

# **The territorial dimension of the Common Agricultural and Rural Development Policy and its relation to cohesion objectives**

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**Abstract:** An increasing focus on rural development issues has characterised the discussion of Common Agricultural Policy (CAP) reform. This reflects new societal demands for tasks and services provided by agriculture particularly in mountain and less-favoured areas (LFA). The regional distribution of CAP and Rural Development support underpins the argument that the territorial dimension implied by CAP reforms has not yet been taken sufficiently into account. The regional variation in the distribution of the LFA scheme between member states testifies this imbalance and underscores country specific priorities. LFAs will have to prove that they are more than a compensation measure, but already providing a range of multifunctional tasks.

**Key words:** territorial impact, rural development, LFA scheme, CAP reform

## **1 Introduction**

In recent years it has been increasingly discussed how agricultural practices can be better integrated into other policies objectives, like environment, nature protection and spatial policies, which are similarly relevant for land use development. In particular, a stronger focus on a rural development approach was highlighted, including different policy tasks and focusing on a viable rural economy, which would reflect more appropriately the new societal demands. With the integration of rural development policies, Common Agricultural Policy (CAP) has extended its objectives beyond a sector policy and is directly concerned with the spatial development of Europe. However, the territorial dimension implied by its activities is not yet taken sufficiently into account. It was a major aspect for the last CAP reform to address the territorial impacts. Coping with this request in the implementation is a prerequisite for securing support by European citizens for future CAP payments.

## 2 The territorial dimension of CAP<sup>1</sup>

Spatial objectives, laid down under European Spatial Development Perspective (EC, 1999) and the various Cohesion Reports, have touched only marginally the concept and implementation of the CAP by now. Albeit the goal of environmental sustainability and territorial cohesion has acquired increasing relevance since the reforms in the 1990s, this policy shift had only limited spatial effects. Almost all measures have remained horizontal across the whole nations or regions, except for less-favoured areas and areas designated for agri-environmental programmes.

With rising reference to the multifunctional tasks of farming, the integration of environmental concerns and the linkages to the rural economy, the contribution of agricultural policy to territorial cohesion has become more relevant. The EU-wide study on the territorial impact of the CAP and rural development policy (European Spatial Planning Observatory Network - ESPON, project 2.1.3: [1]) underpins the limited reference of current CAP application to the spatial objectives. Albeit consistent data on agricultural support in the EU is hardly available for regional analysis, the main spatial findings highlight quite clear effects of the different CAP components.

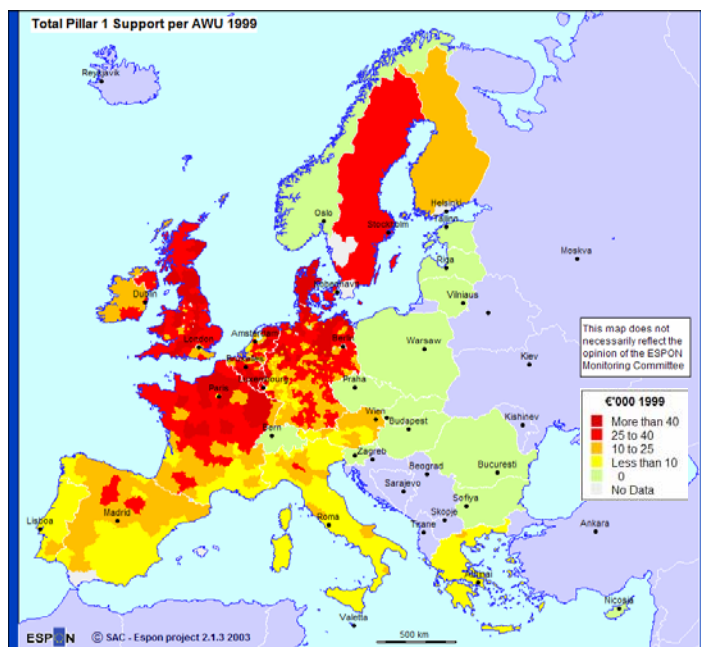
The first is related to Pillar 1 support which still represents the majority of agricultural support in most regions. The analysis suggests that Pillar 1 appears to favour core areas more than it assists the periphery of Europe (Graph 1). This seems hardly surprising since Pillar 1 has never been claimed to be oriented primarily towards cohesion policy, yet it is important to assess the combined territorial effect of agricultural and rural development policy. The geographical incidence of Pillar 1 support largely reflects the distribution of farm types, products and sizes across Europe. These findings reveal the influence of the differing levels of market price support and direct income payments for different agricultural products leading to the following effects:

- Regions with larger farms tend to get higher levels of support, as do regions with a high percentage of land cover accounted for by irrigated land, complex cultivation and pasture.
- Regions with large areas of agricultural land dedicated to fruit or vine production tend to have lower levels of Pillar 1 support.
- And, Pillar 1 support is positively correlated with accessibility at the EU level: more accessible regions of Europe, i.e. more centrally located regions tend to get higher levels of support.

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<sup>1</sup> This section is based on [8].

**Graph 1: Total Pillar 1 support per Annual Work Unit (AWU) 1999**



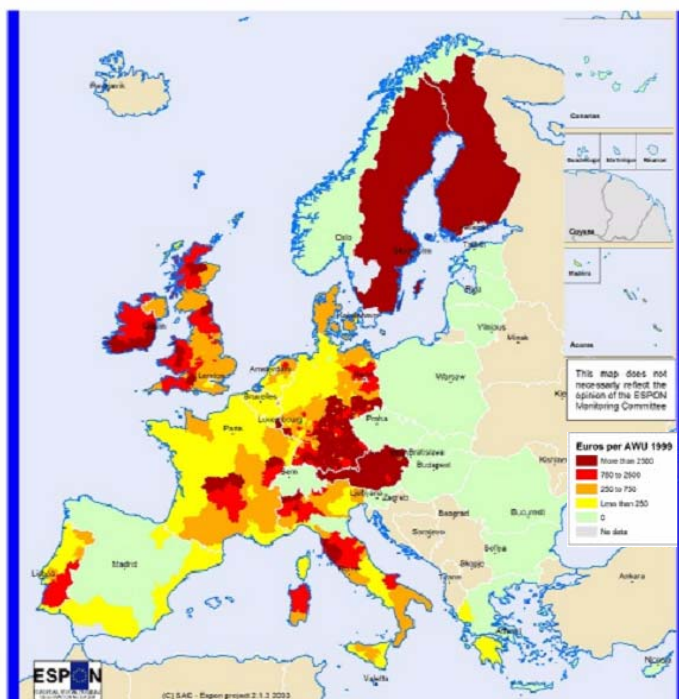
Source: [1]

In comparison, Pillar 2 of the CAP, often hailed as representing a fundamental departure in the nature of the CAP towards a more integrated rural development policy, would be expected to be distributed more in line with cohesion objectives. But surprisingly, also Pillar 2 support is so far not favouring spatial cohesion at the EU level and only has a limited compensation effect. As no data sets for the expenditure of CAP support at regional level could be made available by the Commission services, this finding had to rely on the two following data sources as a proxy to actual Pillar 2 support: The budgets of the Rural Development Programmes (RDP) which provide an indicator on the programmed funds (Graph 2), whereas support data from the Farm Accountancy Data Network (FADN) would inform on the regional distribution of actual payments. One has to take account that the latter source, the FADN data does not include smaller farm units, but nevertheless accounts for the majority of agricultural production and CAP support.

There are significant differences between those countries and regions for which the RDP is used as a tool to promote environmental land management and those for whom modernisation of agriculture remains the programme's

priority. The richer regions of northern Europe tend to prioritise agri-environment and LFAs, whilst poorer regions of the south and the accession countries prioritise agricultural development. The reason for the national and regional disparities is mainly in the uneven allocation of RDP funds, based on historical spend, together with the co-financing requirements which restrain shifts towards Pillar 2 spending.

**Graph 2: Pillar 2 expenditure per AWU (from RDP budgets)**



Source: [1]

When comparing up-take of Pillar 1 and Pillar 2 measures by farm size groups, a quite contrasting distribution between the two parts of CAP is recognized. The stronger relevance of Pillar 2 support for smaller farm sizes suggests that the different allocation criteria actually matter and that the orientation of Pillar 2 instruments towards more environmental sound farm management and diversification strategies is reflected in the higher participation of small farm size groups in these measures. Even if this shift seems still insufficient, it characterises the potential to address the regional dimension more explicitly.

### **3 Differences in application of rural development support**

The thrust of Agenda 2000 policy reform concentrated on the shaping of a unified programme for rural development (concept of Second Pillar of CAP). This should be a particular focus of national and regional agricultural policies and develop to a significant element of policy.

Application of RDP is driven by historic experiences and priorities and reflects national co-financing decisions. There is also a quite significant variety on the predominant measures selected for rural development between the Member States. About half of the funds are devoted to agri-environmental measures and Less-Favoured Areas support. In several countries (Austria, Finland, Sweden) these two measures even make up for more than 75 % of RDP budgets.

The expectation that the programme would open up to some degree to non-farming actors as well could hardly be realised and even the level of 10 % of RDP budgets for rural economy measures (group 3) was not achieved in most countries. Only in few cases, like in Germany, a much more balanced programme spending has been achieved.

### **4 Towards integrating the territorial dimension**

The discussion on the policy reform started on the issue how to shift resources towards the second pillar. This approach would allow to focus on local initiatives, set up through the bottom-up approach, as experienced in local action groups of the Leader+ initiative, complemented through some national rural action programmes, as a model for rural regions activities. The considerable commitment revealed in these initiatives is often related to natural and cultural amenities, landscape and regional economy and local service provision. However, the still dominant sectoral approach prevents to make use of the full potential for rural development.

Whereas the EU Commission (July 2004) has proposed to increase the rural development support from 19.3 % of total CAP support in 2006 to 23.8 % in 2013, the agreement on the European's Union Financial Framework of December 2005 limits the budget for rural development to 69.75 bio Euros before modulation (as against the proposed 88.5 bio Euros). The new Regulation on rural development support [4] provides a set of rules for the main features of the new rural development policy which attaches particular importance to reach a more balanced distribution of rural development instruments across countries and regions. Moreover, the decision to integrate the former separate Community Initiative Leader+ approach into RDP assigns a core role to the bottom-up concept of Leader. The integration of the Leader

initiative referred to as “mainstreaming”<sup>2</sup>, will trigger additional effects in many countries to achieve the minimum share for funds of the Leader axis (5% of RDP funds, respectively 2.5% for new Member States). On the other hand, the required LFA reform has been postponed to 2010, leaving a short interim period for member states to analyse and argue the usefulness of the LFA application within their Rural Development strategies.

This implies that the regional dimension will obviously have to be strengthened, also in countries with extensive rural development activities. However, the optimistic expectations to address the regions’ needs and harness the remarkable regional potential in the next period more effectively became attenuated over the last years reform process.

## **5 Application of the LFA scheme**

The areas eligible for LFA support have been classified by national authorities according to the EU framework regulations. Due to the high variation in climate and production situations between the different European regions (North/South) thresholds applied vary considerably between the MS, and even regions. The categories and the criteria for the demarcation of the less-favoured areas have been defined in EEC Directive 75/268 (Art. 3, para 3-5), later in Regulation 950/97 (art. 23-25) and Regulation 1257/1999 (Art. 13-21) and nowadays the legal base is Regulation 1698/2005 (Art. 37). A large number of implementing Directives comprise the current classification of the LFA of each Member State into the three types:

- *Mountain areas* where altitude and slopes reduce the growing season and the scope for mechanisation. High latitude regions in Finland have been included into this category. These areas make up about 17% of the total UAA.
- ‘*other*’ LFAs which are marked by poor soil conditions (low agricultural productivity), low agricultural income levels and low population densities or depopulation tendencies. These areas account for 36% of the UAA.
- LFAs with ‘*specific handicaps*’ which are restricted to small areas with specific handicaps relating to the environment, landscape development or coastal areas and islands where agricultural activity should be preserved in order to maintain the countryside. Member States can classify up to 10% of their total area under this category. About 3% of UAA are classified under this type.

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<sup>2</sup> Mainstreaming indicates the application and integration of the innovative Leader approach into the structure of RDP, thus aiming at an intensified relationship between the former Pillar 2 measures and Leader initiatives.

The great interest for the scheme has induced a gradual extension of the area eligible as LFA. The topographical features are underscored by the particularly high portion of mountain areas in some Member States (Austria, Greece, Slovenia and Finland) and the predominance of simple LFAs in others (Luxembourg, Latvia, Cyprus, Portugal, Ireland, Poland, Germany, United Kingdom and Spain).

The extension and high support levels have led to the assessment that in some cases specific problems of overgrazing might occur and differences of income levels between (simple) LFAs and non-LFAs tend to decrease [7]. Nevertheless, in general, we can discern,

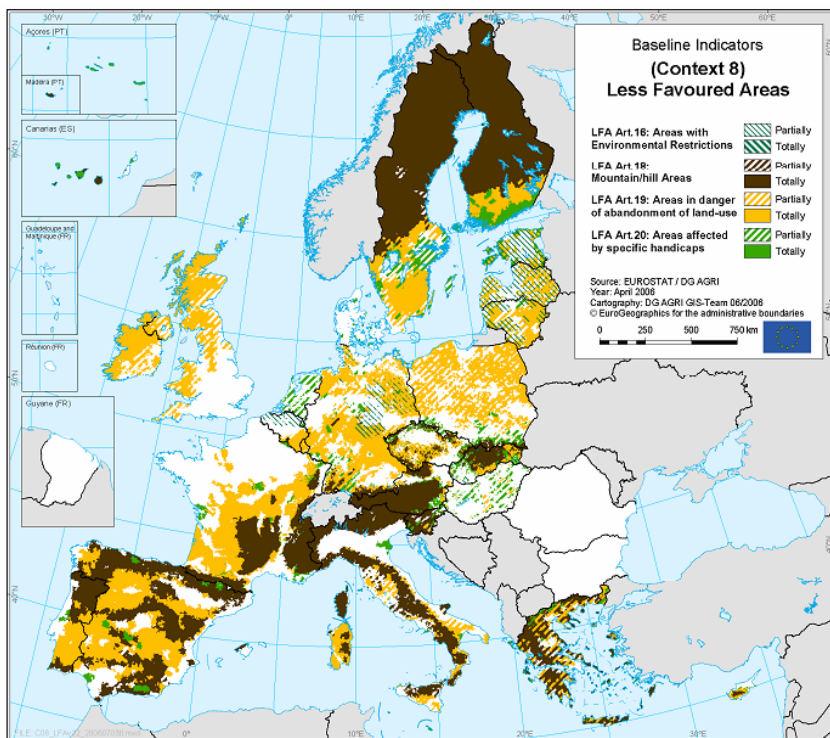
- high coincidence of LFAs with High Nature Value (HNV) farming systems, low intensity farm management, and nature protection areas as well;
- LFA schemes often coincide with extensive farming and small-scale farming structures under threat of marginalisation, however in some cases farming is also oriented towards intensification;
- leading to the situation that low intensive farming systems are under threat from both sides – abandonment and intensification.

In the new MS the extensive agriculture production methods are particularly widespread which implies a high relevance of the LFA scheme [10]. For these countries the situation of other LFAs is most important and the future reform will be of outstanding implications to these areas.

The national commitment for the measure is expressed by the proportion of the LFA support in the TRDI programmes (2004-2006). Since the the new RD programmes 2007-2013 are only partly adopted, the actual figures for this period will become available only after all programmes have been adopted. However as the LFA reform is due for 2010 there are no fundamental changes with regard to LFA programme sizes to be expected at this time.

The analysis of the national application reveals that higher compensation amounts are applied in more prosperous regions, with much less use in regions addressed by cohesion objectives, largely because of national differences in uptake (Graph 5). Hence, correlation analysis found no statistically significant relationship between levels of LFA support and indicators of economic cohesion, although the signs of the coefficients were as expected [13], p.69f. This implies that LFA support, despite its spatial objective, seems only weakly related to the indicators of social and economic cohesion.

**Graph 3: Less Favoured Areas in the EU-25**



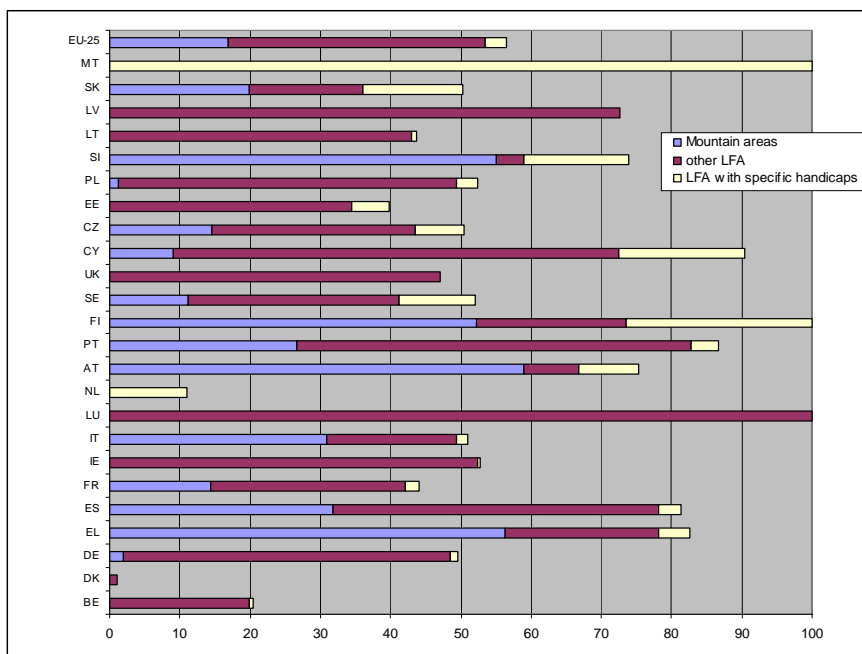
Source: [12], p.95

The Pillar 2 still accounts for a relatively small portion of total CAP funds, but the decoupling process has opened agricultural policies to overall rural development and could facilitate turning some of the natural handicaps of mountains and other LFA into advantages: for instance, cultural heritage, landscape, high-quality products, diversification approaches could contribute to overcome economic weaknesses. As the continuation of agricultural land use in these areas fulfills tasks well beyond primary production, a number of other policy instruments are also relevant in supporting these aims, including:

- agri-environmental programmes
- other RD-measures (investment, setting-up premiums etc.)
- market premiums and compensatory allowances (CAP-regime)



**Graph 4: LFA as a proportion of total UAA per Member State (2005)**

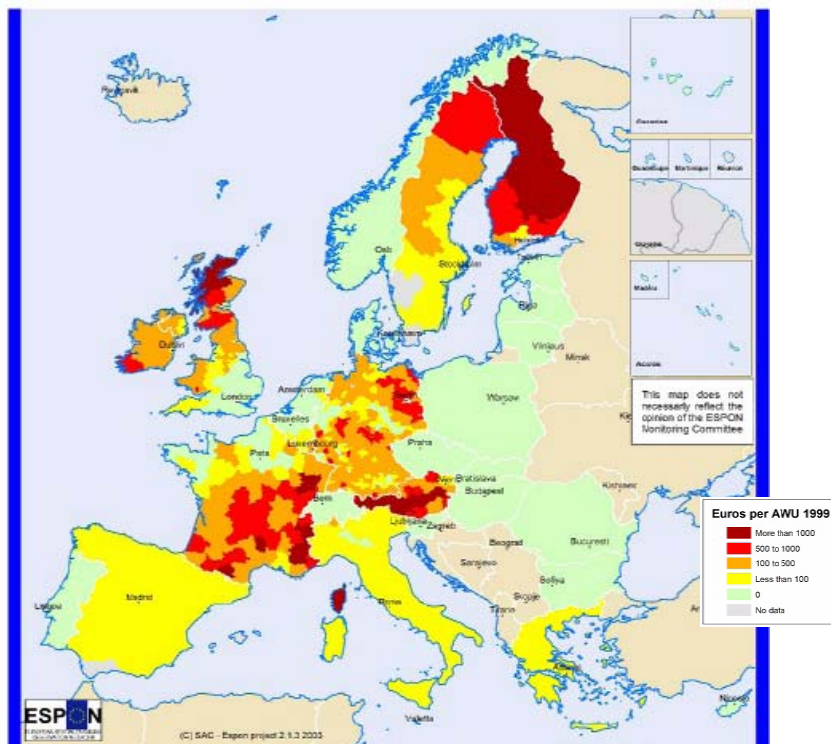


Source: [7]

When looking at impacts of the scheme, environment, income and spatial dimensions are the most relevant issues.

Although the environmental aspect was not the main starting point of LFA policy, the overlap of LFAs with regions of High Nature Value farming systems is evident. An overall environmental assessment has not been carried out so far. The prevailing contextual interpretation suggests [6] that low-intensity farming systems are dominant in LFAs, but not automatically accompanied by environmentally friendly farming methods. Concerns of incentives to to maximize livestock numbers on a holding (overgrazing processes) or the decline in farming in mountain areas and reductions in grazing levels leading to undergrazing in some areas are main environmental problems. However, there are more regional studies indicating the close linkages to biodiversity and positive environmental effects, particularly in marginal areas [2], [9].

**Graph 5: LFA support per Agricultural Work Unit (AWU) by region**



Source: [1]

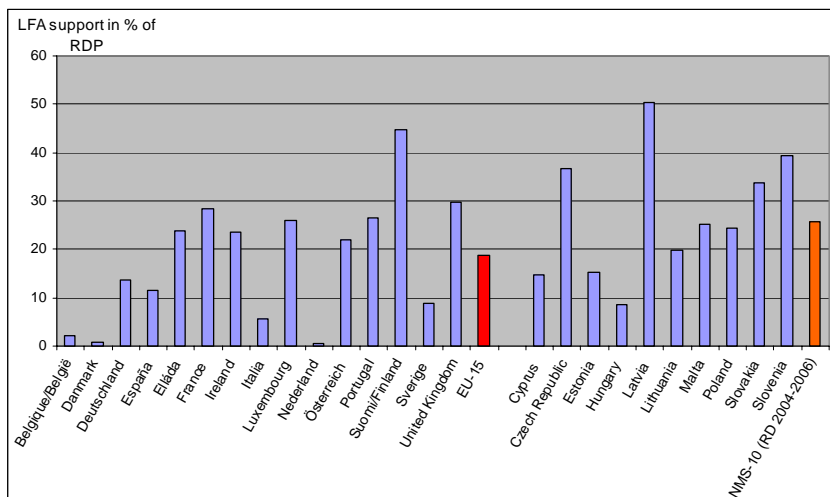
In some countries the LFA scheme provides a substantial contribution to *farm income*. According to the differences in application described above, it attains a significant level of more than 10% in Austria with 19%, France 1-15% (for simple LFAs) and 22-38% (for mountain regions), and Finland 42% [5], p.54; [3]. It thus contributes significantly to the income of low intensity farming in many areas with compensatory allowances having increased considerably over recent years in several cases. However, in other MS (Portugal, Spain, Greece and Italy) the measure still is just a modest contribution to the income of farm households.

The measure also is conceived to mitigate land abandonment and out-migration. Though the overall population trend for mountains and LFAs is not favourable there are regions with positive population development. This can be

partly due to the impact on amenity provision and landscape development leading to tourist and economic demand in these areas.

Together with other measures, LFA has therefore achieved in a rising number of regions an important role in maintaining multifunctional cultural landscapes and turned out as an effective policy instrument against land abandonment, if substantive funds are provided.

**Graph 6: LFA support as proportion of RD programmes (2000-2006)**



Source: [7]

## 6 Conclusions

The spatial analysis of LFA application underpins the national and regional strategies in policy implementation: There is a significant North-South decline in LFA support, reflecting the production type differences and differing policy approaches, and in recent years an apparent commitment to use the measure in the new MS. In general, considerable parts of LFA are farmed at lower intensity levels than the average and the overlap with HNV areas is quite high. Experiences suggest a need for an increased differentiation of payments, which would seek to address production difficulties of farmers more objectively.

Studies in the period before the reform due in 2010 will have to focus on the external effects of the future scheme. This challenge implies the main rationale for continued public support for LFAs to be communicated very clearly: Its main argument is to address the task to ensure the provision of public goods that would otherwise be under provided or disappear. The policy concept has

therefore to address more explicitly its inter-relationship to other policy areas and the provision of tasks in environmentally sensitive areas. In contrast to the disappearance of the socio-economic category of LFA the need for local and regional cooperation and the spatial effects have to be taken into account in policy design.

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