

# Comparative analysis of less-favoured areas payments in the EU states

## *Srovnávací analýza plateb pro méně příznivé oblasti v zemích EU*

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**Abstract:** The core objectives for rural development support for the period 2007–2013 are: (1) improving the competitiveness of agriculture and forestry, (2) improving the environment and the countryside, and (3) improving the quality of life in rural areas and encouraging the diversification of economic activity. The Council Regulation (EC) No. 1698/2005 includes an unambiguous targeting of smaller and micro-enterprises to sustain job opportunity in rural areas. For this scheduled period, a minimum funding of 10% of the total EU contribution has been withheld by the Council Regulation for the measures connected with the quality of life and diversification of the rural economy outside agriculture and forestry. In spite of this, the EU Court of Auditors has concluded that rural development policy in Europe is ineffective because it continues to allow member states to adopt a predominantly sectoral approach with the primary focus on the agricultural sector (Special Report No. 17/2006). This paper deals with the possible impact of one RDP measure – the reduction of LFA payments according to farm size. Taking into account the variety of regions in Europe and the different situations at national level, it is difficult to provide a single guideline to solve the problem. Implementation without a deep analysis could lead to undesirable consequences. A specific adjustment to the situation of the given country will be advisable.

**Key words:** rural development, less favoured areas (LFA), farm size structures, payments reduction, sustainable agricultural land utilization

**Abstrakt:** Základními cíly podpory rozvoje venkova v programovém období 2007–2013 jsou (1) zlepšování konkurenceschopnosti zemědělství a lesnictví, (2) zlepšování životního prostředí a krajiny a (3) zlepšování kvality života na venkově a podpora diverzifikace ekonomické aktivity na venkově. Nařízení rady (ES) č. 1698/2005 je jasně nasměřováno na menší a malé podniky, které by měly zajistit pracovní příležitosti na venkově. V programovém období 2007–2013 je podle tohoto nařízení vyčleněno minimálně 10 % z celkových prostředků na opatření týkající se přímo kvality života na venkově a na podporu diverzifikace činností na venkově mimo zemědělství a lesnictví. I přesto Evropský účetní dvůr usoudil, že politika rozvoje venkova v Evropě je neefektivní, neboť dovoluje členským státům přijímat přednostně sektorový přístup s primárním zaměřením na sektor zemědělství (Special report No. 17/2006). Příspěvek se zabývá porovnáním podmínek jednoho z opatření programu rozvoje venkova – poskytování plateb pro méně příznivé oblasti a modulací v závislosti na velikosti podniku. Pokud vezmeme v úvahu různorodost evropských regionů, rozdílné postavení zemědělství v jednotlivých státech EU a velikostní strukturu farem je obtížné přijmout jednotný přístup řešení této problematiky. Implementace bez hluboké analýzy by mohla vést k nežádoucím dopadům a bude vyžadovat uzpůsobení pravidel specifické situaci dané země.

**Klíčová slova:** rozvoj venkova, méně příznivé oblasti (LFA), velikostní struktura farem, snižování plateb, udržitelné zemědělské využívání půdy

Differentiation of the LFA (less favoured area) payments contributes to the fulfilment of the LFA objectives. A special attention is paid to the compensatory payments differentiated according to farm

size, for this criterion will be made compulsory in 2010. The Council Regulation (EC) 950/1997 quite unambiguously stipulated the eligibility conditions for obtaining the LFA payments. The area eligible

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for the LFA payments was strictly limited to the maximum of 120 ha per farm, allocating higher rates to the first 60 ha. Even though this requirement has not existed before 2000 (Council regulation No. 1257/1999), most EU 15 Member States and some of the newly joined countries have specified the threshold of the eligible area at the individual national level. The threshold size of the individual enterprises will need to be established, even by those countries that have not done so up to now, including the Czech Republic, according to the Council Regulation (EC) No. 1698/2005. Also the differentiation of payments and characterization of beneficiaries varies in the individual EU countries (Crabtree et al. 2003; Štolbová 2006a). Together with the RDP expenditure allocation, this contributes to meet the objectives of the individual Rural Development Plans of the EU countries. A comparison of objectives, national rules for the LFA compensation and farm structures was made to pinpoint how to improve the effectiveness of the LFA measure in the future.

## **LFA POLICY OBJECTIVES IN MEMBER STATES**

In compliance with the CR 1257/1999, the support for less-favoured areas should contribute to the following objectives:

- to ensure the continued agricultural land use and thereby to contribute to the maintenance of a viable rural community,
- to maintain the countryside,
- to maintain and promote sustainable farming systems which in particular take account of the environmental protection requirements.

The individual EU Member States detailed these basic objectives, extending them and adapting them to the specific situation in the given country. A good example is the objectives of the “LFA support” as defined in the rural development plans (RDP) of some countries across the EU. Systems of payments are very well adapted to these objectives in some countries (Austria, United Kingdom), only partially in others (CR) or not at all in others (Slovakia).

### **France**

- To compensate for the differences in income between the LFA farmers and other farmers. The general objective of this is the preservation of agricultural exploitation of land in all regions of France;
- To contribute to the survival of small farms. For this objective to be achieved, the compensation payments

are limited to the maximum of 50 ha of agricultural land and a higher rate is paid for the first 25 ha.

### **England**

- To protect the environment in agricultural highland areas by sustainable soil cultivation. For this objective to be achieved, increased payments are made to applicants complying with the principles of environmental agriculture. Farms eligible for the compensation LFA payments only include cattle and sheep breeding farms;
- To contribute to the maintenance of the social structure of the countryside thanks to the continuing land cultivation. To achieve this objective, medium-sized farms (10–350 ha of eligible land) are preferred.

### **Austria**

- To maintain agricultural land and the country community by the means of rural development. The payments are focused on small and medium-sized farms resulting from the topographic limitations;
- To contribute to the settlement and use of land under difficult conditions. Preference is given to farms with animal breeding based on green fodder. A progressive reduction of payments based on the farm size has been implemented;
- Reward for public goods produced by the LFA farms. The farmers must use all agricultural land available and payments to very small farms (2–4 ha) in extreme natural conditions may exceed the maximum fixed by the CR 1257/1999.

### **Slovakia**

- To maintain the nature of the landscape serving the whole society;
- To preserve and support sustainable economic systems respecting the protection of the environment;
- To provide for an adequate income of farmers and contribute to the stabilisation of the rural population;
- To prevent people from leaving rural areas in favour of cities (but no specific arrangement has been taken to achieve these objectives).

### **Greece**

- To compensate for part of the loss of income resulting from non-favoured natural conditions while keeping the minimum acceptable population density and to continue agricultural land use;
- To maintain the rural environment, to support use of land with small demand for resources, such

as legumes growing for their positive effects on the environment;

- To maintain and extend sustainable economic systems. Higher rates are provided to young farmers to improve the age structure in agriculture and to educated farmers in order to increase the viability of farms.

#### Sweden

- To support agricultural use of land and to keep open countryside in less favoured areas, to act against land becoming overgrown with trees. Higher payments are provided to farms growing corn, grass and potatoes on arable land;
- To contribute to sustainable land cultivation, especially by grazing cattle, sheep and goats;
- To maintain the employment rate in agriculture supported by increased payments for areas up to 60 ha.

#### Czech Republic

- To ensure an adequate income for farms operating in more difficult conditions;
- To contribute to a sustainable use of agricultural land and to the protection of other natural resources (especially water resources). To achieve this objective, payments are only provided for grassland;
- To contribute to the stabilisation of the rural population;
- To maintain the attractiveness of landscape (landscape character);

- To support environmentally friendly farming systems.

### THE RELATIVE IMPORTANCE OF THE LFA BUDGET

The allocation of the financial resources of the RDP between individual measures reflects the strategy of the individual countries in support of agriculture and rural development. The only compulsory measure to be supported by the EU Member States in the programme period 2000–2006 was the agro-environmental measure. The graph below compares the share of the LFA in the total utilised agricultural area (UAA) with the share of the LFA payments in the total RDP expenditures.

It is clear that the 45% share in the context of the Horizontal Rural Development Plan in the Czech Republic in 2004–2006 made the LFA payments quite a significant measure. A higher share of the LFA payments can only be seen in Slovakia and in Finland, where, however, the whole area of the country is LFA (Figure 1).

Other EU Member States allocate a lower share of expenditure to the LFA, even when the highest share of land is classified as the LFA (Austria, Greece, Spain), or there is a comparable share to the CR (Poland, Sweden, Ireland, Germany). These countries allocate relatively large amounts for example on environmental measures, on the support of marketing, consultancy,

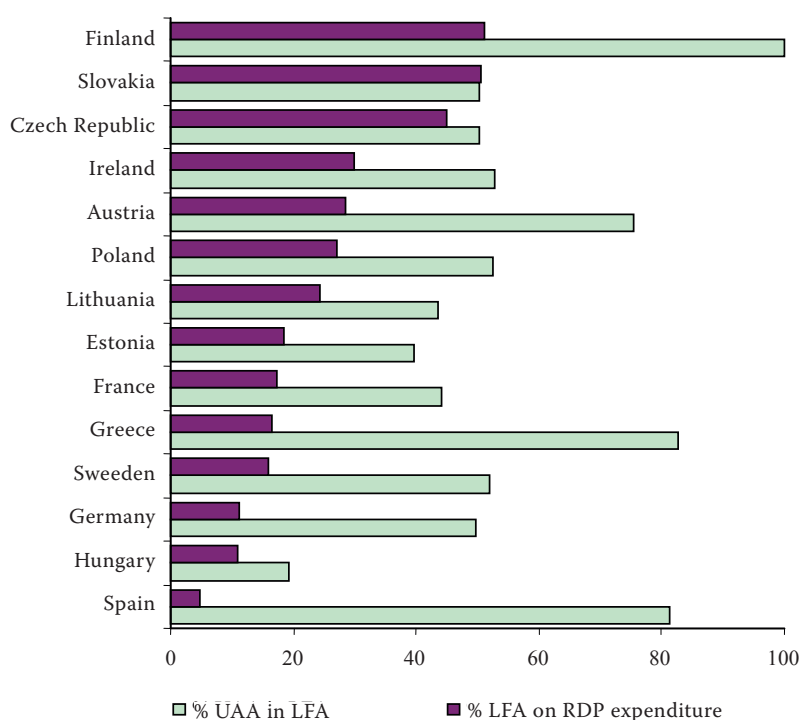


Figure 1. Allocation of the LFA expenditures and the proportion of the UAA designated as LFA

Source: Council 2005, Rural Development Plans 2000–2006, or 2004–2006 in the case of new Member States, in-house calculations

the establishment of producer's groups, services, alternative use of agricultural land etc.

- Age, education or proximity of the farmer's accommodations;
- Size of farm.

## STRUCTURE OF PAYMENT'S RATE

The rates of the LFA payments are differentiated. This differentiation is mainly based on the eligibility criteria based on land or on farm level. The individual countries use extra criteria to determine the level of the LFA payments rates. These payments depend on:

- The degree of natural handicap;
- Geographical classification;
- Actual land use;
- Meeting additional environmental criteria;
- Whether livestock is present;

This paper concentrates on the differentiation of payments according to farm size in a comparative analysis of individual thresholds and farm structures in the Member States.

## THE PAYMENT DEGRESSIVITY

There are great differences between the individual EU Member States in how they apply the LFA payments according to farm size. The EU Member States can be classified as:

Table 1. Application of payment's modulation in the selected EU Member States (2000–2006)

Area		Rate modulation				Area not eligible for payment (maximum)
France	threshold	up to 25 ha	25–50 ha			above 50
	rates	110%	100%			0
Austria	threshold	up to 6 ha	6–100 ha			above 100 ha
	rates	rate 1	rate 2 continuous reduction			0
Saxony	threshold	€ 16 000/farm + € 8 000*				
Bavaria	threshold	€ 12 000/farm				
Ireland	threshold	up to 10 ha	up to 45 ha			above 45 ha
	rates	114%	100%			0
Sweden	threshold	up to 60 ha	above 60 ha			not specified
	rates	100%	50%			
Greece	threshold	up to 15 (50 pastures) ha				above 15 ha (50 ha)
	rates	100%				0
Spain	threshold	up to 5 ha	5–25 ha	25–50 ha	50–100 ha	above 100 ha
	rates	100%	75%	50%	25%	0
England	threshold	up to 350 ha	351–700 ha			above 700
	rates	100%	50%			0
Wales	threshold	up to 140 ha	140–640 ha	640–800 ha		above 800 ha
	rates	100%	65%	30%		0
Poland	threshold	up to 50 ha	50–100	100–300		above 300
	rates	100%	50%	25%		0
Hungary	threshold	up to 50 ha	50–100	100–300		above 300
	rates	100%	80%	60%		0

\*The maximum amount may be exceeded if the farm has more than 2 employees by € 8 000 per essential employee per year (Directive 18/2005, SächsABl, p. 630)

Source: Rural Development Plans 2000–2006, new Member States 2004–2006

1. Countries with substantial reduction in payments according to farm size. Payments are allocated to small and medium-sized farms, corresponding to a minimum threshold above which reductions are applied or a ceiling for the size of the eligible area of the farm: see for example Ireland, Greece, Spain, France, Italy, Austria, or Portugal.
2. Countries with moderate payment's degressivity. The threshold after which a reduction is applied or the ceiling for the size of the eligible area is relatively high (above 100 ha): see for example England, Wales, Cyprus, Denmark, Poland, Hungary, Sweden, or Luxembourg.
3. Countries not applying any positive discrimination in favour of small farms in payments: Belgium, the Czech Republic, Slovakia, Slovenia, Latvia, Lithuania, Finland or Scotland (Table 1).

The model threshold specification for the LFA payment reduction adopted in Germany for the "new countries" is inspiring. This solution supports employment in agricultural holdings including those with larger areas of agricultural land in the LFA. The basic limitation of the total amount of the LFA payments per farm is fixed as in the other German areas. This threshold is increased, however, for the "new countries" according to the number of employees of the farm. The upper limit of the LFA payment per farm is increased by EUR 8 000 per essential employee per year.

The relationship between the applied policy of payment's modulation and the average size of agricultural holdings and the size structure of agricultural holdings of the individual EU Members States has been studied. Comparison of the average size of agricultural holdings across the EU Countries in Table 2.

A substantial payment degression is applied both in countries with a very small average size of agricultural holdings such as Greece and Italy, as well as in France with an average size of agricultural holdings which is above 40 ha. On the other hand, countries that do not apply a degressive system of payments include the Czech Republic with the largest average size of agricultural holdings within the EU, as well as countries with an average farm size of less than 10 ha of agricultural land, such as Slovenia or Lithuania.

Even the structure of agricultural holdings in the countries with substantial digression of payments does not show similarities. It may only be stated that the share of land cultivated by farms of size above 50 ha of the UAA does not exceed 80% of the total UAA in any of the countries. The highest figure is recorded by France, 79.2%, and the lowest by Greece (10.6%). In Greece half of the total area of agricultural land is

cultivated by farms smaller than 10 ha of agricultural land. In France and Ireland, on the other hand, farms smaller than 10 ha cultivate less than 5% of agricultural land, or 11% of agricultural land in Spain.

Also countries with a moderate degression of payments show few common features, when the farm size structures of these countries are compared.

The countries not applying a degressive system of payments represent both farm size extremes. There is Slovenia on the one hand where 92% of agricultural

Table 2. Average size of agricultural holdings in EU Member States

Country	Average size of farms (ha of UAA per farm)
Czech Republic	79.3
United Kingdom	57.4
Denmark	54.6
Luxembourg	52.3
Sweden	45.9
France	45.3
Germany	41.2
Ireland	32.3
Finland	29.9
Slovakia	29.8
Belgium	25.3
Netherlands	23.4
Spain	22.1
Estonia	21.6
Austria	18.7
Latvia	11.8
Portugal	10.4
Lithuania	9.2
Italy	6.7
Poland	6.6
Slovenia	6.2
Hungary	5.6
Greece	4.8
Bulgaria	4.4
Cyprus	3.5
Romania	3.1
Malta	1.0

Source: Eurostat – harmonized national data of structures survey, 2003

land is cultivated by farms smaller than 50 ha of agricultural land, and there is the Czech Republic on the other with 92% and Slovakia with 95% of agricultural land cultivated by farms greater in size than 50 ha of agricultural land. On the basis of the performed analysis of the farm size structure of the EU Member States in relation to applied digression rate, a conclusion can be drawn that the base of the applied policy is a political decision of the given country accepted in the framework of rural development programme.

## PROBLEMS OF THE CR RELATED TO PAYMENT'S REDUCTION

With regard to the reduced rates of the LFA payments, problems could occur not only in the CR, but also in Slovakia and in other regions where land is cultivated preliminary by big agricultural enterprises. The subject of the analysis performed was agricultural holdings exceeding 500 ha UAA. The share of agricultural land in the country in this type of holding can be seen in Figure 2.

Member countries are ranked according to the size of this share, and it categorizes holdings in groups of 500 to 1 000 ha, 1 000 to 2 000 ha and above 2 000 ha of utilized agricultural area. The threshold of 500 ha has been chosen as this represents the highest threshold set for payment degression in the EU 15, namely in England and Wales (zero payments to more than 700 or 800 ha of eligible area).

Looking at the data resulting from the EU farm structure survey the highest proportion of agricultural land in holdings above 500 ha of UAA is found in Slovakia (85%), followed by the Czech Republic, where holdings above 500 ha of UAA use 75% of total agricultural land of the country (32% of UAA are even used by holdings exceeding 2 000 ha of UAA). The next country is Bulgaria with 56% of agricultural land used by holdings above 500 ha of UAA, Hungary with 40%, and Romania with 36% and Estonia with 34% of agricultural land in the hands of these large holdings. In the United Kingdom and in Portugal, holdings above 500 ha of UAA use about one quarter of all the agricultural land of the country.

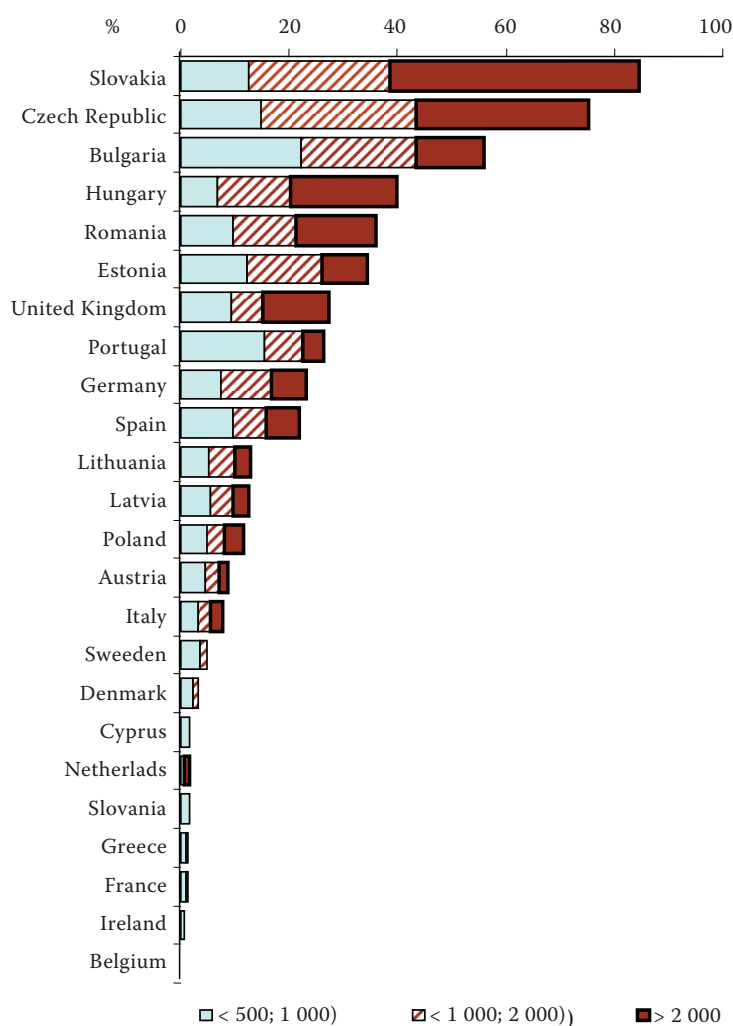


Figure 2. Share of agricultural land used by farms of size more than 500 ha in UAA of the country

Source: Eurostat – harmonized national data of structures survey, 2003



In Luxembourg, Malta and Finland there are no holdings larger than 500 ha of UAA.

A somewhat different picture is obtained when considering the absolute numbers of holdings over 500 ha of agricultural land in the individual countries (Figure 3). In Spain there are over 5 thousand of such large holdings, in Romania 3 600, in the United Kingdom and in Germany there are over 3 300 large holdings, in the Czech Republic, there are 1 860 large farms, in Bulgaria 1 500, in Poland 1 470, and in Slovakia, Portugal and Hungary above one thousand of these farms. The LFA payment modulations therefore strongly affect farms in countries applying this policy (Spain, the United Kingdom, Germany, Poland, etc.).

The following step of the investigation compared the size structure of agriculture enterprises in the Czech Republic less favoured areas and holdings located in the non-LFA. The purpose was to assess whether the structure of the LFA farms significantly differs. The investigation made use of agricultural farms registered in the Czech land parcel information system (LPIS). Two groups of farms were formed. Holdings with more than 50% of agricultural land within the LFA represented farmers in less favoured areas and farms

with less than a 50% share of LFA agricultural land represent farmers in the non-LFA (Figure 4).

The finding of this research showed, that the small and medium-sized farms do not play a crucial role in land cultivation even in the less favoured areas and therefore cannot become the base of sustainable land use – one of the EU objectives of the LFA measures. Holdings of up to 100 ha of agricultural land only cultivate 12% of all LFA agricultural land.

It is becoming more and more obvious that the specific farm structure in the Czech Republic and some other new EU countries would require a specific adaptation of the EU structural policy measures.

Another specific feature of the Czech Republic's application of the LFA measures is the limitation of the eligible area on hectares of grassland only and the relatively high rates of the LFA payments without payment reduction for large farms. This causes huge differences in the amounts of the LFA payments among farms (both in the recalculation per ha of agricultural land of the farm and in the recalculation per annual work unit (AWU) of the farms).

Research has been made into the distribution of the LFA payments across agricultural holdings classified according to the size of eligible area. Model calcula-

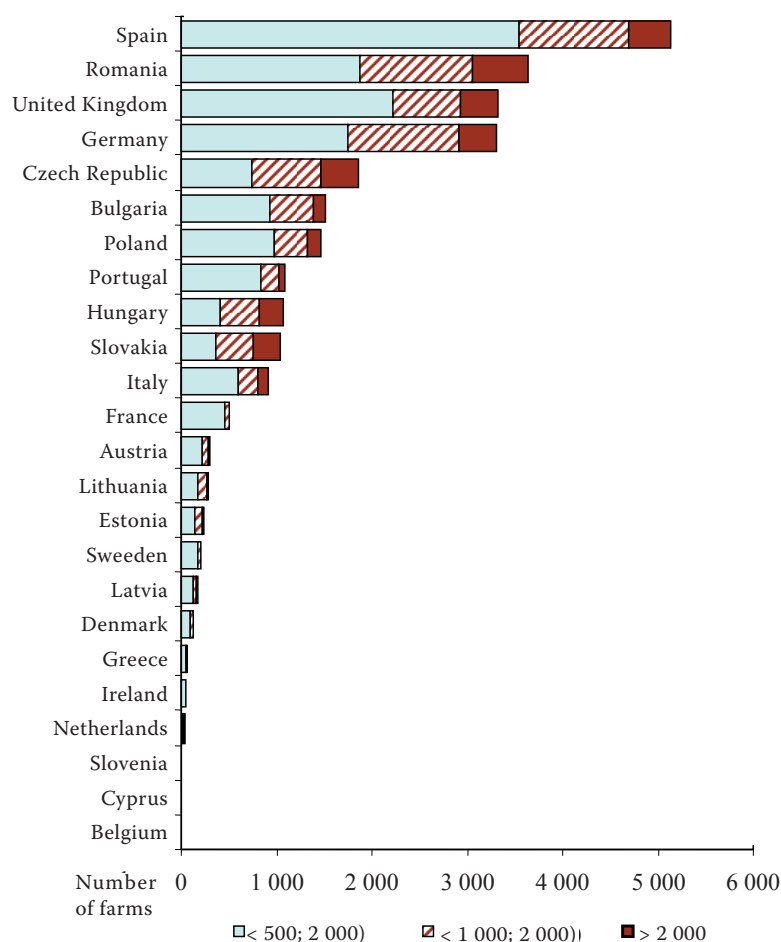


Figure 3. The number of farms over 500 ha in size

In Luxembourg, Malta and Finland, there are no holdings larger than 500 ha of UAA

Source: Eurostat – harmonized national data of structures survey, 2003

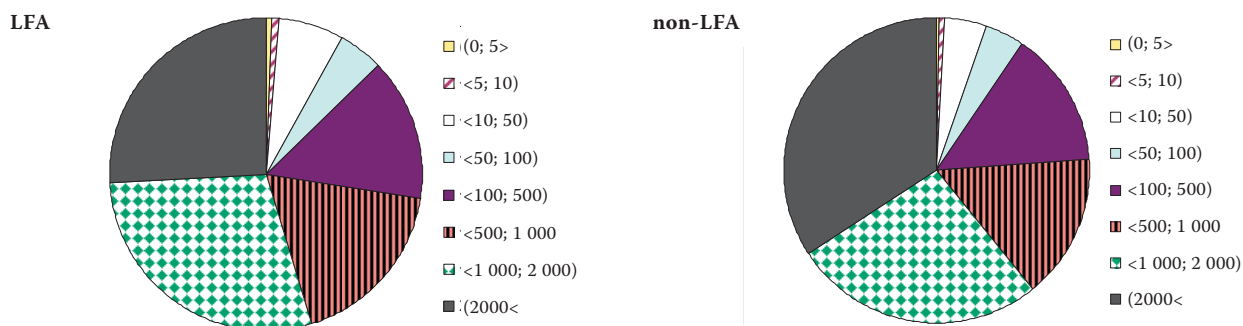


Figure 4. Size structure of farms in LFA and non-LFA in the Czech Republic

Source: LPIS 2006

tions were performed on the basis of the database of the register of LPIS and the Czech farm accountancy data network (FADN).

The comparison shows that the largest beneficiaries of LFA supports in the Czech Republic were large holdings with a large share of grass land in the UAA. The average LFA payment recalculated per annual work unit increased significantly with the size of eligible area (Figure 5).

#### APPROACHES TO LFA PAYMENTS REDUCTION IN THE CZECH REPUBLIC

The future reduction of payments to large farms is only beginning to be discussed among the agri-

cultural public in the Czech Republic. On the basis of consultation with managers of large agricultural enterprises, a whole range of responses about how these large enterprises might cope with this can be outlined.

**Formal split of the enterprises.** This would result in increased administrative, including administration of the subsidies. We can expect a minimal effect on the sustainable land use, while a significant increase of employment cannot be expected.

**Search for cost savings.** This would bring about a further massive release of permanent employees from agriculture, especially in marginal areas. The function of the large agricultural enterprises on the rural employment rate is still significant in the CR and in many new EU countries (see Figure 6).

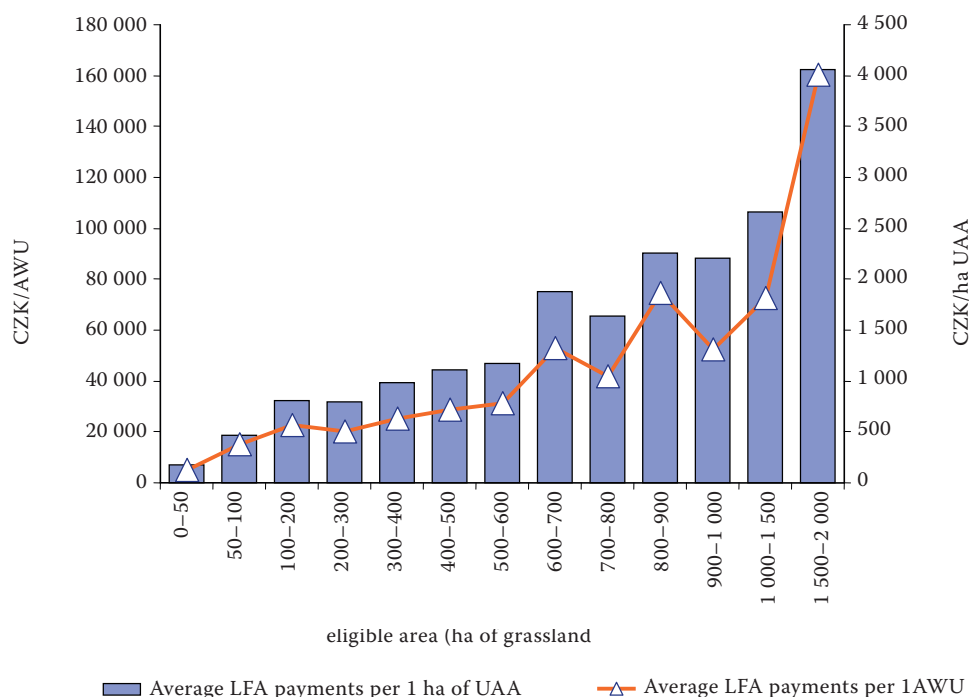


Figure 5. Average LFA payments per 1 ha of UAA and per AWU in size classes according to eligible area

Source: FADN RIAE 2004, LPIS, data processing Štolbová VÚZE



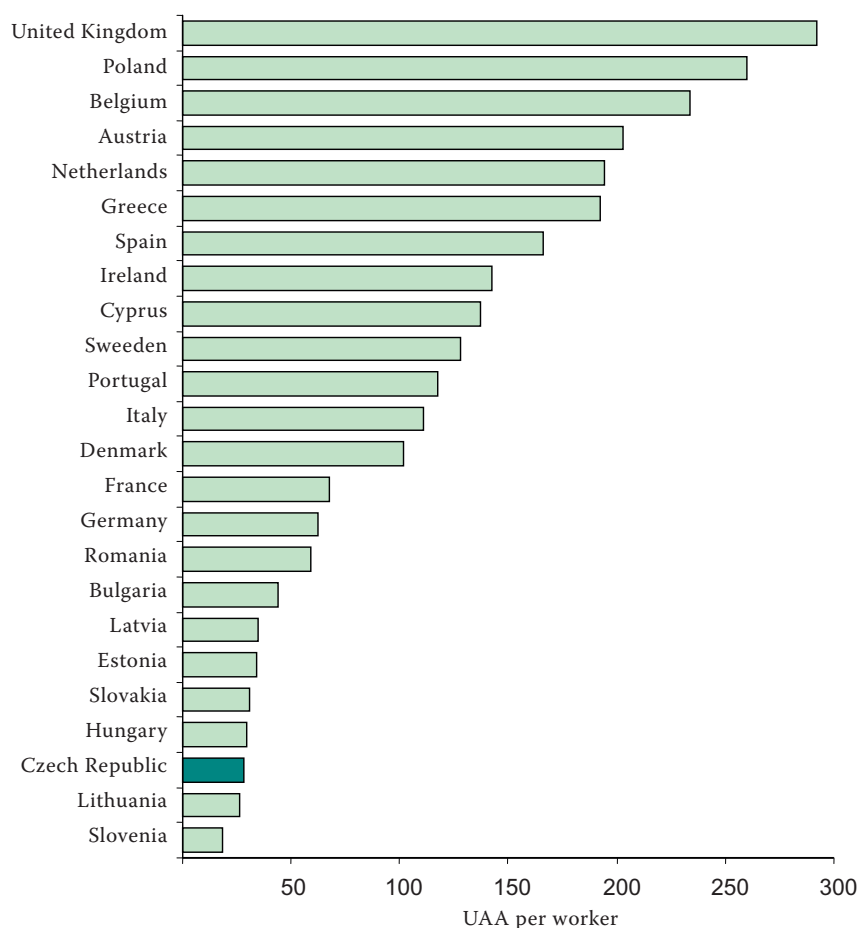


Figure 6. Average area of UAA per worker for agricultural holdings above 500 ha of UAA

Source: Eurostat – harmonized national data of structures survey, 2003

According to Eurostat 2003 data, in enterprises with the size exceeding 500 ha of agricultural land, there are 292 ha of agricultural land per employee in the United Kingdom, 260 ha of agricultural land per employee in Poland, 202 ha in Austria, but only 28 ha in the Czech Republic (as a comparison: 29 ha in Hungary, 31 ha in Slovakia, 37 ha in Lithuania). The real threat represented by this is the further depopulation of rural areas and further marginalisation of the less favoured areas, in contradiction to the objectives of the EU Structural Funds.

**Withdrawal from the rental of remote, small, poorly accessible pieces of land.** In the Czech Republic, about 90% of the cultivated agricultural land is rented. In most cases, the owner is unable to cultivate the land and other potential users are frequently missing. Some owners of agricultural holdings confess that nowadays they return such pieces of land to their owners or plant forests on them in cooperation with the owner, in the best case. The potential increase of abandoned land might negatively affect the rural environment. Forest planting in grass-covered enclaves might cause a reduction of the biological diversity and decreased attractiveness of the landscape.

**Preference of arable land in mountain and high-land areas.** In the case of the Czech Republic where grassland represents the LFA eligible areas, the process of grassland enlargement, especially desirable in mountain and highland areas, might be stopped. Preference would be given to growing crop and other marketable plants related to the application of large-scale production technologies. This could cause an increased erosion with all its negative effects on the soil.

**Extension of forests.** This solution is problematic. Forests make up more than one third of the Czech area nowadays. The draft of the Rural Development Plan for 2007–2013 estimates the Czech area of agriculture land suitable for afforestation to be only 15 to 20 thousand ha (0.5% of UAA). In addition, a new forest does not provide job opportunities for a long period of time and an excessively forest-covered landscape reduces the attractiveness of the area for tourists.

## CONCLUSIONS AND RECOMMENDATIONS

The criteria for the eligibility of payments should be opened up to discussion in the Czech Republic.

The current limitation of this to grassland exclusively causes huge differences of payments amongst agricultural enterprises (both after recalculation per ha of agricultural land and after recalculation per 1 AWU). In addition, meadows and pastures are not the ideal fodder base for every LFA (for example in dry areas the grass-covered land gives very low yields and the fodder produced here is from lucerne, clover and so on). Some less favoured areas in the Czech Republic are disadvantaged by the current system compared to the other EU LFA and their competitiveness is restricted, especially as concerns cattle and milk production. An extension of the eligible area for grassland and area of growing fodder plants on arable land would correspond to most the conditions in the other EU member countries.

The analysis of the farm size structure in the EU countries has shown that it is impossible to come to a simplified conclusion concerning the contrast of the countries of Central and Eastern Europe, affected in the past by the forced collectivisation of agriculture, as representatives of large agricultural enterprises, and the EU 15 countries as representatives of small farms.

When proposing conditions for the LFA support the philosophy of agricultural policy of the EU, in contrast to the large-scale agricultural production in the U.S.A., must be considered. Support to European agriculture should focus on the preservation of the typical European countryside, production of healthy food, protection of the environment and the maintenance of the countryside as a residential environment. Support for rural development via subsidies to agriculture should logically focus on small and medium-sized farms. These farms are typical of Ireland, Belgium, Austria, Sweden, and a significant proportion of agricultural land is also used by small and medium farms of France, Germany, Latvia, Greece, Italy and Slovenia.

The Czech Republic and Slovakia are the countries where small and medium-sized farms only cultivate a small proportion of the total agricultural land of the country. Therefore, these countries should negotiate a specific modification of the support policy. It is an obvious fact that the advantage of size affects cost reduction and this fact should be taken into consideration in agricultural policy. If, however, this could result in the loss of rural job opportunities and reduction of landscape attractiveness, then new forms of provision of public services by these large, extensively operated enterprises should be looked for. Creation of new job opportunities by these large enterprises must be supported too by the measures of non-agricultural activities and the development of the

service sector. The conditions for the subsidy should be targeted towards the maintenance of biological diversity and landscape attractiveness to tourists. One solution might be, for example, the determination of additional criteria that had to be complied with to become eligible for the payments (a given maximum size of individual fields, field separation with shrubs or bushes cut down at another time than the remaining grass etc.) and adjustment of the thresholds for payments reduction in the Czech Republic either on the basis of the eligible area or on the basis of the numbers of employees.

The expenditure saved after the implementation of payments reduction should be returned to the less favoured areas to support new job opportunities and the development of rural municipalities in the marginal and remote areas.

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