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## Evaluation of the compensatory allowances scheme under the EU regulation 1257/99 in Austria and in other EU Member States

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### Abstract

The landscape in Austria is characterised by the high proportion of less-favoured areas (LFA). These cover 81 % of the total Austrian land area. Most is classified as mountain area (70%) with a small part classified as other types of less-favoured area. Mountain farming has the key role in safeguarding the sensitive eco-system and thereby the multifunctional landscape and the general living and working space. The mountain area still possess a high environmental quality and environmentally friendly agriculture and forestry extends over most of the mountain area. This is also important for tourism, which plays a major role in the Austrian economy. Austria has gained considerable experience with mountain farming subsidies and regional programmes specific to the mountain area over recent decades. Since the early 1970s a differentiated classification system has been the basis for defining support levels for mountain farmers. A revised classification system has been applied since 2001. The dominant objective for mountain farming policy is to maintain an agricultural and forestry sector based on environmental principles and small family farms. Under the 2000 – 2006 Rural Development Programme major alterations to the support scheme have been undertaken and support levels have been improved considerably for LFA farmers, and particularly for mountain farmers. The ex-ante evaluation and the mid-term evaluation were undertaken by the Federal Institute for Less-Favoured and Mountainous Areas in Vienna.

This paper addresses key questions regarding the evaluation and the achievements of the new compensatory allowances schemes in Austria and will focus on the extent to which it meets the main objectives for mountain areas and other less favoured areas. The complementary contributions of other RDP measures, such as the agri-environmental programme to fulfil the main objectives, will also be discussed. In addition, a review of less-favoured-area payments of some other EU member states will be presented.

**Keywords:** evaluation, compensatory allowances schemes, less-favoured areas, mountain farming

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## 1 Introduction

The landscape in Austria is characterised by the high proportion of less-favoured areas (LFA). These cover 81 % of the total Austrian land area. Most is classified as mountain area with a small part classified as other types of less-favoured area. The mountain area still possess a high environmental quality and environmentally friendly agriculture and forestry extends over most of the mountain area. Mountain farming has the key role in safeguarding the sensitive eco-system and thereby the multifunctional landscape and the general living and working space. Austria has gained considerable experience with mountain farming subsidies and regional programmes specific to the mountain area over recent decades, in particular with the Mountain Farmers' Special Programme (Dax/Hovorka 2004; Hovorka 1998; OECD 1998). After accession to the EU in 1995 the EU support scheme for LFAs had to be adopted. Under the 2000 – 2006 Rural Development Programme major alterations to the support scheme have been undertaken and support levels have been improved considerably for LFA farmers, and particularly for mountain farmers (Hovorka 2003).

This paper addresses key questions regarding the evaluation and the achievements of the new compensatory allowances schemes in Austria and will focus on the extent to which it meets the main objectives for mountain areas and other less-favoured areas. This contribution begins by describing the evaluation methods and the data situation. There follows a brief description of the Rural Development Plan (RDP) for Austria, followed by the context (starting point) of agriculture in the less-favoured areas (in particular mountain farming) and the definition and demarcation of the mountain area and mountain farms. This is followed by a chapter giving an outline, analysis and evaluation of the support measures in the new programme period in Austria. Results of the evaluation of the compensatory allowances scheme under EU regulation 1257/99 in other EU member states were not available at the time of drawing up this contribution. But some of the results of a review of area-based less-favoured-area payments across EU member states and some findings from an interim report are therefore presented. The concluding chapter draws conclusions and makes recommendations for change.

## 2 Methodology

The differentiation of the support level according to the degree of farming difficulty (measured in mountain farm registry points) is of greater importance to agricultural enterprises in Austria than the classification of a farm as being within a less favoured area, a mountainous area or other less-favoured area or small area. For this analysis farms are therefore grouped in clusters according to the most important groups of recipients (four mountain farm degrees of difficulty, a basis category and average mountain farm). Additionally, there is then an evaluation according to the three types of less-favoured area (mountain area, other less-favoured area, small area) and according to the federal provinces (Nuts II level). The support data were analysed on the basis of these clusters and their respective mean values were calculated. From case to case median values were also calculated. The same system was also applied for the income data. The results have been summarised, presented and evaluated. For some questions the farm groups (clusters) have also been separately summarised, analysed and presented according to other factors, such as farm size, support sums, livestock holdings etc. Additionally, national averages have also been presented.

The essential data sources were the support records (annual periods) of the compensatory allowances, additional INVEKOS records, national accounting results (according to FADN), Green Reports, agricultural structure records, income statistics and farm surveys. The data were not always available in the required form, meaning that in some cases supporting hypotheses had to be made.

For the EU compensatory allowances under Agenda 2000, Austria chose the possibility of a one-year transition period, which means that in essence in the 2000 support year the defini-

tions of the 1995-1999 support period were applied. For the evaluation, therefore, the new compensatory allowance (from 2001) was investigated. The emphasis here was on 2002 (most recent data) taking 2000 as the comparative basis (reference year).

### **3 Rural Development Plan (RDP) for Austria**

#### **3.1 Rural Development Plan (RDP) objectives**

Austria has a single Rural Development Plan (RDP) covering the federal territory of the Republic of Austria excluding the measures co-financed by the EAGGF, Guidance Section in the Objective 1 area (the province of Burgenland). Measures relating to less-favoured areas, agri-environmental measures and forestry measures under Article 31 of 1257/1999 are financed under this programme for the entire territory of Austria. According to the indicative financial plan the total public cost (EU, Federal Government, Federal Provinces) is about €6.9bn for the period from 2000 to 2006, including an EU contribution of €3.2bn from the EAGGF, Guarantee Section (BMLFUW 2003, p.I).

The RDP has three objectives:

- compensation for special services by farmers;
- preservation of assets with regard to the maintenance of holdings; and
- improving competitiveness.

Compensation for services is intended where special services have to be provided which the revenue from agricultural and forestry production cannot cover. This concerns the LFAs, agri-environment, and services linked to the protective and ecological function of woodland. The budget for the measures relating to LFAs (compensatory allowances) is approximately 26% of total RDP costs (BMLFUW 2003, p.62).

#### **3.2 Less-Favoured Areas (LFA) objectives**

The dominant objective for LFA policy is to maintain an agricultural and forestry sector based on environmental principles and small family farms. The aim is sustainable resource management e.g. preservation of soil, water and air, maintenance of the agricultural and recreational landscape, and protection from natural hazards.

The national implementation regulation sets the following objectives for LFAs (BMLFUW, 2001, p.4):

- Maintenance of agricultural land use and the associated rural community through the development of the rural environment;
- Contribution to the settlement and land use management systems under difficult production conditions; and
- Remuneration of the public goods produced by farms in less-favoured areas.

### **4 Agriculture and environment in mountain areas**

The general dynamic of business and employment in the alpine area is similar to that in the "non-alpine area": the number of people employed in agriculture and forestry is falling, industry and manufacturing still account for a large proportion of total employment, and the shift of jobs towards the tertiary economy is quite marked. Tourism is a core element of the service sector in the mountain area. Population growth and economic development in the last 20 years have led both to an increase in the importance of the alpine area and to a sharpening of disparities within it (Schindegger et al., 1997).

The structure of agricultural holdings is characterised by a high percentage of part-time farms whose operators are regular commuters. There is a growing demand for eco-friendly agricul-

ture and different types of rural tourism. Natural hazards, particularly in the mountain regions, and remoteness impose high infrastructure costs if the vitality and economic base of rural regions is to be maintained under these conditions. Some of the eastern border regions and the Alpine side-valleys are significantly remote and have limited opportunities for diversification.

Mountain farming in Austria is now characterised almost exclusively by grassland production, within which beef farming is most important. Agriculture plays an important role in maintaining multifunctional landscapes in mountainous areas, since 52% of all agricultural and forestry holdings are situated there. Mountain holdings account for 64% of dairy cows, 64% of all cattle, and 79% of the sheep in the national populations (Statistik Austria, 2001). Mountain farms are also of great importance for forest protection and the management of alpine pasture areas, which are extremely sensitive eco-systems.

The naturally unfavourable situation of mountain farming enterprises is primarily due to steep gradients, a short growing season, extreme weather conditions and an absence of alternative production possibilities. Poor transport conditions and an inadequate and expensive infrastructure are widespread. Austrian farm holdings are characterised by a small-scale structure, which is operated primarily by family labour: the average size of mountain farms is only 14 ha UAA (of which 11 ha is grassland), and 11 ha forest. Mountain farm holdings with cows have an average stocking rate of 9 units (of which 7 units are dairy cows) and less than 7% of these holdings keep more than 20 cows (Statistik Austria, 2001). Agriculture the main economic activity on only 44% of mountain farms.

Austria's LFAs still have a high environment quality characterised by relatively low pollution and a largely intact farmed landscape. This results in generally good conditions for environmentally-friendly agriculture and forestry and these preserve the cultural landscape. Such multifunctional agriculture and forestry still extends over most of the rural areas. It is important for tourism, which plays a major role in the Austrian economy. The LFAs support scheme has made an important contribution to this positive situation.

## **5 Definition and demarcation of LFAs and classification of mountain farms in Austria**

### **5.1 Definition and demarcation of LFAs in Austria**

Demarcation of mountain areas in the agricultural context has a long history. In 1954 a Ministry of Finance regulation defined the mountain areas in Austria as "mountain farming municipalities". In the 1980s other LFAs were also defined and demarcated. In 1995, on accession to the EU accession the LFAs in Austria were re-defined and demarcated in accordance with EU criteria (mountain areas, other less-favoured areas and areas affected by specific handicaps). This was carried out at the level of municipalities or parts of municipalities.

The criteria established for Austria by the EU Commission for the demarcation of mountain areas<sup>2</sup> were (mountain areas according to article 23 of Council regulation (EC) Nr. 950/97 and article 18 of Council regulation (EC) No. 1257/1999):

- an altitude of at least 700m above sea-level or
- a mean gradient (slope) of at least 20 per cent or
- a combination of at least 500m above sea-level and a mean gradient (slope) of at least 15 per cent.

According to the EU classification of the less favoured areas (LFA), the LFA area covers 81% of the total Austrian land area, and 71% of the UAA. Most is classified as mountain area with a small part classified as other less-favoured area. The mountain area comprises 70%

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<sup>2</sup> The criteria for the other LFAs are not shown in this paper (see the criteria in e.g. BMLFUW 2000).

of Austrian territory and 58% of the UAA (BMLFUW 2000, p.183; Hovorka 2003, p.85). It is home to about 36% of the Austrian population (Dax, 1998). This proportion of the national population living in mountain areas is one of the highest world-wide and underpins Austria's concern for enhancing the full potential of all economic sectors in these regions.

## 5.2 Mountain farm classification

Since the early 1970s a differentiated classification system (of 4 groups) has been the basis for defining support levels for mountain farmers. The main criteria for the classification were the climatic conditions and the "internal transport situation", i.e. the proportion of agricultural area of the holding that had a gradient of at least 25% (or at least 50% for farms with highest difficulties (category 4)). This differentiation of mountain farms operated until 2001.

The change to a more differentiated payment structure was planned during the 1990s and a revised classification system (Tamme et al., 2002), has been applied since 2001. This "mountain farmer registry point system" addresses the positive externalities of mountain farming more clearly. A detailed system of attributing points up to a (theoretical) maximum of 570 points is used. The elements used in the calculation are grouped into three categories: "farm situation (internal)", "farm situation (external)" and "soil and climate". Of these, the internal situation, indicating the proportion of the agricultural area with production difficulties, receives the highest weight. Points for each of the indicators are aggregated. The points are not dependent on farm size but on production difficulty. In addition, the system allows for annual changes through linkages that account for the actual land use of mountain farms. Although detailed information is provided to farmers on the system and their individual classification, the calculation is complex and cumbersome. This is the basis for the differentiation of the compensatory allowance system and is also used for some other specific measures, particularly those of the agri-environment schemes, which enhance the preservation of cultural landscapes in mountain areas.

For statistical purposes the mountain farms are classified in four groups (categories) of disadvantages according to the "mountain farmer registry point system". Group one is that with the lowest disadvantages (up to 90 points, 31 % of all mountain farms), group four is that with the highest disadvantages (271 points and more per farm, 10 % of all mountain farms). This system does not correspond directly with the previous system and it is much more advanced.

## 6 LFA compensatory allowances since 2001

### 6.1 Structure of LFA compensatory allowances since 2001

Between 1995 and 2000, LFA payments were made on a headage basis with an upper ceiling of 1.4 livestock units per ha utilised agricultural area. Since 2001 (after the implementation of the RDP) the EU-co-funded compensatory allowance has been paid on a hectare basis and consists of area aid 1 (paid per hectare, maximum 6 ha per farm) and area aid 2 (paid per hectare, with progressive reduction from 60 up to 100 ha). Aid intensity is calculated on the basis of land area (up to 100 ha), land type (forage or other land), type of holding (with/without livestock) and the extent of the handicaps to which the farm is subject (mountain farmer registry point system).

The new compensatory allowances take the following factors into account:

- Persistent natural handicaps.
- Predominantly small and medium-sized farms as a result of the topography.
- Preferential assistance for farms with fodder-based livestock systems.
- Minimum land area of 2 ha UAA; commitment period minimum of 5 years; adoption of code of good agricultural practice (GAP).

- Application of Article 15(3) of 1257/1999 (flexibility of maximum payment): With an eligible land area of 1,590,000 ha UAA, there is a potential total annual finance cost of €318m in Austria. The actual budget is limited to €277m, and in principle this restricts the average compensatory allowance to a maximum of €200 per ha.

Table 1 gives an example of the calculation of the compensatory allowances for a farm with livestock, 10 ha forage and 100 mountain farmer register points (BHK-points). This mountain farm received €2065.38 in 2002.

**Tab. 1: Example of Compensatory allowances (farm with livestock, 10 ha forage, 100 mountain farmer registry points – BHK-points)**

	Area aid 1 in €	Area aid 2 in €	Total amount in €
Mathematical formula	$[181.68 + (8.72 \times \text{amount of BHK-points})]/\text{ha} \times \text{ha}$	$[94.47 + (0.38 \times \text{amount of BHK-points})] \times \text{ha}$	Area aid 1 + Area aid 2
Example	$[181.68 + (8.72 \times 100)]/10 \times 10 = \text{€}1,053.68$	$[94.47 + (0.38 \times 100)] \times 10 \text{ ha} = \text{€}1,324.70$	$1,053.68 + 1,324.70 = \text{€}2,378.38$

Area aid 1 is granted only for the first 6 ha UAA of the eligible holding. Area aid 2 is granted for all ha UAA on the holding up to a maximum 100 ha, but modulated from 60 ha. The mathematic formula is a bit more complicated if the farm has forage land and other land.

Source: Hovorka 2003

With raising BHK-points the amount of support (payment rates) per hectare raises rapidly, in particular Area aid 1. Table 2 gives examples of the amount of support per hectare payable on different types of farm with livestock (using mountain farm registry points). Farms in the basic category (farms without BHK-points) receive €30.28 area aid 1 (up to 6 ha) and €94.47 area aid 2 (up to 100 ha, but modulated from 60 ha). Mountain farms with 300 BHK-points get 15 times more area aid 1 payment per hectare (up to 6 ha) and 2.2 times more area aid 2 payment per hectare.

**Tab. 2: Examples of Compensatory allowances for farms with livestock and with different mountain farm register points**

	Area aid 1 (max. 6 ha) in € per ha	Area aid 2 in € per ha
Basic category	30.28	94.47
100 BHK-points	175.61	132.47
200 BHK-points	320.95	170.47
300 BHK-points	466.28	208.47

Area Aid 1 is granted only for the first 6 ha UAA of the eligible holding. Area Aid 2 is granted for all ha UAA on the holding up to a maximum 100 ha, but modulated from 60 ha. Farms without livestock receive less support and the level of support is also lower for land other than forage land.

Source: Hovorka 2003

Some mountain holdings receive over €200 per ha in area aid (see Table 2). These higher amounts have to be seen in the context of article 15 (1) of 1257/1999 as aiming to compensate existing handicaps without overcompensation.

Additionally a National Grant is paid for farms that would receive lower subsidies than before accession to the EU (part of the treaty of accession, for a transition period of ten years until 2004). This “maintenance regulation” was primarily to the benefit of small mountain farms with a high degree of disadvantages and a low income. Since implementation of the RDP in 2001 this National Grant has lost much of its importance (see table 3).

## 6.2 Analysis of LFA compensatory allowances

The new LFA compensatory allowances brought a marked increase of €93.4 million (52%) of the EU co-financed compensatory allowances between 2000 and 2002. In the same period the National Grant decreased from €19.4m to €6m. Total LFA payments therefore increased from €200.5m in 2000 to €280.7m in 2002. The total LFA budget was increased to give higher support to the smaller mountain farms, in particular to mountain farms with the most severe farming handicaps. A minor reason was also to ensure that there were no farms, (or

only a minimum number of farms) where there was a fall in the receipts from compensatory allowance payments after the change in the system (payment on hectare basis instead of a headage basis; installing the new mountain-farm-register points system). This was designed to make the new scheme acceptable to farmers. However, in its national Memorandum on Mountain Agriculture and Forestry (1996) Austria had previously requested the Commission to allow changes in the EU regulation that would allow a substantial increase in support for mountain farms with the most severe handicaps. This became possible after the Agenda 2000 reform within the RDP.

**Tab. 3: Number of farms and amount of compensatory allowances between 2000 and 2002**

year	CA-farms	NG-farms	Farms total	CA payment in 1000 €	NG payment in 1000 €
2000	99 285	17 450	116 735	181 063	19 385
2001	107 156	9 798	116 954	273 751	6 409
2002	106 302	9 303	115 605	274 615	6 050

<sup>1</sup> CA-farms are farms with compensatory allowances. NG-farms are farms with National Grant only. CA-farms include farms which received compensatory allowances and National Grant (2000: 19,661 farms; 2001: 9,562 farms; 2002: 9,225 farms). NG payment is the total sum of National Grant (NB-farms and CA-farms with NG).  
Source: Hovorka 2003

The focus of the evaluation and of this paper lies on the EU co-funded compensatory allowances. In all, 106,302 LFA farms received €274.6m in support through the compensatory allowances scheme, an average of €2,583 per holding.

The newly introduced area aid 1 (basic allowance) made up 31% of the total support sum. 8.7% of farms received a National Grant in addition to the compensatory allowances, and thus not even half as many as in 2000. This is primarily ascribable to the introduction of the area aid 1. On average, 75% of the supported farms were stockkeepers (84% in the mountain areas) which received 93% of the support sum (95% in mountain areas). Mountain farms made up 70% of the CA-supported farms and 89% of the support sum (mountain area: 73% and 89%). For mountain farms the average support sum rises sharply with increasing level of difficulty. In comparison to the previous system, the support differences between the different levels of difficulty have become significantly greater. This is primarily a result of the introduction of the area aid 1, which constitutes a high proportion of the support for mountain farms with high degrees of difficulty. The compensatory allowance was an average of €179 per ha. and thereby well below the EU upper limit of €200. The distribution, however, was between €85 in the basic category and €390 in level of difficulty 4 (category 4). Consequently, the most important support data have been briefly presented in the following table.

**Tab. 4: The compensatory allowances disaggregated into categories of disadvantage (according to BHK-points) and types of LFA**

	Number of farms	Area aid 1 1000 €	Area aid 2 1.000 €	CA 1.000 €	CA per farm in €	proportion of area aid 1 in %	CA per ha in €	Proportion of farms with CA and NB in %
Basic category	32 043	2 395	28 986	31 381	979	7.6	85.4	17.8
Category 1	22 922	11 913	39 147	51 060	2 228	23.3	141.9	2.9
Category 2	30 826	30 372	67 115	97 487	3 162	31.2	192.0	5.6
Category 3	13 375	23 332	34 446	57 777	4 320	40.4	284.4	5.4
Category 4	7 136	17 517	19 393	36 910	5 172	47.5	390.0	6.1
All mountain farms	74 259	83 134	160 101	243 234	3 275	34.2	208.7	4.7
Mountain area	77 936	80 639	162 567	243 206	3 121	33.2	198.6	5.5
Other less fav. areas	11 166	2 579	13 112	15 690	1 405	16.4	104.5	6.1
Small areas	17 200	2 311	13 408	15 719	914	14.7	99.5	24.9
Total	106 302	85 529	189 086	274 615	2 583	31.1	179.1	8.7

<sup>1</sup> CA = compensatory allowances. NB = National Grant. Basic category = Non mountain farms. Category 1 = group 1 of mountain farms according to the BHK-points-system.

Source: Hovorka 2003

### 6.3 The impact of LFA compensatory allowances on farm income

At €10.490, the average yield of mountain farms is lower than the non-mountain farms, i.e. the mountain farms achieve only 56% of the yield of non-mountain farms.<sup>3</sup> This ratio deteriorates even more sharply with the rising degree of farming difficulty, so that mountain farms in category of difficulty 4 only achieve 18% of the yield of non-mountain farms. The compensatory allowance is the most important support to make up for this difference. The compensatory allowance (according to national FADN statistics) compensates for the poorer yield ratios in the mountain farms in comparison to the non-mountain farms by an average of 41% – for category of difficulty 1, 50%, but for category of difficulty 4, despite much higher support, only 35%. For mountain area as a whole the compensation is 44% (see table 5). The income differences (without taking compensatory allowances into account) between mountain farms and non-mountain farms are smaller than the differences in yields but still large (category 4 earns 56% of the income of non-mountain farms). This is because the income includes public support and also income from farm tourism and other sources of farm pluriactivities.

The compensatory allowance is especially important for mountain farms. LFA payments as a proportion of agricultural income are 20% for all mountain farms (average), and 26% as a proportion of total public support. LFA payments become more important as the production difficulty increases: with category 4 farms the LFA support is 37% of agricultural income and 39% of total public support. The proportions for the “mountain area” category, which includes nearly all mountain farms, is very similar to the “all mountain farms” category (see table 5).

In 2000 the compensatory allowances were already also very important for the income of mountain farms, but since 2001 the proportion of the compensatory allowances within the RDP has increased for all mountain farms (average) from 15.5% to 20%.

<sup>3</sup> In this paper yields are defined as yields from crops and livestock minus variable costs.

**Tab. 5: Relation of yields and income in 2002 disaggregated in categories of disadvantages (according to BHK-points) and types of LFA**

	Compensation of income deficit in %	Farm income (without CA) in €	CA as % of farm income	CA as % of total public support
Category 1	50.1	18 874	14.0	19.5
Category 2	38.9	17 610	18.9	25.3
Category 3	41.7	15 728	27.9	34.3
Category 4	35.1	11 580	37.0	38.7
All mountain farms	41.3	17 218	20.1	26.3
Mountain area	44.2	18 414	18.5	25.6
Other less fav. areas	174.7	22 429	7.2	9.0
Small areas	29.9	15 326	7.5	13.5
Non mountain farms	basis	20 570	3.2	4.6
Total	48,7	19 011	11.1	15.3

<sup>1</sup>In this table income deficit is defined at farm level as yields (crops and livestock) minus variable costs in relation to the same figure for the category of non mountain farms. CA = compensatory allowances is defined as LFA payment from EU reg. 1257(99), including the National Support scheme following the EU-accession treaty. Public support is regarded as income; it includes all support measures from public sources (EU, federal state, Länder (provinces) and municipalities). All calculations on the basis of national FADN figures.

Source: Hovorka 2003, p. 46

Support payments dominate the income from agriculture and forestry for all farm types throughout Austria. In 2002 the national average contribution was 72% and is higher for mountain farms at 76%. Currently, payments under the “second pillar” of the CAP far exceed those under market measures. Even if some of the effect is due to the small-scale structure of Austrian agriculture and its weak market integration, the political priority to apply the set of measures available and also adapt them to the needs of mountain farming has been decisive in this respect (CJC consulting 2003 p. 12).

## 6.4 Impacts of LFA compensatory allowances on land use and environment

Since 2000 the Invekos data have shown small decline in the agricultural land use in Austria, but UAA in LFA has not declined in this period. This is due to some extent to the compensatory allowances, which include landscape preservation as one of their main objectives. In 2002 the LFA farms with cattle had an average of 1.2 livestock units (LU) per hectare grassland (forage area). These figures have remained nearly unchanged over recent years.

Besides the compensatory allowance, which is specifically targeted at LFAs, support from the agri-environment programme is extremely important in mountain areas. In 2002 compensatory allowances and the agri-environment programme (ÖPUL) together accounted for 44% of the agricultural income of mountain farms.

The agri-environment programme, ÖPUL, for which an integral, horizontal approach was chosen (€599m per year for the period 2000-2006), has the greatest implications for mountain farms, because their management systems correspond most closely to environmentally sound farming. Mountain farmers receive about 45% of these funds whereas they account for only 36% of the farms of Austria.

One of the most demanding environmental elements of this scheme is related to organic farming. In 2002, 81% of organic farms supported were mountain farms and the proportion of organic farming is higher on farms facing a higher level of production difficulty. In category 1 13% were organic farms is 13% and 15% was organically managed farm land, but in category 4 these figures were 25% and 33% (see table 6).

**Tab. 6: Proportion of LFA farms managed as organic farms in 2002**

	Number of farms	UAA in ha	Organic farms as % of LFA farms	Organic UAA as % of LFA area
Basic category	2 254	49 244	5.6	7.6
Category 1	3 042	48 705	13.1	14.7
Category 2	6 057	99 203	19.5	23.1
Category 3	3 512	47 037	26.0	32.4
Category 4	1 797	19 200	24.9	32.7
All mountain farms	14 408	214 144	19.2	22.2
Mountain area	14 771	221 933	18.7	21.8
Other less fav. areas	881	23 419	7.6	10.1
Small areas	810	12 350	4.4	5.8
No category	200	5 686	3.1	3.8
LFA farms total	16 662	263 388	14.4	16.3

<sup>1</sup> UAA = utilised agricultural area. In UAA the alpine pastures are not included.

Source: Hovorka 2003, p. 46

## 7 Review of LFA payment of other EU member states

At the deadline for this paper the evaluation reports according to EU regulation 1257/99 were not yet available. Some of the results of a review of area-based less-favoured-area payments across EU member states carried out by CJC Consulting in 2003 and some findings from an interim report of the ESPON project by Arkleton Centre for Rural Development Research (project co-ordinators) are therefore presented.

Under regulation 1257/99, compensatory allowances are no longer to be made per head of livestock (headage) but instead on an area basis; payments should be differentiated to reflect the severity of the natural handicap, particular environmental problems and the production structure; and payments can only be made where farmers are complying with Good Farming Practice requirements (GFP) defined by each member state in their Rural Development Plan.

CJC Consulting selected six EU member states to cover a range of different LFA policy objectives variation in the expenditure allocations for the LFA measures within Rural Development Regulation 1257/99 (RDR) programmes and a range of geographical contexts varying from Nordic to Alpine and Mediterranean. These states/regions were Austria, Germany (Bavaria), France, Greece, Spain (Catalonia) and Finland. In general, the aim of LFA policy in these six countries was to maintain farming in the LFAs, not only for the benefit of the farm and rural populations but also in relation to the landscape and other services derived from farming. Most countries use a high degree of differentiation in the payment scheme in order to target support. The conclusions of CJC Consulting are that the impacts on agriculture of the RDR changes to LFA support will be relatively minor at least in the short term. Average payment rates have been increased to smooth the transition so that few farmers will lose from the change. The main impacts will occur where the compensatory allowances are an important source of farm income or where specific changes in the conditions attached to the payments have been introduced. There has generally been a tighter targeting of allowances to make the payments more cost-effective. In general, the changes will tend to support the maintenance of farming structures and agricultural land use (CJC Consulting 2003, p. V).

The Arkleton Centre expected that LFA payments would tend to be higher in regions with lower per capita GDP and higher unemployment rates (level of NUTS 3 regions). Regression analysis, however, found no statistically significant relationships between levels of LFA support and indicators of economic cohesion, although the signs of the parameter estimates were as expected. This may be because certain richer northern states prioritise the LFA scheme over agri-environmental, farm investment or early retirement schemes. Some studies do support the argument that such payments have helped to retain income yielding sectors such as cattle and sheep in marginal areas (Arkleton Centre 2003, p. 9-11; 94).

## 8 Conclusions and recommendations

This paper has addressed key questions regarding the evaluation and the achievements of the new compensatory allowances scheme under the EU regulation 1257/99 in Austria and focused on the extent to which it meets the main objectives for mountain areas and other less-favoured areas. In addition some results of the review of less-favoured-area payments of some other EU member states have been presented.

Socio-economic processes in mountain areas needs the incorporation of the long-term provision of public environmental amenities to facilitate sustainable regional development into the discussion (Dax/Hovorka 2003, p. 218). Long experience with LFA payments in Austria has demonstrated their positive impact on the continuation of land use in LFAs (and particularly in mountain areas). They have also prevented marginalisation in most of the mountain regions. In Austria the compensatory allowances (including National Grant) was already a core instrument of support for the LFAs in the previous programme period (from 1995 to 2000), in particular the mountain areas and mountain farms. The new LFA support system within the Rural Development Programme (RDP) brought some major improvements.

The new system of compensatory allowances brought a massive increase in the EU co-funded support sum, to €94m (+52%). The number of farms with co-funded compensatory allowances also rose by 7% in comparison to 2000. This increase in the level of support was achieved through the additional part-instrument of area aid 1 (payments up to 6 ha UAA). On the other hand the importance of the National Grant decreased substantially since 2000.

In Austria the farming conditions and difficulties are not only dependent on the type of less-favoured area – mountainous area, other less-favoured area, small area – but also to a large extent on the varying farming difficulty of the mountain farms. The level of support per farm of the new compensation allowances from 2001 is very heavily dependent on the level of farming difficulty of the farm (measured according to the number of mountain farm registry points). The mountain farm registry points are thus an essential measure for the level of support, regardless of which type of less-favoured area a farm is situated in.

As a whole, the support differences reflect the different degrees of difficulty of farming and the contribution to the maintenance and formation of the cultural landscape and the maintenance of settlement etc. much better than the previous CA system did. The key changes were in the implementation of area aid 1 as important part of the compensatory allowances and the new, more precise calculation of individual farm production difficulties using the revised classification system for mountain farms (mountain farmer register point system). The change from basing payments on stock numbers to an area-based system of support favours less intensive farm management systems, which are found in the areas with greater production difficulties. The differentiation of the support in area aid 1 and area aid 2 payments is also of great importance. Support levels have been improved for LFA farmers under the RDP, and particularly for mountain farmers. The increase in the level of support for mountain farms was mainly achieved through the additional part-instrument of area aid 1 (payments up to 6 ha UAA) which has the function of providing a basic level of support, thus enhancing the payment level on smaller farms. There is also a preferential treatment of livestock rearing farms and land type of forage land. These differentiations contribute substantially to the high acceptance of the compensatory allowances within the agricultural sector. But they are also important for the acceptance of this support system outside the agricultural sector. Compared with the previous period the modulation now starts at a much higher point (60 hectares) and is much narrower. This is particularly the case for farms with no disadvantages or with low or medium levels of disadvantage.

The compensatory allowances (including National Grant) makes an important contribution in offsetting the natural handicaps in LFAs in terms of high production cost and low production potential. It is also an important part of the agricultural income in mountain areas (increasing with increasing disadvantages of farming). It makes also an important contribution in ensuring continued agricultural land use in LFAs. Organic farming plays a much more important

role in Austria compared with other EU member states. The focus of organic farming lies in the mountain area. In general, livestock farms with high production difficulties have received the greatest increase in support since 2000. As the minimum stocking level for full support is set at a rather modest threshold, there are hardly any incentives in the LFA system to increase output. There is also high complementarity with the objectives of the agri-environment measures and other rural development support measures which means that it contributes to the achievement of primary objectives of the of the Rural Development Plan (RDP).

Overall, the compensatory allowance system (and additional transitional National Support instrument until 2004) makes an important contribution to achieve the primary objectives of the RDP in less-favoured areas, in particular in mountain areas, in Austria. It plays a major role in maintaining agriculture and population density, the protection of cultural landscapes and the delivery of environmental objectives.

## Recommendations

The following recommendations are made based on the evaluation results:

- The mountain farm registry system is very well suited as a measure of farming difficulty of mountain farms and should be maintained.
- The upper limit in the framework of modulation (currently 100 ha.) should be examined and possibly reduced, as in the less-favoured areas there is also an economy of scale.
- A wider modulation, determined according to the degree of farming difficulty, should be discussed. In the previous period the modulation started at a lower point.
- With the expiry of the National Grant after the ten-year transition period a suitable solution should be sought for mountain farms with higher and extreme farming difficulty (categories 3 and 4).
- The relation of the support level per ha. between stockholders (farms with livestock) and non-stockholders and between forage areas and other areas should be subject to an appropriate examination in the long term.
- The varying level of necessary labour dependent on the degree of farming difficulty and type of farm is already largely taken into account in the compensatory allowances. New findings from working hours modelling should be drawn on in the course of the discussion of the further development of compensatory allowances.
- A further extensive evaluation only seems necessary for the next programme period, as in this programme period (up until 2006) the support preconditions and terms will not be changed and no major changes are to be expected for the support recipients either.
- A few uniform criteria and indicators should be selected for an EU-wide comparison of the CA

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