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Workshop 2

Review of payment calculations in rural development measures in the EU

WP 3

Review of payment calculations compensatory allowances

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Introduction

- This presentation reviews the payment calculation methods of compensatory allowances (natural handicap payments) in 9 EU member states or regions.

- Natural handicap payments in mountain areas and payments in other areas with handicaps contribute, through continued use of agricultural land, to maintaining the countryside as well as maintaining and promoting sustainable farming systems.

- These payments compensate for farmers' additional costs and income foregone related to permanent handicap for agricultural production in the area concerned.

Objectives of natural handicap payments include

- Continuation of agricultural activities and land use in naturally disadvantaged areas (CZ, ES, GR, North Rhine-Westphalia in Germany, LT, Scotland)
- Conservation of biodiversity and/or rural landscape in naturally disadvantaged areas (CZ, GR, LT, Region of Umbria in Italy, Scotland)
- Maintenance of population in naturally disadvantaged areas (CZ, ES, GR, Umbria)

Eligibility criteria include

- Cross-Compliance
  - Statutory Management Requirements (SMRs)
  - Good Agricultural and Environmental Conditions (GAEC)
- Farmer's age
- Minimum farm size
- Crop or land use requirements (e.g. in the Czech Republic and North Rhine-Westphalia, Germany)
- Stocking density requirements (e.g in Spain)

Payment differentiation

- In one way or another, geographic location is utilised in payment differentiation in all analysed member states and regions, excluding North Rhine-Westphalia (NRW), Germany

- In NRW, Germany, payments are differentiated at the farm level using the LVZ indicator, which measures natural production conditions

- In the Czech Republic, difference in the economic productivity of soil between areas is also involved in calculations

Payment differentiation (2)

- In Lithuania, soil productivity index is utilised as a device to differentiate payments at the municipality level
- In Scotland, stocking densities are used to define grazing categories, which reflect the land quality
- In Greece and Scotland, island/peripheral location of farms is seen as a disadvantage and a basis for payment differentiation

Payment differentiation (3)

- In Spain, payments are differentiated at farm level according to farms size, farm income and land use
- In Greece, the payment rate is differentiated according to land use classes. Trained (green certificates) and young farmers or successors of early retired farmers are credited
- In Umbria, Italy, natural handicap payments are differentiated according to the classification of less favoured areas

Issues discussed in-house

- In the Czech Republic, degressive natural handicap payments (i.e. reduction in per hectare payment according to farm size) have been discussed
- In Finland, it has been considered differentiation of natural handicap payments according to plant species or production lines
- In Scotland, it has been discussed if and how to completely decouple natural handicap payments from livestock numbers and agricultural production to address WTO Green Box concerns

Overview of LFA measure in North Rhine-Westphalia (NRW), Germany

Different payment schemes and payment categories	Level of payments		Targeting	Change from previous programming period
	EUR/ha	% of calculated level of payment		
Mountain areas LVZ ≤ 15	≤ 115	89.5%	EC legitimated fixed area in North Rhine-Westphalia. Payments are granted exclusively for grassland, clover, leys, clover-grass, and lucernes.	↓ -20%
Mountain areas 15 < LVZ ≤ 20	≤ 90	87.5%		↓ -20%
Mountain areas 20 < LVZ ≤ 25	≤ 60	77.8%		↓ -27%
Mountain areas 25 < LVZ ≤ 30	≤ 35	66.1%		↓ -31%
Mountain areas 30 < LVZ ≤ 35	≤ 25	69.5%		↓ -39%
Other less favoured areas LVZ ≤ 15	≤ 115	89.5%	EC legitimated fixed area in North Rhine-Westphalia. Payments are granted exclusively for grassland, clover, leys, clover-grass, and lucernes.	↓ -20%
Other less favoured areas 15 < LVZ ≤ 20	≤ 90	87.5%		↓ -20%
Other less favoured areas 20 < LVZ ≤ 25	≤ 60	77.8%		↓ -27%
Other less favoured areas 25 < LVZ ≤ 30	≤ 35	66.1%		↓ -31%
Other less favoured areas 30 < LVZ ≤ 35	≤ 25	69.5%		↓ -39%

Process of payment calculation in NRW, Germany

- In NRW, compensatory allowance calculations are based on the replacement value of grassland yield reductions.
- The natural handicap affects soil quality and the quality of soil is measured at the farm level by LVZ index.
- There are altogether five soil quality groups.
- It is assumed that in the most disadvantaged group (LVZ ≤ 15) grassland yields are 25% lower compared with average yields.
- In a group in which LVZ lies between 30 and 35, yield losses amount to 7%.
- For LVZ > 35, no yield losses are assumed.

Process of payments calculation in NRW, Germany (2)

- Farmers' net yield losses within each soil quality group are stated in terms of feed energy (MJ).
- In replacement costs calculations, purchases of wheat at EUR 115/t have been assumed, which results in cost of EUR 0.153/10 MJ.
- Also larger (additional) yield reductions have been assumed in the areas with specific restrictions.

Problems encountered during payment calculation

- How we should measure natural handicap, which is a very complex phenomenon?
  - Soil and land quality
  - Altitude
  - Slope
  - Weather conditions
  - Farm income
  - Differences in agricultural productivity between regions
  - Differences in costs between regions
- Data problems
- Farm Accountancy Data Network (FADN) data is widely applied (at least in CZ, LT, PL and the region of Umbria in Italy).

Uptake of natural handicap measure in 2005 (EUR/ha)

	CZ	NRW	ES	FI	GR
Total UAA	4 259 480	1 511 862	24 855 129	2 267 000	9 163 000
Area under RDP measure	2 139 000	176 068	7 222 000	2 163 000	5 167 000
Share in UAA	50 %	12 %	29 %	95 %	56 %
Total number of farms	44 826	51 161	1 069 748	69 517	824 000
Number of farms entering in RDP measure	9 077	8 458	112 627	65 584	110 000
Share in total number of farms	20 %	17 %	11 %	94 %	13 %
	Umbria	**LT**	**PL**	**Scotland**	
Total UAA	361 000	2 590 352	17 737 300	6 115 165	
Area under RDP measure	45 000	991 203	9 933 000	5 249 545	
Share in UAA	12 %	38 %	56 %	86 %	
Total number of farms	43 485	226 661	1 782 000	51 094	
Number of farms entering in RDP measure	1 299	110 200	708 700	35 075	
Share in total number of farms	3 %	49 %	40 %	69 %	

Public expenditure on natural handicap measure in 2005 (EUR per ha)

	CZ	NRW	ES	FI	GR
Total financial expenditure for RDP	209 212 442		1 442 367 572	711 900 000	2 305 060 000
Financial expenditure for RDP measure	94 635 274	12 700 000	122 591 000	420 539 000	920 350 000
Share in RDP	45 %		8 %	59 %	40 %
Average payment per hectare	44	72	17	194	178
Average payment per farm	10 426	1 502	1 088	6 412	8 367
	Umbria	**LT**	**PL**	**Scotland**	
Total financial expenditure for RDP	157 300 000	189 231 300	1 201 500 000	178 140 000	
Financial expenditure for RDP measure	6 606 000	84 950 000	319 700 000	86 640 000	
Share in RDP	4 %	45 %	27 %	49 %	
Average payment per hectare	147	86	32	17	
Average payment per farm	5 085	771	451	2 470	

Concluding remarks

- Great variation in payment levels and structures of payment schemes
- Varying degree of transparency of payment calculations
- Lack of a generally acknowledged reference level for payment calculations

Concluding remarks (2)

- Significance of natural handicap payments in national agricultural policy settings varies considerably
- More attention should be paid to the interplay between natural handicap payment schemes and other rural and agricultural policy measures
- How the natural handicap payment scheme should be redesigned after 2010?