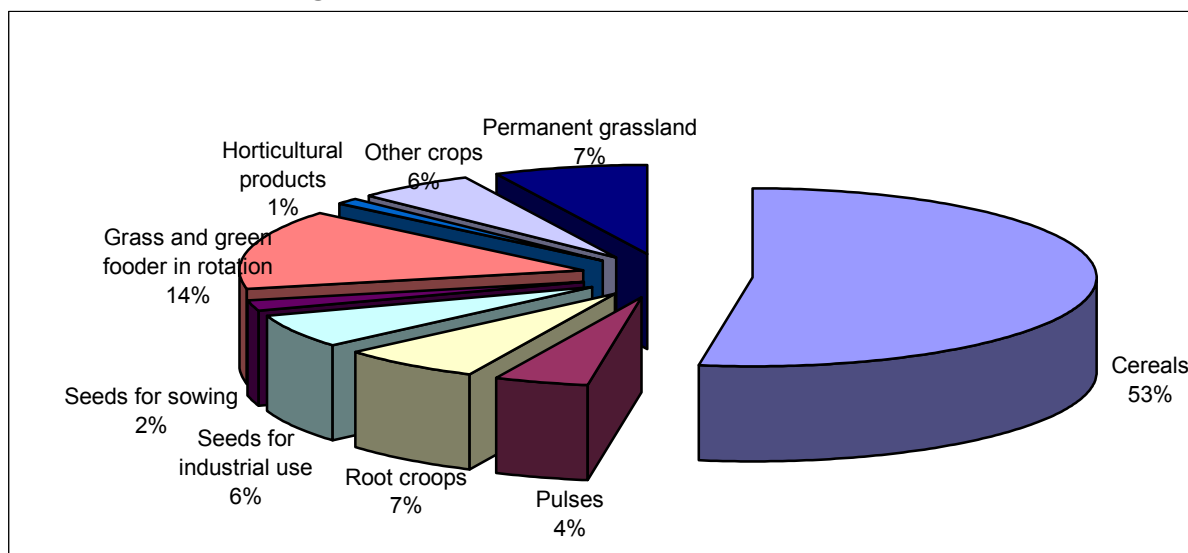
Illustration 1.7 Utilized agricultural area, 1992



Source: Statistics Denmark (2000)

Looking at the situation the following year, where the reform of the CAP should be reflected, it is now 63 percent of the agricultural area, which is covered with COP, mainly due to a change in the area with cereal.

Illustration 1.8 Utilized agricultural area, 1993

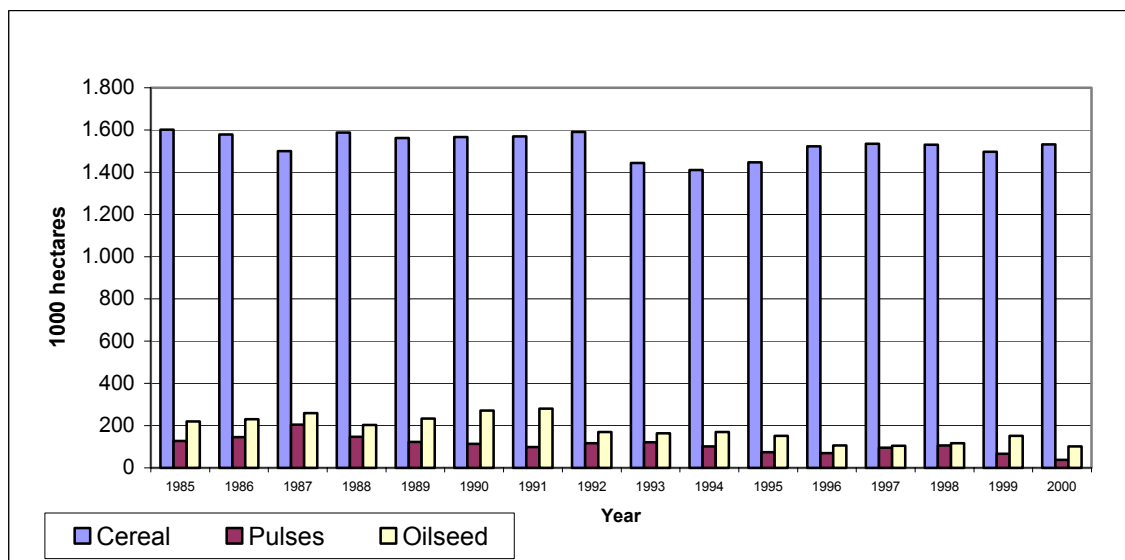


Source: Statistics Denmark (2000)

1.7 Development of COP production

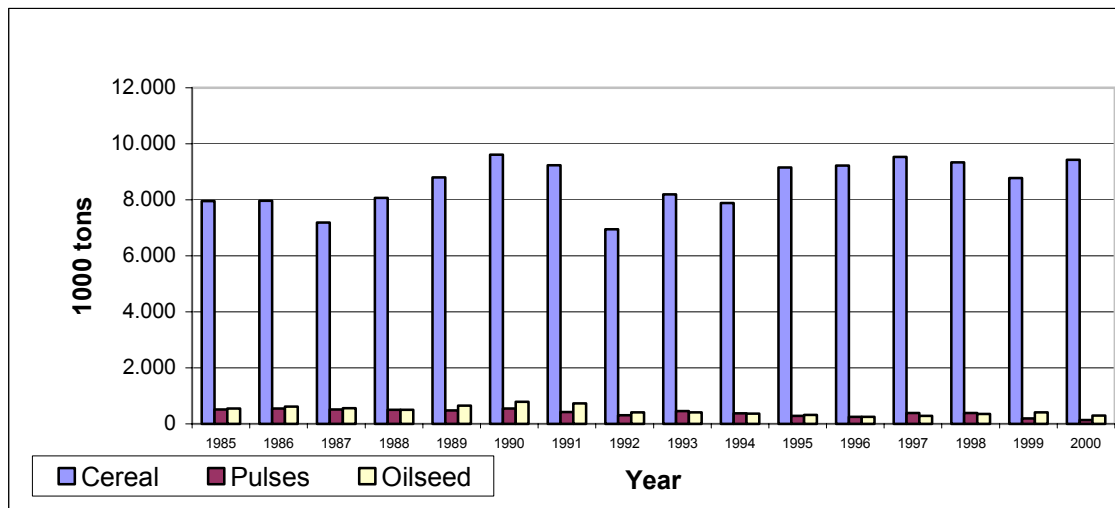
From figures below, it shows that cereal is the predominant COP crop in Denmark through the period 1985 to 2000.

Illustration 1.9 Development in area



Source: Statistics Denmark (2000)

Illustration 1.10 Development in total production



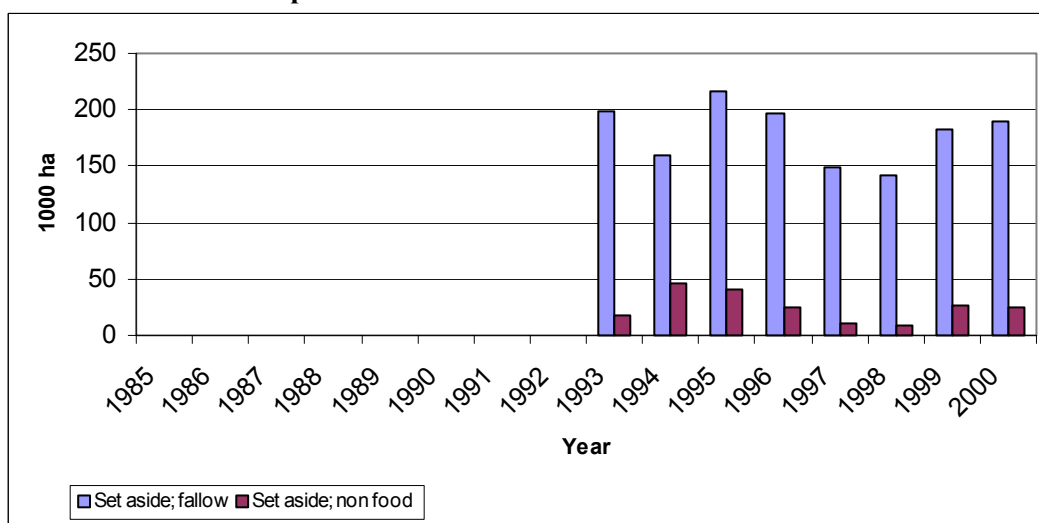
Source: Statistics Denmark (2000)

Both illustration 1.9 and 1.10 show that after 1992 the area and the total production have changed. One of the explanatory factors are the introduction of the set aside, a more thorough description will be made in section 2.1.

1.8 Development of fallow

Up to 1992, there was no significant use of fallow in Denmark, see illustration 1.11. As it can be seen from the figure below set aside was not used prior to the CAP reform. The variations over the years reflect the changes in the compulsory set aside percentage.

Illustration 1.11 Development in the set aside area



Source: Statistics Denmark (2000)

1.9 Application of the set aside measures

The table below (1.12) show the relevant data for the set aside measure in Denmark, registered by the EU. The main elements to notices are the base areas has been constant during the whole period, the number of applications for set aside has increased during the period and that in periods with low compulsory set aside rate there has been a relative larger area of voluntary set aside than in years with a high compulsory set aside rate.

Illustration 1.12 EU set aside data for Denmark

		1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
Total base area	Ha.	2018000	2018000	2018000	2018000	2018000	2018000	2018000
Compulsory et aside rate	%	15%	15%	12%	10%	5%	5%	10%
Actual set aside	Ha.	207742	267462	256435	220712	159725	153461	211477
Theoretical compulsory set aside (minimum)	Ha.	203643	271808	256271	168306	87604	83808	165643
Theoretical voluntary set aside	Ha.	4099	-4346	164	52406	72121	69653	46968
Number of applications		27163	30464	31245	31733	32939	33502	32863
Area under the hectare premium	Ha.	1357617	1565566	1626989	1683057	1752082	1770791	1797862
Area under the hectare premium /Base area	%.	67	78	81	83	87	88	89
Total set aside rate	%	15,3%	17,1%	15,8%	13,1%	9,1%	8,7%	11,8%
Set aside in total	Ha.	207742	267462	256435				
-of which rotational	Ha.	207742	119571	48926				
-of which permanent	Ha.		147891	207509				
- of which compulsory	Ha.	207742	267462	256435	162512	83906	86359	176139
- of which voluntary	Ha.				58200	75819	67102	35338
- of which paid at 48.3 ecu/ha	Ha.				678	660	673	610
- of which not compensated	Ha.				29	93	154	524
- of which non-food	Ha.	17049	46114	40208	25451	10893	10537	27786
5 years set aside (Regulation 2328/91)	Ha.	7434	6382	5398				

Source: EC, Laser

In the table below are the support amounts of the different crops types listed. The size of the premiums are calculated on the basis of:

- the reference yield, which for Denmark has been 5,22 ton per hectare in the whole period for the whole country and for all land use types, except for oilseed where a specific Danish reference output of 2,70 tons per hectare is used,
- the relevant exchange rate between ECU's and Danish crones (DKK),
- the base rate set by the commission for the specific crop, and
- relevant adjustments.

Illustration 1.13 Data regarding the adjusted support per hectare, Ecu/Euro per ha

Year/Crop	1993	1994	1995	1996	1997	1998	1999	2000
Cereal	131	183	272	281	278	281	292	306
Pulses	339	339	410	407	402	405	422	378

Oilseed	370	390	476	467	429	456	565	430
Flax for oil	444	454	548	544	539	543	510	460
Set aside	235	297	359	356	353	355	370	306
5 years set aside			209	250	247	249	259	

Source: The Directorate for Food, Fisheries and Agri Business.

2. QUESTIONS CONCERNING EFFECTIVENESS

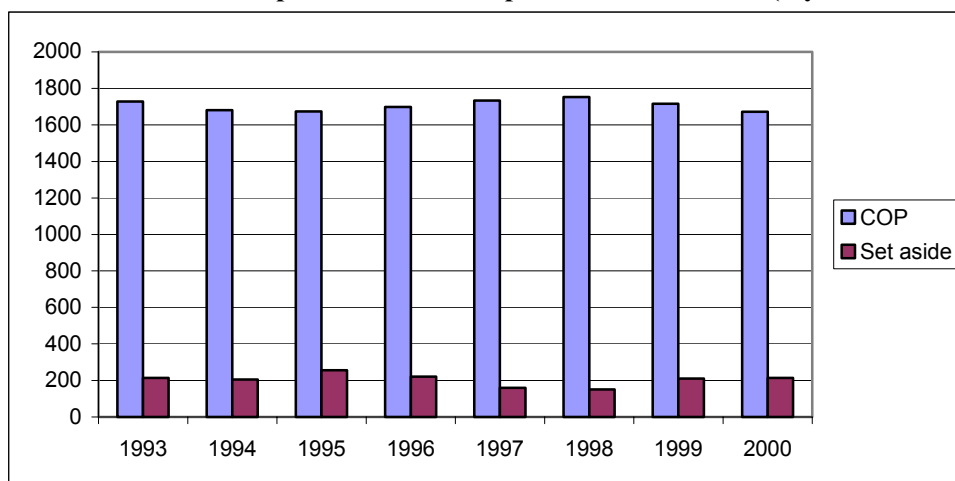
In this section results are given from the national survey and the interviews with the farmers. There will be a specific focus on the effectiveness of the set aside to achieve its original objective of production reduction.

2.1 Question 4.1.1

Did compulsory set aside and voluntary set aside measures contribute significantly the arable crop supply control? What is their contribution in particular in reducing of surplus cereal?

The total area of COP crops (excl. set aside) was 1,728,000 ha in 1993 and 1,715,000 ha in 1999. As it can be seen there has been a minor decline in the COP area in the period 1993 to 1999, see figure 2.1.

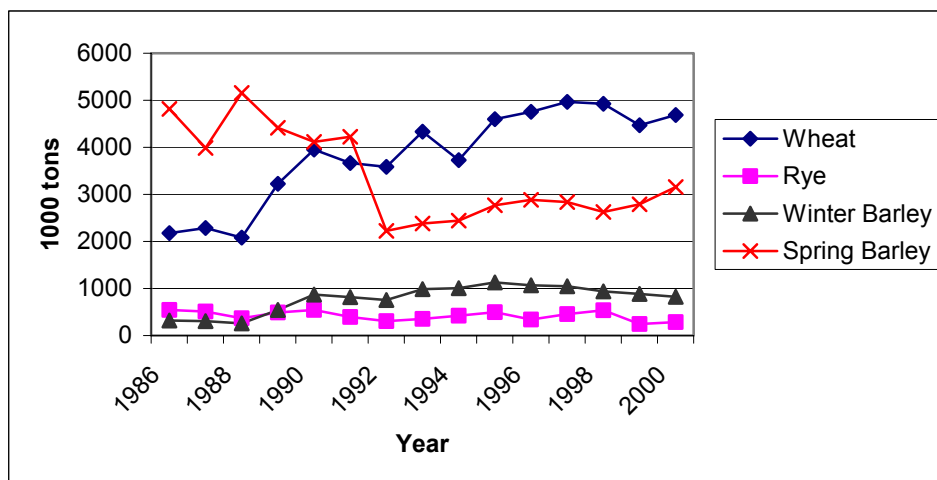
Illustration 2.1 Development of COP crops area and set aside (5-years and 1765/92)



Source: Statistics Denmark

In illustration 2.2, the development in cereal production is presented. Whereas pulses and oilseed production have remained almost constant cereal shows a tendency to increase even though the area has fallen.

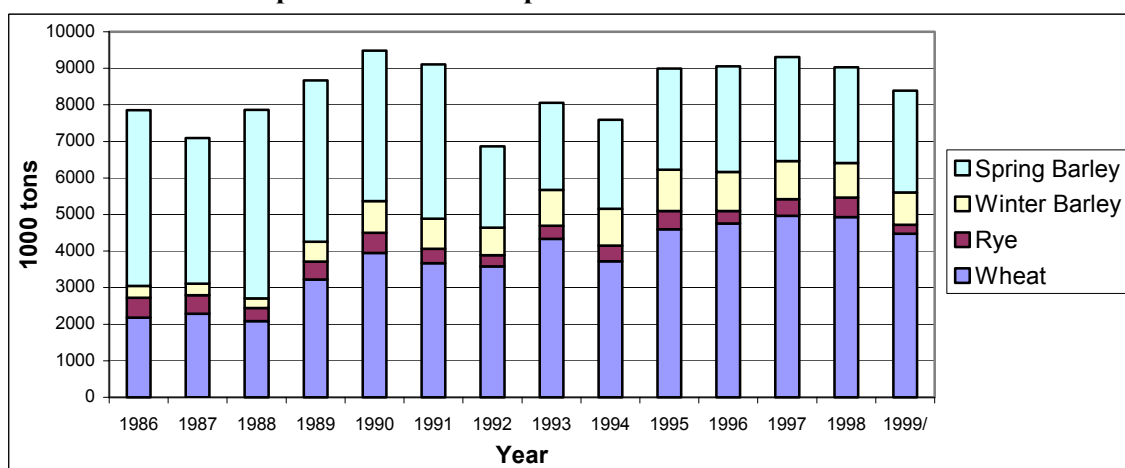
Illustration 2.2 Development in the cereal production



Source: Statistics Denmark

The diagram shows that especially the production of spring barley was influenced by the introduction of set-aside. The decreases in spring barley production between 1991 and 1992 was due to a general reduction in output per hectare of 2.3 tons per hectare, due to adverse climatic conditions, the set aside are first reflected in the production for 1993. The total production of spring barley has remained almost at the 1992 level as a consequence of the set aside. Wheat are not divided into spring and winter crops since the production of spring wheat at no stage since 1986 made up more than 3 percent of the total wheat production. The wheat production shows a small increase since the introduction of set aside. Some of the important explanatory factors for the set aside to especially effect the spring barley production is that spring barley - even though it fits well into the rotation and is important as fodder for the pig farmers - has a substantial lower output per hectare than winter wheat and provides a lower net margin than wheat.

Illustration 2.3 Development in the cereal production



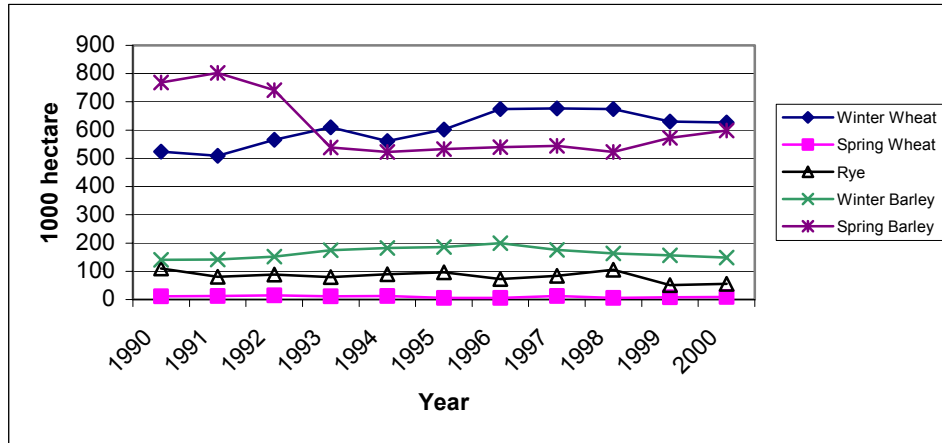
Source: Statistics Denmark

In illustration 2.3 the cereal production is summarised. It shows that the large decrease in spring barley is compensated by a production growth in other cereals. It turns out that between 1991 and 1993 (1991

is used instead of 1992 to counteract the climatic impacts on the production in 1992) the spring barley production fell with 44 percent where as winter barley and wheat in general rose with 38 percent.

The figure below support the conclusion that it is primary the spring barley, which has been influenced by the set aside. From 1992 to 1993 the area with spring barley dropped from 741 000 hectares to 538 000 hectares, which was almost 30 percent. On the other hand, the area with winter crops went up so the over all picture was a reduction in the production area on 10 percent.

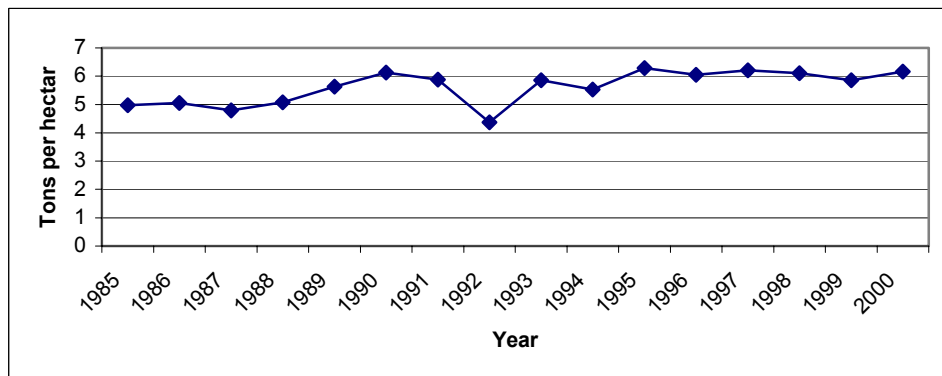
Illustration 2.4 Development in the area with cereal production



Source: Danish Statistics

In the interviews with the two most important farmers organisations it was mentioned that farmers normally tried to set aside the land with lowest productivity, but many farmers have problems with finding enough land with low productivity to set a side. This picture is especially reflected in illustration 2.5 where it can be seen that the production rapidly has increased to almost the same level as before the introduction of the set aside.

Illustration 2. 5 Development in the cereal production, tons per hectare

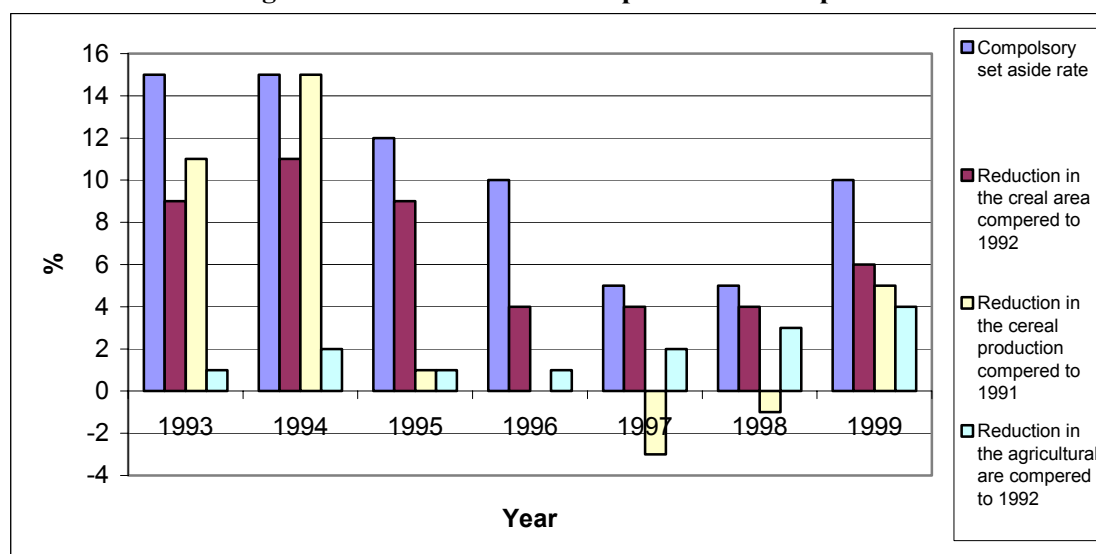


Source: Danish Statistics

From the illustration above it can also be seen that there has been a slight increase in the productivity in the cereal sector.

From the available data it can be seen that in the long run set aside has not contributed to the arable supply control, in the beginning there were some effect on the supply. The decrease of production area and production volume right after the introduction of the set aside has been compensated by an increase in productivity, which is illustrated below. This increase is not a response to the set aside but a result of the general development in production conditions.

Illustration 2.6 Changes in cereal area and cereal production compared with the set aside rate



Source: Danish Institute for Agriculture and Fisheries Economics

2.2 Question 4.1.2

In what proportions has the remuneration of the voluntary set aside strengthened the effectiveness of the set aside instrument? Estimate the share of the voluntary set aside areas, which would have been unproductive in the event of absence of the measure.

Voluntary set a side in Denmark today only plays a minor role. In 1999/2000 voluntary set aside only accounted for about 17 % of the total set aside area but in previous years it was more dominant.

Farmers' strategies tend to minimise voluntary set aside. Prior to the CAP reform, almost no farmers had land set aside. Only 6.7% of the interviewed farmers stated that they did have set aside prior to the CAP. The most frequent type of land used for set aside are marginal wet areas. In the survey 20% answer that they have voluntary set aside. There are three main reasons why farmers have voluntary set aside:

- To prevent that their total set aside is less than required (33%)
- Because set aside, in some years, is a reasonable economic alternative to grow cereal (33%)
- It reduces the workload on remote and poor soils (33%).

Out of the 20% who had voluntary set aside, 50% said that they have had it since 1992. That gives us 10 percent of the surveyed farmers who have had voluntary set aside in the whole CAP period.

Illustration 2.7 Voluntary and compulsory set aside

Year	Set aside rate	Voluntary set aside as a % of total	Voluntary set side in ha
1996/97	10%	26%	58,200

1997/98	5%	47%	75,819
1998/99	5%	44%	67,102
1999/00	10%	17%	35,338

Source: EU laser

The fact that the voluntary set aside scheme has been linked with a subsidy, has been an important element. Neither the authorities in the Ministry of Food, Agriculture and Fisheries nor the agricultural organisations can imagine that there would have been any voluntary set aside in Denmark if there had been no payments for it, in other words no land would have been unproductive if there had been no voluntary measure.

The overall conclusion is, that the effect of voluntary set aside is rather restricted. Firstly because most soil in Denmark has a higher economic potential than the set aside premium and secondly because there are no tradition for using set aside in the rotation – in present time set aside were introduced with the CAP.

2.3 Question 4.1.3

To what extent was the set-aside instrument determining in the non-food crops production trend?

In Denmark, the development in the size of the area with non-food crops production is closely linked to the rate of compulsory set aside. Non-food crops are interesting for the farmers, because it gives them a possibility to farm the land and at the same time fulfil their obligation to set aside. This was told by the two farmers organisations. Nevertheless, the two organisations advised their member against entering the non-food scheme because of the very inflexible and complicated rules. At present there is, however, not a well-developed market for non-food crops in Denmark, and therefore the prices are relative low.

Non-food production is actually more interesting from another perspective. In areas with a high density of livestock, finding land for spreading manure can become a problem. By producing non-food crops the areas can be used for spreading animal manure, which is forbidden on all other types of set aside. Another point which should be remembered is that non food production were non existing prior to the reform of the CAP (interview with a researcher from The Danish Institute for Agriculture and Fisheries Economics. DIAFE have during the last 5 to 10 years done extensive research in this field).

Illustration 2.8 Development of non-food area on set aside land

Year	Non-food on set aside land	
	Ha	% of total set aside
1993/94	17,049	8
1994/95	46,114	17
1995/96	40,208	16
1996/97	25,451	12
1997/98	10,893	7
1998/99	10,537	7
1999/00	27,786	13

Source: EC, Laser

Figure 1.9 Comparison of the actual set aside rate with the area set aside for non food production

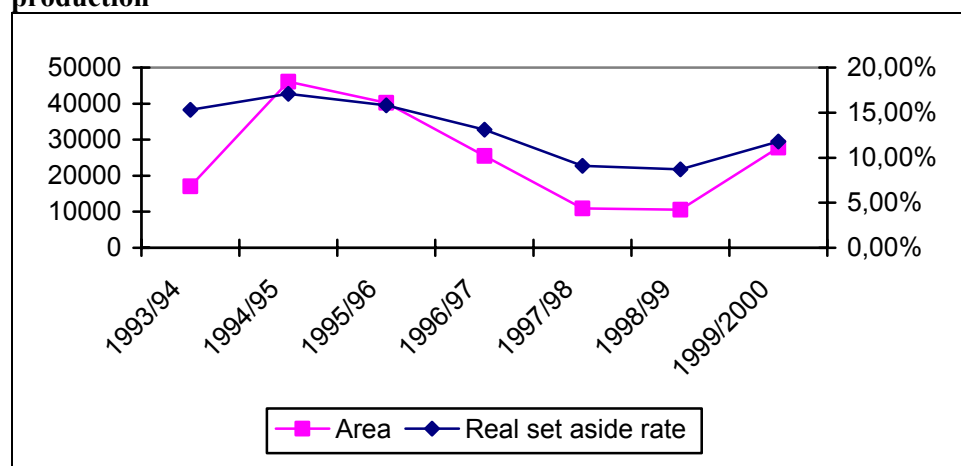


Illustration 2.10 Non-food crops

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00
Crops with contract obligation, ha							
Rape	16,848	47,588					
Winter rape			30,396	12,956	5,753	6,560	18,648
Spring rape			12,177	11,575	4,468	3,216	8,295
Triticale			348	230		86	38
Winter wheat	4		126	80			
Spring wheat		25	3	2			
Rye			71	69	68	22	
Lupin	15	22	9				
Peas		4	3				
Borag	87	118					
White mustard	5	9					
Clover grass					5	5	6
Crops without contract obligation							
Willow	Unknown	208	362	493	526	557	590
Poplar		1	1	3	3	1	3
Alder			1	1	1	2	2
Lime					6		
Mixed forest species and fallow					42	110	187
Elephant grass	Unknown	28	21	20	25	27	23
Reed canary grass			2	1	2	2	1
Golden Glow			2	2	1	3	4

Source: The Directorate for Food, Fisheries and Agri Business

The totals in illustration 2.8 and the data in illustration 2.10 does not match exactly. The data in the latter table is taken form the statistics of The Directorate for Food, Fisheries and Agri Business, which is based on yearly surveys amongst farmers. Table 2.10 can despite this lack of consistency with the EU data, still tell us, which crops farmers prefers to use for non food production. The main crop is winter rape.

The same picture is confirmed in the survey, where all (100%) of the 10 farmers having non-food production grow rape. The main reasons mentioned for having non-food production were:

- The land must be in production, from an ethical point of view, because the land is needed for spreading manure, and to avoid weed (100%).
- Because it fits with the rotation (33%)

The farmers who have chosen not to have non-food augmented:

- It is not profitable to grow non-food products (80%)
- The regulations concerning non food production is too complicated (15%)
- Other reasons mentioned: Too much paperwork involved, fits badly into the rotation, no need for land for manure spreading.

The overall conclusion is, that the main reason farmer's use their set aside land for non-food production is to keep their land in production and secure possibilities for spreading manure. If there were no problems with manure disposal, farmers would probably instead use there set aside in a less production intensive way. Another interesting observation is that national environmental law regarding disposal of animal manure forces a production of non-food crops which there is no national market for, and therefore actually creates a surplus situation in non-food raw products instead of a surplus in food products.

3. Questions concerning efficiency

3.1 Question 4.2.1

Is the budgetary cost of the instrument justified in relation to the noted effects? Estimate what it would be if the set-aside were not remunerated (counterfactual situation 1). Estimate what it would be if the set-aside had been remunerated according to the original proposal of the Mac Sharry reform (counterfactual situation 2). Estimate any different counterfactual situation arising logically from the analysis tool used to the questions 4.1.

This question will be answered at community level only.

3.2 Question 4.2.2

Is the impact of the compulsory set-aside rate and of the payment level on the large producers income likely to amend their crop choice so as to answer better the requests of the market?

Synthetic answer

Only 27% of the big farmers declare that they have changed their activities due to set aside scheme. The changes have mainly been towards crops, which gives higher revenue and which fits better with the agronomic conditions. There is a small tendency, that large farmers decrease activities in the cereal and protein crops. There is of course a link to the set aside, but it is difficult to say how strong this link is. What can be established is that the increase in the oilseed production for non-

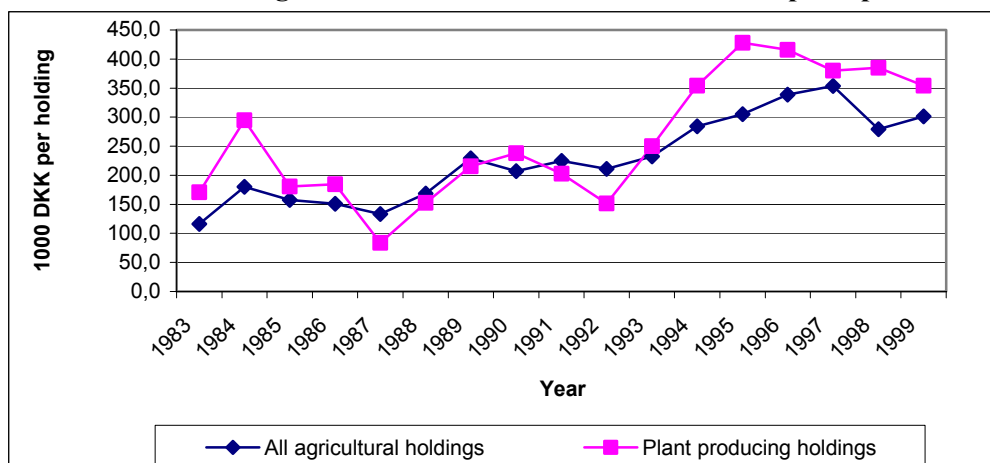
food is due to the support for this type of crop, since the market in Denmark is very limited. Contract production is mainly used for securing prices and not for diversifying production.

Details of the answer

As a criterion for large producers, we selected the size of the farm. A farm larger than 50 ha was then categorized as large. Then 31% (17,669) of all Danish farms cultivating 70% (1,841,724 ha) of the agricultural area are large. In the survey farmers with more than 50 hectares count for 96 percent of all land and of the set aside area as well.

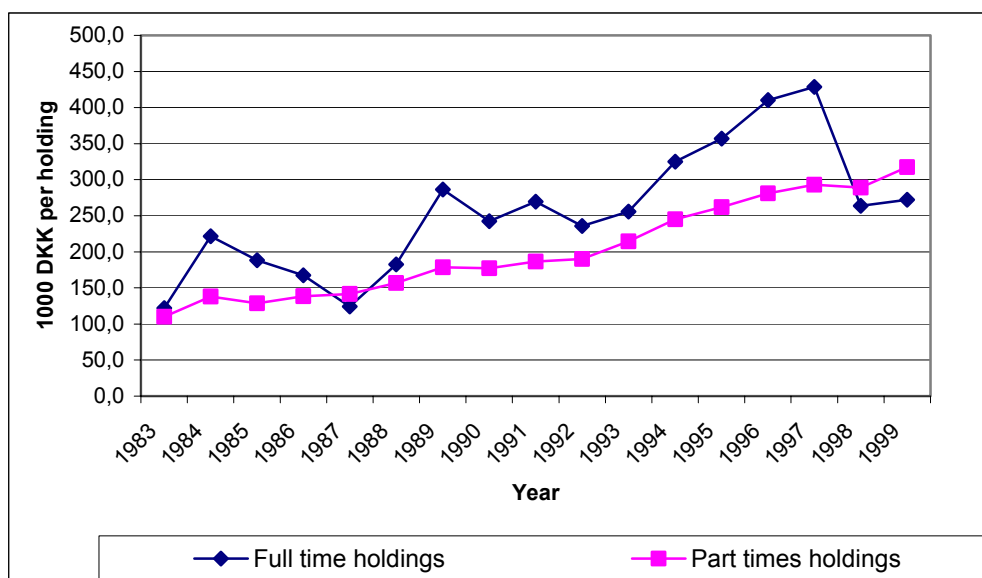
In the illustrations below, the development of the farm income (current income = profit, wage income, pension etc. - net interest) is pictured. Data describing the situation for large farms alone have not been available; therefore the graphs instead show the development of income for the following categories: Full time, part time, plant producing and all farmers. The main feature to notice is that plant producer's income since 1993 has risen faster and more than all farms in general. The same tendency is seen in the other illustration, where the income of full time farmers (on average larger than 50 ha in the whole period) has grown faster and more than the income of part time farmers.

Illustration 3.1 Average annual farm income for all farms and plant producers



Source: Danish Institute for Agriculture and Fisheries Economics

Illustration 3.2 Average annual farm income for full time and part time farms



Source: Danish Institute for Agriculture and Fisheries Economics

The sharp decline in income for full time farmers in 1998 is mainly due to a boom in investments at that time.

43% of all farmers in the survey declared that the set aside scheme had influenced their income, where as 50% said that the set aside premium had no effect. The main explanation was that the subsidies only accounted for a minor part (maximum 15% over the period). Looking at the more specific question whether the income has been unchanged due to the support system only 30% answers that it is the case, and 50% says that it has changed. The latter argues that the set aside requirements results in lower income, because they could use the arable land for cereal production, which would be more profitable.

Looking only at farmers larger than 50 ha (23), 39% declare that the set aside subsidy is of importance to their income, where as 57% says that it is not important. It is the same picture regarding their satisfaction with the existing system.

In the interpretation of the figures it is important to remember that the set aside premium only is a (small) part of the total amount of compensation payments. Farmers often say, that they consider set aside as an "investment" in obtaining the premiums for COP-crops. This makes a distinction between the specific effect of the set aside compensation payments difficult.

Only 26% (6) of the large farmers have changed their activities to counteract a reduction in income, and only 1 out of the 7 small farmer have changed activities.

Illustration 3.3 Changes in activities (% relative to the group of farmers)

Activity	Increase of activity			Decrease of activity		
	Group of farmers			Group of farmers		
	Small	Large	Total	Small	Large	Total

Cereals	-	17%	14%	100%	33%	43%
Oilseeds	100%	33%	43%	-	33%	29%
Protein crops	100%	33%	43%	100%	50%	43%
Non-COP	-	-	-	-	-	-
Non-agricultural	-	17%	14%	-	-	-

The overall, general picture is that oilseed production has increased but mainly on the small farms and that both small and large farms tend to reduce their areas with cereal and protein crops, both the administrative bodies and the farmer's organisations support it.

Furthermore, the choice of the crops is primarily determined by agronomic (70%) and economic (70%) factors.

We therefore conclude, that in the case of large farmers, there is a small tendency to decrease activities in the cereal and protein crops. There is of course a link to the set aside, but it is difficult to say how strong this link is. What can be established is that the increase in the oilseed production for non food is due to the support for this type of crop, since the market in Denmark is very limited.

Contract production

In Denmark plant contract production is not specific focusing on securing better quality products, but securing a specific quantity or volume to a specific prices. The quality parameter is expressed through the prices. Important crops grown on contract are: Peas for canning and freezing, and barley for malt production.

The farmers interviewed, told that the compulsory set aside had not influenced them in any way in relation to focusing on product quality. The main explanation for making contract production is a higher price and secure income from this type of production. 70% of the farmers stated that they had contract production on either barley for malting or wheat for bread making.

Illustration 3.4 Improvement of product quality

Type of improvements	% of farmers
Enter into contract obligations	70%
Joining a traceability scheme	7%
Switch to lower input or organic agriculture	-
Other*	7%

*Seed production and less intensive production methods

4. QUESTIONS CONCERNING THE REGIONAL IMPACT AND CONCERNING THE AGRONOMIC PRACTICES

4.1 Question 4.3.1

Did the existence of a remunerated set-aside encourage good crop rotation and which were the alternative crops in the plots where a set-aside was established?

Synthetic answer

The influence of remunerated set aside as such on good crop rotation is limited. There has been no real change to the rotation. The set aside area has mainly been placed on the poorest soils, and has been managed as one year set aside. The set aside has not been rotated but kept in the same place year after year. The results of the questionnaire survey shows that 86 percent of the land is kept as some sort of permanent set aside. All set aside areas in Denmark must be covered by a crop, so there is no threat from bare fallow. The alternative to set aside is to include the plots in the normal rotation using traditional crops.

Details of the answer

Half of the farmers in the survey said that they have made changes as a result of the set aside scheme. The only change, which has been made is the introduction of fallow or oilseed rape as a non-food crop into the rotation. So there have actually not been any real changes in the rotations. Since there no longer is a demand for actually shifting the location of the set aside areas from year to year, most farmers have placed the set aside in the same parcel of land year after year, so even though the set aside is registered as rotational it is in fact permanent. Farmers find it easier to manage the set aside this way, and the areas don't get the characteristics (look) of a permanent set aside because it is ploughed each year.

Illustration 4.1 A breakdown of farmers by type of set aside

Type of set aside	% of farmers	% of the area	Hectares
100% rotational	27	14	71
100% fixed	20	30	158
Rotational but at the same plot	27	56	295
Mixed	27	-	-

Based on the survey interviews we conclude that set aside mainly has a neutral effect on the rotation scheme. The main reasons are that farmers in practice have made very few changes in their rotation and that the set aside in the later years on a minimum of 47% of farms have been of a permanent nature.

Illustration 4.2 Effect of set aside on rotation in Denmark (estimated)

Type of effect	% of farmers classified
Negative impact	0%
Neutral impact	80%
Positive impact	20%

With respect to alternative crops, the production of non-food has been dealt with extensively in section 2.3

The most of the farmers (53%) had no difficulty in managing the set aside land in 1992. The 43% who had problems in the beginning was reduced to 33% in 1999. The main problems are the same:

- Weed control (93% had problems in the beginning, 80% now)
- Succession into scrubs and woodland (14% had problems in the beginning, 50% now).

The problems with the succession of the land into scrubs and woodland are mainly a problem on the real permanent set aside. Firstly because the farmer don't like the way it looks, secondly because in Denmark it is the semi-natural ecosystems such as meadows and grasslands which needs to be preserved, and finally it becomes very expensive to bring the land back into agricultural use.

Question 4.3.2

Did the location of the set aside plots encourage better cultivation methods?

Synthetic answer

A large part of set aside in Denmark is placed on marginal (not in economical terms) land. The alternative use of the set aside areas are not abandoning but keeping the plot in rotation, so the only small improvement to be found is, that many of the plots are no longer ploughed each year, which can cause leaching of nutrients

Details of the answer

The table below shows the predominant location of set aside is within the rotation (it should be remembered that farmers in Denmark mostly have rotational set aside on the same plot year after year), secondly many farmers place the set aside on small plots which is difficult to cultivate (47%). All categories are used; since many Danish farmers tend to place the set aside on the same plot each year – a kind of permanent set aside. It should also be noticed that 80 percent of the farmers have answered that they have placed the set aside on the poorest quality of land. Nevertheless, it must also be remembered that in Denmark set aside were not used prior to the CAP reform, so the land used for set aside actually has a production history as well as a production potential.

Illustration 4.3 Location of parcels set aside

No	Location of parcels	% of farmers
1	Use of rotational fallow system	57%
2	Along water courses to avoid erosion and leaching of nitrates	20%
3	on unviable (too small) fields	47%
4	on distant or isolated fields	37%
5	on least fertile or non -irrigated fields	43%
6	on sloping fields	3%
7	on extensively cultivated field or margins	-
8	Answered to on or more of no. 3-7	80%
9	acquisition of fields specifically to be set aside	13%
10	Transfer of set aside (by the same farmer from one production region to the other)	7%
11	Other: Along forests edges, to improve conditions for game and wild life. Optimization of the location of land on the farm.	10%

A matrix has been used to characterise the farms according to economic and agricultural gain or loss in relation to set aside; among the factors, location of parcels is one factor. Other factors are rotation schemes, cover crops for fertility, the effect of soil improvement, etc. The result has some elements of arbitrary, since a full insight in the farmer's economic and agricultural position was not possible, let alone for a comparison in time. The result, however seems to be rather consistent with other element of the survey: no special economic effects (corresponding to the integration in the rotation scheme or land with low alternative value). While set aside is compulsory, placing the set aside in poor land they decrease the economic effect of the set aside. The agricultural effects are found to be neutral because of the permanent character on already extensively farmed plots.

Illustration 4.4 Characterisation of farms according to economic and agricultural effects (% of farmers in the survey)

Aspect	Gain	Neutral	Loss
Economic	33%	67%	—
Agricultural	17%	83%	—

There is no indications that the location of the set aside plots have had substantial effect on the cultivations methods. The facts that the economic situation has neither improved nor worsened and that the location of set aside has been neutral to the agronomic situation are crucial indicators of that.

4.2 Question 4.3.3

Did the existence of the remunerated compulsory set-aside cause production intensification in the other plots?

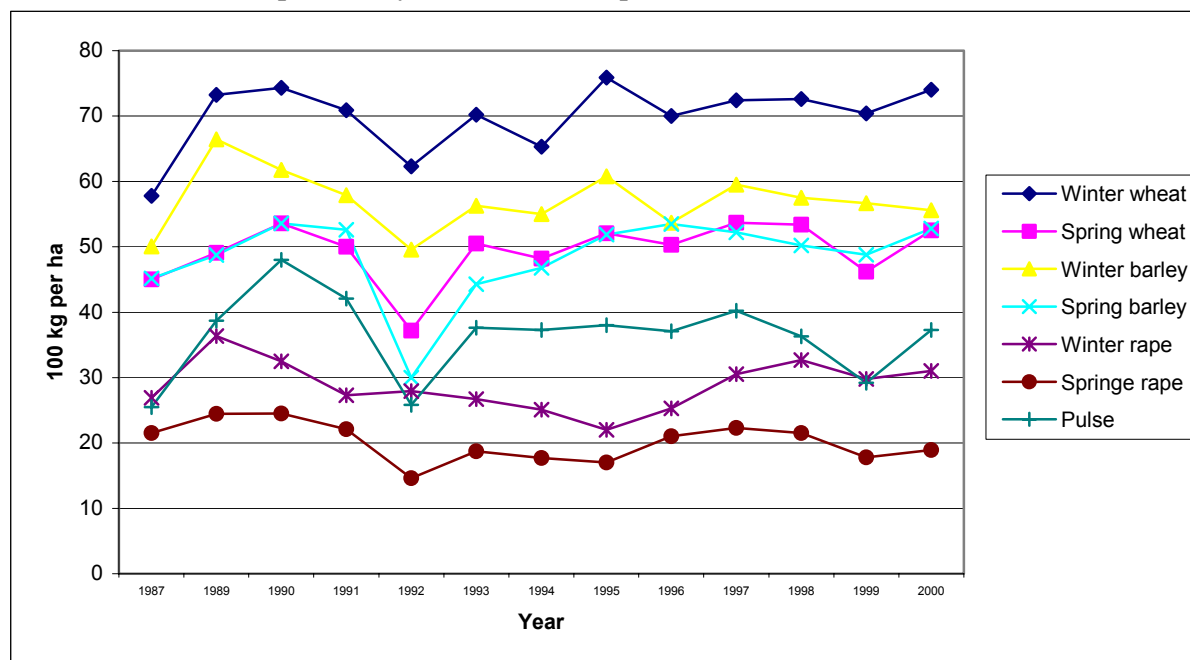
Synthetic answer

The answers given by the farmers in the survey do not support the hypothesis that remunerated set aside have intensified production on other plots. Nor does the development of production per ha show an increase, which can indicate an intensification of production on other plots as a result of the set aside.

Details of the answer

In the survey, no farmers explicitly mentioned an increase of production or intensification on other parcels. Looking to the development in the yield per hectare, there are only indications of modest improvements. The main influencing factor is the climatic circumstances, general improvements in the production conditions and the price relations (se section 2.1 for further details).

Illustration 4.5 Development of yield for COP crops



Source: Statistics Denmark

4.3 Question 4.3.4

To what extent has the existence of the compulsory set-aside modified the farm competitiveness by an adaptation of the productive structures? (e.g. farm size etc.)

Synthetic answer

67% of the farmers in the survey have bought land in the period 1992 to 1999 in comparison with 34 % from 1987 to 1992, but many farmers mentioned in the interview that they would have bought

more land even without the set aside. Furthermore, 60 percent of the farmers in the survey felt that it had become more difficult to buy land after the CAP reform.

Land prices have increased in the period 1992-99, but even the farmers declaring that they believe the McSharry reform has contributed to higher land prices (77%) say that also other factors are of greater importance, especially the rule that farmers must own a large proportion the land which they use for spreading manure, has had a great effect.

Taking all aspects into consideration, there is some evidence that the compulsory set aside has influenced the production structure, but it is difficult (impossible) to distinguish the set aside effect from other general effects such as the hectare premium scheme, and the economic situation which favour large farms.

Details of the answer

Compulsory set aside influence farm size, one way to counter act this is to buy more land. From the survey, it follows that in the period 1987-1992 34% of the farmers had enlarged their property, whereas in the period 1992-1999 this was 67%. In size, the average increase was 30,9 ha in the first period and 50 ha in the second. In fact, these enlargements might be a gain in competitiveness, but almost all farmers interviewed mention, that there is no relation to set aside, and that they would have bought that land anyway.

With respect to acquiring new land, it is generally felt by the farmers, that this becomes more and more a problem. 60% of the farmers mentioned that it was difficult to find new land, and 67% of them who had found it difficult, related their problems to set aside. In spite of this all farmers mention that the main factor is the increase in land price in general. One of the main determinants for the increase in land prices is the environmental legislation, which requires farmers to own a certain percentage of the area, which they use for spreading manure. This legislation puts a high pressure on land prices especially in areas with a high density of livestock.

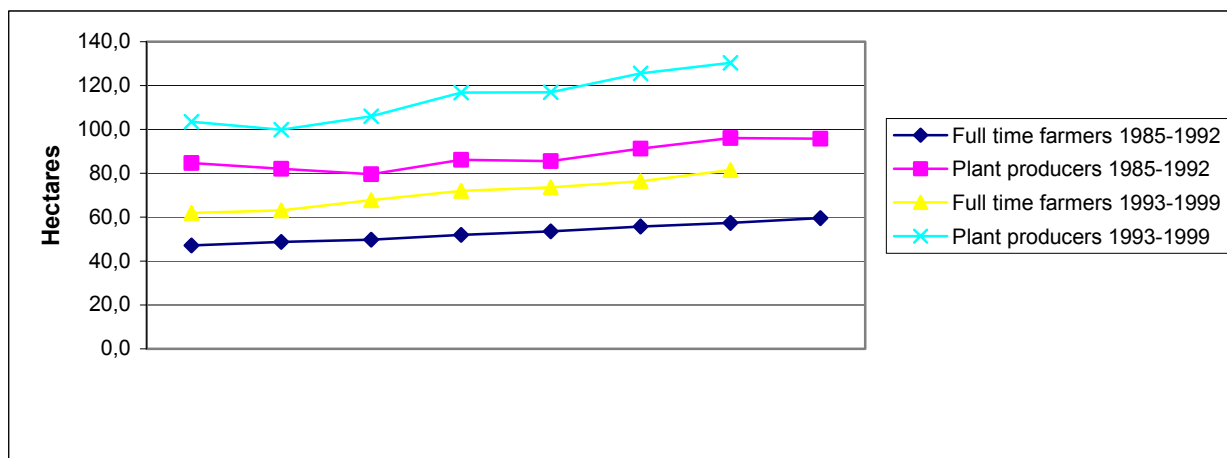
77% of the farmers declare that the McSharry has contributed to higher land prices, especially on land eligible for hectare premiums.

With respect of adaptations activities only 17% said that they had (or tried to) buy more land. 3% state that they have tried to increase output, 7% has tried to reduce input and finally 7% have focus on the rotation.

Furthermore, 53% of the surveyed farmers indicated that they are not satisfied with the CAP, and the majority of them would prefer a free market situation (free from any compensation or subsidies, world-wide). This can be considered as an indication, that farmers feel they could be more competitive without the system, but there are no evidence that it will be true.

Looking at the actual changes in average farms size in Danish agriculture, pictured in illustration 4.6 below, there has been a tendency that the increase of average farms size has been faster in the period after the CAP reform than before.

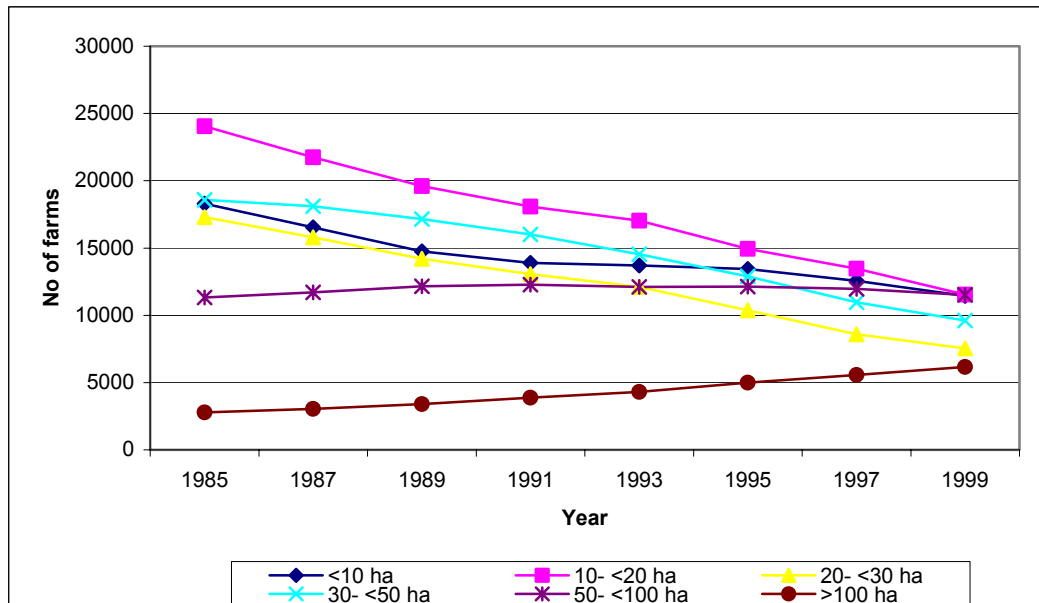
Illustration 4.6 Development in average farm size



Source: Danish Institute for Agriculture and Fisheries Economics

Comparing the growth in average farm size with the development in farm size groups (see illustration 4.7) shows that the average size has grown. The effect of the CAP reforms tends to be a faster increase in size of big farms a slow down of the reduction in the smallest farms but a speed up of the reduction in the numbers of medium farms.

Illustration 4.7 Development in farm size groups

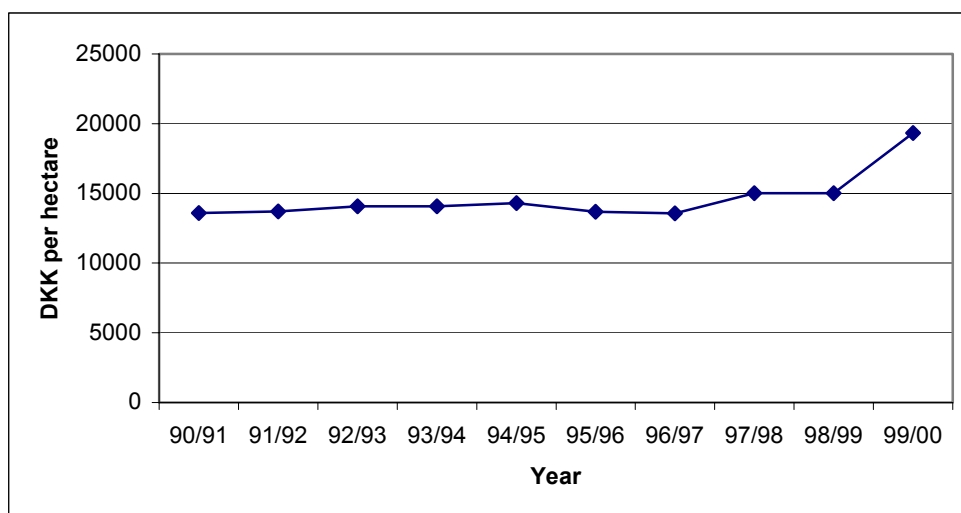


Source: Statistics Denmark

Taking all aspects into consideration, it must be concluded, that there is some evidence that the compulsory set aside has influenced the production structure, but it is difficult (impossible) to distinguish the set aside effect form other general effects such as the hectare premium scheme, and the economic situation which favour large farms.

Prices for agricultural land in Denmark is not collected and recorded systematically. As an indicator the public valuation of agricultural land can be used (see figure below).

Illustration 4.8 Development in public valuation of agricultural land



Source: Danish Institute for Agriculture and Fisheries Economics

As the graph shows, the value of agricultural land has remained almost stable from the beginning of 1990. It was first from the 1997/98 that the value began to increase. The increase in public valuation in the late 1990s is mainly a reflection of the increase in land prices as a response to the need for more land due to the environmental legislation demanding farmers to own a certain amount of land for their manure spreading. The conclusion is that the set aside premium has not had any significant effect on agricultural land values and prices.

5. QUESTIONS CONCERNING THE ENVIRONMENTAL IMPACT

A part from the objective of the set aside to reduce agricultural production in the community, set aside has in recent years received much attention as an instrument to improve the environmental impact of agriculture. It is therefore interesting to look at the environmental effects of set-aside and farmers' knowledge and understanding of the environmental set aside rules.

Farmers are well aware of the regulations concerning good management of set aside land in relation with the environment. The two main sources of information are the information from The Directorate for Food, Fisheries and Agri Business (87%), where the application for the COP-premiums has to be sent, and the farmer's organisation (90%).

Illustration 5.1 Knowledge of the regulations concerning environmental management of the set aside grounds

Knowledge	% of farmers
Yes	43%
No	57%

Of the farmers who knew the rules, 100% declared that they also applied them. It seems strange that more than half of the farmers did not know of the environmental management rules for set aside areas. The explanation is that in Denmark there are no specific environmental rules, the environmental management rules are incorporated in the general set aside rules and farmers therefore do not see them as specific environmental management rules. From other questions in the survey, it can be seen that farmers understand the environmental rules regarding set aside. For example no farmers have had problems with the obligation period. Of course some farmers have problems understanding the environmental logic of the set aside, but it is our opinion that the real number of farmer not knowing the environmental rules for set aside is around 25 %.

Recent environmental studies shows that the most significant effect of set aside management as it is practiced in Demark is on the insect and bird life. The effects on soil condition is almost non existing. Set aside also has a limited effect on the aquatic environment. The ban use of pesticides does not have any detectable effects, but with respects of nutrients set aside has some effects (Bichel udvalget, Midtvejsevalueringen Vandmiljøplan II). With respect of the landscape effects, set aside fields can be identified in the landscape, but they are rarely seen as a problem, as it does not create areas with an abandoned appearance.

5.1 Question 4.4.1

Did the adoption of the set-aside have a significant impact on the improvement of the soil management (erosion, fertility, structure, etc.)?

Synthetic answer

The effect of set aside on soil management is assessed to be neutral, since the soil management practices of 77% of the farmers in the survey is estimated as being neutral. Some positive effects have been found in 23% of the cases, which is mainly related to the fact most set aside is kept at the same plot year after year with the use of a more or less permanent cover.

The national rules regarding set aside does only include one specific aspects regarding soil management and that is the demand for plant cover on all set aside areas. The demand for a plant cover is introduced to avoided erosion.

Details of the answer

Based on the answers given by farmers regarding their management of set a side areas it has been assessed that more than 3 out of 4 of them showed no special negative or positive behaviour concerning soil management, see illustration 5.2.

Illustration 5.2 Effect of set aside on soil management (estimated)

Type of effect	% of farmers classified
----------------	-------------------------

Negative impact	0%
Neutral impact	77%
Positive impact	23%

Available information from the farmers advisory service, their organisations and research institutions support the theory that permanent set aside can be used for improving the soil condition. The preconditions for having a high effect on the soil condition are that the land is kept as set aside for several years not disturbed by ploughing, harrowing etc. and that certain types of crops are grown. This kind of management is not generally practiced in Denmark, as showed in illustration 4.1 only 30 % of the land in the survey are kept as permanent set aside, the rest of the land are in varying degrees managed as land in rotation.

Illustration 5.3 Plant cover on set aside areas with out non food crops (more than one answer possible)

Type of cover	% of farmers classified
Only non food areas	23
Bare set aside	0
Natural grass colonization	23
Plants sowed for agronomic purpose*	57
Plants sowed for other purposes	0
Other**	3

*All farmers stated that they used a grass and clover seed mix for the purpose of avoiding weed colonization.

** One farmer stats that he has sown grass on the set aside area so the landscape appears cultivated.

In illustration 5.3 it can be seen that more than half of the farmers have another cover than non food of the set aside areas. The main crop on those areas is different grass and grass-clover mixes, which normally do not have a high potential for soil improvement. On the other hand grasses and clovers are good for absorbing nitrate, which in Denmark is an important quality of set aside land. Much more than soil improvement and erosion control.

The importance of the nitrate problem is reflected by the fact that in Denmark the agri-environmental scheme only focuses on protection of watercourses and water in general against nitrate pollution (The Danish Rural Development Plan). All agri-environmental measures are focused on protection of the aquatic environment, except the support for organic farming, which also targets other issues such as public health and animal welfare. In the survey 23 percent of the farmers (7 farmers) stated that they participated in the agri-environmental scheme. 86 percent or 6 out of the 7 farmers stated that the purpose of their environmental obligation was protection of the aquatic environment. The last farmer was organic producer and the support scheme for organic production has multiple objectives.

5.2 Question 4.4.2

Did the adoption of the set-aside of land have a significant impact on the improvement of the water management (pollution, water resources maintenance including ground waters, floods etc)

Synthetic answer

Set aside has no particular effect on water management. The farmers location of set aside plots have so far not been influenced by the need for environmental protection. Perhaps in the future, since it is now possible to set aside field strips along watercourses the location of set aside will become more environmental friendly. The possibility for transferring the set aside obligation, which is introduced from 2001 does not yet show any significant positive environmental effects, but it is expected that in the coming years set aside to some degree will be concentrated on marginal land.

The design of the national rules regarding set aside has primarily been focus on protection of the aquatic environment. The rules comprise a demand for plant cover to reduce nutrients leaching, a ban on the use of pesticides and fertilizers so the drifting, run off and leaching is avoided as well as a ban on soil operations to avoid leaching of nutrients.

Details of the answer

The survey shows that only 20 percent of the farmers have located the set aside area so it could have a positive effect on the aquatic environment.

The main environmental effects with regard of the aquatic environment from set aside, taking into account the present management of the set aside areas, is a reduction in nitrate leaches.

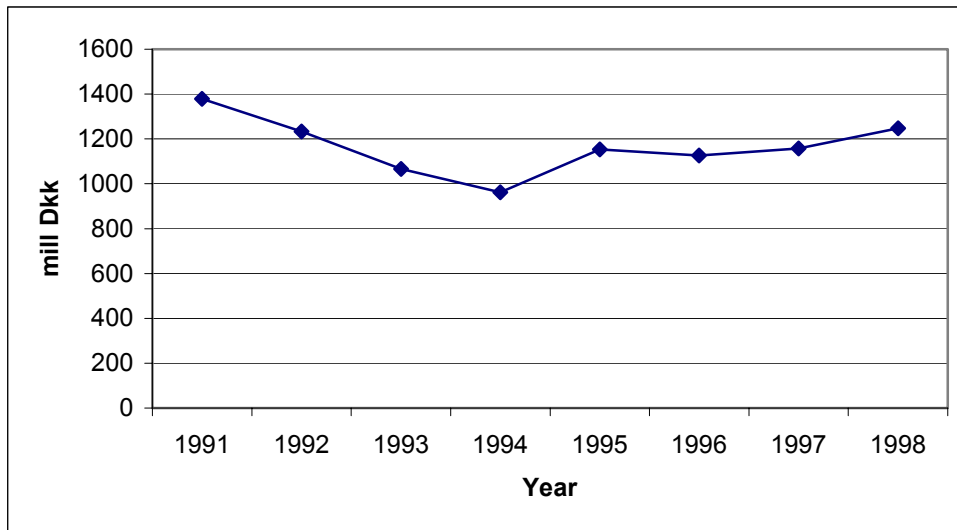
Illustration 5.4 Effect of set aside on water management (estimated)

Type of effect	% of farmers classified
Negative impact	0%
Neutral impact	80%
Positive impact	20%

Out of the farmers participating in an environmental program (23%), 86% were involved in activities related to water protection and/or management; the reason for this high percentage is explained under question 4.4.1.

A serious problem mentioned by all the interviewed persons is that the production of non-food has no environmental effects at all. Actually in some cases the non-food production has proven to be more harmful to the environment than the normal agricultural production.

Illustration 5.5 Farmer's total national expenses on pesticides

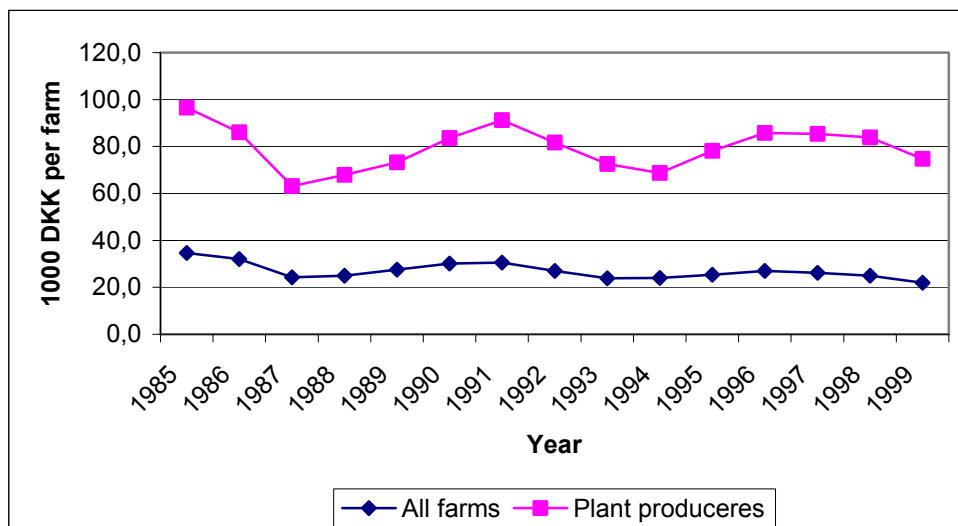


Source: Statistics Denmark

The changes in expenditure on pesticides pictured in the illustration above are, by researchers at The National Environmental Research Institute described primarily a result of price changes and changes in the types of pesticides used and not a result of the change in agricultural area on which pesticides can be used.

Using the change in expenditures for fertilisers as an indicator for the environmental effects on the aquatic environment by set aside is very difficult. Firstly because the fertiliser demand in Denmark very inelastic and secondly because around 40 percent of the applied nitrogen fertilisers comes from animal manure which is included in the calculations of the expenditures, and finally because the fertiliser use in Denmark is mainly regulated through national laws and orders. Since 1985 Denmark has had three Action Programmes (Npo Plan in 1985, Aquatic Environmental Action Programme I in 1987 and Aquatic Environmental Action Programme II in 1998) targeting the aquatic environment and a fourth programme is now under political negotiation. The different programmes have all included several different measures, both voluntary and compulsory, targeting fertiliser and in particular nitrate pollution from agriculture. It will therefore be impossible to identify the effects of set aside.

Illustration 5.6 Average yearly expenditures for artificial fertilisers



Source: Danish Institute for Agriculture and Fisheries Economics

The possibility for transferring the set aside obligation is by the authorities expected to have some positive environmental effects in the future, at this stage in time there are not enough information's about how farmers will use the possibility for transferring the set aside obligation. Nevertheless there are some indications that the set aside will be located on the land with lowest productivity with no consideration of the environmental effects.

5.2 Question 4.4.3

Did the adoption of the set-aside have a significant impact on the improvement of the landscape management?

Synthetic answer

Set aside has a neutral effect on the landscape. Most set aside is kept in the same plot year after year, but is often managed so it doesn't step out from the rest of the landscape.

The national rules regarding set aside does only include any specific aspects regarding landscape protection or improvement.

Details of the answer

33% of the farmers in the survey declared that their set aside parcels could be distinguished clearly from the surroundings. The main reason is that the set aside is concentrated in one particular area (33%), but also because of its permanent character, which has resulted in the intrusion of trees and other non-agricultural plant species.

On the questions relating to problems of management of the set aside initially and to day, respectively 7% (2 farmers) and 17% (5 farmers) stated that they had and have problems with the set aside appears abandoned.

Illustration 5.7 Effect of set aside on landscape (estimated)

Type of effect	% of farmers classified
Negative impact	0%
Neutral impact	100%
Positive impact	0%

Studies from the Danish Institute for Agriculture and Fisheries Economics shows that farmers try to manage the set aside areas (areas with out non-food) so the appearance as nature is minimized. That is one of the reasons why many farmers have chosen to set aside the same area year after year.

5.3 Question 4.4.4

Did the adoption of the set-aside have a significant impact on the bio-diversity maintenance ?

Synthetic answer

Even though there exist a large potential for improving the bio diversity by applying set aside in the right areas using the right management techniques, this potential is not realised in Denmark. The present management of the set aside areas are focused on keep the land in an optimal condition for traditional agricultural production.

The existing rules on set aside do not consider bio diversity.

Details of the answer

The Danish Society for the Conservation of Nature states in their interview that the present management of the set aside areas does not have any positive effects on the bio diversity of the areas.

Recent research results from The National Environmental Research Institute gives a more balanced picture. The main factors, which determine the effects of set aside are the time and the management. Describing the effects on biodiversity they divide the set aside into three categories: One year set aside, multi annual set aside, and permanent set aside. One year set aside is identical to rotational set aside, and is described not to have significant effects unless it is very carefully managed. Multi annual set aside, which is close to the fixed set aside and the rotational set aside kept at the same place, is much better in a bio diversity perspective. It offers stability to the flora and fauna, to evolve naturally. Again it is important that the areas are managed, for example placing the set aside on field margins is a good idea, because plant colonization happens faster in such areas. Furthermore, for improving the bio diversity a heterogeneity of the area must be established and maintained. The operations introduced for that purpose will not always be economic viable for the farmer. Finally, permanent set aside, which corresponds to 20 years set aside under the agri-environmental scheme (5600 ha in 1999),

is of course the most interesting from a biodiversity point of view. Again there is a need for continuous management or the areas will due to natural succession turn into natural wood land.

The average expenditure for managing the set aside areas of the farmers in the survey is 53 Euros per hectare per year, which covers the cost for ploughing, sowing, seeds and cutting. But actually only 50% of the 30 farmers had an idea about the costs. Farmers comments during the interviews indicate that their main interest are to minimise the cost of managing the set aside areas, which can be interpreted as a barrier for getting farmers to manage the set aside area more consciously.

Illustration 5.8 Percentages of farmers having management problems

Type of problems	Initially	Today
Difficulties with weed control	43%	27%
Erosion	-	-
Development of diseases	-	-
Development of pests	-	-
Abandoned appearance	7%	16%
Statutory period	-	-
Other	-	-

Another important element regarding management of set aside areas is the weed problem. In illustration 5.8 it can be seen that 43% of all farmers in the beginning thought that weed was a problem but today it has fallen to 27%. It still indicate that a relative large number of farmers – more than ¼ - have problems with weed control in relation to their management of the set aside areas. The answers indicates that many farmers manage their set aside with the purpose of avoid natural colonization, which weed also can be described as.

The overall conclusion is that set aside can be positive for the bio diversity if it permanent or placed on the same areas for several years and is managed with the purpose of improving the bio-diversity. The survey shows that farmers main interest is the minimisation of costs and the prevention of weed colonization. Since the set aside rules already are very environmentally orientated the possible management is quit favourable for the bio diversity situation on the set aside areas, and the effect is therefore described and neutral.

6. QUESTIONS RELATING TO THE COMPLEXITY OF REGULATION AND OF ITS SETTING IN PLACE

6.1 Question 4.5.1

What effect did numerous regulatory adaptations and the existence of numerous individual cases and did possibilities of transfer have cause on the effectiveness of the set-aside instrument?

Synthetic answer

The main problem for Danish farmers is not the amendments, but the problems of getting the information about the changes in time.

Details of the answer

Even though many farmers (60%) find the rules very complicated it is not the rules which make things complicated, it is the time lack from the decision is made until it is communicated to the farmer, which create problems.

Furthermore, the complicated nature of the non-food / non-feed part of the regulation (even without its adaptations), create a lot of problems for the individual farmer.

6.2 Question 4.5.2

What effects did national or regional application legislation have on the effectiveness of the set-aside instrument

Synthetic answer

Farmers in the survey felt that if Denmark should be divided in more regions (than 1) the system would become inefficient.

Details of the answer

Since there are only very small regional variations in the production potential a division in several regions would lead to inefficient administration.

As for the implementation of the regulation, the survey gives the following problems encountered by the farmers:

Illustration 6.1 Administrative problems experienced by farmers

Type of problem	% of farmers
Complicated administrative procedure	60%
Disbursement of grant too late	27%
Information about the set aside % came too late	17%
Lack of integration, in particular agri-environment measures	3%
Beginning and end dates of set aside was a problem	3%
Problems with the minimal size of the parcels	0%
Minimal yield of non-food caused problem	7%

These answers need some subtle interpretation.

With respect to the administrative procedure, there is too much paper to fill in. It has helped that farmers can get pre-filled in forms but it is still very burdensome.

Payments of the set aside premium arrive at the end of the year, with a tendency to come later and later. As a rule, however, it must be said, that the premiums were not paid beyond the date mentioned in the regulations. Of course, farmers like to receive them as early as possible.

As to information, it must be mentioned the information regarding changes in the set aside rate often comes in the very last minute.

Lack of integration of different lines of policy is actually not a problem for Danish farmers.

Not many farmers have problems with the beginning and end of set aside, or with the minimum size of the parcels, or with the minimal yield of non-food so no further comments will be made.