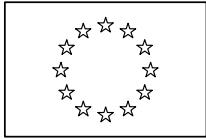


EN

EN

EN



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 21.4.2009
SEC(2009) 450

COMMISSION STAFF WORKING DOCUMENT

accompanying the

**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL
COMMITTEE AND THE COMMITTEE OF THE REGIONS**

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

Impact Assessment

{COM(2009) 161 final}
{SEC(2009) 449}
{SEC(2009) 451}

CONTENTS

1.	Foreword	3
1.1.	Context	3
1.2.	Procedural issues	4
2.	Problem definition.....	6
2.1.	The intervention logic of Natural Handicap Payments within a modernised CAP.....	6
2.2.	The inconsistencies of the current delimitation system with the revised NHP objectives	7
2.3.	Transparency and comparability of the current delimitation system	8
2.4.	Effectiveness and targeting of the aid	8
3.	Aims of the review	12
4.	Options for review.....	12
4.1.	Option 1: Status Quo+.....	13
4.2.	Common bio-physical criteria used in options 2, 3 and 4	14
4.3.	Option 2: Common Criteria.....	15
4.4.	Option 3: Eligibility Rules	16
4.5.	Option 4: High Nature Value	16
5.	Impacts of the Review.....	17
5.1.	First results of the analysis: the need to fine-tune the options and to further involve the Member States in the impact assessment	19
5.2.	Types of socio-economic impacts expected.....	20
5.3.	Impacts on the viability of rural communities	23
5.4.	Environmental effects of the LFA revision.....	24
5.5.	Simplification potential	28
6.	Comparing the options	29
6.1.	The options judged in comparison to the objectives	29
6.2.	The options judged by the stakeholders	31
6.3.	Impacts on the issues at stake and on the interested parties.....	33
6.4.	Summary table of pros and cons	34
7.	Monitoring and evaluation	35
8.	List of Annexes	38
9.	Glossary.....	38

1. FOREWORD

1.1. Context

The aid to farmers in Less Favoured Areas (LFA) is a longstanding measure of the Common Agricultural Policy (CAP). In place since 1975, it provides a mechanism for supporting farming and thus maintaining the countryside in mountain areas, in less favoured areas other than mountain (so-called 'intermediate LFAs') and in areas affected by specific handicaps.

Approximately 57% of the overall Utilized Agricultural Area (UAA) in the EU is classified as LFA. Mountain areas cover nearly 16% of the UAA and are designated according to a limited number of physical indicators¹. 31% of the agricultural land of the EU is classified as less favoured area other than mountain, on the basis of a wide range of criteria whose diversity throughout the EU was spotlighted by the European Court of Auditors as a possible source of unequal treatment². Annex 1 presents a map of the three categories of LFAs and a description of the main features of agriculture in non-mountain LFAs.

Together with the areas with specific handicaps (9% of the EU agricultural area), intermediate LFAs account for 30% of the agricultural holdings, 31% of the agricultural labour force and 26% of the agricultural economic potential of the EU. Compared to non disadvantaged zones, agriculture in these areas is characterized by a high proportion of permanent grassland - reflecting difficult conditions for arable land – and by lower livestock density. Farms have on average a lower potential gross value added, despite a larger physical size necessary to compensate an average lower productivity.

A significant evolution of the LFA scheme took place in 2005, within the new strategic approach adopted for the Rural Development Policy (RDP) for 2007-2013 and in the broader context of modernisation and rationalisation of the CAP. LFA payments (since then called Natural Handicap Payments (NHP) in mountain areas and in other areas with handicaps) became part of Axis 2 of RDP, which aims at improving the environment and the countryside by supporting sustainable land management.

This changed context and the Court of Auditors' concerns called for a review of the approach for designating areas affected by natural handicaps other than mountain and than areas affected by specific handicaps (a category replacing the 'intermediate LFAs' previously defined by Article 19 of Regulation 1257/99) and of the method for calculating the payment: under Regulation (EC) No 1698/2005 both these elements are closely linked to natural handicaps for agriculture. The new legal framework could not however be completed by an agreement on a possible Community wide system for classifying the redefined 'intermediate LFAs', more in line with the new policy objectives.

The difficulties in assessing the impact of possible new delimitation criteria, the technical complexity of a delimitation based on natural handicap indicators and the political sensitiveness of possible changes in the current LFA delimitation were the main obstacles preventing the Council from achieving the review of the scheme in 2005. The need of an in-depth cooperation between the Commission and the Member States became evident, in order to strike a balance between a coherent and transparent approach ensuring equal treatment among beneficiaries and an appropriate consideration of regional peculiarities.

¹ See section 2.3 below.

² European Court of Auditors (2003), *Special Report No 4/2003*, OJ C 151 of 27 June 2003.

The Council therefore decided to maintain the previous LFA system in force and the Commission was asked to undertake a review of the implementation of the LFA scheme and to present a proposal for a future payment and delimitation system to be applied from 2010, subject to an act of the Council. The scope of the present review exercise is therefore to complete the process started in 2005. It does not aim at providing an in-depth analysis of the justification of the LFA scheme and of its position within the CAP, that was included in the impact assessment supporting the proposal for the rural development policy 2007-2013. However, the report presents the intervention logic of the NHP scheme in relation with other CAP instruments and includes some first reflections on possible future developments, against the background of the on-going process of CAP modernisation. In any case, it does not preclude future developments in policy design for beyond 2013.

Despite the intense analysis and consultation process carried out by the Commission since 2005, the data limits explained in the following section do not allow the Commission to present a legislative proposal underpinned by a solid impact assessment of the new delimitation system. A thorough analysis can be carried out only by using the information available at national level. It is therefore envisaged to pave the way for a subsequent legislative proposal by the following three steps:

- a. Adoption of a Commission Communication in spring 2009. The Communication aims at inviting the Member States to simulate the application on their territory of possible common criteria for LFA delimitation, identified during the impact assessment;
- b. Transmission of the Member States' simulations to the Commission in autumn 2009;
- c. Finalisation of the impact assessment and elaboration of the legislative proposal as soon as possible, following reception of Member States' simulations.

1.2. Procedural issues

The Commission services launched the LFA review exercise by an independent evaluation concluded in November 2006³.

Meanwhile the Joint Research Centre (JRC) of Ispra was tasked to derive a set of common soil and climate criteria which could support the delimitation of intermediate LFAs. In order to carry out this task, a panel of soil, climate and land evaluation high-level experts was established and its work was co-ordinated by JRC. Based on FAO's agricultural problem land approach, the expert panel identified a number of soil and climate criteria indicating, at a certain threshold value, severe limitations for European agriculture.

The conclusions of the scientific experts were subject to a wide ranging consultation, namely in the framework of an LFA expert group made of the representatives of European Research Institutes and of the national authorities that met on 14.11.2007, on 23.04.2008 and on 25.06.08. In order to complement and deepen the works of the LFA expert group, approximately 80 technical bilateral meetings between the Commission services and the Member States have taken place since the second half of 2006, to discuss the current delimitation system and the applicability of possible common bio-physical criteria in each Member State.

An inter-service steering group (ISSG) was set up in December 2007 with the task of guiding the analysis of the economic, social and environmental impact of the revision. Made up of

³ IEEP (2006), *An evaluation of the Less favoured Area measure in the 25 Member States of the European Union*, http://ec.europa.eu/agriculture/eval/reports/lfa/index_en.htm.

representatives from 14 Directorates General and Services of the Commission (Annex 2), the ISSG approved its mandate on 22.01.2008 (Annex 3). On the same day, it started a series of hearings (listed in Annex 4) aiming at gathering the views of experts and of stakeholders on the threats posed to the continuation of sustainable farming systems in areas with natural handicaps; on the drawbacks of the present modalities for designating LFAs and for granting the aids; on the changes that could be introduced to improve the effectiveness and efficiency of the LFA scheme.

On 3rd April 2008, the group presented four possible scenarios for revision of the LFA payment and delimitation system to the Advisory Group on Rural Development, made of representatives of stakeholders active in the field of rural development policies. An in-depth discussion of the options within an ad hoc working section of the same advisory group was held on 15 July 2008. The impact assessment process and the four review options were also presented to the Advisory Group on Agriculture and Environment on 17 June 2008.

On 22 May 2008 the ISSG invited interested parties and the civil society to submit contributions on the basis of a public consultation document describing the four review options, published on the Europa web-site. By 30 June 2008, 109 contributions were received, by NGOs, individuals, national and regional authorities. A list of the contributions and a summary of their content are presented in Annex 5. When relevant, the responses are mentioned in the appropriate sections of the report.

The impact assessment could rely on several reports and studies drawn up in recent years as regards the LFA support scheme and a number of closely related issues. These sources are listed in Annex 6. Quantitative data have been derived from the Farm Accountancy Data Network (FADN), the Farm Structure Survey (FSS) and from Member States communications gathered within the LFA expert group.

As mentioned above, an important limit to the analysis was the absence of harmonized soil and climate data at detailed scale, taking into account the quite detailed territorial level commonly used for designating an area as LFA (in general LAU2⁴). The pan-European data available on soil, climate and terrain⁵ are in fact too coarse to draw up a map of the agricultural areas that would be delimited by applying common biophysical indicators at a detailed territorial scale. Only the data available within the Member States could provide a reliable picture of a possible new delimitation. In some cases, further collection of data will also be required at the national data, since it is not (entirely) available.

In these circumstances, the assessment can only provide indications and extrapolations of the types of impacts expected from the review options. This impact assessment should therefore be seen as a step of an ongoing analysis process, which requires the cooperation of the national administrations in order to be properly completed and serve as a basis for a Commission legislative proposal.

On 28 January 2009 the draft impact assessment report was presented to the Impact Assessment Board, a body made of high-level Commission's officials with the aim of ensuring high quality impact assessments of the Commission's most significant initiatives.

⁴ For info on the nomenclature of territorial units for statistics LAU territorial designation see http://ec.europa.eu/eurostat/ramon/nuts/home_regions_en.html.

⁵ MARS: Monitoring Agriculture with Remote Sensing; ESDB: European Soil Data Base SRTM: Shuttle radar Topography Mission, Digital Elevation Model.

The present version of the impact assessment report takes into account the recommendations made by the Board in its opinion of 3 February 2009, attached in Annex 7.

2. PROBLEM DEFINITION

As mentioned, the current review exercise has limited scope. Regulation 1698/2005 and its implementing rules have redefined the LFA intervention framework and have already addressed a number of critical points raised by the Court of Auditors (payment calculation, application of cross compliance, reinforced monitoring and evaluation system, more precise rules on management and controls). Within this revised framework, three main problems remain to be tackled and need immediate action, in line with the mandate given by the Council:

- The inconsistencies of the current delimitation system with the revised objectives of the NHP scheme;
- The extreme diversity of the criteria used by the Member States for designating intermediate LFAs, implying a lack of transparency that might lead to unequal treatment of beneficiaries;
- The insufficient targeting of the aid in the light of the objectives of the measure.

For a better understanding of these three issues and of the limited scope of this review exercise, an explanation of the intervention logic of the NHP scheme in relation with other CAP instruments is given in the following section.

2.1. The intervention logic of Natural Handicap Payments within a modernised CAP.

The logic of intervention of the LFA scheme has undergone a significant evolution since its inception in 1975 by the adoption of Directive 75/268/EEC: instead of addressing explicitly rural depopulation, payments compensating for natural handicaps have now a stronger focus on land management. They should contribute, through continued use of agricultural land, to maintaining the countryside and to maintaining and promoting sustainable farming systems.⁶

Within the modernised CAP architecture, NHP have a distinctive role alongside other policy instruments, while being evidently interlinked with other land-based aid schemes, such as direct payments under the first pillar and agri-environment payments. Whereas the Single Payment Scheme (SPS) aims in the first instance to sustain farmers' income by providing direct income support, NHP do not serve socio-economic purposes but aim at preventing farmland abandonment in areas with natural handicaps, for sustainable land management purposes.

The removal of socio-economic objectives from the main aims of NHP should be seen in the light of the availability of more targeted measures for supporting farmers' income and the rural economy. In a market oriented context, farmers' income is sustained by decoupled direct payments and, in a long-term perspective, by rural development aids enhancing farmers' competitiveness. Economic and social development in rural areas is also promoted by measures under Axis 3 of Rural Development Policy, supporting the diversification into non-agricultural activities, the development of micro-enterprises and tourism activities, the provision of basic services for the economy and rural population.

⁶ Recital 33 of Regulation (EC) No 1698/2005.

The SPS includes the obligation to keep agricultural land in Good Agricultural and Environmental Conditions (GAEC) to prevent under-management and abandonment. Complying with GAEC is potentially more onerous for farms in the LFA, where the presence of handicaps is often associated with low yields and returns per hectare, while the potential for scrub invasion and land marginalisation is relatively high. However, the Single Payment per hectare is generally lower in LFA than on farmland outside the LFA, because of historic yields. In these areas, where progressive abandonment is more probable than elsewhere and farming is most important from an environmental perspective, NHP provide a specific instrument for supporting continued agricultural management.

The continuation of agriculture per se in areas with natural handicaps addresses in most cases several environmental concerns: keeping open landscape, biodiversity conservation, water management, soil protection, fire prevention, maintenance of landscape values. However, unlike Agri-Environment Payments, which cover the income forgone and costs incurred by farmers that engage in specific and well defined environmental commitments going beyond the mandatory baseline, NHP are not designed towards achieving specific or differentiated environmental outcomes. They do not remunerate farmers for the efforts of complying with specific requirements in terms of farm management practices going beyond mandatory baseline requirements, but 'only' compensate the natural disadvantage by covering the additional costs and income foregone related to the natural handicap, providing a basic form of support to appropriate forms of agriculture to remain in activity.

In conclusion, NHP contribute to sustainable land management in synergy with other land-based payments. Their implementation requires however a specific attention to the interplay with agri-environment payments, namely when specific eligibility rules are applied for directing the payment to the farms which most contribute to sustainable land management. This point is discussed in section 5.4 with relation to the options identified for this review exercise.

2.2. The inconsistencies of the current delimitation system with the revised NHP objectives

In line with the revised rationale of the NHP scheme, Article 50, 3 (a) of Regulation (EC) No 1698/2005 defines the areas affected by natural handicaps other than mountain and than areas affected by specific handicaps (a category replacing the areas previously defined by Article 19 of Regulation 1257/99 and better known as 'intermediate LFAs') as *areas affected by significant natural handicaps, notably a low soil productivity or poor climate conditions and where maintaining extensive farming activity is important for the management of the land*.

Three types of indicators have been used for identifying intermediate LFAs since the setting up of the LFA scheme in 1975:

a) the presence of land of poor productivity;

Land productivity indicators include some bio-physical criteria (elevation, slope, soil characteristics...) which are certainly consistent with the revised objectives of the scheme. However, they are often used embedded into 'index systems' based on several criteria, including economic performance indicators. Furthermore, several Member States have used proxies of land productivity such as average yield, percentage of grassland, livestock density. These proxies are not inconsistent with the objectives, although they are not unambiguously linked to natural handicaps and are more subject to change than biophysical criteria. An attempt to use them as a possible basis for a common system of LFA classification was made

in 2005, but an agreement could not be reached since their application would have led to inappropriate results.

b) an economic performance in agriculture appreciably lower than the average;

Poor economic performance cannot be considered in itself as an indicator of natural handicap. However, in combination with physical indicators, some economic criteria relating to farm added value or gross margin are useful to assess whether a natural handicap is actually affecting agriculture.

c) a low or dwindling population.

Population criteria are no longer relevant to the objectives of the scheme.

In conclusion, it is necessary to redefine the delimitation criteria for intermediate LFAs by excluding the demographic indicators and some of the economic indicators inherited from the original approach of the scheme which is now out of date.

2.3. Transparency and comparability of the current delimitation system

Whereas the delimitation of mountain areas is based on a limited number of physical indicators - altitude, slope, a combination of the two and areas north of 62nd Parallel - the Member States used a wide range of criteria for designating intermediate LFAs.

As described in Annex 8, most of these criteria are not comparable at a European level. This is not in contravention with the requirements of the EU legislation for 2000-2006 and still in force until a new Council decision. However it represents a serious drawback of the LFA scheme insofar it significantly reduces transparency with regard to the equitable distribution of compensatory allowances. As mentioned by the Court of Auditors, these wide disparities as a possible source of unjustified different treatment of beneficiaries between Member States. The opacity of the system jeopardizes also the monitoring, evaluation and control of the effectiveness and efficiency of the aid with regard to the objective of avoiding land abandonment.

In conclusion, there is a need to improve the transparency and objectivity of the criteria used by the Member States for designating LFAs, and their coherence throughout the EU, while giving due weight to national and regional peculiarities.

2.4. Effectiveness and targeting of the aid

Apart from the area delimitation, a number of ISSG hearings and of contributions to the public consultation suggested that the eligibility rules applied at farm level and the level of the payment represent an obstacle for the effectiveness of the scheme, insofar the aid is not targeted to the situations which are most at risk of land abandonment.

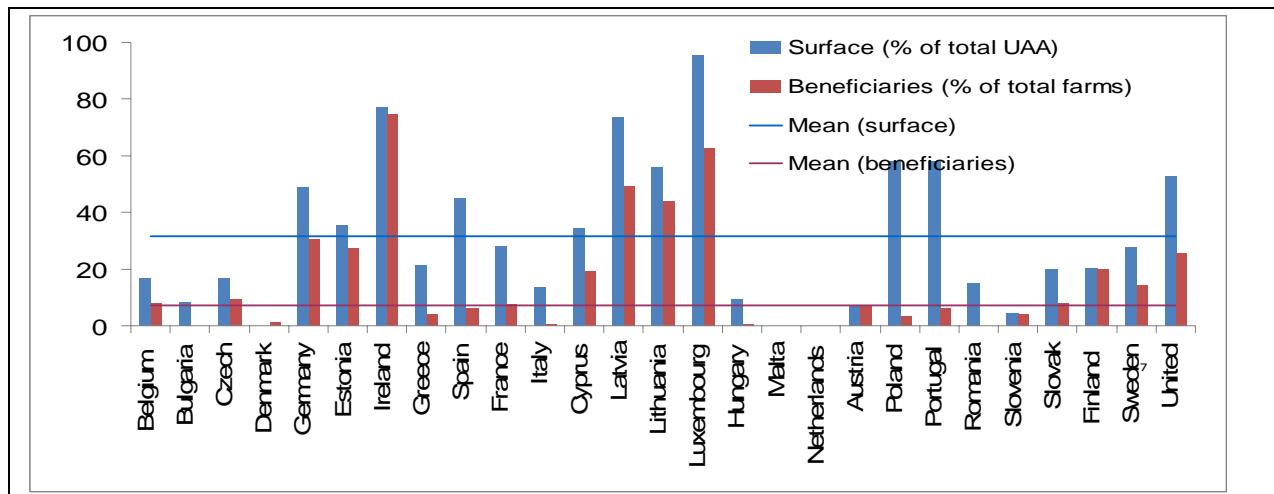
A lack of targeting may also be suggested by the differences in the income situation of LFA beneficiaries and in their dependency on the LFA payment, presented in section 5.2 and in Annex 12.

Eligibility rules

Despite the wide percentage of surface designated as LFA, only a limited proportion of farmers (13% of total EU farms) benefit from a compensatory allowance as shown in Annex

9. Approximately half of those are located in intermediate LFAs. The proportion of farms receiving a compensatory allowance in intermediate LFA is very variable among the Member States and there are cases where the proportion of beneficiaries is negligible despite a large part of the farmland in the country is designated as LFA, as shown in the graph below.

% of total UAA designated as intermediate LFA and % of total farms receiving an 'intermediate LFA payment'



Source: Member States communications following LFA expert meeting of 14.11.2007.

This variation is mainly due to the eligibility rules put in place by the Member States, reflecting a variety of objectives and administrative requirements. In a number of Southern member States for example, half the holdings in the LFA fall below the eligibility thresholds regarding the minimum size, in general fixed at two or three hectares. The exclusion of very small farms may impact on holdings offering landscape diversity in some regions, but this has to be balanced against the likely limited impact of very small payments and the administrative cost of making payments and monitoring a large number of small farms.

Eligibility criteria include restrictions on farmers over 65 years of age and part-time farmers from receiving payments, place of residence conditions, and a requirement to keep livestock. According to the evaluation, many of these are inessential to the main objectives of the measure and could exclude farmers contributing to the maintenance of agricultural land use. For instance, excluding part-time farmers may be counterproductive in terms of effectiveness of the aid if one considers that grazing livestock rearing generally presents a higher share of pluri-activity compared to other farming systems, but also provides valuable land management in poorly productive areas.

On the other side, the eligibility rules should take account of the possible coexistence of different farming practices in the same area presenting natural handicaps, as shown for instance in the image below. In this type of areas, granting the LFA aid to farming systems that are not extensive and do not make a specific positive contribution to sustainable land management is questionable with regard to the objectives of the measure. Questions may also arise on whether the payment can be granted to the most productive farms that have overcome the natural handicap.

Google image of irrigation expansion, Extremadura, Spain



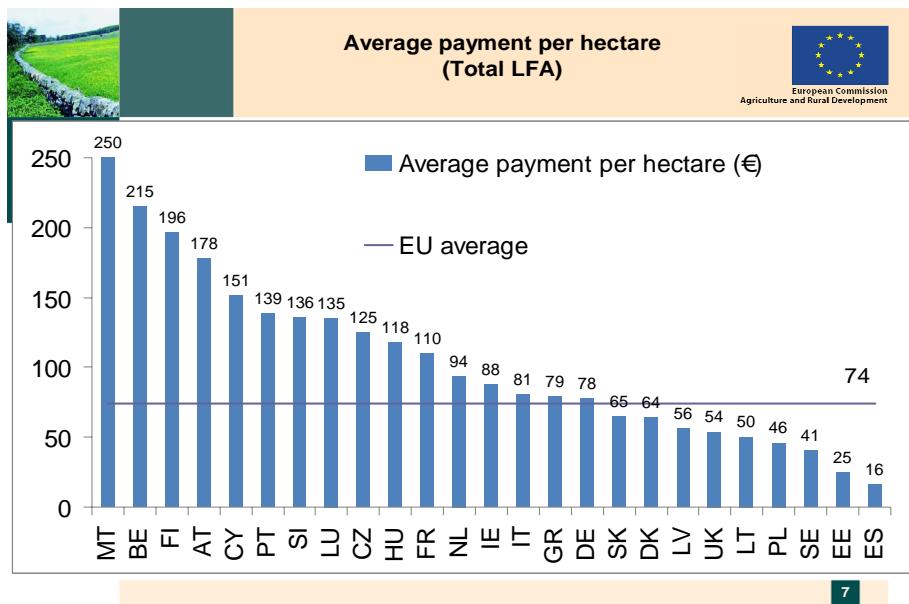
The green areas are intensive agriculture based on irrigation. The surrounding areas are Dehesa habitats- extensive oak savannah exploited through grazing and cork production. While Dehesas are some of Europe's most valuable habitats for biodiversity, the intensive arable landscape that replaces them implies an increase in use of water, fertiliser and pesticides while causing pollution and exhaustion of natural resources.

In conclusion, appropriate eligibility rules are a useful tool for an effective use of the aid. However, the wide variety of eligibility rules put in place by the Member States results in lack of transparency and in resources not being targeted sufficiently precisely on areas for which the hazard of abandonment is greatest.

Payment level

The average payment per hectare is also very variable, from 16 €/ha in Spain to 250 €/ha in Malta. This variation depends partially on the severity of the handicaps in each country; the payment is in general higher in Member States with a high proportion of mountain (or assimilated) areas in their territory like Finland, Austria and Slovenia, for instance. The average values often hide wide differences within the same country (see Section 5.2).

Average LFA payment in the EU25 (€/hectare)



7

The ISSG hearings and the public consultation suggested that the disparities in payment rates per hectare throughout the EU (and sometimes within the same Member State) may not reflect real patterns of disadvantage. For example, a number of responses to the public consultation highlighted that in some regions the LFA payments per hectare mirror patterns of pillar 1 payments per hectare (see maps in Annex 10), suggesting a disproportionate rewarding for the more productive parts of the LFA in that region as well as an insufficient targeting of the available resources on the areas most in danger of land abandonment.

The legislator has already provided a response to the problems related to the level of the payment and the risk of overcompensation raised by the Court of Auditors in 2003, by specifying that the payment calculation should be based on additional costs and income foregone⁷. This provision has not shown its potential effectiveness until now since it will enter into force when the LFA review will be concluded.

The views of the evaluation and of the experts heard by the ISSG suggest that the effectiveness of the LFA scheme is lower in the regions where the incentives for maintaining extensive farming activity important for land management are too low to maintain the business viability of the farms which are most at risk of land abandonment. This can occur either because the Member State, within its rural development financial envelope, has decided to prioritise other incentives or because the funds are not targeted to those most in need, or for a combination of the two elements.

In conclusion, the new payment calculation decided in 2005 and not yet in force should make a substantial contribution to enhancing the targeting of the aid. An appropriate targeting of the aid through the area delimitation and the eligibility rules can help to reach a critical level of resources available for the scheme in a Member State/region, and therefore allow maintaining the level of the incentives at an attractive level.

⁷ Article 37 (1) of Council regulation (EC) No 1698/2005.

3. AIMS OF THE REVIEW

Starting from the revised rationale of the LFA scheme decided in 2005 to enhance its contribution to the EU Sustainable Development Strategy, the current review stems from the need to adapt the LFA arrangements to the new policy approach and to fully pursue the objectives of the aid to farmers in areas with natural handicaps, as cast in Regulation 1698/2005, i.e. to contribute, through continued use of agricultural land, to maintaining the countryside and to maintaining and promoting sustainable farming systems.

The review is supported by the lessons learnt from the independent evaluation as regards the effectiveness of the aids and of the implementing rules adopted by the Member States. It takes into account the remarks of the Court of Auditors regarding the wide difference in the LFA implementation throughout the EU, confirmed by the evaluation, which might lead to disparity of treatment and inefficiencies. It takes also into consideration the consistency of the LFA support scheme with the international, financial and budgetary commitments of the EU.

Given these broad orientations and constraints, the review of the aid scheme to farmers in areas with natural handicaps seeks to achieve the following aims:

- To adapt the intermediate LFAs delimitation and payment system to the approach decided in 2005;
- To improve the transparency, objectivity and the scientific ground of the criteria used by the Member States for designating intermediate LFAs as well as their coherence throughout the EU, in order to minimize the risk of unequal treatment while giving due weight to national and regional peculiarities;
- To improve the targeting of the aid on areas where natural handicaps represent an actual disadvantage for agricultural activity;
- To promote the targeting of the aid to extensive farming systems important for sustainable land management and to increase the effectiveness of the aid in areas for which the hazard of abandonment is greatest;
- To improve consistency and synergies with other CAP instruments and with other relevant policies and with the international commitments of the EU;
- To improve the transparency and the controllability of the aids;
- To limit, as far as possible, the administrative burden that the implementation of the new modalities will imply, while also limiting as far as possible the administrative burden linked to the implementation of the measure and the risk of errors and cost of control.

In order to reach these objectives, the revision aims at:

- Setting out a common framework for delimiting intermediate LFAs based on common objective criteria which are non-crop specific and could be used by all the Member States for delimiting areas where climate and soil conditions represent an handicap for agriculture;
- Introducing a common approach for excluding areas where natural handicaps have been overcome thanks to technical progress and/or specific farming practices;
- Establishing a common basic framework for targeting the aid, within a delimited area, to the farming practices which are most at risk of land abandonment, by excluding intensive farming systems.

4. OPTIONS FOR REVIEW

Four options were identified in support of the aims of this review exercise:

Status Quo+ represents a reference scenario. It keeps relying on national criteria for the area delimitation with the exclusion of the socio-economic indicators currently in use, which are not directly linked to natural handicaps for agriculture. It implies only limited adaptations to the current delimitation and payment arrangements, in order to be consistent with the new legal requirements.

The other three options enhance the transparency and the comparability of the area delimitation system by fixing common objective criteria to be used by the Member States for designating intermediate LFAs. They also aim to achieve a further targeting of the aid.

In *Option 4*, further territorial targeting is obtained by shrinking the delimited areas to those having recognized high nature value, while in the case of options 2 and 3 the targeting is pursued by means of appropriate eligibility rules to be applied at farm level within the area designated as LFA.

Option 2 would apply full subsidiarity insofar the setting up of eligibility criteria is optional for the Member States and is established at the national level.

Option 3 adopts a decentralised approach in the identification of the farming systems eligible for the aid, on the basis of a basic framework defined at Community level.

The options were identified keeping in mind the limited scope of the current review exercise, i.e. adapting the LFA delimitation and payment system within the legal framework defined in 2005. However, they have also been considered in the perspective of possible future developments of the LFA scheme against the background of the on-going modernisation of the CAP instruments.

A scenario consisting in moving the LFA aids from the Rural Development Policy to the first pillar of the CAP, as a top-up to direct payments for compensating farmers located in areas with natural handicaps, was considered as potentially effective in terms of simplification and consistent with the objective of maintaining continued land use in areas with natural handicaps. On the other hand, the modalities for granting the aid would no longer be defined within national/regional rural development programmes in partnership between the Member States and the Commission, and this may negatively affect the targeting of the aid on specific land management objectives defined in the national rural development strategy. In this regard, it can be considered that, within the present legal framework, the rural development policy (and Axis 2 in particular) provides an appropriate framework to take full advantage of the potential of the LFA scheme to contribute to sustainable land management.

In any case, a transfer to pillar 1 would require the definition of a clear and transparent approach for delimiting the eligible areas based on natural handicap indicators. Thus, the options considered in the current limited exercise might also serve any subsequent simplification scenario and do not preclude future developments for beyond 2013.

4.1. Option 1: Status Quo+

Area designation

In this scenario the Member States would be asked to remove the socio-economic indicators currently in use for delimiting LFAs and to identify the criteria they deem the most appropriate for defining natural handicaps affecting agriculture. The Member States using index systems might be allowed to continue using them, having removed the socio-economic indicators embedded into these systems. The other Member States would be required to develop a system of soil and climate criteria adapted to their situation. The Commission would have to assess the appropriateness of the system used by each Member State in relation to the objectives of the LFA scheme.

Payment system

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

The payment would be calculated on the basis of the additional costs and income foregone related to the handicap in the area concerned, within the minimum and maximum amount fixed by the Council.

A pure Status Quo is not a real option given that a number of the criteria currently used for delimiting LFAs do not refer to natural handicaps and therefore are longer consistent with the revised rationale of the scheme. A status quo+ scenario has thus be envisaged, requiring the minimum adaptation necessary to make the current delimitation system compatible with the new legal framework.

This option can be considered as a reference scenario for assessing the alternative review options: a majority of countries already use natural handicap indicators for their LFA designation (often embedded into index systems) and several Member States consider the economic criteria used as proxies for natural handicap indicators. It can reasonably be assumed that this option would not lead to significant changes in the eligible areas. In a few cases, there might be an expansion of the areas since, in the past, the population criteria might have led to the exclusion of some areas presenting natural handicap for agriculture.

This option would limit the aid to areas affected by natural handicaps. However, there would be a lack of transparency and comparability, which might lead to the same risks of unequal treatment pointed out by the Court of Auditors in 2003. The targeting of the aid to areas where the hazard of farmland abandonment is greatest would be left up to the Member States through the setting up of eligibility rules at farm level.

The objective of limiting the administrative burden could be met in the case of several Member States, as this option allows the use of available knowledge and data, while being able to capture regional specificities. Nevertheless, it would be extremely hard for the Commission, even supported by scientific advice, to assess, monitor and control the different national systems. This would imply a significant administrative burden in the long term for the Community institutions.

4.2. Common bio-physical criteria used in options 2, 3 and 4

Options 2, 3 and 4 are all built upon the same area delimitation method, based on eight common bio-physical indicators identified by a panel of soil, climate and land evaluation experts co-ordinated by the Institute for Environment and Sustainability of the Joint Research Centre of the European Commission.

The expert panel reviewed a set of land evaluation methods in order to elaborate a common approach which could support the classification of intermediate LFAs. FAO's agricultural problem land approach was selected and adjusted to come forward with the requested approach. The FAO approach was deemed appropriate because it is not crop-specific and for its simple assumptions regarding the mutual interaction of land characteristics on the overall suitability of the land, making it applicable for a territory as large and diverse as the EU. Two climatic and four soil criteria were retained and complemented by one integrated soil-climate criterion (soil moisture balance), with slope as the sole topographic criterion. Each criterion

refers to factors having a major and sufficiently independent contribution to the suitability of land for agriculture. For each criterion a threshold value indicating severe limitation for agriculture is defined.

The criteria and the associated critical limits or threshold values can be used anywhere to discriminate land with biophysical constraints to agricultural production on the basis that soil and climate data of sufficient spatial and semantic detail are available. [Annex 11](#) provides a definition of the eight bio-physical criteria as well as the threshold value above which a land presents severe limitations for agricultural production.

⇒ **An area is considered affected by significant natural handicaps if it meets at least one of the criteria listed in the table at the threshold value indicated therein.**

The thresholds should be considered as a minimum level of handicap to be met for classifying an area as constrained; the Member States would have the possibility to raise the threshold level if this is justified by national circumstances. The JRC paper in [Annex 12](#) provides a more detailed definition and the scientific justification of each criterion.

The impact assessment process, namely the bilateral meetings between the Commission services and the Member States, showed that the delimitation made on the basis of some criteria (in particular those referring to soil characteristics) requires an appropriate fine-tuning in order to avoid granting LFA status to areas presenting a natural handicap that has been overcome through appropriate investments or farming practices. The reasons and the approach envisaged for such fine-tuning are developed in section 5.1 of this report.

4.3. Option 2: Common Criteria

Area designation

Intermediate LFAs would be designated by using the common bio-physical criteria listed in Annex 11, complemented, where appropriate, by a specific fine-tuning in order to remove the areas where natural handicaps have been overcome.

Payment system

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

The payment would be calculated on the basis of the additional costs and income foregone related to the handicap in the area concerned, within the minimum and maximum amount fixed by the Council.

The delimitation system would be objective, transparent, easily understandable and controllable, minimising the risks of unequal treatment as a result of the designation process. The aid would be targeted to farmers in areas that are actually suffering from natural handicaps.

The Member States would then have the possibility to further target the aid by fixing objective eligibility rules at farm level, provided that these are consistent with the aims of the scheme and with the WTO green-box. There would not be a common approach as regards further targeting to extensive farming systems important for land management, with a risk that support is not sufficiently concentrated through the application of eligibility rules, but also increased capacity to cope with local needs.

Although the system would be quite simple and based on few clear indicators, a financial and administrative effort would be required from the Member States, in particular those which do not collect all the necessary data. However, the indicators refer to bio-physical elements which tend to remain stable over a long period, therefore the administrative burden would represent a sort of start up cost, which will drastically reduce once the system is up and running.

4.4. Option 3: Eligibility Rules

Area designation

Intermediate LFAs would be designated by using the common bio-physical criteria listed in Annex 11 complemented, where appropriate, by a specific fine-tuning in order to remove the areas where natural handicaps have been overcome.

Payment system

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

The payment would be calculated on the basis of the additional costs and income foregone related to the handicap in the area concerned, within the minimum and maximum amount fixed by the Council.

As in option 2, the aid would be limited to areas actually affected by natural handicaps. The delimitation system would be transparent and comparable.

Compared to option 2, this option would systematically further target LFA support to extensive farming systems which are most at risk of land abandonment. The rationale behind is that a coexistence of intensive and extensive farming systems in the same area affected by natural handicaps is possible. In order to further target the LFA payments at farm level, intensive farming systems not making a specific positive contribution to sustainable land management and not bearing a significant risk of land abandonment would not be supported by the scheme, avoiding watering down LFA funds.

This option requires specific attention as regards the interplay between agri-environment measures and LFA support (see Section 5.4.2 of this report).

4.5. Option 4: High Nature Value

Area designation

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

The delimitation of intermediate LFAs would first be operated according to the same method used for options 2 and 3, on the basis of the common bio-physical criteria listed in Table 6 (see section 4.2 above), complemented, where appropriate, by a specific fine-tuning in order to remove the areas where natural handicaps have been overcome. The areas resulting from this first delimitation would subsequently be further reduced in order to cover only the areas classified as HNV farmland, defined as those areas in Europe where agriculture is a major (usually the dominant) land use and where agriculture supports or is associated with either a high species and habitat diversity, or the

presence of species of European, and/or national, and/or regional concern, or both. The preservation of HNV farmland through the measures of Axis 2 of the Rural Development Policy is an objective identified in the Community Strategic Guidelines for Rural Development (Council Decision 2006/144/EC)) and has a major role to play in stopping the decline in biodiversity.

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

Payment system

The payment would be calculated on the basis of the additional costs and income foregone related to the handicap in the area concerned, within the minimum and maximum amount fixed by the Council.

Under this option, the aid would be directed to the preservation of sustainable farming systems in areas affected by natural handicaps. In principle, the system would be transparent and controllable, but it should be kept in mind that the identification of HNV farming systems is an on-going process discussed in the framework of the Common Monitoring and Evaluation Framework for Rural Development, which is not yet ready to be implemented.

The limitation to areas of recognized High Nature Value would target the aid to areas where agriculture is clearly associated with biodiversity and where farming abandonment would jeopardize the sustainable land management. However, it could exclude other areas affected by natural handicaps and characterized by a prevalence of extensive farming systems, where there is a significant risk of land abandonment which would be detrimental for the maintenance of the countryside.

5. IMPACTS OF THE REVIEW

This part of the report describes the preliminary results of the analysis following a more thorough evaluation of the options, based on the technical discussions with the national authorities as well as in the light of the responses to the public consultation.

Difficulties in assessing Options 4 'HNV'

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

In the absence of sufficiently clear indications on the HNV indicators, it seemed therefore appropriate not to consider Option 4 in the short term, without discarding it as a potential longer term option, and reminding MS of their obligation to identify HNV indicators under the CMEF.

A number of elements play in favour of keeping this option open for further analysis. A case study presented during an ISSG hearing suggested that there would be a large overlapping between the current LFAs and HNV farmland in one large Member State (approximately 90% of HNV farmland is in LFA). More generally, the characteristics identified for HNV farming, i.e. extensive land use, presence of semi-natural features and presence of a land use mosaic,

are very often associated with natural handicaps for agriculture. One could therefore expect the bio-physical criteria considered for defining areas with natural handicaps to be compatible with the criteria for defining HNV farmland. The presence of extensive farming important for land management is also a specific feature of 'intermediate LFAs' as defined by Regulation 1698/2005.

However, the presence of HNV farmland in areas not affected by natural handicaps is well possible; on the other hand, some handicapped areas might not present HNV features, and still need support for maintaining continued farmland use.

Apart from the overlapping between LFA and HNV farming, it remains to consider whether the HNV farming concept is best served through a delineation of areas. Several responses to the public consultation (including those favouring, in principle, a closer link between HNV and LFA) highlighted that farm-level criteria would be more appropriate to the HNV concept. According to some respondents, the best way to achieve a fit between the LFA measure and the delivery of HNV farmland element of Axis 2 is firstly through the criteria for excluding intensive farmers, as suggested in option 3. Others argued that supporting HNV farming systems fits more suitably in the (higher) agri-environmental scheme payments, which compensate farmers for costs incurred and income foregone associated with the provision of environmental services, while the (lower) LFA payments only compensate for the handicap.

Finally, it should be highlighted that the delimitation and payment system foreseen under options 2 and 3 clearly enhances the contribution of the NHP scheme to maintaining HNV farmland, both by the area designation (the eligible areas are only those actually suffering from natural handicaps, where the intensification of farming has not occurred because of physical constraints) and the eligibility rules fixed at farm level, although this contribution will depend very much on the eligibility rules selected.

In conclusion, more work is needed in order to explore whether HNV farmland can be meaningfully classified in the Member States according to a common set of criteria. This work needs to be finalised before considering the option of joining natural handicap payments and HNV farmland in the policy framework for post 2013. In any case, the assessment of such an option needs to consider also whether HNV objectives are not more effectively addressed by the well-established agri-environment measure, or whether a combination of the two measures can work well.

Data problems

A second conclusion regards the difficulties in drawing a map of the areas potentially classifying as intermediate LFAs following the application of the biophysical criteria studied under options 2 and 3 on the basis of pan-European datasets. A delimitation of zones with natural handicaps should be derived from measuring, at given reference points, the characteristics of the soil and the occurrence of climatic values. The amount, density as well as the semantic and spatial detail of the soil and climate data available in pan-European data sets is not sufficient for carrying out a reliable simulation at detailed scale. The Member States have started using their datasets for assessing the impact of the application of the biophysical criteria in comparison to the current LFA delimitation. It is necessary that the national authorities deepen this exercise following a coordinated approach in order to complete an assessment that could serve as a basis for a Commission proposal.

In the absence of indications on the areas that might be affected by a change in the LFA delimitation, the last three sections of this chapter describe the types of social, economic and environmental impacts that can be associated to the options.

5.1. First results of the analysis: the need to fine-tune the options and to further involve the Member States in the impact assessment

The common biophysical criteria identified by the expert group of scientists through the JRC network represent a promising approach for setting up an objective and transparent area delimitation system, as suggested in options 2 and 3. They are robust, based on sound science and allow classifying land homogeneously throughout the EU.

The assessment of the common criteria made until now cannot however be regarded as exhaustive, because of the lack of adequate data and knowledge at EU level. The analysis of the outcome of their application could in fact reveal difficulties that the pan-European data available are not able to detect. For that reason and in order to avoid anomalous results, the active involvement of the national authorities in the impact assessment is envisaged as a necessary intermediate step before tabling a legislative proposal.

The cooperation required from the Member States aims, on the one hand, at simulating the application of the common criteria on the basis of sufficiently detailed soil and climate data (i.e. with a degree of spatial and semantic resolution capturing the characteristics of the agricultural land in an area at the territorial level LAU2, or as close as possible to LAU2).

On the other hand, the simulation should include adequate elements ensuring that the areas where the natural handicaps have been offset are not granted LFA status: thanks to technical progress and man intervention, farmers have in several cases managed to overcome successfully the natural handicaps and are able to carry out profitable agriculture in areas where the natural conditions were at the origin quite unfavourable. In such cases, the intrinsic natural characteristics of the area remain unchanged, so the area results constrained according to the biophysical criteria. However, the handicap does not impact on agricultural productivity and there is no justification for classifying the area as LFA.

It is therefore necessary, for the cases where the natural handicaps can be overcome, to fine-tune the area delimitation by applying the biophysical criteria together with appropriate production-related indicators.

The handicaps resulting from poor drainage, soil texture and stoniness, rooting depth and soil-moisture balance are those most commonly offset by farmers thanks to investments, farming techniques and appropriate crop choices. The delimitation made on the basis of these criteria should therefore systematically be fine-tuned. The definition and the assessment of appropriate fine-tuning arrangements need to be developed with the active cooperation of the Member States, since the knowledge and data available at EU level are too coarse for carrying out an LFA delimitation at the appropriate territorial level.

For instance, the criterion '**poor drainage**' identifies areas constrained for agriculture because the excess of water reduces gaseous oxygen in the rooting zone. If not artificially drained, these wet areas are characterized by an extensive farming activity carried out in difficult conditions and favourable for preserving biodiversity. This type of areas clearly fulfils the requirement for being designated as LFA.

On the other hand, many wet areas in Europe were artificially drained and are now highly fertile. These areas do not suffer from a specific risk of land abandonment and there is no justification for classifying them as LFA, although the intrinsic properties of their soil remain objectively handicapped. The assessment suggests that, on the basis of the pan-European soil data available⁸, some areas with intensive agriculture (e.g. in England, Belgium and the Netherlands) may present a relatively high share of UAA meeting the criterion 'poor drainage'. There is therefore a need to fine-tune the delimitation in these areas, for instance by excluding the possibility of designating artificially drained areas on the basis of the poor drainage criterion.

A case similar to artificially drained areas can occur in dry areas in South Europe where intensive and profitable farming systems have been developed thanks to irrigation investments⁹. In this case, the areas would meet the **soil-moisture balance** criterion and the delimitation should be fine-tuned, for instance by excluding the possibility that areas with high proportion of irrigated land could be designated on the basis of this criterion.

Besides drainage and soil-moisture balance, an appropriate fine-tuning is needed in particular for the biophysical criteria relating to **poor soil conditions**, i.e. texture and stoniness (criterion 4 in table 6), rooting depth (criterion 5) and chemical properties (criterion 6). The first analyses conducted at EU and national level indicate that the handicaps linked to soil types can be overcome by means of different techniques or practices, like irrigation, fertilisation, appropriate crop choices.

For such situations, the hypothesis of using production-related indicators was considered in order to exclude from the LFA delimitation areas where the soil handicap is no longer exerting a negative effect on the agricultural activity. A preliminary analysis of possible indicators to be used in association with the soil-biophysical criteria was carried out. It suggests that the indicators relating to the average cereal yield, the livestock density and the standard gross margin per hectare can be used for excluding productive areas where an initial soil handicap has been offset. However the analysis faced many data limitations due to the large scale of the information available at EU level (NUTS 2 or NUTS 3) and needs to be developed on the basis of more detailed statistical data available in the Member States.

5.2. Types of socio-economic impacts expected

The main objective of the LFA aid is to maintain sustainable farming systems for land management reasons rather than promoting agricultural production for the market and the type of farming supported by the LFA scheme has a limited production potential¹⁰. The **impact of the LFA revision on agricultural market supply and on agricultural prices** is therefore likely to be negligible, independently of the option chosen.

⁸ N.B.: Pan-European data are not suited for delimiting LFAs; they can only provide an indication of the relative location of areas constrained by some natural handicaps.

⁹ Although drainage and irrigation investments are costly, they do not imply permanent costs, are often supported by public funds and favour an intensive agriculture which is not the object of the LFA scheme.

¹⁰ Whereas non-mountain LFAs currently represent 39% of the total UAA in the EU 25, the agricultural economic potential of LFA beneficiaries in these areas (expressed in standard gross margin) can be estimated to an average of 6.5% of the total agricultural economic potential in the EU25 (see Annex 8.1).

The options identified are also neutral as regards **the EU and the national budgets**, since the financial allocation of the LFA scheme, composed of the contribution of the European Agricultural Fund for Rural Development and of national co-financing, is decided by each Member State in the framework of its Rural Development Programme, within the limit of the overall appropriations attributed to that Member State to support rural development in a given programming period¹¹. A change in the financial need resulting from a better targeting would move the resources available to other measures within the programme.

The main type of socio-economic impact expected from the LFA review regards the **income of farms** in the areas concerned by the new delimitation and payment system. The information available at this stage does not allow identifying the areas that would be affected by a change of LFA status under the options identified for the LFA review. The analysis of the impact expected on farm income was therefore based on case type linked to the farm income level as well as to the importance of the LFA aid in the overall income of the farm.

FADN¹² data were used for assessing the income situation of the farms located in areas currently designated as non-mountain LFAs¹³ and their dependence on the LFA aid (average data 2004-2005). Compared to non-LFA holdings, these farms (both beneficiaries and non-beneficiaries of the LFA scheme) present a significantly lower income expressed in FNVA/AWU¹⁴ (-27%) and a higher share of direct payments in the FNVA (51% against 32%). Nevertheless they do not have a significantly lower return on assets, indicator showing how effective is a farm in generating FNVA from its assets.

3% of LFA beneficiaries in these areas depend on the LFA payments to ensure a positive FNVA. 6% of LFA beneficiaries have negative FNVA and can be considered, all other things being equal, at risk of abandoning farming or at least the current production type, with possible negative repercussions on sustainable land management. They are mostly located in Poland, Germany and Ireland. A possible link with an insufficient level of the aid should be based on a more detailed analysis at the regional level, while it is possible that a number of these farms are in a sub-optimal situation for reasons not depending on the aid level and that would in any case require changes in the long term. The risk of abandonment due to negative FNVA affects also 7% of the farms located in non-mountain LFAs but not receiving an LFA aid. This risk is particularly high in Poland, Spain and Hungary.

¹¹ In the current programming period, Decision 2006/636/EC fixes the annual breakdown by Member State of the amount for Community support to rural development for the period from 1.1. 2007 to 31.12.2013.

¹² The **Farm Accountancy Data Network (FADN)** is a European system of sample surveys collecting structural and accountancy data on the farms. FADN covers only the farms exceeding a minimum economic size in order to cover the most relevant part of the agricultural activity of the EU Member States. For more information on FADN: <http://ec.europa.eu/agriculture/rica/index.cfm>

¹³ Intermediate LFAs + areas with specific handicaps.

¹⁴ The **Farm Net Value Added (FNVA)** represents the remuneration of the land, labour and capital both owned by the farm or external. It equals total output, plus direct payments minus intermediate consumption and depreciation. From FNVA, wages, rents and interests still need to be paid, and subsidies and taxes on investments need to be added. It is expressed per **Annual Work Units (AWU)** to take into account the differences in the total labour force to be remunerated per holding. This indicator allows comparing the farms irrespective of the family/non-family nature of the production factors employed. That is why it is preferred for this analysis involving Member States with different structural characteristics.

On average, the LFA payment per AWU is 1 448 €/AWU, i.e. 10% of the average FNVA. However, the EU averages hide high differences among the Member States, as shown in table 7. Variations within some Member States are also observed.

Member State	% LFA payments in FNVA	LFA payments per AWU (€/AWU)
Belgium	3%	1.291
Czech Republic	14%	1.270
Denmark	8%	2.694
Germany	7%	1.752
Estonia	12%	1.009
Ireland	15%	2.467
Greece	6%	672
Spain	3%	850
France	8%	1.758
Italy	6%	1.687
Cyprus	n.a.	n.a.
Latvia	22%	991
Lithuania	22%	1.130
Luxembourg	20%	6.559
Hungary	10%	1.253
Malta	6%	609
Netherlands	n.a.	n.a.
Austria	7%	1.157
Poland	9%	444
Portugal	14%	1.105
Slovenia	23%	498
Slovakia	29%	1.299
Finland	37%	9.021
Sweden	34%	2.064
United Kingdom	18%	4.790
EU25	10%	1.448

Source: EU FADN, average data 2004-2005. German and Italian data on LFA are estimates. Cyprus data were missing at the time of drafting the analysis.

Belgium, Germany, Greece, Spain, France, Italy, Austria and Poland¹⁵ are Member States where LFA beneficiaries are, on average, less dependent on the LFA aid. However, this low degree of dependency might be explained by the moderate level of average LFA payments per AWU, which is significantly below the EU average in Greece, Spain and Poland. Conversely in Slovakia, Finland and Sweden, farms' income would be more severely affected by a loss or a reduction of the aid. For Finland the aid represents a high share of the farm income, because, similarly to Luxembourg, the average payment level is very high. However, in these two Member States (where the LFA beneficiaries represent the big majority of the farm population) the average values hide wide disparities.

The graph presented in Annex 12 illustrates the distribution of the share of LFA payments in FNVA (indicator of dependence to LFA scheme) for non-mountain beneficiaries by Member State. The degree of dependence to LFA scheme in the non-mountain LFA is rather low and concentrated around the average in Belgium, Greece, Spain and Italy. It means that the average share of LFA in FNVA represents well the situation of the farms in these Member

¹⁵ Denmark and Malta are not mentioned since no intermediate LFAs are delimited in these countries, therefore the data only refers to areas with specific handicaps.

States, whereas the average hides a wide range of degree of dependence in other Member States, especially in Finland, Slovakia, Denmark and Czech Republic.

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

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

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

It should also be mentioned that in a number of Member States, farmers can benefit from a series of advantages (e.g. lower taxes based on national legislation) because they are located in LFA, even if they are not LFA beneficiaries *stricto sensu*. A change in LFA status for these areas can have considerable effects on farms' income, although these cannot be assessed at the EU level.

At the present stage of the analysis it is not known whether and where there would be farmers who will no longer benefit from LFA support as a result of the annulment of the socio-economic criteria. The probability and the dimension of such cases should be assessed on the basis of the simulations that should be provided by the Member States in autumn 2009. In that context, it should be considered:

- a. If the other CAP measures available in the region, for instance under Axis 3 of the relevant Rural Development Programme, can compensate for the socio-economic handicaps up to now covered by the LFA support;
- b. Whether possible ways of ensuring a smooth transition to the new delimitation should be put in place.

5.3. Impacts on the viability of rural communities

The impact of the review from the angle of territorial cohesion should consider the role of agriculture in the maintenance of a vibrant rural social structure and economy in the areas concerned. As already said, the areas that would be affected by the new delimitation and payment system are not identified at this stage. The assessment therefore describes the types of contribution that the LFA scheme can make to the socio-economic viability of rural communities and its potential relationship with a revision of the delimitation and payment scheme.

In principle, the LFA measure could contribute to the socio-economic viability of rural communities both directly through the payments received by farmers and indirectly through the maintenance of open landscapes and continuation of agricultural activity. Additional

income and employment will arise from economic activities upstream and downstream of agriculture and from recreation and tourism dependent on open landscapes. Clearly, agriculture as the dominant rural land use in most EU countries, particularly in the predominantly rural areas which make the most of LFAs, has a role to play in maintaining the viability of rural communities through the creation of employment opportunities, and its broader contribution to the rural economy through the agri-food chain and various multiplier effects, even though it is just one sector in an increasingly diverse economic system.

The significance of farming and other activities related to agriculture in economic and social terms varies greatly between regions. Whilst it is now small in many areas, there are others, especially in the Member States that recently acceded the EU but also in Western Europe¹⁶ where they remain the backbone of local economy. Here one would expect that a support payment making a significant contribution to the continued presence of agriculture and hence the agri-food supply chain in the area to contribute also to the viability of the whole rural community. A change in the delimitation and/or in the payment system would therefore be likely to have significant impacts on the overall development of these areas.

Farming systems within LFAs are important in maintaining large tracts of the countryside and provide a range of valued environmental and landscape goods and services, as described in section 5.4. These are difficult to value in economic terms, but are important to the quality of life of local residents and in attracting tourists, in-migrants and businesses to these areas.

Some farming communities are more vulnerable than others to decline because of the production system, limited value added, the size of holdings and a peripheral location. These communities tend to exhibit a lack of dynamism that makes on-farm diversification or pluriactivity unlikely and, due to a lack of opportunity, local alternative off-farm employment options scarce. In several cases the vulnerability of the production system is a consequence of the natural conditions, therefore enhancing the targeting of the LFA aid to the areas most severely affected by natural handicaps can have positive impacts on the overall viability of the area.

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

The role that the LFA measure can play in supporting rural communities should always be seen in complement to other rural development measures like for instance the agro-environment payments, the improvement of the processing and marketing of agricultural products, the improvement of the quality of life in the rural areas, the strategies developed based on the Leader approach.

5.4. Environmental effects of the LFA revision

Agriculture and environment in areas with natural handicaps

Agriculture's impact on the environment is a result of farming systems and practices. In general terms, low intensity farming systems are associated with sympathetic environmental

¹⁶ The case of marginal communities in Finland where farms account for 43% of the total number of small scale enterprises was mentioned by the LFA evaluation.

management, while more intensive and specialised farming systems employing high yielding farming practices with a scarcity of more natural features are often associated with negative environmental impacts¹⁷.

The literature supports the view that continued agricultural management is the best means of maintaining vegetation communities and broader ecological processes on a range of semi-natural habitats, predominantly those subject to low intensity farming. These habitat types are concentrated in areas where the intensification of farming has not occurred, usually because of physical constraints¹⁸.

The intensity of farming systems is often a reflection of natural conditions: areas where natural handicaps have not been offset by human intervention and technological progress are in general characterized by low-input, low-output farming systems due to the physical constraints farmers face. The continuation of agriculture per se in these areas addresses in most cases several important environmental concerns: keeping open landscape, biodiversity conservation, water management, soil protection, fire prevention, climate change mitigation, maintenance of cultural heritage and landscape values.

It has been estimated that more than half of Europe's most highly valued **biotopes** occur on low intensity farmland¹⁹. Low-intensity farming creates a varied habitat, makes low use of biocides (pesticides and herbicides) and artificial fertilisers and land is regularly left fallow. Animal grazing is often mixed with cropping. In such habitats wild plants and insect thrive and birds find an abundance of seed and invertebrate food, ample shelter and nesting sites.²⁰ In general, farmland abandonment in extensively farmed areas has mostly negative effects from a biodiversity perspective, while it can increase species diversity in intensively farmed areas²¹.

Most farmland and farming systems of **High Nature Value** are found in areas with low input agriculture²². The majority of HNV farmland consists of semi-natural grasslands and is managed under farming systems characterised by low stocking densities, low levels of agro-chemical inputs and often labour intensive management practices such as shepherding. Typical examples of HNV farmland are extensive grazed uplands in the UK, alpine meadows and pasture, steppic areas in eastern and southern Europe and *dehesas* and *montados* in Spain and Portugal. These low intensity farming systems are associated with a high species and habitat diversity or the presence of species of European and of national or regional conservation concern.

Natural handicaps for agriculture often increase the *environmental vulnerability* of an area.

In several dry areas in Southern Europe, scarce water availability is not only a problem for a sustainable water management but also an increased risk of forest fires. Extensive farming activity in general implies low **water** use because of low livestock or tree densities as well as

¹⁷ Baldock *et al.*, 1994

¹⁸ IEEP, (2006), LFA evaluation p. 204.

¹⁹ Bigna, E. & McCracken, D. 1996. *Low- intensity farming systems in the conservation of the countryside*. Journal of applied ecology. 33:413-424.

²⁰ Pain & Pienkowski, 1997; Hellicar, M.A.,2004.

²¹ http://reports.eea.europa.eu/environmental_issue_report_2004_37/en/tab_content_RLR

²² Andersen *et al.*, 2004

better water quality because of reduced use of agrochemicals²³. Grazing on forest verges, controlling grassland and cropland encroachment, maintaining cropland patches acting as firebreaks effectively contribute to **fire prevention**, also in common lands. On the other hand, high livestock density grazing can encourage the use of fire for renovation of overgrazed grassland²⁴.

Steep slopes are in general associated with higher risk for **soil degradation** and will accelerate water erosion if not managed appropriately, for instance through traditional terracing. Grazing pressure needs specific attention in these areas, as a possible source of soil erosion.

The farming systems widespread in areas with natural handicaps are characterised by a genetically-diverse populations of crops and livestock and by a significant presence of permanent vegetation. These elements give them a greater potential to adapt to **climate change**²⁵. Besides, conserving permanent vegetation and other landscape elements which play a role in microclimate regulation and minimisation of the impact of extreme events, can contribute to mitigating the predicted effects of climate change.

Valued **landscape features** are particularly widespread in the LFA because of their association with traditional farming: hedgerows and wood patches, unimproved grassland, features of historical or archaeological interest, presence of autochthonous breeds of livestock etc.²⁶. In some areas agriculture contributes to landscape values by contrasting with urban or recreational development. In others, the contrast is with predominantly forested landscapes. In Finland, for example, a high value is placed on the protection of open landscapes in a relatively flat terrain where forestry dominates land use. Agriculture is the primary means of maintaining these open landscapes.

The loss of landscape values is often considered as a negative consequence of farmland abandonment and is associated, in some cases, as a threat for the tourist potential of rural areas.

Implications of the options for the environment and sustainable land management

The previous section suggests that the LFA payments can, by favouring continued agricultural management, support environmental objectives in areas with handicaps if it is at an appropriate level of intensity.

The environmental dimension of the LFA scheme should be seen in the context of the overall architecture of Axis 2 of the Rural Development Policy and in relation with the prominent role played by agri-environment measures in the axis strategy²⁷.

²³ FAO, 2002. *Land-water linkages in rural watersheds*. Proceedings of the electronic workshop organised by the FAO Land and Water Development Division. 18 September – 27 October 2000.

²⁴ FAO et al. 2000. *International forest fire news*. No. 22, April 2000.

²⁵ FAO, 2007. *Adaptation to climate change in agriculture, forestry and fisheries: perspective, framework and priorities*.

²⁶ <http://www.teagasc.ie/publications/2004/20041103/paper02.htm>

²⁷ 51% of EARDF contribution to Axis 2 for 2007-13 is allocated to agri-environment measures, while LFA payments (including mountain, intermediate areas and areas with specific handicaps) represent 31% of EARDF allocation to the Axis.

The LFA scheme compensate farmers who undertake continuing the agricultural activity for additional costs and income foregone resulting from the natural handicap in the area concerned. Maintaining agricultural land use in these areas deliver environmental and landscape benefits that would not otherwise be provided by the market alone. LFA payments do not compensate farmers for the costs incurred or income forgone resulting from complying with specific environmental requirements in terms of farm management practices.

Compared to agri-environmental schemes²⁸ which reward the environmental services provided by farmers for commitments going beyond the mandatory baseline, the LFA allowance is not a tightly targeted measure, but can provide a broader form of support to appropriate forms of agriculture by:

- The territorial targeting, directing the aid only to the areas where the natural handicaps have hindered the intensification of farming and the natural habitat is particularly fragile;
- Setting eligibility conditions (such as stocking rates for grazing livestock, for instance) to exclude farming systems that do not make a specific contribution to sustainable land management and are less at risk of land abandonment.

A well tuned specification of the mandatory requirements forming part of the cross-compliance baseline (including, where appropriate, a differentiated application of the relevant GAEC in the areas concerned²⁹), can potentially amplify the impact of the LFA payments.

At the same time, there are limitations on the contribution that LFA payments can make to the range of land management needs in rural areas, because they apply only on farmed land and the payments offered must be based on compensation for handicaps affecting agriculture. In some cases, the maintenance of agricultural land, subject to conditions under cross compliance (which may include grazing requirements for example), will be sufficient to meet land management needs. The maintenance of valued open landscapes is an example where the continuation of farming might be the crucial requirement. In other cases, requirements may be more complex, for example maintaining a mix of land uses, renovating collapsing terraces, sustaining transhumance systems, or maintaining farm boundaries. The LFA compensation payments are not intended for this purpose and the focus on handicaps makes them inappropriate for this. Other instruments within Axis 2 (like agri-environment payments or support to non productive investments) would be required for meeting the land management objectives in these cases.

A comparative assessment of the options for review in the light of the above considerations, would therefore lead to the following conclusions:

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

²⁸ FADN data show that the environmental payments (agri-environment payments, animal welfare payments and payments for farmers subject to environmental restrictions) are significantly higher for the LFA beneficiaries than for other farmers (1 982 €AWU in non-mountain LFAs against 659 €AWU for farms non located in LFA).

²⁹ For instance Annex IV of Regulation 1782/2003 includes the standard 'minimum stocking rates or/and appropriate regimes'

- Option 2 would leave up to the Member States the choice of setting eligibility conditions linked to land management requirements. The area delimitation based on common biophysical criteria should direct the aid to areas predominantly characterised by extensive farming and LFA beneficiaries would have to respect cross compliance. However, the effectiveness of the scheme could be hampered by an insufficient targeting of the aid, in particular in areas where intensive farming systems, normally associated with greater environmental risk, coexist with extensive farming systems. Under Option 2, the LFA contribution to sustainable land management and to the environmental targets of the EU would therefore depend on the implementation made by the Member States.
- Compared to Option 2, Option 3 includes further requirements in terms of farm management practices and would limit the LFA support to those farming systems which make a specific positive contribution to sustainable land management. However, the payment would not cover the commitments going beyond the baseline but would only compensate for farmers' additional costs and income foregone related to the handicap. Option 3 appears therefore as the option having the highest potential to contribute to environmental objectives, provided that the LFA scheme is implemented in harmony with the other Axis 2 measures. However, the success of Option 3 in contributing to environmental objectives will depend on what criteria are included in the common eligibility rules. A well balanced implementation of Option 3 requires on the one hand that farmers should not be paid twice (under LFA and under other Axis 2 measures) for meeting the same commitment and, on the other hand, that farmers in LFA regions are not discriminated against by being excluded from agri-environment payments³⁰ that would apply to farmers meeting similar conditions outside the region.

5.5. Simplification potential

Establishing a common set of delimitation criteria would simplify the implementation of the LFA scheme at EU level, as the almost 100 indicators currently applied by the Member States at different threshold values, would be replaced by 8 criteria clearly defined and associated with the same thresholds all over the EU territory.

The transparency resulting from this simplification should provide more efficiency in the implementation, in terms of transposition and compliance with the objectives.

One biophysical indicator is sufficient for classifying an area as affected by natural handicap, while in the current system an area needs to exhibit all the three types of handicaps mentioned in Article 19 of regulation 1257/99 for being designated.

It is clear however that the application of common biophysical criteria requires start-up costs that will be different among the Member States depending on the quantity and the quality of the data available.

In general, the Member States which use index systems for land classification already collect data on all the biophysical criteria proposed.

The degree of complexity of the 'index systems' in use in 13 Member States is variable, but is anyway higher than the biophysical indicators considered for this review. Many of the index

³⁰ Agri-environment measures allow for higher maximum payments than LFA measure (200 to 900 €/ha compared to 25 to 250 €).

methodologies include all the biophysical criteria. Index systems can be considered more sophisticated than the biophysical criteria and therefore able to better capture the presence of handicaps in an area. However, they are not comparable and setting up a common index system to be applied consistently by all the Member States would require a huge effort in terms of design, data collection, analysis and implementation.

In the Member States where the LFA delimitation is based on proxies of poor land productivity, an effort for collecting and harmonizing soil and climate data at the appropriate level would probably be needed.

In the light of these data issues, trade-off between simplification and effectiveness of new delimitation methods could be identified by the Member States when simulating the application of the biophysical criteria. If significant, they should be considered in the impact assessment preceding the legislative proposal of the Commission.

6. COMPARING THE OPTIONS

Following the analysis, the way in which the various options seem to correspond to the objectives of the review is briefly summarised here (sub-section 1). It is also presented in a synthetic way in the table of the last section of this part. The advantages and the disadvantages of the options for the various categories involved are also measured by the stakeholders themselves, on the basis of the information provided in their contributions to the consultation or during the hearings organized by the ISSG (sub-section 2), and by the ISSG (sub-section 3). A table gives finally a synthetic vision of the main advantages and disadvantages of each of the options analysed (sub-section 4).

6.1. The options judged in comparison to the objectives

In the light of the analysis process, the way in which the various options seem to support the objectives of the reform appears contrasted.

Evaluation Criteria	SQ+ <u>Option 1</u>	Common Criteria <u>Option 2</u>	Eligibility Rules <u>Option 3</u>
The area delimitation is based on criteria referring to soil and climate handicaps for agriculture.	+	++	++
The area delimitation is based on transparent and objective criteria, based on robust evidence.	--	++	++
The area delimitation is able to take regional peculiarities into account.	++	+	+
The area delimitation is able to exclude areas where natural handicaps no longer represent an actual disadvantage for agricultural activity.	-	++	++
The aid is targeted to extensive farming systems which are at risk of land abandonment.	-	+	++

The aid is transparent and controllable.	-	+	+
The aid is consistent with other instruments of the CAP and with WTO-green-box requirements.	=	+	+
The administrative burden linked to the revision of the delimitation and payment system is limited.	+	+	+

++ Option fully meets the objective

+ Option partially meets the objective

= Option does not meet the objective but does not negatively impact on objectives

- Option does not meet the objective

-- Option negatively affects the objective

The **transparency, objectivity and scientific ground of the criteria** used for classifying intermediate LFAs appears to be seriously threatened by the *Status Quo+* option, which would protract the dullness highlighted by the Court of Auditors with regard to the equitable distribution of compensatory allowances. In addition, this option does not provide sufficient guarantees that the aid is concentrated on **areas where natural handicaps represent an actual disadvantage** for agricultural activity. The other review options would clearly enhance the transparency, the robustness and the coherence of the area delimitation system throughout the EU, minimising the **risk of unequal treatment**. They would also ensure that the aid is not watered down in areas where natural handicaps have been overcome by technical progress, investments and man intervention.

While the large flexibility left to the Member States under *Status Quo+* seems to have the highest potential for taking into account **regional peculiarities**, the delimitation approach envisaged by Common Criteria and Eligibility Rules is wide enough to capture the characteristics of a territory as large and diverse as the EU, while remaining simple and transparent. The flexibility left to the Member States on if and how setting up eligibility rules at farm level under Option 2, implies a higher degree of **subsidiarity** and therefore an increased capacity to cope with local needs compared to Option 3.

A delimitation of LFAs based upon common bio-physical criteria would increase the probability of **focusing the aid on extensive farming important for land management** because the area designation is unambiguously linked to natural handicaps hindering agriculture. Under this regard, Options 2 and 3 appear more efficient than Option 1. Option 3 requires the Member States to exclude systematically intensive farming systems from the aid. It therefore appears as the option which provides more guarantees as regards the aid targeting to extensive farming important for land management. The potential for meeting that objective is also present with the *Common Criteria* option (Option 2), although the voluntary nature of eligibility rules means that there is no guarantee of actual targeting of the aid to the cases where the risk of land abandonment is greatest.

The setting up of a framework for eligibility rules at Community level under Option 3 could also facilitate a more selective distribution of the compensatory allowances by the Member States and therefore an adjustment of the aid level - within the limits fixed by the legislation - that would make the **aid more attractive** to farmers most at risk of land abandonment.

As regards the **transparency and controllability of the payment system**, the common framework for the eligibility rules to be applied at the national level make of Eligibility Rules the most transparent option. On the other hand, the enhanced targeting of the aid would introduce additional control points in the Member States who currently do not have eligibility criteria to exclude intensive farming systems. In these cases, the risk of errors and the costs of controls are likely to increase.

As regards **consistency with other policy instruments**, Options 2 and 3 would represent a progress in rationalizing the overall architecture of the CAP, insofar as they further target the LFA aid to sustainable land management, while direct payments under the first pillar aim in the first place to sustain farmers' income by providing direct income support. All the options fulfill the objective of consistency with WTO-green-box requirements, through an appropriate assessment of the eligibility rules applied at farm level in the framework of the approval of the relevant rural development programmes.

The **administrative burden** linked to the revision of the scheme would be limited for several Member States under option 1, while on the other hand this option would aggravate the burden at Community level and for the Member States that mainly base their current delimitation upon socio-economic criteria. The common delimitation system introduced by options 2 and 3 would require administrative efforts from the Member States at the moment of the revision of the delimitation, but the administrative cost should drastically reduce once the system is up and running. In Option 3, the enhanced targeting through eligibility rules focusing on sustainable land management could complicate the management of different types of Axis 2 aids in some Member States, since it should be ensured that there is no double payment and that LFA farmers are not discriminated compared to farmers in other areas. On the other hand, a simplification of the overall LFA scheme at EU level should be achieved by the likely limitation of eligibility criteria which are currently numerous and diverse throughout the EU.

6.2. The options judged by the stakeholders

The advantages and disadvantages of the various options, as indicated by the respondents to the public consultation or those giving evidence at the hearings are summarized in the following table.

Stakeholders/Stakes	SQ+	Common Criteria	Eligibility Rules	HNV
Farmers	++	+	-	--
Environments and Sustainable Land Management	• Biodiversity	--	+	++
	• Natural resources	--	+	++
	• Landscape	--	+	++
Land owners	++	+		-
Regional/Local communities	Very diverse views reflected in the high			

	number of responses to public consultation.			
	++	+	=	-
Tax payers	oo	oo	oo	oo
Consumers	oo	oo	oo	oo

- ++ Preferred
- + Satisfactory
- = Neutral
- Negative
- Very Negative
- oo No contribution sent

6.3. Impacts on the issues at stake and on the interested parties

The following table evaluates the impact of the various Options on the issues at stake and on the interested parties. The positive and negative impact is evaluated against the current situation.

	Advantaged	Disadvantaged
Status Quo+	Biodiversity Natural resources Landscape Rural Tourism Taxpayers Farmers Land owners Consumers	
Common Criteria	Biodiversity Natural resources Landscape Rural Tourism Farmers G* Land owners G* Taxpayers Consumers	Farmers L* Land owners L*

Eligibility Rules	Farmers G*	Farmers L*
	Land owners G*	Land owners L*
	Taxpayers	Intensive Farms
	Extensive Farms	
	Biodiversity	
	Natural resources	
	Landscape	
	Rural Tourism	
	Consumers	

* G = Gaining LFA Status – L = Losing LFA status

N.B.: Increased activity is to be expected for national soil mapping and agro-meteorological institutes, in particular under options 2 'Common Criteria' and 3 'Eligibility Rules' for data collection, elaboration, aggregation and digitalization.

6.4. Summary table of pros and cons

	Advantages	Disadvantages
Option 1: Status Quo+	<ul style="list-style-type: none"> • Limited administrative burden for MS • Ability to capture regional specificities 	<ul style="list-style-type: none"> • Low transparency and comparability, which might lead to risks of unequal treatment. • Insufficient guarantees that the aid is concentrated on areas where natural handicaps represent an actual disadvantage for agricultural activity • No better targeting of the aid (most probably no significant changes in the eligible areas) <p>Heavy administrative burden at EU level (difficult to assess the different national systems and ensure consistency)</p>

Same for Option 2 and Option 3	<ul style="list-style-type: none"> • Enhanced transparency, robustness and coherence of LFA delimitation, minimising the risk of unequal treatment. • Aid not watered down in areas where natural handicaps have been overcome by technical progress, investments and man intervention • Area delimitation system captures the characteristics of a territory as large and diverse as the EU, while remaining simple and transparent 	<ul style="list-style-type: none"> • Administrative efforts required from the Member States at the moment of the revision of the delimitation (but should drastically reduce once the system is up and running).
Option 2: Common Criteria	<ul style="list-style-type: none"> • Higher degree of subsidiarity since eligibility rules at farm level are optional for the Member States. 	<ul style="list-style-type: none"> • Risk that aid is not sufficiently targeted to extensive farming systems important for land management, as it depends on MS approach to eligibility criteria
Option 3: Eligibility Rules	<ul style="list-style-type: none"> • Further aid targeting to extensive farming important for land management as intensive farming systems are systematically excluded from the aid. • More transparent eligibility rules • Higher impacts in terms of biodiversity and preservation of natural resources. • Aid more attractive as common framework for eligibility rules facilitate Member states selective approach in granting the aid. 	<ul style="list-style-type: none"> • Less flexibility for Member States in fixing eligibility criteria at farm level • Additional administrative burden due to the increased complexity of the system by the introduction of common LFA eligibility requirements • More complex interplay between LFA aid and agro-environment payments • Additional control points since the aid is more targeted in member States

7. MONITORING AND EVALUATION

A **Common Monitoring and Evaluation Framework** (CMEF) applies to all rural development interventions for the programming period 2007-13 (Article 80 of Regulation (EC) No 1698/2005). The CMEF is laid down in a set of documents drawn up by the Commission in close co-operation with the Member States and compiled in a handbook that includes a series of evaluation guidelines, a comprehensive set of monitoring and evaluation indicators, and guidance fiches for the use of such indicators. The handbook is available at the webpage http://ec.europa.eu/agriculture/rurdev/eval/index_en.htm.

The indicators³¹ measuring the progress, efficiency and effectiveness of rural development programmes in relation to their objectives are organised according to a **hierarchy of objectives**. The hierarchy of objectives and indicators envisaged for the payments to farmers in areas with handicaps other than mountain areas³² is organized as follows:

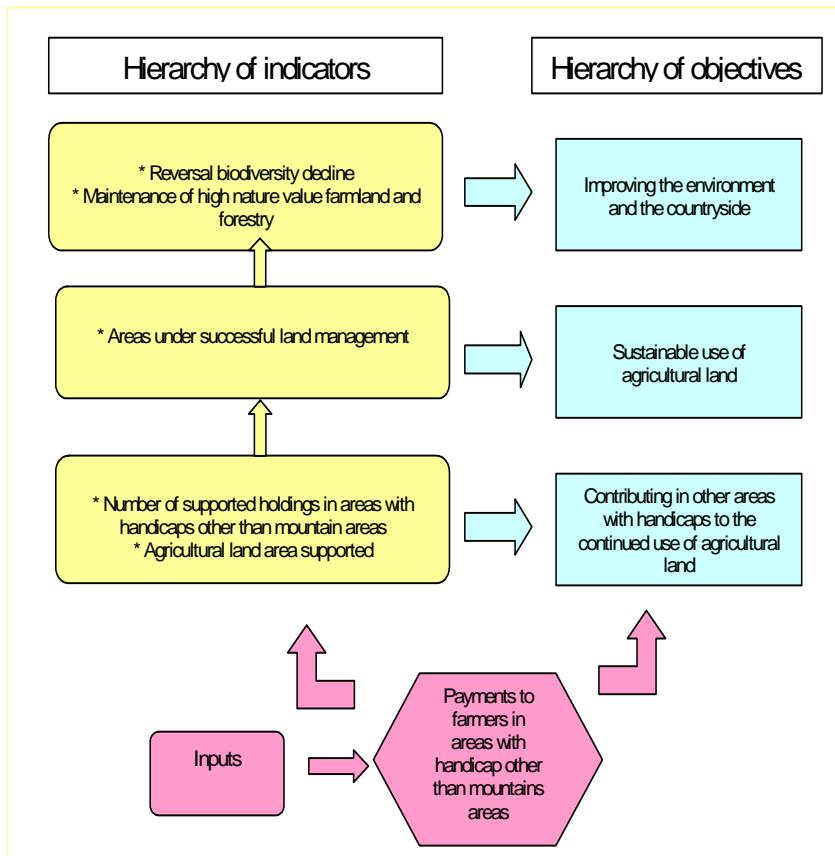
Common indicators	baseline	<ul style="list-style-type: none"> - Biodiversity : high nature value farmland and forestry - Biodiversity : population of farmland birds
	input	<ul style="list-style-type: none"> - Amount of public expenditure realised (total versus EAFRD)
	output	<ul style="list-style-type: none"> - Number of supported holdings in areas with handicaps, other than mountain areas (division according to the type of handicap –wetland, hills...–) - Agricultural land area supported (division according to the type of area and to the type of handicap)
	result	<ul style="list-style-type: none"> - Areas under successful land management contributing to: <ul style="list-style-type: none"> • improvement of biodiversity • improvement of water quality • mitigating climate change • improvement of soil quality • avoidance of marginalization and land abandonment
	impact	<ul style="list-style-type: none"> - Reversing biodiversity decline - Maintenance of high nature value farmland and forestry

The link between the rationale of the measure and the envisaged indicators is expressed in the graph below.

The process of identification of HNV indicators that is taking place within the same CMEF is of particular relevance for assessing the impact of the LFA measure.

³¹ The indicators are included in Annex VIII of Commission Regulation 1974/2006 laying down detailed rules for the application of Council Regulation 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD).

³² Measure Code 212



The CMEF also includes four specific **evaluation questions** related to the LFA measures that should guide the ongoing evaluation of the LFA scheme by the managing authority and the monitoring committee of the relevant programme, which are the following:

- To what extent have compensatory allowances helped in ensuring continued agricultural land use in areas with handicaps, other than mountain areas?
- To what extent have compensatory allowances contributed to the maintenance of a viable rural community in areas with handicaps, other than mountain areas?
- To what extent has the scheme contributed to maintaining or promoting sustainable farming systems?
- To what extent has the scheme contributed to maintaining the countryside and improving the environment?

The current approach envisaged for monitoring and evaluating the LFA measure, as described above, is already in line with the revised rationale of the scheme and seems adapted to a revised delimitation and payment system. At the same time, the current LFA impact assessment exercise can usefully enlarge the data basis for monitoring and evaluating the implementation of the LFA scheme and its forthcoming review, through the harmonized

collection of accurate geo-referenced data by the national administrations. The data collected to support the preparation of the LFA review can be subsequently used for assessing the distribution of the LFA aid in relation with the objectives of the measure.

8. LIST OF ANNEXES

1. Facts and figures: main features of agriculture in non-mountain LFAs
2. The Inter-Service Steering Group (ISSG)
3. ISSG Mandate
4. ISSG Hearings
5. Contributions received following the LFA public consultation
6. Studies, reports and contributions from ISSG members
- 7A. Opinion of the Impact Assessment Board of 03.02.2009 on the draft impact assessment report
- 7B. Explanation of the follow-up given to the recommendations of the IAB
8. Criteria currently used for delimiting intermediate LFAs
9. Farms receiving an LFA payment in 2005
10. Maps payments SPS/LFA
- 11A. Table of common biophysical criteria and associated thresholds
- 11B. Common biophysical criteria to define natural constraints for agriculture in Europe (JRC study)
12. Distribution of share of LFA payments in the FNVA in non-mountain LFAs

9. GLOSSARY

CAP: Common Agricultural Policy

Cross Compliance: statutory management requirements and good agricultural and environmental condition referred to in Chapter 1 of Regulation (EC) No 73/2009.

GAEC: Good Agricultural and Environmental Condition referred to in Article 6 of Regulation (EC) No 73/2009.

LFA: Less Favoured Areas

Intermediate LFAs: areas defined by Article 19 of Regulation (EC) No 1257/99

NHP: Natural Handicap Payments referred to in Article 37 of Regulation (EC) No 1698/2005

RDP: Rural Development Policy

SPS: Single Payment Scheme