

Evaluation of the less-favoured area payment scheme in Austria

Gerhard Hovorka and Thomas Dax

Federal Institute for Less-Favoured and Mountainous Areas,

Marxergasse 2, 1030 Vienna, Austria

gerhard.hovorka@babf.bmlfuw.gv.at thomas.dax@babf.bmlfuw.gv.at

Abstract: Austria has gained considerable experience with regional programmes specific to the mountain area, particularly with LFA payments for mountain farmers over recent decades. LFA payments had an important role within the last Rural Development Programme (2000 – 2006) and for the next period (2007 – 2013) only minor alterations to the support scheme are proposed. These payments are particularly important in Austria because mountain farming has the key role in safeguarding the sensitive eco-system through the preservation of the multifunctional landscape and the general living and working space.

Key words: LFA support, Austria, mountain farms, multifunctionality of agriculture

1 Introduction

In Austria the landscape is characterised by the high proportion of less-favoured areas (LFA). These areas cover 81% of the total land area and 71% of Utilized Agricultural Area (UAA). Most of the LFA is classified as mountain area. Since long agricultural policy in Austria aims (among other objectives) to preserve multifunctional agriculture and family farming, to maintain the cultural landscape and to provide targeted support to farmers in less-favoured areas, and in particular to mountain farmers.

In pursuing these objectives Austria has gained considerable experience with less-favoured area payments, mountain farming subsidies, as well as with regional programmes specific to the mountain area and an agri-environmental programme over recent decades. Under the conditions of 2000 – 2006 Rural Development Programme (RDP) support levels of the LFA payments have been improved considerably for small mountain farms. Within the period 2007 – 2013 Rural Development Programme (RDP) only little alterations to the support scheme are proposed.

The paper will present the criteria and the scope of less-favoured areas (LFA) in Austria as well as the classification system of mountain farms. It will discuss the extent to which the RDP, particularly the LFA payments (compensatory allowances scheme) and the agri-environmental payments, have contributed to achieving the aims of agricultural policy in less-favoured areas. Furthermore some preliminary results of the EU research project TOP-

MARD (Towards a Policy Model of Multifunctional Agriculture and Rural Development) in the Austrian case study area will be presented and discussed.

2 Definition and demarcation of LFAs in Austria

The demarcation of mountain areas in the agricultural context has a long history in Austria. In the 1980s other LFAs were also defined and demarcated. In 1995, on accession to the EU, the LFAs in Austria were redefined 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 Austrian mountain area forms part of two of Europe's mountain massifs, the Alps and the Bohemian massif. The criteria established for Austria by the EU Commission for the demarcation of mountain areas were [8]:

- 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.

The criteria established for Austria by the EU Commission for the demarcation of other less-favoured areas (intermediate less-favoured areas) were [8]:

- Productivity index not more than 30 (agricultural comparability index, criterion for soil productivity and overall agricultural productivity) and
- Population density: A maximum of 55 inhabitants per square kilometre (70 in exceptional cases) or an annual out-migration rate exceeding 0.5 per cent and
- Employment: a high quota of employment in agriculture (> 15%).

The criteria established for Austria by the EU Commission for the demarcation of areas with specific handicaps were [8]:

- Productivity index not more than 30 (agricultural comparability index, criterion for soil productivity and overall agricultural productivity) and
- Specific handicaps (characteristics of: an extremely hilly area with pronounced slopes; wet or marshy area; an area subject to flooding; a border area of the European Union) in which agricultural activity is important for the maintenance of the natural environment.

According to the EU classification of the less favoured areas (LFA), the LFA 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 (6% of total land area) and areas with specific handicaps (5% of total land area). The mountain area comprises 70% of Austrian territory and 58% of the UAA [8] and [6] .

3 Mountain farm classification system in Austria

Farming handicaps in the mountain area are different. Taking this into consideration, Austria already has a long experience in assessing the degree of handicaps faced by mountain farms. From the beginning, the Austrian system used a classification of site-specific farming handicaps experienced through the specific situation of each individual mountain farm.

Since the early 1970s a differentiated classification system (of 4 groups) has been the basis for defining support levels for mountain farms. 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 handicaps (category 4)). This classification system was the basis for the LFA payments until 2001 and has, of course, implications for the perspectives of land use, the farming system and also the rural development as a whole [10].

The change to a more differentiated payment structure was planned during the 1990s and a revised classification system, has been applied since 2001 [13]. This “mountain farmer registry point system” addresses the positive externalities of mountain farming more clearly. A detailed system of attributing 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 handicaps, 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. For statistical purposes the mountain farms (MF) are again classified in four groups (categories) of handicaps according to the “mountain farmer registry point system” (= BHK-points systems). Group one is that with the lowest disadvantages (up to 90 points), group four is that with the highest disadvantages (271 points and more per farm). The four groups of handicaps are characterised as follows [8]:

- Group 1: minor handicaps (up to 90 points; 31% of all MF)
- Group 2: medium handicaps (between 91 and 180 points; 41% of all MF)
- Group 3: major handicaps (between 181 and 270 points; 18% of all MF)
- Group 4: extreme handicaps (271 points and more; 10% of all MF)

In 2003, according to the agricultural census, there were 74 394 mountain farms. As a proportion of all farms with UAA, mountain farms make up 42% [4].

4 LFA compensatory allowances in Austria

4.1 Rural Development Plan for Austria (2000 – 2006)

Austria had a single Rural Development Plan 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 were financed under this programme for the entire territory of Austria. For the period from 2000 to 2006 the total public costs (EU, Federal Government, Federal Provinces) were about €7.0bn, including an EU contribution of €3.25bn from the EAGGF, Guarantee Section. Additionally about €47.8 million were spent for the Objective 1 area. The budget for the measures relating to LFAs (compensatory allowances) was 26% of total RDP costs [3].

4.2 Structure of LFA compensatory allowances (CA) since 2001

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.

Since the beginning of the 1970s, support for mountain farming has been improved through a specific support programme for mountain farming. As a national concern the “Mountain Farmers’ Special Programme” has not just focused on site-specific farming handicaps but has also attached importance to the social situation of farm households and their insertion in the rural economy, aimed at the preservation of mountain landscapes, and has taken account of the necessity of developing concepts oriented at multifunctional aspects in mountain farming and land use. On the basis of the Mountain Farmers’ Special Programme the federal government’s mountain farmers’ allowance was introduced in 1972 as a new form of direct aid to mountain farms, funded from the national budget. Since then, the total amount of aid has been significantly increased and its circle of recipients has been extended. The adoption of EU policy brought about drastic alterations for direct payments to farms in less-favoured areas. 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 [8].

Since 2001 (after the implementation of the new LFA compensatory allowances within the RDP for Austria) 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 = BHK-points 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).

Table 1 gives an example of the calculation of the compensatory allowances for a mountain farm with livestock, 10 ha forage and 100 mountain farmer register points (BHK-points). This mountain farm received € 378 in 2004 (but it is the same amount every year since 2001).

Table 1. Example of Compensatory allowances (CA)

	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 of CA	$[181.68 + (8.72 \times 100)]/10 \times 10 = \text{€}1,053.68$	$[94.47 + (0.38 \times 100)] \times 10 \text{ ha} = \text{€}1,324.70$	1,053.68 + 1,324.70 = €3,378.38

Source: [8]; own calculations

Note: 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 graduated from 60 ha. The mathematical formula is slightly more complicated if the farm has forage land and other land.

The amount of support (payment rates) rises rapidly with rising BHK points, in particular for Area Aid 1. Table 2 gives examples of the amount of support payable on different types of farm with livestock and 10 ha forage (using mountain farm registry points). Farms in the basic category (farms without BHK-points) receive €1.81.7 Aid 1 and €44.7 Area Aid 2 (total amount of €1,126.4). Mountain farms with 300 BHK-points get 15 times more Area Aid 1 payment but only 2.2 times more Area Aid 2 payment. In this example (10 ha forage) the mountain farm with severe production difficulties gets therefore 4.3 times more total compensatory allowances than a farm with basic category.

Table 2. Examples of Compensatory allowances for farms with different handicaps

Category of mountain farm	Area Aid 1 (max. for 6 ha) in €	Area Aid 2 (max. for 100 ha) in €	Total amount in €
Basic category (0 points)	181.7	944.7	1,126.4
100 BHK-points	1,053.7	1,324.7	2,378.4
200 BHK-points	1,925.7	1,704.7	3,630.4
300 BHK-points	2,797.7	2,084.7	4,882.4

Source: [9]; own calculations

Note: see note table 1.

Additionally a National Grant was paid until 2004 for farms that would have received 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 [8].

4.3 Evaluation of LFA compensatory allowances in Austria

Already 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. After the Agenda 2000 reform this became possible within the RDP. The new LFA compensatory allowances brought a marked increase of the EU co-financed compensatory allowances per year (in 2001: plus €2.7 million; 51% increase) and the number of supported farms. At the same time the National Grant decreased from €9.4 million to €6.4 million and also the number of NG supported farms decreased. 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 further reason was 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.

The number of LFA payment farms decreased between 2001 and 2005 by 3% but the total amount of payment and the average payment per farm increased slightly in the same time period. The share of farms with the National Grant (additional or exclusive payment) decreased to 15% in 2004, which was not

even half as many as in 2000. In 2005 the National Grant was not paid anymore.

Table 3. Number of farms and amount of compensatory allowances between 2000 and 2005

year	Number of CA farms	NG-farms	CA payment in 1000€	NG payment in 1000€	CA payment per farm in €
2000	99 285	17 450	181 063	19 385	1 824
2001	107 156	9 798	273 751	6 409	2 555
2002	106 302	9 303	274 615	6 050	2 583
2003	105 935	8 566	274 576	5 659	2 592
2004	105 048	8 180	274 858	5 448	2 616
2005	104 400	0	274 630	0	2 631

Source: [8] and [5], own calculations

Note: NG-farms are farms receiving National Grant (additional to Compensatory allowances or exclusively National Grant). NG amount is the total sum of National Grant .

There was no change of the LFA scheme for farms since 2001. Therefore also the figures continued from year to year and were more or less unchanged. The figures analysed and evaluated are therefore those from the most recent year of evaluation of the LFA scheme (2004).

In all, 105,048 farms received LFA payment of €74.9 million compensatory allowances, an average of € 616 per farm. Mountain farms made up 69% of all LFA farms and 88% of the total support sum. For mountain farms the average support sum rises sharply with increasing level of handicaps (category 1: €2,286 but category 4: €5,233). 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 (basic allowance), which constitutes a high proportion of the support for mountain farms with high degrees of handicaps. 15 % of all LFA farms received National Grant (7.8% of them 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. Most of the farms receiving National Grant were non-mountain farms (79%) of which more than half received this payment because the farm was situated outside of the LFA area. Since 2005 the National Grant is not paid anymore (end of transition period in 2004).

The Area Aid 1 made up 31% of the total support sum. On average, 74% of the CA supported farms were stock keepers, which received 93% of the CA

support sum. The CA was an average of €177.5 per ha. The distribution, however, was between €85 in the basic category and €388 in category 4. The most important support data have been briefly presented in the following table.

Table 4. The compensatory allowances by categories of handicaps and types of LFA in 2004

Categories of farms and LFA	Number of farms	Total amount in 1000€	Proportion of area aid 1 payment in %	Payment per farm in €	Payment per ha in €
Basic category	32 110	31 370	7.3	988	84.5
Category 1	22 543	51 529	22.7	2 286	140.5
Category 2	30 107	96 918	30.7	3 219	191.2
Category 3	13 224	57 716	40.0	4 365	283.2
Category 4	7 064	36 964	47.0	5 233	387.8
All mountain farms (sum)	72 938	243 128	33.7	3 333	207.3
Mountain area	76 789	243 215	32.7	3 167	197.2
Other less-fav. areas	10 881	15 707	15.9	1 444	103.1
Areas specific	17 378	15 936	14.1	917	98.2
All farms	105 048	274 858	30.7	2 616	177.5

Source: [5] and [7]

4.4 The importance of LFA and agri-environmental payments on farm income

There are great income differences (without taking compensatory allowances into account) between mountain farms and non-mountain farms – although this income includes public support and also income from farm tourism and other sources of farm pluriactivities. On average 2003/2004 the income (without CA) of mountain farms averaged 65% of non-mountain farms. The income of mountain farms with extreme difficulties (category 4) was much below the average (42% of non mountain farms).

The CA is especially important for mountain farms. LFA payments as a proportion of agricultural income are 26% for all mountain farms (average). LFA payments become more important as the production handicaps increases: with category 4 farms the LFA support is 48% of agricultural income. For these mountain farms two subsidies, the LFA payment (CA) and the agri-environmental payments (ÖPUL) together make up 90 % of the income from agriculture. But CA and ÖPUL also made up 62.5% of the agricultural income in the average for all mountain farms.

In 2000, the CA were already very important for the income of mountain farms, but since 2001 the proportion of the CA within the RDP has increased (and also the proportion of the agri-environmental programme ÖPUL).

Support payments dominate the income from agriculture and forestry for all farm types throughout Austria. On average 2003/2004 the national average contribution was 80%. Currently, payments under the “second pillar” of the CAP exceed those under market measures.

Table 6. Agricultural income situation and public support per farm category (average 2003/2004)

Categories of farms and LFA	Farm income (without CA) in €	CA as % of farm income	EP as % of farm income	TP as % of farm income
Category 1	14 770	17.6	32.9	83.5
Category 2	13 085	23.7	37.5	89.7
Category 3	11 945	34.0	37.7	95.2
Category 4	8 264	47.5	42.3	110.2
All mountain farms (sum)	12 895	25.9	36.6	90.7
Mountain area	13 498	23.4	34.7	85.8
Other less-fav.areas	19 762	7.3	36.6	83.7
Areas specific	12 712	9.2	22.4	64.9
All non mountain farms	19 828	3.2	31.1	71.9
All farms	16 377	13.6	33.6	80.5

Source: [5] and [7] and [11]; own calculations

Note: CA = compensatory allowances is defined as LFA payment from EU reg. 1257(99), including the National Support scheme following the EU-accession treaty. EP = agri-environmental payments; TP = total 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.

Since 2000 the Invecos data have shown small decline in the agricultural land use in Austria, but UAA in LFA has not declined in the same period (2000 – 2004). This is due to some extent to the CA, which include landscape preservation as one of their main objectives. The most demanding environmental element of the agri-environmental programme is related to organic farming. In 2005, 76% of organic farms supported were mountain

farms (21% of all mountain farms) and the proportion of organic farming is higher on farms facing a higher level of production handicaps [4] and [8].

5 The LFA compensatory allowances in the Rural Development Programme 2007 – 2013

The proposal of the new Rural Development Programme 2007 – 2013 includes again a high priority for LFA compensatory allowances. The proposed budget is €276 million per year of which 88% is indicated for farms in mountain areas (Measure Code 211) and 12% is indicated for farms with handicaps other than mountain areas (Measure Code 212). Budget sum and its distribution between mountain area and other areas correspond to the situation until 2006. Only little alterations to the support scheme are proposed. Conditions and calculation of the compensatory allowances remain nearly the same, only some minor changes are proposed for farms in non mountain areas [2].

6 Agriculture and environment in mountain areas - The example of Pinzgau – Pongau

In Austria the situation of multifunctional mountain farming in terms of local food production, environmental impacts, the threat of land abandonment, natural hazards, rural development and agricultural policies has been discussed as a major national concern for long time [12] and [10]. The maintenance of natural and cultural rural landscapes is supported unanimously by the stakeholders and policy makers. The EU research project TOP-MARD is focussing on these issues most relevant for Austria's mountain areas. The Austrian case study area in TOP-MARD is the district Pinzgau-Pongau (NUTS III, AT 322) in Salzburg which is classified as mountain area in the Central Alps of Austria. It is marked by a diversified mountain landscape with the characteristic mixture of high shares of forests, grassland, alpine pastures and rocks. The area of permanent settlement is very limited. The area is one of the most intensive tourist regions of Austria.

The area is characterized by small scale farming and a high portion of pluri-activity of farm households. Almost all farms are classified as mountain farms and the proportion of organic farms (44 per cent) is the highest for all regions of Austria. The predominant farming systems are milk production and livestock grazing. Multifunctional mountain farming is an important basis for tourism [1]. The LFA support scheme and agri-environmental payments have made an important contribution to farming income of 80% [11] and therefore maintaining multifunctional mountain farming and safeguard the services provided by mountain farming.

7 Conclusions

This paper has addressed key questions regarding the extent to which the Rural Development Plan (RDP), particularly the LFA payments and the agri-environmental payments, have contributed to achieving the aims of agricultural policy for maintaining multifunctional mountain farming in LFAs in Austria.

The evaluation shows that the new system of compensatory allowances (CA) since 2001 brought a large increase in the level of support, which was achieved through the additional part-instrument of area aid 1 payment (payment up to 6 ha UAA). This part of the payment has the function of providing a basic level of support, thus enhancing the payment level on smaller mountain farms. The CA is an important part of the agricultural income in mountain areas and is rising sharply with increasing level of farming handicaps. CA and agri-environmental payments make an important contribution to farming income, ensuring continued agricultural land use and therefore maintaining multifunctional mountain farming in LFAs. Preliminary results of the EU research project TOP-MARD in the Austrian case study area confirm this evaluation. These payments are important because mountain farming has the key role in safeguarding the sensitive eco-system and through the preservation of the multifunctional landscape and the general living and working space in mountain areas.

References

1. Bergmann H., Dax T., Hovorka G., Thomson K. Multifunctionality and Pluriactivity across Europe – a comparison between Scotland and Austria. *16th Annual Meeting of Österreichische Gesellschaft für Agrarökonomie (ÖGA), September 2006*. Vienna 2006.
2. BMLFUW. Österreichisches Programm für die Entwicklung des Ländlichen Raums 2007 – 2013. Entwurf Juli 2007. Vienna 2007. <http://land.lebensministerium.at/article/archive/8486>
3. BMLFUW. *Grüner Bericht 2007 (48. Grüner Bericht)*. Report. BMLFUW, Vienna 2007.
4. BMLFUW. *Grüner Bericht 2006 (47. Grüner Bericht)*. Report. BMLFUW, Vienna 2005.
5. BMLFUW. *Evaluierungsbericht 2005. Update-Evaluierung des Österreichischen Programms für die Entwicklung des ländlichen Raums*, Vienna 2005.

6. BMLFUW. *Österreichisches Programm für die Entwicklung des ländlichen Raums (4 volumes). Updated version.* BMLFUW, Vienna 2000.
7. Hovorka G. The influence of agricultural policy on the structure of mountain farms in Austria. 96th EAAE-Seminar, January 2006. Taenikon, Switzerland 2006. <http://www.fat.admin.ch/eaae96/abstracts/s49.pdf>.
8. Hovorka G. *Den Bergbauernbetrieben wird nicht geschenkt. Evaluierung der Ausgleichszulage im Rahmen des österreichischen Programms für die Entwicklung des ländlichen Raums.* Bundesanstalt für Bergbauernfragen, Research Report no. 52, Vienna 2004.
9. Hovorka G. Endbericht zu Kapitel V – Benachteiligte Gebiete. *BMLFUW, Evaluierungsbericht 2003 des BMLFUW. Anhang*, Vienna 2003.
10. Hovorka G. *Die Kulturlandschaft im Berggebiet in Österreich. Politiken zur Sicherung von Umwelt- und Kulturleistungen und ländliche Entwicklung. OECD-Fallstudie.* Bundesanstalt für Bergbauernfragen, Research Report no. 43, Vienna 1998.
11. LBG. *Buchführungsergebnisse 2004. Land- und Forstwirtschaft Österreich.* Vienna 2005.
12. OECD. *Rural Amenity in Austria. A Case Study of Cultural Landscape. OECD report.* Paris 1998.
13. Tamme O. et.al. *Der Neue Berghöfekataster. Ein betriebsindividuelles Erschwernisfeststellungssystem in Österreich.* Bundesanstalt für Bergbauernfragen, Facts & Features no. 23, Vienna 2002.