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COMMITTEE AND THE COMMITTEE OF THE REGIONS**

**Towards a better targeting of the aid to farmers in areas with natural handicaps**

**Impact Assessment Summary**

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## COMMISSION STAFF WORKING DOCUMENT

### Impact Assessment Summary

#### **Towards a better targeting of the aid to farmers in areas with natural handicaps**

##### **1. PROBLEM DEFINITION**

In place since 1975, the aid scheme to farmers in Less Favoured Areas (LFA) provides a mechanism for supporting the continuation of farming and thus maintaining the countryside in mountain areas, in less favoured areas other than mountain (the so-called '*intermediate LFAs*') and in areas affected by specific handicaps.

The intervention logic of LFA payments - now called Natural Handicap Payments (NHP) - was revised in 2005, in order to improve their contribution to the EU Sustainable Development Strategy, and following the discrepancies flagged up by the Court of Auditors in 2003, namely as concerns the delimitation of intermediate LFAs.

However the new legal framework for NHP remains to be completed since in 2005 the Council did not reach an agreement on a possible Community wide system for a new classification of areas with natural handicaps other than those which are mountainous in character and than those with specific handicaps, in line with the new policy objectives. The scope of the current review exercise is therefore to complete the process started in 2005, while not precluding future developments in policy design for beyond 2013.

The problems that need to be tackled are:

- The inconsistencies of the current delimitation of intermediate LFAs, partially based on socio-economic indicators, with the revised objectives of the NHP scheme, focussing on land management instead that on socio-economic objectives;
- The extreme diversity of the criteria used by the Member States for designating intermediate LFAs, implying a lack of transparency that might lead to unequal treatment of beneficiaries;
- The insufficient targeting of the aid on the areas most in danger of land abandonment.

It is noted that Article 37 of Regulation (EC) No 1698/2005<sup>1</sup> introduced a change as far as concerns the payment calculation. This provision, that will enter in force when the LFA review will be concluded should make a substantial contribution to enhancing the effectiveness of the aid.

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<sup>1</sup> Council Regulation (EC) No 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) - OJ L 277, 21.10.2005, p. 1.

## 2. SUBSIDIARITY

The current exercise is not a major reform process, but the updating of an existing scheme set within the Common Agricultural Policy. Its scope is limited to adapting the LFA delimitation and payment system in line with the policy objectives defined by the Council in 2005.

A simplification potential is implied in the objectives of the revision, as a consequence of improved transparency of the area delimitation through common objective criteria.

## 3. OBJECTIVES

In response to the problems listed above, the aims of the revision are:

- To adapt the intermediate LFA delimitation and payment system in line with the land management approach decided in 2005;
- To improve the transparency and objectivity of the area delimitation throughout the EU;
- To increase the targeting and the effectiveness of the aid in areas where the danger of land abandonment is greatest.

Data limits do not allow the Commission to present a legislative proposal underpinned by thorough analysis of a possible new delimitation system at this stage. The information necessary to assess the outcome of a new delimitation approach at detailed scale is only available – or can be collected – at national level. It is therefore envisaged to pave the way for a subsequent legislative proposal by the following three steps:

- (1) Adoption of a Commission Communication describing the state of play and invitation to the Member States to simulate the application on their territory of possible common criteria for delimiting areas with natural handicaps other than those which are mountainous in character and than those with specific handicaps;
- (2) Transmission of the Member States' simulations to the Commission in autumn 2009;
- (3) Finalisation of the impact assessment and elaboration of the legislative proposal as soon as possible, following reception of Member States' simulations.

## 4. POLICY OPTIONS

Four review options were identified and submitted to public consultation on 22 May 2008:

### **Option 1: Status Quo+**

#### *Area designation*

In this scenario the Member States would be asked to remove the socio-economic indicators currently in use for delimiting LFAs and to identify the criteria they deem the most appropriate for defining natural handicaps affecting agriculture. The Member States using index systems might be allowed to continue using them, having removed the socio-economic indicators embedded into these systems. The other Member States would be

required to develop a system of soil and climate criteria adapted to their situation. The Commission would have to assess the appropriateness of the system used by each Member State in relation to the objectives of the NHP scheme.

#### *Eligibility Rules*

The Member States would have the possibility to fix eligibility rules at farm level in order to target the aid to specific farming systems in the framework of their RDP programmes. The Commission would have to assess that such criteria are objective, non discriminatory and consistent with the objectives of the measure and the international commitments of the EU.

Options 2, 3 and 4 are all built upon the same area delimitation method, based on eight common bio-physical indicators identified by a panel of soil, climate and land evaluation experts co-ordinated by the Joint Research Centre. The definition and the application of the criteria are discussed in the Communication that this Executive Summary accompanies.

### **Option 2: Common Criteria**

#### *Area designation*

Intermediate LFAs would be designated by using the common bio-physical criteria listed in the annex to the Communication.

#### *Eligibility Rules*

The Member States would have the possibility, in the framework of their rural development programmes, to fix eligibility rules at farm level in order to target the aid to specific farming systems. The Commission would have to assess that such criteria are objective, non discriminatory, consistent with the objectives of the measure and with the international commitments of the EU.

### **Option 3: Eligibility Rules**

#### *Area designation*

Intermediate LFAs would be designated by using the common bio-physical criteria listed in the annex to the Communication.

#### *Eligibility Rules*

The Member States would be required to fix appropriate rules in order to target the support to extensive farming making a positive contribution to sustainable land management by excluding intensive farming systems from the aid. The Community legislation would provide a basic framework for the eligibility criteria indicating the principles and the type of criteria to be used for excluding intensive farming systems (e.g. maximum livestock density, average yield, standard gross margin). On this basis the Member States would choose the most appropriate indicators and set the relevant thresholds within their Rural Development Programmes. The eligibility rules should be objective, non discriminatory, consistent with the objectives of the measure and with the international commitments of the EU.

## **Option 4: High Nature Value**

### *Area designation*

This option would imply a more targeted delimitation of areas: only areas classified as High Nature Value (HNV) farmland within areas affected by natural handicaps would qualify as LFAs.

The delimitation of intermediate LFAs would first be operated according to the same method used for options 2 and 3, on the basis of the common bio-physical. The areas resulting from this first delimitation would subsequently be further reduced in order to cover only the areas classified as HNV farmland, defined as those areas in Europe where agriculture is a major (usually the dominant) land use and where agriculture supports or is associated with either a high species and habitat diversity, or the presence of species of European, and/or national, and/or regional concern, or both.

### *Eligibility Rules*

Member States would have the possibility to fix eligibility rules according to transparent, objective and non discriminatory criteria consistent with the objectives of the measure.

In all the options payments would be calculated on the basis of the additional costs and income foregone related to the handicap in the areas concerned, respecting minimum and maximum amounts fixed by the Council.

## **5. ASSESSMENT OF IMPACTS**

### **5.1. Data limits and difficulties in assessing Option 4**

As mentioned, this analysis is limited by the fact that appropriate data are only available at national level. At this stage, the assessment can only provide indications and extrapolations of the types of impacts expected from the review; the further progress of the review exercise relies on the simulations to be done by the Member States.

Significant and objective obstacles exist for the assessment of option 4 'High Nature Value'. The process of identification of HNV indicators within the Common Monitoring and Evaluation Framework for Rural Development is not enough developed at this stage and is progressing at very diverse pace in the different Member States. In these circumstances, it is extremely difficult to establish an outline framework joining natural handicap and HNV indicators that could be used as a basis for the assessment.

In the absence of sufficiently clear indications on the HNV indicators, it seemed therefore appropriate not to consider Option 4 for the short term, without discarding its plausibility for the long-term perspective.

## 5.2. Transparency and targeting of the aid

The Status Quo+ option would largely maintain the lack of transparency, objectivity and scientific ground for the classification criteria, and the danger of unequal treatment of beneficiaries the current system of delimitation has been criticised for.

Both Option 2 and 3 would improve the transparency and accountability of targeting due to a common delimitation system. The absence of a common approach for further targeting the aid through eligibility rules under Option 2 poses the threat of support not being sufficiently concentrated; however, compared to Option 3 it provides more opportunity to respond to local needs.

## 5.3. Socio-economic impacts

The main type of socio-economic impact expected from the LFA review regards farm income in the areas concerned by the new delimitation and payment system. The information available at this stage does not allow identifying the areas that would be affected by a change of LFA status under the options identified.

In synthesis, it can be considered that the negative impact of a loss of LFA status for an area following the application of new delimitation criteria would vary according to the importance of the LFA payment in the farm income. In this regard, Status Quo+ appears to be the option with the most limited impact, as it does not entail significant changes compared to the current delimitation.

Under Options 2 and 3 changes in the area delimitation affecting farms' income both negatively and positively are possible, but cannot be assessed at this stage because of the lack of appropriate data. In any case, the loss of the LFA payment would have extreme consequences and lead to a negative income situation (in terms of farm net value added) in a limited number of cases (3% of total beneficiaries).

The introduction of a common framework for the national eligibility criteria envisaged in Option 3, would concentrate the aid on extensive farming systems which are less profitable and present a higher risk of land abandonment. It is thus likely to have a positive impact on the farms with low income and a high degree of dependency on the LFA aid.

- It should also be mentioned that in a number of Member States, farmers can benefit from a series of advantages (e.g. lower taxes based on national legislation) because they are located in LFA, even if they are not LFA beneficiaries *stricto sensu*. A change in LFA status for these areas can have considerable effects on farms' income, although these cannot be assessed at EU level.
- At the present stage of the analysis it is not known whether and where there would be farmers who will no longer benefit from LFA support as a result of the annulment of the socio-economic criteria. The probability and the dimension of such cases should be assessed on the basis of the simulations that should be provided by the Member States in autumn 2009. In that context, it should be considered:
- If the other CAP measures available in the region, for instance under Axis 3 of the relevant Rural Development Programme, can compensate for the socio-economic handicaps up to now covered by the LFA support;

- Whether possible ways of ensuring a smooth transition to the new delimitation should be put in place.

#### **5.4. Viability of rural communities**

In areas where farming remains the backbone of local economy a change in the LFA delimitation and/or in the payment system is likely to have significant impacts on their overall development.

Some farming communities are more vulnerable than others to decline because of the production system, limited value added, the size of holdings and a peripheral location. In several cases the vulnerability of the production system is a consequence of the natural conditions, therefore enhancing the targeting of the aid to the areas most severely affected by natural handicaps can have positive impacts on the overall viability of the area.

In the cases where the decline is not linked to the presence of natural handicaps, measures aiming at fostering the competitiveness of the agricultural sector, promoting diversification and setting up integrated bottom-up development strategies seem to have more chances of being successful than a payment compensating farmers for the natural handicaps.

#### **5.5. Environmental effects**

An area delimitation based upon a homogeneous set of bio-physical criteria throughout the European Union would increase the probability of focusing the aid on extensive farming systems because the area designation is unambiguously linked to natural handicaps hindering agriculture. For this reason Options 2 and 3 are more efficient than Option 1.

Option 2 would leave up to the Member States the choice of setting eligibility conditions linked to land management requirements. The area delimitation based on common biophysical criteria should direct the aid to areas predominantly characterised by extensive farming and NHP beneficiaries would have to respect cross compliance. However, the effectiveness of the scheme could be hampered by an insufficient targeting of the aid, in particular in areas where intensive farming systems, normally associated with greater environmental risk, coexist with extensive farming systems. Under Option 2, NHP contribution to sustainable land management and to the environmental targets of the EU would therefore depend on the implementation made by the Member States.

Compared to Option 2, Option 3 includes further requirements in terms of farm management practices and would limit NHP support to those farming systems which make a specific positive contribution to sustainable land management. However, the payment would not cover the commitments going beyond the baseline but would only compensate for farmers' additional costs and income foregone related to the handicap. Option 3 appears therefore as the option having the highest potential to contribute to environmental objectives, provided that the aid scheme is implemented in harmony with the other Axis 2 measures. A well balanced implementation of Option 3 requires on the one hand that farmers should not be paid twice (under NHP and under other Axis 2 measures) for meeting the same commitment and, on the other hand, that farmers in areas affected by natural handicaps are not discriminated against by being excluded from agri-environment payments that would apply to farmers meeting similar conditions outside the region.



## 6. COMPARISON OF OPTIONS

At this stage of the review process there is no clear preference to be given to a specific option. However Status Quo+ is little responsive regarding the critical points that have been identified in relation to the current scheme and Option 4 (HNV) cannot be implemented in the short term.

It is envisaged to continue the review process as suggested in section 3 in order fine-tune the options and come to a preference on the basis of the simulation of the application of the common biophysical criteria made by the Member States.

## 7. MONITORING AND EVALUATION

The following indicators are envisaged for monitoring the payments to farmers in areas with handicaps other than mountain areas:

<b>Common indicators</b>	baseline	Biodiversity : high nature value farmland and forestry Biodiversity : population of farmland birds
	input	Amount of public expenditure realised (total versus EAFRD)
	output	Number of supported holdings in areas with handicaps, other than mountain areas (division according to the type of handicap –wetland, hills...-) Agricultural land area supported (division according to the type of area and to the type of handicap)
	result	Areas under successful land management contributing to: improvement of biodiversity improvement of water quality mitigating climate change improvement of soil quality avoidance of marginalization and land abandonment
	impact	Reversing biodiversity decline Maintenance of high nature value farmland and forestry

The following points should be stressed in the evaluation of the revised aid scheme:

- To what extent have NHP helped in ensuring continued agricultural land use in areas with handicaps, other than mountain areas?
- To what extent has the scheme contributed to maintaining or promoting sustainable farming systems?
- To what extent has the scheme contributed to maintaining the countryside and improving the environment?