

HOUSE OF LORDS

European Union Committee

13th Report of Session 2008–09

The Review of the Less Favoured Areas Scheme

Report with Evidence

Ordered to be printed 19 May 2009 and published 4 June 2009

Published by the Authority of the House of Lords

London : The Stationery Office Limited
£price

HL Paper 98

The European Union Committee

The European Union Committee of the House of Lords considers EU documents and other matters relating to the EU in advance of decisions being taken on them in Brussels. It does this in order to influence the Government's position in negotiations, and to hold them to account for their actions at EU level.

The Government are required to deposit EU documents in Parliament, and to produce within two weeks an Explanatory Memorandum setting out the implications for the UK. The Committee examines these documents, and 'holds under scrutiny' any about which it has concerns, entering into correspondence with the relevant Minister until satisfied. Letters must be answered within two weeks. Under the 'scrutiny reserve resolution', the Government may not agree in the EU Council of Ministers to any proposal still held under scrutiny; reasons must be given for any breach.

The Committee also conducts inquiries and makes reports. The Government are required to respond in writing to a report's recommendations within two months of publication. If the report is for debate, then there is a debate in the House of Lords, which a Minister attends and responds to.

The Committee has seven Sub-Committees which are:

Economic and Financial Affairs and International Trade (Sub-Committee A)
Internal Market (Sub-Committee B)
Foreign Affairs, Defence and Development Policy (Sub-Committee C)
Environment and Agriculture (Sub-Committee D)
Law and Institutions (Sub-Committee E)
Home Affairs (Sub-Committee F)
Social Policy and Consumer Affairs (Sub-Committee G)

Our Membership

The Members of the European Union Committee are:

Baroness Cohen of Pimlico	Lord Plumb
Lord Dykes	Lord Powell of Bayswater
Lord Freeman	Lord Richard
Lord Hannay of Chiswick	Lord Roper (Chairman)
Baroness Howarth of Breckland	Lord Sewel
Lord Jopling	Baroness Symons of Vernham Dean
Lord Kerr of Kinlochard	Lord Teverson
Lord MacLennan of Rogart	Lord Trimble
Lord Mance	Lord Wade of Chorlton
Lord Paul	

The Members of the Sub-Committee which conducted this inquiry are listed in Appendix 1.

Information about the Committee

The reports and evidence of the Committee are published by and available from The Stationery Office. For information freely available on the web, our homepage is

<http://www.parliament.uk/hleu>

There you will find many of our publications, along with press notices, details of membership and forthcoming meetings, and other information about the ongoing work of the Committee and its Sub-Committees, each of which has its own homepage.

General Information

General information about the House of Lords and its Committees, including guidance to witnesses, details of current inquiries and forthcoming meetings is on the internet at

http://www.parliament.uk/about_lords/about_lords.cfm

Contacts for the European Union Committee

Contact details for individual Sub-Committees are given on the website.

General correspondence should be addressed to the Clerk of the European Union Committee, Committee Office, House of Lords, London, SW1A 0PW

The telephone number for general enquiries is 020 7219 5791. The Committee's email address is euclords@parliament.uk

CONTENTS

	<i>Paragraph</i>	<i>Page</i>
Summary		7
Chapter 1: Introduction	1	9
The Inquiry	1	9
Box 1: The EAFRD		9
How the LFA scheme works at present	8	10
Eligibility for Aid	8	10
Designation of Less Favoured Areas	11	11
Box 2: Categories of LFA		11
Level of the aid payment	14	12
Where does the money come from?	16	13
Table: CAP Expenditure over the 2007–2013 Financial Perspective		13
Division of responsibilities	19	13
The current review of the LFA Scheme	22	14
Chapter 2: The Role of the LFA Scheme	28	16
Purpose of the LFA Scheme	28	16
Witnesses' Views	30	16
Committee's Views	36	17
Relationship to other CAP instruments	41	18
Witnesses' Views	42	18
Committee's Views	47	20
Chapter 3: The Content of the Review	48	21
Designation criteria	48	21
Box 3: The proposed common biophysical criteria		21
Witnesses' Views	53	22
The principle of common biophysical criteria	53	22
UK-specific concerns	61	23
Fine-tuning of LFA designation	63	23
Omission of socio-economic criteria from the set of indicators	68	24
Committee's Views	75	26
Eligibility criteria	81	27
Witnesses' Views	83	27
Harmonisation of eligibility criteria	83	27
The purpose and type of criteria	89	28
Exclusion of intensive farming	90	28
WTO obligations	93	29
Part-time farmers and applicant's residence	94	29
Committee's Views	95	29
Payment Formula	98	30
Witnesses' Views	99	30
Committee's Views	109	32
Chapter 4: Implementation and Oversight	111	33
Timing of reform	111	33
Witnesses' Views	112	33
Committee's Views	114	34
Monitoring and evaluation	116	34

Witnesses' Views	119	35
Committee's Views	124	36
Chapter 5: Conclusions and Recommendations	127	37
The Role of the LFA Scheme	127	37
The Content of the Review	133	37
Implementation and Oversight	144	39
Appendix 1: Sub-Committee D (Environment and Agriculture)		40
Appendix 2: List of Witnesses		42
Appendix 3: Call for Evidence		43
Appendix 4: Recent Reports		45

Oral Evidence

<i>Ms Josefine Loriz-Hoffman, Head of Unit; Mr Alexander Page, Administrator; and Ms Antonella Zona, Administrator, DG Agriculture and Rural Development, European Commission</i>		
Oral evidence, 21 January 2009		1
<i>Mr Andrew Clark, Head of Policy Services, National Farmers' Union; Mr Jonathan Hall, Head of Rural Policy, NFU Scotland; Dr Nick Fenwick, Director of Agricultural Policy, Farmers' Union of Wales; Mr Dai Davies, President, NFU Cymru; Mr Graham Furey, President and Mr Seamus Maginn, Chairman, UFU Hill Farming, Ulster Farmers' Union</i>		
Written Evidence—Farmers' Union of Wales		12
Written Evidence—National Farmers' Union		17
Written Evidence—NFU Cymru		22
Written Evidence—NFU Scotland		26
Written Evidence—Ulster Farmer's Union		29
Oral evidence, 28 January 2009		32
<i>Dr Pat Thompson, RSPB Uplands Policy Officer; Miss Mandy Gloyer, Head of Land Use Policy, RSPB Scotland; Mr Peter Barfoot, Director of Conservation, North York Moors National Park (on behalf of the English National Parks Authorities Association)</i>		
Written Evidence—RSPB		49
Oral evidence, 4 February 2009		53
<i>Mr Christopher Thomas-Everard, Chairman, National Beef Association; Mr Peter Morris, Chief Executive, National Sheep Association; and Miss Becky Shaw, Scottish Crofting Foundation</i>		
Written Evidence—National Sheep Association		69
Written Evidence—Scottish Crofting Foundation		72
Oral evidence, 11 February 2009		74
<i>Mr David Baldock, Executive Director and Miss Tamsin Cooper, Deputy Head of the Agriculture and Rural Development Programme, Institute for European Environmental Policy</i>		
Oral evidence, 25 February 2009		88

<i>Mr Alois Bauer, Agricultural Counsellor, German Government</i> Oral Evidence, 4 March 2009	101
<i>Mr Andrzej Babuchowski, Agriculture Attaché and Ms Karina Makarewicz, Polish Government</i> Oral Evidence, 4 March 2009 Supplementary Written Evidence	107 112
<i>Ms Lene Naesager, Member of Agriculture Commissioner's Cabinet and Mr Alexander Page, Administrator, DG Agriculture and Rural Development, European Commission</i> Oral evidence, 4 March 2009	113
<i>Mr Paulo Gouveia, Director; and Ms Nella Mikkola, Policy Adviser, Rural Development and Forestry, COPA COGECA</i> Oral evidence, 4 March 2009	119
<i>Ms Charlina Vitcheva, Minister Plenipotentiary, and Ms Neli Georgieva, Counsellor, Bulgarian Government</i> Oral evidence, 5 March 2009	125
<i>Mr Ľirí Šir and Mr Lukáš Višek, Agriculture Attachés, Czech Government</i> Oral evidence, 5 March 2009	132
<i>Mr Osmo Ronty, Agriculture Counsellor, Finnish Government</i> Oral evidence, 5 March 2009	137
<i>Ms Maria Rosander, Agriculture Counsellor, Swedish Government</i> Oral evidence, 5 March 2009	142
<i>Mr David Barnes, Deputy Director, Agriculture and Rural Development, Scottish Executive; and Mr Willie Towers, Soil Scientist with the Soils Group at the Macaulay Land Use Research Institute, Aberdeen</i> Written Evidence Oral evidence, 11 March 2009 Supplementary Written Evidence	147 151 161
<i>Mr Huw Irranca-Davies MP, Minister for the Natural and Marine Environment, Wildlife and Rural Affairs; Mr Dan Osgood, Deputy Director, Environment Land Management; and Miss Marian Jenner, Head of Uplands and Commons Policy, Department for Environment, Food and Rural Affairs, UK Government</i> Written Evidence Oral evidence, 18 March 2009	163 166
Written Evidence	
The Country Land and Business Association	179
European Forum on Nature Conservation and Protection	184
Loch Lomond and The Trossachs National Park Authority	191
Macaulay Land Use Research Institute	192
Natural England	193

Scottish Environment Protection Agency	196
Scottish Natural Heritage	199
Scottish Rural Property and Business Association	203
Tenant Farmers Association	206
Welsh Assembly Government	208

We would like to take the opportunity to thank all our witnesses for their submissions to our inquiry.

NOTE: References in the text of the report are as follows:

(Q) refers to a question in the oral evidence

(p) refers to a page of written evidence

(para) refers to a paragraph of written evidence

SUMMARY

The Less Favoured Areas scheme is intended to channel aid to farms in areas afflicted by natural handicaps, and forms part of the rural development component of the European Union's Common Agricultural Policy (CAP). The scheme is driven by the view that there are public benefits to be secured by promoting the maintenance of farming activity in disadvantaged areas where land might otherwise be abandoned.

In this report, we explore the review of the Less Favoured Areas (LFA) scheme that is currently underway, prompted by a damning Court of Auditors' report on the implementation and oversight of the LFA scheme published in 2003. We focus in particular on the European Commission's emerging proposals for how the most commonly used category of Less Favoured Area should be designated, and how the payment system should be adapted in light of the provisions of the 2005 Rural Development Regulation, which has now become the legal underpinning for the measure.

We see a distinctive role for the Less Favoured Areas scheme, which by contrast to the main element of the CAP, Single Farm Payments, offers a means of channelling support in a much more discriminating way, to those farms that are least able to earn compensation from the market, yet contribute most to the maintenance of the landscape.

We welcome the Commission's intention to introduce a common set of biophysical indicators to be used in identifying Less Favoured Areas. We note, however, that it is not yet clear whether the specific characteristics of the United Kingdom's maritime climate will be adequately captured by the proposed criteria.

We support the proposed move away from socio-economic indicators of disadvantage towards designations based purely on natural handicap, on the basis that the new Rural Development Regulation makes provision for more targeted and cost-effective ways of pursuing socio-economic goals in rural areas.

Our report also recommends the introduction of a common EU-level framework for eligibility criteria, whose focus should be on extensive farming systems, and WTO-compatibility, while ruling out criteria that are irrelevant to the objectives of the measure or impede mixed farming.

Like the Court of Auditors before us, we have been unable to draw firm conclusions about the effectiveness of the LFA scheme in meeting its objectives, and therefore call on the Commission and the Member States to assemble the evidence base with which the scheme's effectiveness as a mechanism for protecting the environment and the landscape might be assessed and kept under review.

Perhaps most importantly, we call for a prompt execution of the review. We believe that the deficiencies highlighted in the Court of Auditors' report cannot continue to be left unchecked, and emphasise that a successful review should lead to a more efficient allocation of LFA funds, benefiting not only the taxpayer, but also those farms most deserving of support under this scheme.

The Review of the Less Favoured Areas Scheme

CHAPTER 1: INTRODUCTION

The Inquiry

1. The aid scheme for farms in areas deemed “less favoured” forms part of the European Union’s Common Agricultural Policy, and dates back to 1975. It is based on the view that there are public benefits to be secured by promoting the maintenance of farming activity in marginal areas where land might otherwise be abandoned. From the perspective of EU Member States, it is a voluntary element of the Common Agricultural Policy (CAP), and unlike the bulk of CAP payments, it is co-financed from both national and EU budgets.
2. In 2005, the legal underpinnings of the Less Favoured Areas (LFA) scheme were overhauled as part of a wider reorganisation of rural development policy. Existing programmes and budget lines targeting rural development, including the LFA scheme, were drawn together into a single funding and programming instrument known as the European Agricultural Fund for Rural Development (EAFRD). The EAFRD supports projects across three strategic “axes”, as outlined in Box 1 below.

BOX 1

The EAFRD

The EAFRD provides financial support for actions under three headings or “axes”, with minimum spending requirements attached to each. Rules on co-financing rates (determining the relative financial contribution of the EU and the Member State) also apply.

Axis 1 of the Fund—on which a minimum of 15 per cent of allocated funds must be spent—aims to support measures designed to improve the competitiveness of the agriculture and forestry industries (e.g. restructuring holdings, improving human capital and product quality).

Axis 2 of the Fund—on which a minimum of 25 per cent of allocated funds must be spent—aims to support land management measures designed to enhance the environment and the countryside (e.g. agri-environment schemes, animal welfare commitments).

Axis 3 of the Fund—on which a minimum of 15 per cent of allocated funds must be spent—aims to support policies that target improvements in the quality of life in rural areas (e.g. basic services provision, rural heritage conservation) and promote economic diversification towards non-agricultural activities (e.g. tourism).

A minimum of 5 per cent of EAFRD funds are ring-fenced for LEADER initiatives across the three axes. Under the LEADER approach, local action groups can secure funding for local development projects.

3. During the course of the 2005 reorganisation, the LFA scheme was placed under Axis 2 of the EAFRD, and its objectives adjusted accordingly. The

Rural Development Regulation¹—that is, the legal instrument that set up the EAFRD in 2005—specifies that financial assistance offered under this axis shall support “the sustainable use of agricultural land”. Payments to farmers in areas with handicaps are identified as one way of promoting this objective. The Regulation stipulates that such payments should be paid annually per hectare, and “should compensate for farmers’ additional costs and income foregone related to the handicap”. Article 50 of the Regulation reformulates the basic criteria for designating certain categories of LFA.

4. At the time of this overhaul, however, the Council of Ministers (at which the governments of EU Member States are represented) failed to reach agreement on a system for classifying Less Favoured Areas that would reflect the new overarching objective of the policy (the sustainable use of agricultural land) and the new criteria for designation. It was therefore decided to delay the entry into force of the changes to the LFA scheme until 2010. In the meantime, the European Commission would be charged with undertaking a review of the implementation of the LFA scheme, and presenting proposals on how Less Favoured Areas should be designated in future, as well as how the payment system should be adapted, for adoption as a Council Decision.
5. Our inquiry sought to examine the Commission’s emerging proposals, as trailed in a consultation document published in the summer of 2008, and published in a Communication on 21 April 2009.² We took a particular interest in the extent to which the emerging proposals would address the criticisms levelled by the European Court of Auditors in its 2003 report³ on the LFA scheme, which provided the impetus for amending the legal framework underpinning the scheme.
6. Our report begins with a brief explanation of how the LFA scheme works at present, and an outline of the review currently underway. Chapter 2 examines the purpose of the LFA scheme and its relationship to other CAP instruments. Chapter 3 then turns to the content of the review, touching on biophysical criteria, eligibility criteria and the payment formula. In Chapter 4, we conclude by considering the timing of reform, and the arrangements for monitoring and evaluating the scheme. Chapter 5 presents a summary of our Conclusions and Recommendations.
7. The inquiry that led to this report was carried out by Sub-Committee D, whose Members are listed in Appendix 1. We received written evidence and took oral evidence from a range of witnesses, who are listed in Appendix 2. We are grateful to them all for their contributions. We make this report to the House for information.

How the LFA scheme works at present

Eligibility for Aid

8. There are currently several conditions for receiving aid under the LFA scheme: first, farms must be located in an area classified as Less Favoured and second, they must meet eligibility rules and thresholds, some of which

¹ Council Regulation (EC) No 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD)

² “Towards a better targeting of the aid to farmers in areas with natural handicaps”, COM (2009) 161.

³ Court of Auditors Special Report No 4/2003 concerning rural development: support for less-favoured areas, together with the Commission’s replies (OJ C151, 27.06.2003, pp 1–24).

are common across the EU, and some of which are set by Member States (a devolved matter in the UK). So while 58 per cent of the EU's Utilized Agricultural Area was classified as Less Favoured in 2005, less than half of the farms in those areas were receiving aid under the LFA scheme. The proportion of farms in LFA areas that receive aid varies widely across Member States: more than 90 per cent of farms in Less Favoured Areas receive aid in Ireland, Finland and Austria, while less than 10 per cent receive aid in Italy and around 15 per cent receive aid in Spain.

9. Council Regulation 1257/1999 lays down three mandatory EU-level eligibility criteria. Recipients must first, farm a minimum area (thresholds set by each Member State); second, undertake to farm in the Less Favoured Area for at least five years from the first payment of aid; and third, adhere to some basic land management requirements defined as Good Farming Practice.
10. In addition to these EU-level criteria, Member States apply a range of additional eligibility criteria, mainly at a national level but in a few instances (including the UK) also at the sub-national level. Examples include restrictions on farmers over 65 receiving aid, place of residence conditions, or requirements to keep livestock.

Designation of Less Favoured Areas

11. Under Council Regulation 1257/1999, an agricultural area may be classified as Less Favoured if it falls into one of the four categories listed in Box 2. The total proportion of agricultural area classified as Less Favoured varies widely from Member State to Member State, ranging from 1 per cent in Denmark to more than 98 per cent in Luxembourg.⁴ These proportions have also changed considerably over time in some Member States: between 1975 and 1998, the proportion of agricultural area deemed Less Favoured went up from 37 per cent to 56 per cent in Italy, and from 51 per cent to 70 per cent in Ireland. The Court of Auditors pointed out that this is suspect: “given that mountainous areas have not changed, the increases are all the more remarkable in view of the advances in soil improvement and varietal development.”⁵

BOX 2

Categories of LFA

- Areas subject to **environmental restrictions** (Art. 16)—characterised by limitations on agricultural land use imposed by Community environmental protection rules.
- **Mountain** areas (Art. 18)—characterised by a short growing season due to high altitude or by steep slopes at lower altitude.
- **Other** Less Favoured Areas (Art. 19)—characterised by poor productivity as a result of the natural environment which results in appreciably lower than average economic performance and a low or dwindling population predominantly dependent on agricultural activity.
- Areas affected by **specific handicaps** (Art. 20)—where farming needs to continue in order to conserve or improve the environment, maintain the countryside and the area's tourist potential or protect the coastline.

⁴ See Graph 2 in the Court of Auditors' 2003 report.

⁵ Court of Auditors' report, Para 8.

12. It is left to Member States to interpret the EU-level criteria that define the four categories of Less Favoured Area, with mixed results:
- (a) The EU-level criteria for identifying areas subject to environmental restrictions are clearly defined and Member States have interpreted them in a consistent and comparable way.⁶
 - (b) This is also true of the criteria for identifying mountain areas. However, these two categories together accounted for only around one-third of total LFA land in 2004–05.
 - (c) Around 66 per cent of LFA land has instead been classified into the “other” category. The Court of Auditors pointed out that the EU-level criteria for identifying this type of LFA are not sufficiently clear. Member States have consequently used a wide variety of indicators to give effect to the EU-level criteria for this category. These include 17 different indicators relating to the productivity of agricultural land, 12 different indicators for economic under-performance, and 3 different indicators for population.⁷
 - (d) “Specific Handicap” areas make up the rest. Member States have again resorted to a wide variety of indicators to give effect to the EU-level criteria, ranging from natural handicaps to security considerations (in parts of Cyprus). In Malta, the Institute for European Environmental Policy (IEEP) found that the entire agricultural land area had been classified as suffering from a specific handicap, but no attempt had been made to identify the specific handicaps facing particular areas.⁸
13. In its 2003 report on the LFA scheme, the Court of Auditors warned that the variation in indicators for classifying LFA areas may lead to disparities in treatment among beneficiaries. It recommended that the Commission should perform a complete review of existing LFA classifications, and develop a more appropriate set of indicators for identifying Less Favoured Areas that would be consistent and guarantee equitable treatment of beneficiaries.

Level of the aid payment

14. The level of aid should in principle reflect the degree of handicap facing the farmer, thereby acting as a compensatory allowance. Member States fix the specific level of aid per hectare within a range set at EU level. Levels of payment vary significantly across Member States, ranging from national average payments per eligible hectare of between €15 and €55 in Spain, Sweden, Poland and the UK, to payments of between €175 and €250 per eligible hectare in Austria, Finland and Malta. Within countries, payment levels may vary further, for example across different categories of LFA. The payment ceiling set at EU level may be exceeded in individual cases, provided that the average level of aid paid out by each Member State adheres to the limit. In an evaluation report prepared for the European Commission,

⁶ “An Evaluation of the Less Favoured Area measure in the 25 Member States of the European Union”, report prepared by the Institute for European Environmental Policy for the European Commission’s DG Agriculture, November 2006, Executive Summary, p.5.

⁷ See Annex II to the Court of Auditors’ report.

⁸ “An Evaluation of the Less Favoured Area measure in the 25 Member States of the European Union”, report prepared by the Institute for European Environmental Policy for the European Commission’s DG Agriculture, November 2006, p.64.

the IEEP highlighted payment rates of up to €800 per hectare on certain Austrian and Italian mountain farms, and Portuguese island farms.⁹

15. Payment levels are typically calculated in relation to a baseline—the absence of handicap—defined in most cases in terms of agricultural income. This is usually measured in relation to a norm, such as agricultural income in non-LFA areas in the same country, or by reference to previous LFA payment levels or historic income. In its evaluation report, the IEEP pointed out that there is no consistent European baseline for such calculations.

Where does the money come from?

16. The CAP rests on two “pillars”: Pillar I, out of which direct payments to farmers (Single Farm Payments) and market management measures are funded, and Pillar II, which supports rural development programmes. The bulk of CAP expenditure is allocated to Pillar I (see Table below). Pillar II is financed through the EAFRD.

TABLE

CAP Expenditure over the 2007–2013 Financial Perspective

Figures in billions of euros, based on 2004 prices	Total 2007–2013
Pillar I—Direct Payments and Market Support	293.105
Pillar II—Rural Development	69.750

17. Each Member State receives a fixed share of EAFRD funds to help finance its rural development policy. It must prepare a national plan specifying how it proposes to allocate those funds, based on domestic priorities. In drawing up their plans, Member States must respect certain minimum spending requirements: at least 25 per cent of each Member State’s share of EAFRD funds must be spent on measures under Axis 2 (see Box 1 above). However, whether or not they choose to spend some of those Axis 2 funds on an LFA scheme is up to each Member State. At present, all Member States of the European Union have chosen to operate an LFA scheme. However, England’s LFA scheme—known as the Hill Farm Allowance—is to be discontinued from 2010, and will be replaced with a new uplands strand to the Environmental Stewardship scheme instead.
18. All spending on rural development measures under the EAFRD must be co-financed according to fixed percentages, meaning that Member States must contribute national resources in addition to the funds provided by the EU. In 2003, the overall cost of the LFA scheme amounted to around €2 billion, of which around half was funded through the EU budget. This represented around one fifth of total rural development expenditure. However, the amount invested in the LFA measure varies widely across Member States: France, Finland and Germany allocated more than 30 per cent of their share of the EAFRD budget to the LFA measure, while Spain spent only 12 per cent of its share and Italy spent 7 per cent.

Division of responsibilities

19. The rural development plans prepared by Member States must be approved by the Commission before they can access EAFRD funds. Once plans have

⁹ Ibid, p.92.

been approved and are being implemented by Member States, the Commission records the expenditure declared each month by each Member State and reimburses it for the Community's share of the funding. The Commission is also responsible for monitoring and evaluation of rural development programmes, including the LFA scheme.

20. Member States are responsible for classifying Less Favoured Areas, designating the authorities responsible for drawing up rural development plans and implementing the measures contained therein (including the LFA scheme). Member States bear the primary responsibility for administration and control. Member States must also supply the Commission with the necessary data for it to monitor the implementation of rural development programmes.
21. In its 2003 report, the European Court of Auditors noted that since the entry into force of Regulation 1257/1999, the Commission no longer holds final responsibility for the validity of the classification of Less Favoured Areas, and described this as a "major weakness" in the Regulation. It also identified a number of weaknesses in Member States' management, control and reporting systems, which had knock-on effects on the monitoring that the Commission was able to undertake.

The current review of the LFA Scheme

22. A review of the LFA scheme has been pending for some time. The European Court of Auditors first raised concerns about oversight of the scheme's application, and in particular the validity of classification decisions, as far back as 1990. In response, the Commission began a review of LFA classifications in 1993, as part of which it asked Member States to provide justification for their classification decisions. However, some Member States submitted incomplete data, inaccurate data, or no data at all. In its 2003 audit, the Court found that the Commission had been faced with serious opposition from Member States when it attempted to examine the continuing validity of the data underlying LFA classifications. The Court could not find evidence that the review was properly completed.
23. When the new Rural Development Regulation was introduced in 2005, the opportunity was seized to address some of the concerns raised in the Court of Auditors' report by redrafting some of the provisions relating to the LFA scheme. Two changes of particular significance were:
 - (a) *The redrafting of the criteria for designating "other" Less Favoured Areas to include only natural handicaps:* Article 19 of Regulation 1257/1999 stipulates that areas falling into this category should exhibit land of poor productivity, economic performance lower than the average, and a low or dwindling population predominantly dependent on agricultural activity. The 2005 Regulation replacing it removes the socio-economic criteria and instead stipulates that these areas must be "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".¹⁰

¹⁰ Council Regulation 1698/2005, Art. 50–3(a).

- (b) *The inclusion of a payment formula in place of payment guidelines:* Article 15 of the 1999 Regulation stipulates that compensation payments should be fixed at a level which is sufficient to make an effective contribution to compensation for handicaps but should avoid overcompensation. Article 37–1 of the 2005 Regulation replacing it stipulates that payments should “compensate for farmers’ additional costs and income forgone related to the handicap for agricultural production in the area concerned.”¹¹
24. However, as was noted earlier (paragraph 4), the Council of Ministers decided to postpone implementation of these changes until after 2010, and asked the Commission to take the matter forward by presenting proposals on how Less Favoured Areas should be designated and how the payment system should be adapted in light of the new provisions in the Rural Development Regulation.
25. The Commission published a consultation document outlining options for reform in the summer of 2008.¹² A Communication followed in April 2009, in which the Commission presented a set of biophysical criteria that might be used to designate Less Favoured Areas in the “other” category in future (see Box 3 below).¹³ It suggested that Member States be invited to simulate the application of the biophysical criteria on their territory, and send the resulting maps back to the Commission within six months. The Commission would then use those maps to assess how best to adapt the LFA designation system and to prepare a legislative proposal to that effect in due course.
26. In its Communication, the Commission also noted that eligibility rules applied after the process of designating Less Favoured Areas, but observed that many of the eligibility rules currently used by Member States are inessential to the main objectives of the measure. It suggested that their consistency with the objectives of the scheme and with the international commitments of the EU could be enhanced, and pledged to examine this aspect of the scheme further when preparing the legislative proposal. The latter is expected to be published no earlier than 2010.
27. The Commission has indicated that LFA payments will in future be called Natural Handicap Payments. To avoid confusion, however, this report continues to refer to the LFA scheme and LFA payments.

¹¹ Council Regulation 1698/2005, Art. 37–1.

¹² The consultation document is available here:
http://ec.europa.eu/agriculture/consultations/lfa/consultationdoc_en.pdf

¹³ Communication from the Commission “Towards a better targeting of the aid to farmers in areas with natural handicaps” of 21 April 2009, COM (2009) 161.

CHAPTER 2: THE ROLE OF THE LFA SCHEME

Purpose of the LFA Scheme

28. The formal objectives of the LFA scheme have changed over time, following each redrafting of the legislation on which the scheme rests. The provisions of the 2005 Rural Development Regulation do, however, appear to reorient the scheme more dramatically than the changes that had gone before. By being placed under Axis 2 of that Regulation, the overarching objective of the LFA scheme became the improvement of the environment and the countryside. Article 36(a) stipulates that the measure should target the sustainable use of agricultural land. Meanwhile the provisions relating to the designation of “other” Less Favoured Areas specify that support should be targeted at areas “where maintaining extensive farming activity is important for the management of the land”.¹⁴
29. Among our witnesses, however, we found competing interpretations of the purpose of extending aid to farmers in Less Favoured Areas.

Witnesses’ Views

30. Some witnesses, including the European Commission and the UK Government, regard the maintenance of farming activity in some disadvantaged areas as instrumental to the delivery of certain environmental and landscape benefits, and justify public aid accordingly.
31. The European Commission suggested that the role of LFA payments was to allow farmers to continue farming under difficult circumstances (due to natural handicaps) and in doing so to maintain land management and the countryside (Q 32). The UK Government warned that while the LFA measure is often perceived as providing compensatory payments similar to Pillar 1 support payments, the scheme is an Axis 2 measure, and should therefore be targeted at maintaining and promoting sustainable farming systems that deliver environmental and landscape benefits that would not otherwise be provided by the market. Farmers should not be paid “simply for economic disadvantage” (Department for Environment, Food and Rural Affairs Memorandum, p.163, Q 1).
32. The Royal Society for the Protection of Birds (RSPB) suggested that the LFA scheme has a unique role to play in supporting the kind of extensive, livestock-based farming systems that produce a range of environmental public benefits, such as habitats for wildlife, and environmental services like water catchment and carbon storage (Q 93). On behalf of the English National Parks Authorities Association (ENPAA), Peter Barfoot emphasised the importance of continued land management for the uplands landscape, whose value to the tourism business in the National Parks should not be underestimated (Q 94).
33. By contrast the farming unions (e.g. Farmers’ Union of Wales Memorandum, p.16, Para. 51), some other Member States (e.g. Poland Q 296, Bulgaria Q 394, Finland Q 466), and some of the devolved administrations (Scottish Executive Memorandum, p.149, Paras. 10.1–10.2; Welsh Assembly Government Memorandum, p.208, Q 1) view the LFA

¹⁴ Council Regulation 1698/2005, Art. 50–3(a).

- scheme as a means to support farming activity in disadvantaged areas in return for socio-economic, as well as environmental, benefits to rural communities and the wider public. The prevention of rural depopulation was the socio-economic objective most widely cited by our witnesses. From this perspective, the primary purpose of the LFA scheme is to contribute to the financial viability of farms in disadvantaged areas, so that they can continue providing the desired public benefits as a by-product of their farming activity.
34. NFU Scotland (NFUS) noted that delivery of wider non-market benefits is dependent on active land management, which will only continue if the core agriculture business is viable. It took the view that LFA support is “essential to ensuring continued viability, by off-setting the real costs of farming in disadvantaged areas and thereby enabling the delivery of a host of rural development benefits” (NFUS Memorandum, p.26, Para. 9; see also Peter Morris, National Sheep Association, Q 137). The National Farmers’ Union (NFU) argued that LFA designation allowed Member States to channel support to areas facing “the harshest farming conditions in Europe”, yet where farming is “central to maintaining food production, the landscape, traditional skills and preventing depopulation and land abandonment”. More specifically, the NFU viewed the scheme as a mechanism for sustaining characteristic hill farming systems and the public benefits of farming these areas (Memorandum, p.19, Paras 8, 10, 11). Dai Davies, President of NFU Cymru, warned that individual public benefits could not be targeted in isolation, so that trying to keep people in the hills, trying to keep villages in the hills, and trying to keep schools open in certain marginal areas all have to be seen as inter-connected (Q 80).
 35. The IEEP observed that a gap had arisen between the evolution of the policy as expressed in the 2005 Rural Development Regulation and how it is perceived by beneficiaries on the ground (Q 188). It argued that the purpose of this particular scheme is no longer socio-economic, and that keeping people on the land is no longer part of the logic of the measure. Instead, the LFA scheme should be viewed as an environmentally-driven measure, aligned with the new rural development package, which is less concerned with the number of farmers, and more concerned about the type of agriculture to be supported, ensuring that it is sustainable and delivers public goods in return for the money spent (QQ 188–191). It pointed out that there are other rural development measures available that target the objective of keeping people in rural areas and maintaining a dynamic rural economy much more precisely (Q 215).

Committee’s Views

36. We endorse the European Commission’s stance on the purpose of support for farms in Less Favoured Areas: **payments should help farmers in marginal areas to continue farming where their farming activity generates public benefits in the form of positive impacts on the environment and the landscape.**
37. We emphasise the importance of continuing to assess the public benefits obtained in exchange for this type of aid: society does not owe unconditional support to farmers wishing to farm in areas affected by natural handicaps. **Indeed, we anticipate that as climate change begins to take its toll on parts of Europe, support may need to be reassessed.** In some instances, currently non-handicapped areas may require additional support, while in

other instances, for example where water scarcity becomes particularly acute, land may become so severely handicapped that support should be withdrawn.

38. **We are conscious that by maintaining farming activity in place in marginal areas, the LFA scheme also makes a de facto contribution to preserving food production capacity, which could become increasingly important if climate change reduces production capacity elsewhere.**
39. We recognise that farming activity in marginal areas often brings social, economic and cultural benefits to local communities and the wider public. **However, measures available under the other axes of the Rural Development Regulation—see Box 1 above—offer more targeted and cost-effective ways of addressing socio-economic objectives in rural areas.**
40. We also consider it important to recognise that neither the LFA payment nor the wider package of financial aid available to farmers in Less Favoured Areas will necessarily be sufficient to prevent a decline in farming activity in marginal and remote areas of the EU. LFA payments may exert a moderating influence, but would-be farmers' career choices are likely to be influenced by cultural and lifestyle factors as well as economic incentives. **We view this as an emerging policy challenge that merits consideration as part of the wider review of the CAP post-2013.**

Relationship to other CAP instruments

41. The role of the LFA scheme must be considered in context: the measure is one among a suite of policy instruments available under the Common Agricultural Policy. We asked our witnesses to set out what they saw as the distinction between the LFA scheme and other, related CAP instruments, notably Single Farm Payments under Pillar I, and agri-environment schemes under Pillar II.

Witnesses' Views

42. There was considerable consensus among our witnesses that the LFA scheme should not overlap with agri-environment schemes: aid recipients should not be asked to deliver environmental benefits over and beyond basic land management obligations. The European Commission emphasised that the LFA scheme should in principle offer compensation to farmers operating under more difficult circumstances than a normal farmer in a region which is not handicapped. Although the scheme is driven by environmental objectives, it must not necessarily include any specific requirements to respect additional environmental obligations (Q 32). Indeed, the Commission warned that if this were to be the case, LFA farmers would be put at a disadvantage relative to farmers in non-handicapped regions (Q 34). The RSPB and the IEEP seconded this, arguing that payments made through the LFA scheme should simply seek to retain the type of land management that is already in place (Q 120 and Q 217).
43. Several witnesses argued that LFA support should be viewed as the underpinning for agri-environment schemes in disadvantaged areas: without LFA support, continued land management might be jeopardised, and without continued land management, the authorities would not be able to

commission the delivery of additional environmental services from farmers through agri-environment schemes. The Scottish Executive, for example, argued that “it is only through sustaining farming and crofting activity and by retaining land managers in Less Favoured Areas that there can be effective uptake of agri-environment measures” (Memorandum, p.149, Para. 10.2). The Scottish Crofting Foundation (SCF) echoed this view, casting the LFA as “the instrument which maintains that level of activity upon which you can then build more targeted agri-environment responses for specific habitats” (Q 155). The Welsh Assembly Government also concurred (Memorandum, p.208, Q 1).

44. The relationship between Single Farm Payments under Pillar I and the LFA scheme appears to be more complex. NFU Scotland saw LFA payments as “more akin to a Single Farm Payment, more like a Pillar I payment” than other rural development measures because of their income support function, thus bridging the gap between the two Pillars of the CAP (QQ 47, 57). The European Commission offered a similar interpretation, presenting Single Farm Payments as an income support instrument, and LFA payments as a hybrid, offering compensation to farmers for operating in more difficult regions where, for environmental reasons, it is considered important to maintain farming activity (Q 32). The SCF stressed that in the most marginal areas, the most cost-effective way of maximising returns from the Single Farm Payment would be to cease doing anything at all beyond meeting minimum cross-compliance conditions.¹⁵ It argued that LFA payments should target these types of farming systems, where it would otherwise be uneconomical to continue farming actively, but where it is deemed important to preserve such activity for other reasons (Q 156).
45. A number of witnesses (RSPB, Q 97; ENPAA Q 105; SCF Q 156) pointed out that where Single Farm Payments are calculated on the basis of production during a historic reference period, farms in disadvantaged areas—which are typically less productive—receive lower payments than their counterparts in non-LFA areas. Those farms then become proportionately more reliant on LFA support as a means of topping up their income. This can be exacerbated where the pattern of LFA payment distribution maps onto the pattern of Single Farm Payment distribution, as some witnesses suggested was the case in Scotland. The RSPB argued that while one would expect a pattern of LFA payments that was the reverse of that for Single Farm Payments in historic-based systems—as the former rewards and the latter penalises productive disadvantage—the two maps in fact mirror each other in Scotland (Q 96). The SCF also raised this issue, warning that LFA payment distribution in Scotland “does not sufficiently support the most marginal farms in the most difficult areas” (Q 138).
46. Meanwhile the IEEP suggested that the cross-compliance conditions¹⁶ attached to Single Farm Payments tend to be more onerous for farms in Less Favoured Areas, for three reasons: first, their profit margins are lower; second, they tend to be livestock farms and both types of cross-compliance

¹⁵ In order to be eligible to receive their full Single Farm Payment, farmers must meet a number of Statutory Management Requirements (SMRs) and maintain their land in good agricultural and environmental condition (GAEC). SMRs reflect the provisions of relevant EU legislation. GAEC is defined by each Member State, based on a common EU-wide framework. Taken together, SMRs and GAEC are the two elements of cross compliance.

¹⁶ See footnote 15 above.

conditions bear slightly more heavily on livestock farmers than on arable farmers; and third, they tend to be more extensive and are therefore more susceptible to scrub invasion which could lead to breaches of cross-compliance (Q 217).

Committee's Views

47. The evidence we received suggests that LFA payments are partly being used to plug a gap created by the way in which Pillar I subsidies are delivered. The productive potential of a holding is either disregarded or, in historic-based systems, positively rewarded. Single Farm Payments also fail to reflect variation in the magnitude and significance of the public benefits delivered by continued farming activity in different settings. **For these reasons, we see a distinctive role for the Less Favoured Areas scheme, which offers a means of channelling support in a much more discriminating way, to those farms that are least able to earn compensation from the market, yet contribute most to the maintenance of the landscape.**

CHAPTER 3: THE CONTENT OF THE REVIEW

Designation criteria

48. The need to review the existing classification of Less Favoured Areas was at the heart of the Court of Auditors report on the scheme. In that report, the Court argued that the Commission should develop, in close collaboration with the Member States, a more appropriate set of indicators for identifying Less Favoured Areas that would be consistent and guarantee equitable treatment of beneficiaries.¹⁷
49. The Commission has proposed common biophysical criteria (see Box 3), with specific minimum thresholds applicable across the EU, which Member States would use to identify areas facing natural handicaps. In a first stage, an area would be designated as disadvantaged if at least 66% of its active agricultural land meets at least one single criterion at the fixed threshold. For example, an agricultural area presenting a slope above 15% would qualify, disregarding its other soil-climate characteristics.
50. By the end of October 2009, Member States will be required to have undertaken a simulation exercise involving the mapping of the areas that, according to the proposed criteria, would be designated as facing a natural handicap. This will allow the Commission to assess more comprehensively the possible impact of the proposals on designation criteria and to adjust them accordingly ahead of the publication of a new draft legislative framework.
51. It is further proposed that Member States (or the appropriate authorities depending on constitutional arrangements) then fine-tune the designation to ensure that only those areas where natural handicaps are actually affecting agriculture are designated as Less Favoured Areas. This second step would remove from the eligible areas those areas where the handicap has been overcome, based on the availability of irrigation systems, drainage control systems and production-related indicators above a certain ceiling, e.g. the average yield as compared to the national average or the average of relevant neighbouring regions.
52. This would be a move away from the current position, in which a wider range of designation criteria are tolerated, including socio-economic criteria such as economic performance and population density. The change would be in line with the 2005 Rural Development Regulation¹⁸ (see para. 23 above).

BOX 3

The proposed common biophysical criteria

Climate

- Short growing period due to low temperature
- Periods of at least 10 consecutive days with temperatures of 35°C or over.

Soil

- Poorly drained soil (areas waterlogged for a significant part of the year)

¹⁷ Court of Auditors Special Report No 4/2003

¹⁸ Council Regulation (EC) No 1698/2005

- Over 15% of clay, silt, sand, organic matter or coarse material in top soil, or boulder(s) within 15cm of the surface
- Short depth from the soil surface to hard rock
- Presence of salts, exchangeable sodium and gypsum in the topsoil

Soil and Climate

- Soil-moisture balance criterion: Applies if a lack of soil moisture limits crop growth

Terrain

- A slope greater than 15%

Further details on the criteria are available in the Technical Annex of the Commission's Communication¹⁹

Witnesses' Views

The principle of common biophysical criteria

53. The Commission noted that the Court of Auditors had criticised the system of delimiting Less Favoured Areas as exhibiting “a lack of coherence, comparability and of transparency”. The revised indicators should therefore be more transparent, based on scientific evidence, and more coherent, while allowing Member States the possibility to adapt them to their own circumstances (Q 2).
54. Among our witnesses, there was a general acceptance that some form of common criteria would be useful as a way of ensuring fairness and consistency (Scottish Natural Heritage para 10; DEFRA Q 568; Welsh Assembly Government para 2; COPA-COGECA Q 358; Finland Q 470). The Czech Presidency emphasised that, in adopting the Rural Development Regulation, Member States had acknowledged that there was a need for clear criteria and that these should correlate to natural handicaps (Q 435).
55. A minority of witnesses were sceptical about the concept of common biophysical criteria. The Farmers' Union of Wales and NFU Cymru both argued that Member States should choose their own set of criteria, which would then be presented to the Commission for assessment (Q 66).
56. Other witnesses were supportive in principle, but called for increased flexibility. Poland, for example, emphasised that each Member State should be able to determine for itself which criteria it wanted to apply, given differing climates and soil quality (Q 306).
57. The IEEP considered the proposed biophysical criteria to be accurate proxies of natural handicap but suggested that they were not sufficiently precise to identify those areas where environmental benefits are most prevalent (Q 220). It suggested that one of the advantages of clear biophysical criteria was to establish a transparent link between LFA payments and the severity of the handicap (Q 238).
58. Several witnesses were concerned that the availability of data across all Member States in order to apply the criteria may be a problem (IEEP Q 222;

¹⁹ SEC(2009)449 21.04.2009

Macaulay Institute, para 3; Scottish Rural Property and Business Association para 11; Country Land and Business Association para 3.4). The IEEP referred specifically to data issues that the IEEP had encountered in a recent report on the conservation of agricultural soils across Europe. Among the representatives of Member States' governments from whom we took evidence, only the Czech Republic expressed particular concern that collation of data for the purposes of mapping the Less Favoured Areas would be a problem (Q 448).

59. The European Commission took the view that the data are available in many cases, but that they are not always maintained in a consistent way or in a framework, suggesting that they “must be put together in a systematic way and then integrated into a coherent approach” (Q 20). The Commission was confident that Member States would co-operate in providing as much data as possible within the six month deadline it has set (Q 328). The Swedish government, on the other hand, warned that there is no consensus among Member States on the need to deliver the data to the Commission (QQ 530–532).
60. The UK Government stressed the importance of retaining regional flexibility to designate land as LFA at land parcel or (sub-) holding level where desired, and where the data to do so is available, rather than restricting designation to a higher administrative level or ward (Memorandum, p.164, Q 3) . The Scottish Executive also underlined this point (Memorandum, p.150, para. 10.10).

UK-specific concerns

61. Most of our UK witnesses pressed for the inclusion of biophysical criteria that would capture the impact of cool, wet maritime conditions. The ENPAA warned that Europe-wide criteria “could result in some very, very strange anomalies in England and Scotland and Wales because of our unique oceanic-type climate”, and so there may need to be additional country-based criteria (Q 117). Scottish Natural Heritage noted that the criteria in Scotland ought to relate to the climate (cool temperatures, a short growing season and high rainfall) and the soil (poor in nutrients, often naturally waterlogged and susceptible to peat erosion) (Memorandum, p. 200, para 12).
62. The Macaulay Land Use Research Institute, UK Government and Scottish Executive argued that the criteria should include “field capacity days”, a measure which reflects the wetness of the climate and the period of time that the field is at field capacity (the maximum amount of water that a particular soil can hold). This, in their view, would more effectively take into account the specificities of the UK and Irish maritime climate than the soil-water balance criterion proposed by the Commission (Memorandum, p.193, para 6; QQ 577, 553).

Fine-tuning of LFA designation

63. In considering how to take into account some of the national and regional specificities across the EU, there was broad agreement among our witnesses that national and regional authorities should be permitted a degree of fine-tuning of the LFA designation resulting from application of the common biophysical criteria (FUW, Q 66; National Beef Association, Q 159; NFU Cymru, para 11; NFU, para 17; Scottish Natural Heritage, para 11; National Sheep Association, pages 2–3; Welsh Assembly Government, Q 2; Commission, Q 14; IEEP, Q 222; COPA-COGECA, Q 358).

64. The Commission explained that there are circumstances where the handicap does not really lead to a difficulty in production because it has been overcome by technical progress or other forms of intervention, such as irrigation or drainage. Member States should therefore have the option to verify whether the natural handicap is still manifest, based on a framework set out in the legislation (QQ 13–14). Similarly, the UK Government identified the need to ensure that funding is provided to the right farmers in the right areas where there is severe disadvantage, but also where the environmental benefits and public benefits are being delivered (Q 579). They argued that fine-tuning should only be used to exclude areas that would otherwise be designated as LFA, not to include additional areas (QQ 577–579).
65. Some witnesses took the view that the fine-tuning should take place at a lower administrative level than the Member State (COPA-COGECA, Q 358; Germany, Q 262; DEFRA, Q 576). The Welsh Assembly Government emphasised the importance of sufficient regional flexibility to take into account differences in natural disadvantage (para 2).
66. The IEEP warned of the danger of “a whole suite of additional criteria” ensuing from the fine-tuning process (Q 222). The Bulgarian government stressed the importance of a level playing-field, suggesting that any discretion given to Member States in terms of taking on board the specificity of the country was acceptable as long as it did not distort the competitive environment (Q 398). In a similar vein, the UK Government emphasised the importance of monitoring: “we would certainly see a role for requiring the Commission or some independently verified scrutiny elsewhere of Member States’ designations, of the rules, and the payment rates” (Q 601).
67. Indeed the potential importance of monitoring was demonstrated by the rather disparate range of views on how biophysical criteria might be fine-tuned. The Government argued that the UK should be able to take into account summer rainfall, for example (Q 576), while COPA-COGECA considered that the fine-tuning should involve socio-economic considerations (Q 361). According to the Minister, the UK Government will be working with the Commission to resist the bolting on of socio-economic factors (Q 584).

Omission of socio-economic criteria from the set of indicators

68. A final consideration brought to the Committee’s attention was the proposed omission of socio-economic criteria from the set of indicators used to identify Less Favoured Areas. The Scottish Executive and the Commission pointed out to us that the new Rural Development Regulation demands an exclusive focus on natural handicaps, as Member States can draw on measures under the other two axes of the Regulation to target socio-economic objectives (QQ 10, 554). The Commission also argued that while natural handicaps were immutable, socio-economic handicaps such as remoteness or population density could change over time, requiring regular review of LFA designations (Q 10).
69. The UK Government were categorical in their rejection of the LFA scheme as a socio-economic tool: “The whole basis of LFA ... is that it is to reward those wider benefits that come from farming in disadvantaged areas, not to tackle issues around socio-economic factors”. Those, the Government considered, can be tackled in other ways (Q 580). The Swedish government

- noted the view of Swedish farmers that there is a need for a change in the criteria for payment “to make it clearer that this is a payment to compensate for natural handicaps and not for socio-economic reasons. We have other policy areas to deal with that” (Q 515).
70. The RSPB rejected the notion that socio-economic factors such as fragility and distance from markets and labour should be factored in, arguing that these were “all well and good when the support was there to deliver food production” (Q 118). But if the objective was to deliver a much wider range of public benefits, the RSPB did not see the relevance of socio-economic criteria. Scottish Natural Heritage considered that the exclusion of socio-economic criteria should lead to increased transparency and consistency (para 10).
71. Other witnesses, on the other hand, considered that socio-economic indicators still had a role to play in identifying disadvantaged areas. The FUW argued that socio-economic criteria ought to be maintained because alternative economic options for farmers were often limited in less favoured areas. NFU Cymru disputed the Commission’s view that socio-economic factors change, arguing that key factors such as distance from market do not alter, an argument that was supported by the Scottish Crofting Foundation (Q 162). Remoteness was also an issue of concern to the National Sheep Association (Q 163) and to the European Forum on Nature Conservation and Pastoralism, which argued that distance should be seen as a physical or natural disadvantage (para 35).
72. The Scottish Executive made the point that, although it too attaches importance to socio-economic indicators, the proposed biophysical indicators often serve as an adequate proxy because natural and socio-economic handicaps (such as remoteness and population density) tend to be correlated (Q 554). Finland also anticipated that it would not need to draw on socio-economic criteria as the same objective is achieved by using biophysical criteria (QQ 472–3).
73. A distinctive perspective was provided by the Bulgarian government, which explained that Bulgaria was content with the omission of socio-economic criteria because it was not saddled with the “burden of the past”. Bulgaria’s LFA scheme only started in 2007 and deliberately omits socio-economic designation criteria because it was already anticipated that these would disappear (QQ 379, 420).
74. A final twist in the debate was rehearsed by several of our Scottish witnesses. It was anticipated that application of the biophysical criteria could lead to the exclusion from the scheme of parts of Scotland, such as areas around Caithness and Orkney, which continue to face the permanent disadvantage of being situated far from their markets, and whose land, while of poor quality, is of less poor quality than most other land in Scotland (NFUS, Q 68). One solution, advocated by the NFUS, would be to apply socio-economic criteria (Q 68). Another option, highlighted by the NFUS, Scottish Executive, Scottish Crofting Foundation and Scottish National Heritage, would be to explore the possibility of using Article 18 of the Rural Development Regulation to designate mountain areas and Article 20 to designate islands as areas with specific handicaps (QQ 69, 555, 159 and SNH Memorandum, p.200, para 10). Whilst this would appear to solve the potential problem for Orkney, it might not be sufficient to capture all areas currently designated as LFA. The Scottish Executive also emphasised that its

budget resources, rather than the legislative framework, were likely to be the limiting factor (Q 556).

Committee's Views

75. The Court of Auditors was strongly critical of the existing designation system which has led to a proliferation of criteria across the European Union. In order to provide consistency and transparency, **a common set of biophysical indicators to identify disadvantaged areas based purely on natural handicap is welcome.**
76. The European Union is, however, geologically and meteorologically diverse, a diversity which leads to a range of handicaps that must be adequately captured in the common set of criteria. **The criteria proposed by the Commission in its Communication provide an adequate basis for Member States to map the areas with natural handicaps across the EU. When assessing the maps that result, it will be critical to examine whether the specific nature of the UK and Irish maritime climate is adequately captured by the proposed criteria. At that stage, it may be necessary to press for the inclusion of additional criteria such as field capacity days or a suitable proxy.**
77. The establishment of indicators and the requirement to map is meaningless, however, without the appropriate data. While some Member States may have all of the necessary data to hand, we note that extra efforts may be required of others to ensure that the mapping can be completed within the Commission's deadline. **We recommend that the Commission pays careful attention to the availability of data in each Member State and offers assistance to Member States where necessary. Mapping down to land parcel level should be encouraged where such data is available, as this will facilitate the very targeting of aid that the review is intended to promote.**
78. Diversity of national and regional circumstances is such that it will be necessary to fine-tune the designation that results from application of the common biophysical criteria, but we see a danger that Member States may seek to use the fine-tuning process to replicate existing LFA designations. **We therefore endorse the approach advocated by the UK Government, whereby national and regional authorities would be permitted to fine-tune designations only in order to exclude areas where handicaps have been overcome.**
79. **We see a role for the Commission in monitoring this process, and ensuring that the criteria used for fine tuning are related to the objectives of the scheme as laid down by the 2005 Rural Development Regulation.**
80. We recognise that in many parts of the EU, the LFA scheme is still used to pursue socio-economic objectives. It is our view, however, that the policy levers available under the other axes of the EAFRD—and indeed under other EU, national and regional schemes—are better suited to that task, and that the LFA scheme's implementation must be brought into line with its formal objectives. **We consequently support the proposed move away from socio-economic indicators of disadvantage towards designations based purely on natural handicap.**

Eligibility criteria

81. Receipt of aid is dependent both on being located in an LFA and on fulfilling eligibility criteria. Currently, there are three mandatory EU-level eligibility criteria (see para 9), which are supplemented by a range of additional eligibility criteria set at the national and, in some cases, regional levels. According to the Commission, around 150 different criteria are used around the EU.
82. The Commission's Communication states that appropriate farm level eligibility rules are a useful way of targeting the aid after the process of area delimitation. The Commission considers that the current range of eligibility rules used by Member States could be amended so as to enhance their consistency with the objectives of the scheme and with the international commitments of the EU. A sufficient margin of manoeuvre should be left for addressing local peculiarities, which would also respect the principle of subsidiarity. In its Communication, the Commission has opted to defer making any firm proposals on this component of the scheme until the Member States have simulated the application of the new biophysical criteria on their territories and returned the resulting maps.

Witnesses' Views

Harmonisation of eligibility criteria

83. The majority of our witnesses accepted the need for a framework set at the EU level, allowing Member States to select their own eligibility criteria within that framework as appropriate. Some, however, were keener than others to emphasise the need for a framework that would align the criteria with the objectives of the scheme. The UK Government argued that a "strong EU-wide framework" must be "underpinned by first principles about what this measure is about" (Q 593). More specifically, the European Forum for Nature Conservation and Pastoralism argued that the EU-level framework must be related to the Rural Development Regulation Axis 2 objectives (Memorandum, p.184, para 4). Further detail was provided by the RSPB, which suggested a series of EU-wide conditions including: irrigation and drainage limits; minimum and maximum stocking densities; field size limits; and maximum tree density (Memorandum, p.52, para 20).
84. The need to avoid poor quality criteria which diverge from the scheme's objectives was emphasised by others. The European Commission wished to avoid "the big number and diverse quality of eligibility criteria which we have today" (Q 21) and the Farmers' Union of Wales considered that a common framework should ensure that "the eligibility conditions are not open to abuse within Member States" (Memorandum, p.15, para 38). The National Sheep Association recognised that a harmonised framework at the EU-level would assist in ensuring that the objectives of the scheme were fulfilled (Memorandum, page 70).
85. The IEEP warned that establishing a clear set of rules without constraining Member States might prove challenging (QQ 230–231). This caution appeared to be borne out by the evidence received from other Member States and regional authorities, who were keen to maintain flexibility at the national and regional level. The German government warned against excessive harmonisation of eligibility criteria (Q 272). The Bulgarian government recognised the need for some harmonisation but emphasised that "specificity

should also be taken into account, so there should be discretion to add to the criteria” (Q 402). Both the Czech and Swedish governments were cautious in their support for harmonisation of eligibility criteria and stressed that flexibility should be retained (QQ 449, 521).

86. The Scottish Executive emphasised that the flexibility must allow them to take into account “contrasting situations” across Scotland itself (Q 557). The Scottish Environment Protection Agency (SEPA) cautioned against setting maximum and minimum stocking densities at the EU level (Memorandum, p.197, Q 4). The Welsh Assembly Government called for “objective and benign” EU-wide criteria that would preserve regional flexibility within each Member State to determine the most appropriate eligibility criteria locally (Memorandum, p.210, Q 4).
87. A minority of our witnesses rejected any form of common eligibility criteria. The NFU pointed to the current condition in the Rural Development Regulation requiring that any measures financed under Axis 2 (such as the LFA scheme) shall target the sustainable use of agricultural or forestry land. In the NFU’s view, this common condition is sufficient, particularly as each Rural Development Plan is then subject to a Commission process of approval (Q 75). Similarly, NFU Cymru argued that it is for the Member State or region “to work up eligibility requirements and submit them to the Commission for approval” (Memorandum, p.23, para 15). The Ulster Farmers’ Union did not consider it feasible to set common eligibility conditions that were in line with the scheme’s objectives (Memorandum, p.31, para 28).
88. Some witnesses dismissed the use of eligibility criteria entirely. The Finnish government considered it impossible to impose eligibility criteria in view of the restrictions imposed by the Finnish climate (QQ 474–475), while the National Beef Association argued that the imposition of eligibility criteria might restrict mixed farming (Q 165).

The purpose and type of criteria

89. Several witnesses stressed that the purpose of eligibility criteria is to target aid within areas delimited as LFA (Commission, Q 21; Scottish Natural Heritage Memorandum, p.201, paras 18–21). The European Forum on Nature Conservation and Pastoralism noted that “effective targeting of LFA payments is best achieved through farm-level eligibility criteria” (Memorandum, p.184, para 3).

Exclusion of intensive farming

90. The majority of witnesses emphasised that eligibility criteria must be tied to the objectives of the scheme and concluded that intensive farming systems²⁰ should therefore be excluded (SCF, Q 165; SNH Memorandum, p.201, paras 18–21; IEEP, Q 228; European Forum on Nature Conservation and Pastoralism Memorandum, pp.185–186, paras 6 & 22; Country Land and Business Association Memorandum, p.183, para 6.2). As the European Commission explained, the Rural Development Regulation explicitly indicates that the scheme should be used to support extensive farming

²⁰ For example, the raising of large number of animals on a small amount of land or the cultivation of crops by using substantial inputs of capital labour or technologies such as pesticides and fertilisers.

systems²¹ (Q 21). The UK Government asserted that the scheme was never intended to support intensive farming (Q 588).

91. The governments of most other Member States from whom we took evidence were equally supportive of excluding intensive farming systems. The German government explained that it is already excluding certain “intensive agricultural production areas” (QQ 266–267). The Czech government expressed support for eligibility criteria that allow LFA payments to be carefully targeted, for example on the basis of livestock density and the extent of grassland, with the aim of excluding intensive farming (Q 443).
92. The Commission pointed out, however, that some Member States were less discriminating, and were for example extending LFA aid to areas whose soil quality was poor on some criteria (e.g. stoniness) but where champagne production was viable and successful (Q 13). The Bulgarian government explained that their current eligibility criteria relate to environmental conditions, farm size and active farming (Q 402). This means that no differentiation is made among eligible farms in terms of the type of activity undertaken, which allows holdings such as vineyards to be included (Q 412).

WTO obligations

93. Both the European Commission and the UK Government were also keen to emphasise that eligibility criteria must respect WTO obligations (Commission, Q 21; UK Government, Q 594). In order to avoid challenge under WTO rules, the criteria would need to be “green box compatible”, which means that the resulting payments should not distort trade, or at most cause minimal distortion. Such payments must be government-funded and must not involve price support. Typically, this might allow direct payments not linked to production levels or payments for the delivery of environmental goods.

Part-time farmers and applicant’s residence

94. It was noted that some Member States currently exclude part-time farmers from receipt of aid, an exclusion criticised by most witnesses, particularly as such practices differ across the European Union (NFU, QQ 70–71; NFUS, Q 71; NFU Cymru, Q 72; Ulster Farmers’ Union, QQ 72–73; European Forum on Nature Conservation and Pastoralism Memorandum, p.184, para 4; Bulgaria, Q 402). The NFU explained, for example, that some farms may appear to be active full-time but they might be considered part-time when judged by their economic output. The European Commission rejected the exclusion of part-time farmers altogether, on the basis that as long as such farmers contribute to the objective of the measure, “we do not see a reason why they should not be compensated for the specific costs they have” (Q 21). Another criterion deemed irrelevant was the residence of the applicant (UK Government, Q 593)

Committee’s Views

95. If the objectives of the scheme as set out in the Rural Development Regulation are to be met, **a common EU-level framework for eligibility**

²¹ Extensive farming systems would generally include a large area of land with proportionately low levels of capital, labour or technologies.

criteria is in our view essential. Without such a framework, the scheme risks being undermined by the imposition of a multitude of additional and possibly irrelevant eligibility criteria.

96. The EU-level framework must strike a balance between enforcing the scheme's objectives and affording sufficient flexibility to Member States and regions. We welcome the Commission's recognition of the need to clamp down on the use of criteria deemed irrelevant to the objectives of the scheme or contrary to the international commitments of the EU.
97. **We regret the Commission's reluctance to propose an EU framework for eligibility criteria at this stage. We consider that the focus of such a framework should be on extensive farming systems, the exclusion of any restrictions irrelevant to the objectives of the measure, and WTO-compatibility. It should not rule out mixed farming. Reaching agreement among Member States on such a framework is, however, likely to prove challenging.**

Payment Formula

98. Where they are not already doing so, Member States will be required to calculate LFA payments using the new payment formula set out in the 2005 Rural Development Regulation, which stipulates that payments should "compensate for farmers' additional costs and income forgone related to the handicap for agricultural production in the area concerned."²² Regulation 1974/2006 lays down that calculations should only contain elements that are verifiable, and should be based on figures established by appropriate expertise.²³ The principle behind the formula is that the LFA payment should compensate for all or part of the additional costs incurred by farmers in LFA areas compared to their counterparts in non-LFA areas. Member States' average LFA payment levels would still have to fall within a range fixed by the Council. The formula is already used for CAP agri-environment payments and for state aid, and is a recognised formula in the context of the World Trade Organisation.

Witnesses' Views

99. A number of witnesses welcomed the additional transparency that the new calculation method would bring. The UK Government anticipated that implementation of the formula, and the requirement for it to be verified independently, would make an important contribution to the consistency and efficiency of the LFA measure (DEFRA Memorandum, p.165, Q 6).
100. The IEEP, which had concluded in its evaluation report that the link between the handicap creating the disadvantage, the consequences for farm profitability and the level of payment was often not sufficiently transparent under the current regime, expressed qualified optimism that the new payment formula would begin to redress this. Its Director explained that clearer and more objective criteria for measuring the level of disadvantage would make it easier to calibrate payments accordingly (Q 235). The new formula, while "pretty broad brush", would at least provide a framework whereby Member States would need to present their calculations in a slightly

²² Art. 37.

²³ Art. 53.

more consistent form and be slightly more easily cross-examined by the Commission. So while the IEEP did not view the formula as a guarantee of completely consistent or carefully calibrated payments, it did expect it to “reduce some of the level of inconsistency” (Q 235).

101. The Commission anticipated that the new system would prevent over-compensation—a problem raised in the Court of Auditors’ report (Q 28). Other witnesses were less confident: the ENPAA noted that payment calculations are “not a hard science” and could be made more generous, or less, depending on the figures put into them, yet remain “perfectly justifiable and verifiable” (Q 129).
102. Most witnesses did not expect that use of the payment formula would stimulate convergence in LFA payment rates across the EU, delivering consistency in that sense. The Commission indicated that it was not interested in bringing about harmonisation of payment levels (Q 340).
103. The IEEP anticipated that continued flexibility around eligibility criteria would maintain variation in payment levels (Q 237). It also expected that, as Member States would continue to operate within a fixed budget up to 2013, their ability to change payment rates radically would be quite constrained. In the next programming period, however, there could be more of a break with past levels of payment (Q 237).
104. The UK Government emphasised that it would be essential for Member States and regions to retain the flexibility to determine what proportion of “additional costs and income forgone” is payable, including the flexibility to pay small or zero payments in some areas. They argued that the LFA scheme is a discretionary measure that works alongside a variety of other measures to deliver rural development objectives, and that Member States must be able to determine their budget allocation for each scheme in that wider context (DEFRA Memorandum, p.165, Q 6). At the other end of the spectrum, the Finnish government explained it would be in Finland’s interests to remove the upper limit on payment levels, as an objective calculation of the handicap faced by Finnish LFA farmers would yield a higher payment level than is currently permissible (Q 479).
105. Some farmers’ unions highlighted what they saw as a muddle in the philosophy behind the new payment formula, and particularly its “income forgone” element. The NFUS argued that LFA payments were not about income forgone or doing something non-productive such as setting aside land, as would be the case in agri-environment schemes. Instead the payments should compensate for a permanent physical disadvantage that cannot be remedied (Q 57). The NFU pointed out that, in some situations, farmers in LFA areas would be making so little net profit that they would not be forgoing income at all when participating in the LFA scheme, a point echoed by the RSPB (QQ 81, 129). The ENPAA acknowledged that there might be no net income to forgo, but argued that compensation for the cost of management could still be delivered adequately through the new payment formula (Q 129).
106. The NFU and NFUS advocated the inclusion of an “incentive” element in the formula to reward farmers who could produce “a really good environmental product” (Q 82). The NFUS pointed out that payments under the new formula would be totally dissociated from outcomes, even though the logic of the payment should now be on delivering outcomes

(Q 82). By contrast the ENPAA argued that where full payment for the costs involved in doing a job was being offered, no additional incentive to do that job should be deemed necessary (Q 129).

107. The UK Government warned that the approach enshrined in the formula does not recognise all factors relating to disadvantage for which the market may have already compensated the farmer. They observed, for example, that there is no adjustment for the lower land and rental costs payable in an LFA compared to a non-handicapped area (DEFRA Memorandum, p.165, Q 6).
108. A critical issue highlighted by both the UK and Finnish governments was the benchmark to be used for calculating “additional” costs, and notably whether the point of comparison should be a national benchmark or an EU benchmark. The Finnish government argued that an EU average should be used, as countries like Finland would have no non-handicapped reference to draw on (Q 479). The Scottish Executive warned that if Member States assess handicap relative to a reference area in their country, it is likely that land facing the same handicaps would attract different payment levels in different parts of the EU (Memorandum, p.150, Para. 10.13). The UK Government suggested that guidance should be developed to ensure consistent reference points are adopted for comparison with non-disadvantaged areas (DEFRA Memorandum, p.165, Q 6).

Committee's Views

109. We expect that the new method of calculating LFA support will improve transparency and facilitate scrutiny of Member States' payment practices. However, we do not expect that adoption of the formula will eliminate over-compensation in and of itself. **In order to address the Court of Auditors' concerns fully, the European Commission must take responsibility for monitoring Member States' implementation of the formula, and for challenging their calculations where necessary.**
110. We recognise that there will continue to be considerable variation in LFA payment levels across and within Member States. Although this could be viewed as a distortion of the Single Market, it is in our view an inevitable corollary of allowing individual authorities to exercise discretion in how they deploy the rural development funding they receive through the EAFRD, including the freedom not to operate an LFA scheme at all. We believe that this level of discretion is justified on the grounds of subsidiarity²⁴, and that the minimum and maximum payment levels set by the Council should exert an additional moderating influence.

²⁴ The principle of subsidiarity is defined in Article 5 of the Treaty establishing the European Community. In this context, we use it to mean that these types of decisions are more appropriately taken at national, regional, or local level than at EU level.

CHAPTER 4: IMPLEMENTATION AND OVERSIGHT

Timing of reform

111. The current Czech Presidency of the EU has opened negotiations on the Commission's Communication in Council Working Groups and the Special Committee on Agriculture. It hopes that these discussions will pave the way for Council Conclusions to be adopted at the Agriculture and Fisheries Council meeting due to be held in June (Q 435). The subsequent Swedish Presidency will then inherit the dossier (Q 531), but a legislative proposal from the Commission is not expected until 2010 at the earliest (Q 324). On this timetable, a revised LFA scheme would be unlikely to be implemented before 2014, by which time the future of the Common Agricultural Policy as a whole is expected to be under discussion against the backdrop of a review of the EU budget. There could consequently be a case for rolling the LFA review into a wider review of the CAP, to avoid implementing a targeted reform of the LFA scheme that is quickly overtaken by a wider reform of the CAP, precipitating further changes to the scheme.

Witnesses' Views

112. Those advocating that reform of the LFA scheme should be postponed justified their stance in different ways. Natural England argued that there is overlap between the scope of the LFA scheme and agri-environment programmes in Pillar II and elements of Pillar I support. It made the case for using the next round of CAP reform to rationalise and, where appropriate, integrate these measures (Memorandum, p. 196, Paras. 23–24). The Country Land and Business Association suggested that there was “little point” in tinkering with LFA areas and measures any further until a more wide-ranging debate about the purpose and distribution of the whole support system, and the role of the LFA scheme within it, had taken place (Memorandum, p.184, Paras. 10.1–10.2). The Bulgarian government indicated that as it had only just begun applying its LFA scheme in 2007, it would wish to postpone any further reform until after 2013 (Q 397). The Swedish government, which is due to take on the EU Presidency in July, anticipated that finding support from all the Member States to press ahead swiftly with the LFA review would be difficult (Q 532).
113. By contrast the Commission, the current Czech Presidency and the UK Government cast the LFA review as a “technical exercise” which should not be affected by the budget review (Q 330, QQ 437–438 and Q 603 respectively). The Commission stressed that “what we are doing is not a reform”, but rather a technical exercise that would help Member States to target funds more efficiently (Q 330). The Czech government explained that the exercise had been planned for a few years and now was the time to “materialise the decision” (Q 455). It anticipated that the debate on the future of the CAP would centre on the role of Pillar I payments, rather than on rural development, and so did not expect that debate to hold up the LFA review. It also emphasised the “general consensus” on the importance of a response to the Court of Auditors' report of 2003 (Q 435).

Committee's Views

114. At its heart, the LFA review is a technical exercise that should be undertaken separately from any further reform of the CAP. However, it has a political dimension that Member States are unlikely to overlook. The review could bring unwelcome consequences in the form of areas that might no longer qualify for aid, in limits on national and regional authorities' discretion in awarding aid, and even in the administrative demands that closer oversight by the Commission might entail. We did not sense much appetite for reform among the Member States from whom we took evidence, and we anticipate that rallying consensus on the need to press ahead will take considerable coaxing on the part of the Commission and the Council Presidency.
115. **We nonetheless support a prompt execution of the review.** The deficiencies highlighted in the Court of Auditors' report cannot continue to be left unchecked. But just as importantly, a successful review should ensure that LFA funds are allocated more efficiently, benefiting not only the taxpayer but also the farms most deserving of support under this scheme.

Monitoring and evaluation

116. In its 2003 report, the Court of Auditors found that although the LFA scheme had been in operation since 1975, no overall evaluation of the impact of the measure had been carried out. It noted that beneficiaries believed that LFA aid had enabled them to continue farming in an area which they might otherwise have had to leave, but argued that in the absence of an overall evaluation, no definite conclusions could be drawn. The Court concluded that the Commission was insufficiently informed of the impact of the scheme, and that it could therefore not be guaranteed that resources were being used properly.²⁵
117. Following publication of the Court of Auditors' report, an evaluation of the LFA measure was commissioned from the Institute for European Environmental Policy, and published in 2006.²⁶ The IEEP concluded that the original goal of the LFA measure—preventing the abandonment of agricultural land—had been reached in the 'old' Member States of the EU²⁷, where relatively little farmland had ceased to be managed by agriculture. It suggested that the LFA measure is one of a number of policies that have contributed to this outcome, but that its exact contribution is not clear cut, partly because there is little evidence about how beneficiaries would have acted in the absence of a payment, partly because significant numbers of holdings in LFA areas continue to be farmed even though they do not attract LFA payments, and partly because the contribution of the LFA payment to farm incomes is often dwarfed by other CAP subsidies. The report emphasised that there is variation across farms and Member States in the extent to which LFA payments contribute to farm incomes and in the income level required to maintain farming, and that it is difficult to be confident that the LFA payments offered match these varying requirements,

²⁵ European Court of Auditors, Special Report 4/2003, para. III (f) and paras. 72–79.

²⁶ 'An Evaluation of the Less Favoured Area measure in the 25 Member States of the European Union', report prepared by the Institute for European Environmental Policy for the European Commission's DG Agriculture, November 2006.

²⁷ Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, UK.

suggesting that there is no uniform pattern of effectiveness. It nevertheless concluded that the measure had been most effective on livestock farms.

118. Articles 80 and 81 of the 2005 Rural Development Regulation stipulated that the Commission and the Member States should draw up a common monitoring and evaluation framework specifying common indicators on the basis of which the progress, efficiency and effectiveness of individual rural development programmes could be measured. It also mandated annual progress reports and ex ante, mid-term and ex post evaluations of rural development programmes by independent evaluators (Arts. 82 and 84). The common monitoring and evaluation framework was established by Regulation 1974/2006. That Regulation charges the Commission with drawing up guidance on the evaluation of each rural development measure, and with providing information sheets for each measure specifying the logic of intervention and the indicators against which progress is to be assessed.²⁸

Witnesses' Views

119. The Commission assured us that it had devoted close attention to the Court of Auditors' assessment of the LFA scheme and its deficiencies, and responded by introducing a number of changes, among them the common management and evaluation framework, accompanied by indicators to monitor the results delivered by the measure (QQ 28–29). It explained that Member States must report back to the Commission on an annual basis, and conduct mid-term and ex-post evaluations outlining the impact of the measure, and indicating how far the measure has helped to ensure continued agricultural land use in areas with handicaps (Q 29). However, some Member States had experienced difficulty in using the indicators to produce their first annual report in 2008 (Q 30). The Commission conceded that the submission of incomplete reports by Member States would not automatically halt the payment of aid. Instead, it pledged to work with Member States to ensure that all the information required for the process of justifying budget allocations was available (Q 31).
120. The UK farmers' unions were adamant that the LFA scheme had made a critical difference to the preservation of farming activity in disadvantaged areas. They pointed out that LFA payments could amount to anywhere between 13 and 33 per cent of net farm incomes, sometimes more in bad years, and that that contribution made a critical difference to whether a given farmer chose to continue farming in an LFA area (QQ 48–56, Q 87).
121. Among other Member States, however, we heard different accounts of the extent to which land abandonment presented a threat. The Polish and Bulgarian governments, for example, each identified land abandonment as a severe problem (Q 285 and Q 385, respectively). But the German government noted that while farmers did go out of business, the proportion of land being abandoned was very low in Germany, as it would be more common to seek alternative income sources outside agriculture (Q 252).
122. The UK Government noted that the demand to take over upland farms was still there (Q 575). The Scottish Executive also noted that anecdotal evidence about land abandonment was not borne out in the statistics, which

²⁸ Commission Regulation (EC) No 1974/2006 of 15 December 2006 laying down detailed rules for the application of Council Regulation No 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD), Article 62 and Annex VIII.

showed a rise in the number of applications for LFA support in Scotland in 2008 compared to 2007. It explained that livestock numbers had been coming down in Scottish LFAs, not least as a result of decoupling (which brought headage payments to an end) ²⁹, but argued that without LFA payments a greater decline would have been observed (QQ 546–547).

123. The IEEP explained that overall, the area of land under agriculture in LFA areas had been maintained over the period 1995 to 2003. It also drew to our attention the huge variation in the proportion of land designated as LFA that attracts aid—ranging from over 90 per cent in Ireland, Luxembourg and Finland, to less than 20 per cent in France and Portugal—and suggested that where LFA land continues to be farmed in the absence of LFA payments, the payment could not be regarded as essential for the continuation of agricultural activity. It also found significant variation in the proportion of farm income sourced from LFA payments, but concluded that, given the narrow profit margins under which LFA farms sometimes operate, even relatively small contributions—of 5 per cent or less in some southern Member States—might be significant (QQ 209–211).

Committee's Views

124. Many of our witnesses asserted their conviction that the measure has made a critical difference to preventing land abandonment by maintaining farming activity, pointing to the contribution that LFA payments make to the financial viability of farming businesses. However, this does not in itself establish that LFA payments are either necessary or sufficient to prevent abandonment. **Like the Court of Auditors before us, we have therefore been unable to draw firm conclusions about the effectiveness of the LFA scheme in meeting its objectives.**
125. **While we recognise that it will be difficult to disentangle the effect of the LFA scheme from other financial aid made available to farmers, we believe that the Commission and the Member States must commit to assembling the evidence base with which the scheme's effectiveness as a mechanism for protecting the environment and the landscape might be assessed and kept under review.** We anticipate that the scheme's performance against its objectives will need to be evaluated regularly, both by the Commission and at a local level, to establish whether environmental and landscape benefits continue to be delivered, and whether it is still appropriate to offer support where natural handicaps are either exacerbated or mitigated by climate change.
126. **We urge the Commission to ensure that the indicators used to assess the impact of the LFA measure reflect its objectives, and can be readily applied by Member States. While we recognise that some Member States may need time to develop systems for collecting the relevant data, we believe that in the medium term, the Commission should consider temporary suspension of payments where evaluation reports are unsatisfactory or not forthcoming.**

²⁹ Decoupling refers to the breaking of the link between CAP subsidies and production. Headage payments were one variant of this, whereby subsidies were linked to the number of livestock kept on a given holding.

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

The role of the LFA scheme

127. We endorse the European Commission's stance on the purpose of support for farms in Less Favoured Areas: payments should help farmers in marginal areas to continue farming where their farming activity generates public benefits in the form of positive impacts on the environment and the landscape.
128. We emphasise the importance of continuing to assess the public benefits obtained in exchange for this type of aid: society does not owe unconditional support to farmers wishing to farm in areas affected by natural handicaps. Indeed, we anticipate that as climate change begins to take its toll on parts of Europe, support may need to be reassessed. In some instances, currently non-handicapped areas may require additional support, while in other instances, for example where water scarcity becomes particularly acute, land may become so severely handicapped that support should be withdrawn.
129. We are conscious that by maintaining farming activity in place in marginal areas, the LFA scheme also makes a de facto contribution to preserving food production capacity, which could become increasingly important if climate change reduces production capacity elsewhere.
130. We recognise that farming activity in marginal areas often brings social, economic and cultural benefits to local communities and the wider public. However, measures available under the other axes of the Rural Development Regulation offer more targeted and cost-effective ways of addressing socio-economic objectives in rural areas.
131. We also consider it important to recognise that neither the LFA payment nor the wider package of financial aid available to farmers in Less Favoured Areas will necessarily be sufficient to prevent a decline in farming activity in marginal and remote areas of the EU. LFA payments may exert a moderating influence, but would-be farmers' career choices are likely to be influenced by cultural and lifestyle factors as well as economic incentives. We view this as an emerging policy challenge that merits consideration as part of the wider review of the CAP post-2013.
132. The evidence we received suggests that LFA payments are partly being used to plug a gap created by the way in which Pillar I subsidies are delivered. The productive potential of a holding is either disregarded or, in historic-based systems, positively rewarded. Single Farm Payments also fail to reflect variation in the magnitude and significance of the public benefits delivered by continued farming activity in different settings. For these reasons, we see a distinctive role for the Less Favoured Areas scheme, which offers a means of channelling support in a much more discriminating way, to those farms that are least able to earn compensation from the market, yet contribute most to the maintenance of the landscape.

The content of the review

133. The Court of Auditors was strongly critical of the existing designation system which has led to a proliferation of criteria across the European Union. In order to provide consistency and transparency, a common set of biophysical

indicators to identify disadvantaged areas based purely on natural handicap is welcome.

134. The European Union is, however, geologically and meteorologically diverse, a diversity which leads to a range of handicaps that must be adequately captured in the common set of criteria. The criteria proposed by the Commission in its Communication provide an adequate basis for Member States to map the areas with natural handicaps across the EU. When assessing the maps that result, it will be critical to examine whether the specific nature of the UK and Irish maritime climate is adequately captured by the proposed criteria. At that stage, it may be necessary to press for the inclusion of additional criteria such as field capacity days or a suitable proxy.
135. The establishment of indicators and the requirement to map is meaningless, however, without the appropriate data. While some Member States may have all of the necessary data to hand, we note that extra efforts may be required of others to ensure that the mapping can be completed within the Commission's deadline. We recommend that the Commission pays careful attention to the availability of data in each Member State and offers assistance to Member States where necessary. Mapping down to land parcel level should be encouraged where such data is available, as this will facilitate the very targeting of aid that the review is intended to promote.
136. Diversity of national and regional circumstances is such that it will be necessary to fine-tune the designation that results from application of the common biophysical criteria, but we see a danger that Member States may seek to use the fine-tuning process to replicate existing LFA designations. We therefore endorse the approach advocated by the UK Government, whereby national and regional authorities would be permitted to fine-tune designations only in order to exclude areas where handicaps have been overcome.
137. We see a role for the Commission in monitoring this process, and ensuring that the criteria used for fine tuning are related to the objectives of the scheme as laid down by the 2005 Rural Development Regulation.
138. We recognise that in many parts of the EU, the LFA scheme is still used to pursue socio-economic objectives. It is our view, however, that the policy levers available under the other axes of the EAFRD—and indeed under other EU, national and regional schemes—are better suited to that task, and that the LFA scheme's implementation must be brought into line with its formal objectives. We consequently support the proposed move away from socio-economic indicators of disadvantage towards designations based purely on natural handicap.
139. If the objectives of the scheme as set out in the Rural Development Regulation are to be met, a common EU-level framework for eligibility criteria is in our view essential. Without such a framework, the scheme risks being undermined by the imposition of a multitude of additional and possibly irrelevant eligibility criteria.
140. The EU-level framework must strike a balance between enforcing the scheme's objectives and affording sufficient flexibility to Member States and regions. We welcome the Commission's recognition of the need to clamp down on the use of criteria deemed irrelevant to the objectives of the scheme or contrary to the international commitments of the EU.

141. We regret the Commission's reluctance to propose an EU framework for eligibility criteria at this stage. We consider that the focus of such a framework should be on extensive farming systems, the exclusion of any restrictions irrelevant to the objectives of the measure, and WTO-compatibility. It should not rule out mixed farming. Reaching agreement among Member States on such a framework is, however, likely to prove challenging.
142. We expect that the new method of calculating LFA support will improve transparency and facilitate scrutiny of Member States' payment practices. However, we do not expect that adoption of the formula will eliminate over-compensation in and of itself. In order to address the Court of Auditors' concerns fully, the European Commission must take responsibility for monitoring Member States' implementation of the formula, and for challenging their calculations where necessary.
143. We recognise that there will continue to be considerable variation in LFA payment levels across and within Member States. Although this could be viewed as a distortion of the Single Market, it is in our view an inevitable corollary of allowing individual authorities to exercise discretion in how they deploy the rural development funding they receive through the EAFRD, including the freedom not to operate an LFA scheme at all. We believe that this level of discretion is justified on the grounds of subsidiarity, and that the minimum and maximum payment levels set by the Council should exert an additional moderating influence.

Implementation and oversight

144. Many of our witnesses asserted their conviction that the measure has made a critical difference to preventing land abandonment by maintaining farming activity, pointing to the contribution that LFA payments make to the financial viability of farming businesses. However, this does not in itself establish that LFA payments are either necessary or sufficient to prevent abandonment. Like the Court of Auditors before us, we have therefore been unable to draw firm conclusions about the effectiveness of the LFA scheme in meeting its objectives.
145. While we recognise that it will be difficult to disentangle the effect of the LFA scheme from other financial aid made available to farmers, we believe that the Commission and the Member States must commit to assembling the evidence base with which the scheme's effectiveness as a mechanism for protecting the environment and the landscape might be assessed and kept under review. We anticipate that the scheme's performance against its objectives will need to be evaluated regularly, both by the Commission and at a local level, to establish whether environmental and landscape benefits continue to be delivered, and whether it is still appropriate to offer support where natural handicaps are either exacerbated or mitigated by climate change.
146. We urge the Commission to ensure that the indicators used to assess the impact of the LFA measure reflect its objectives, and can be readily applied by Member States. While we recognise that some Member States may need time to develop systems for collecting the relevant data, we believe that in the medium term, the Commission should consider temporary suspension of payments where evaluation reports are unsatisfactory or not forthcoming.

APPENDIX 1: SUB-COMMITTEE D (ENVIRONMENT AND AGRICULTURE)

The members of the Sub-Committee that conducted this inquiry were:

The Earl of Arran
 Lord Brooke of Alverthorpe
 Viscount Brookeborough
 The Earl of Caithness
 Lord Cameron of Dillington
 The Earl of Dundee
 Baroness Jones of Whitchurch
 Lord Livsey of Talgarth
 Lord Palmer
 Lord Sewel (Chairman)
 Baroness Sharp of Guildford
 Viscount Ullswater

Declarations of Interest Relevant to this Inquiry

The Earl of Arran
Married to a farmer and landowner in Devon
Trustee of certain family trusts associated with farming

Lord Brooke of Alverthorpe
Senior Strategic Adviser to Accenture plc—IT provider for Single Farm Payments for DEFRA

Viscount Brookeborough
Farms LFA land in Northern Ireland (in receipt of LFA payments)
Farms in Northern Ireland and received an EU grant several years ago for diversification
Runs a farm-based tourist business

The Earl of Caithness
Trustee of a Trust that owns farmland within an LFA area. The farm owned by the Trust receives an LFA payment
(Non-remunerated) Trustee of Fundatia Adept Ltd, a charity working to protect the countryside of Tarnava Mare in Southeast Transylvania. The trust receives EU grants

Lord Cameron of Dillington
Farmer and landowner and has commercial property interests in the countryside (not in an LFA area)
Member of the National Farmers' Union
Member of the Country Land and Business Association
Member of the Campaign to Protect Rural England
Member of the National Trust
Director of the Royal Bath and West Society
Trustee of the Lawes Agricultural Trust

The Earl of Dundee
Farmer, landowner and forester in Scotland
Director of farming company in Scotland
In receipt of Single Farm Payments

Lord Livsey of Talgarth
No direct financial interests

Member of The Campaign for the Protection of Rural Wales
Adviser (unpaid) 'Prime Cymru'—Business start ups in Wales for 50+ year olds
Member of the Royal Welsh Agricultural Society
Vice President of the Brecknock Federation of Young Farmers Clubs
President of the Brecon and District Disabled Club—runs Dial-a-Ride Rural Bus Service Charity

Lord Palmer

Farmer (in receipt of Single Farm Payment and other rural Stewardship Scheme Payments)
Member of the National Farmers' Union Scotland
Member of the Scottish Rural Property and Business Association
President of British Association for Bio Fuels and Oils
President of Transport Division of the Renewable Energy Association
Residual beneficiary of banana growing estate in West Indies
Involved in rural tourism

Viscount Ullswater

Trustee of landed estates in Cumbria and Devon (Expenses)—Land owned by the Trusts attract LFA payments
Member of the Country Land and Business Association

A full list of Members' interests can be found in the Register of Lords Interests:

<http://www.publications.parliament.uk/pa/ld/ldreg.htm>

APPENDIX 2: LIST OF WITNESSES

The following witnesses gave evidence. Those marked * gave oral evidence.

- * Bulgarian Government
- * COPA-COGECA
The Country Land and Business Association (CLA)
- * Czech Government
- * Department for Environment, Food and Rural Affairs (DEFRA)
- * English National Parks Authorities Association (ENPAA)
- * European Commission
European Forum on Nature Conservation and Pastoralism
- * Farmers' Union of Wales (FUW)
- * Finnish Government
- * German Government
- * Institute for European Environmental Policy
- * Mr. Huw Irranca-Davies MP, Minister for the Natural and Marine Environment, Wildlife and Rural Affairs
Loch Lomond and the Trossachs National Park Authority
Macaulay Land Use Research Institute
- * National Beef Association
- * National Farmer's Union (NFU)
- * NFU Cymru
- * NFU Scotland
- * National Sheep Association
Natural England
- * Polish Government
- * Royal Society for the Protection of Birds (RSPB)
- * Scottish Crofting Foundation (SCF)
Scottish Environment Protection Agency (SEPA)
- * Scottish Executive
Scottish Natural Heritage (SNH)
Scottish Rural Property and Business Association
- * Swedish Government
Tenant Farmers Association
- * Ulster Farmers' Union
Welsh Assembly Government (WAG)

APPENDIX 3: CALL FOR EVIDENCE

Introduction

The House of Lords European Union Committee will be conducting a short inquiry, through its Environment and Agriculture Sub-Committee (Sub-Committee D), into the planned review of the Less Favoured Area support scheme, which is to be the subject of a European Commission Communication in Spring 2009.

Aid to farmers in Less Favoured Areas (LFAs) is part of the EU's Rural Development Policy. Following criticism by the European Court of Auditors in 2003³⁰, the policy objectives of the LFA scheme were amended to align them more closely with the sustainable land management objectives of Axis 2 of the new Rural Development Regulation³¹. However, the Council of Ministers failed to reach agreement on how to bring the modalities of the scheme into line with the new policy objectives. The European Commission was consequently charged with leading a review of the LFA measure.

Early in 2008, the Commission launched a public consultation³² as part of the review process, looking at how the scheme should be amended in light of its revised objectives. A Communication setting out the Commission's proposals is expected in Spring 2009. A legislative proposal could follow either late in 2009 or early in 2010.

The Committee is seeking evidence from stakeholders and other interested parties, on the basis of which it will formulate conclusions and recommendations designed to inform the House of Lords and assist the UK Government and the EU institutions in taking the review forward in the course of 2009 and 2010. The primary focus of the inquiry will be the EU-wide revision of the Less Favoured Areas scheme. Views on current developments in the way the scheme is delivered in the UK are welcome, but should where possible draw out the connection to the EU policy framework.

The issues

Against this background, the Committee hereby invites you to submit written evidence to its Inquiry. The Committee would find it helpful if, in addition to any general issues you may wish to raise, you would focus on a number of specific issues, listed below. It is recognised that those submitting evidence will not necessarily have an interest in all the questions and may therefore wish to be selective. Views are sought on the following:

The past: strengths and weaknesses of the LFA scheme

- (1) The strengths and the weaknesses of the LFA scheme thus far.

The current review: common biophysical criteria

- (2) Whether it is appropriate to set common, EU-wide biophysical criteria for delimiting LFA areas, as suggested by the Commission in its consultation paper.

³⁰ ECA Special report No 4/2003 concerning rural development: support for less favoured areas (OJ C151 27.06.2003, p. 1–24) <http://eca.europa.eu/portal/pls/portal/docs/1/173294.PDF>

³¹ Articles 36 (a)(i) & (ii), 37 and 50 of Council Regulation (EC) No 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development.

³² http://ec.europa.eu/agriculture/consultations/lfa/index_en.htm

- (3) Whether the common biophysical criteria set out by the Commission in its consultation paper are appropriate and effective in identifying disadvantaged areas. Are there any omissions, whether in the form of further biophysical indicators or other indicators?

The current review: eligibility conditions

- (4) What degree of harmonisation of eligibility conditions (for determining access to LFA payments), if any, is needed.
- (5) What the basic rules and criteria for eligibility for LFA aid should be, if the scheme is to meet its new objectives.

The current review: payment calculation

- (6) How practicable is the new payment formula (based on additional costs and income foregone related to the handicap in the area concerned)? Is it likely to help reduce wide discrepancies in payment levels across Member States?

The impact of the review

- (7) To what extent would common biophysical criteria and amended eligibility criteria address the deficiencies of the LFA scheme as identified by the Court of Auditors in 2003, and in particular:
- guarantee equitable treatment of beneficiaries
 - facilitate monitoring, control and audit of the measure
 - facilitate evaluation of the impact and effectiveness of the measure

The future development of the LFA scheme

- (8) What is the role of the LFA scheme in the context of the current Rural Development Regulation, and the reformed, post-Health Check CAP. What should the LFA scheme deliver in the short term (pre-2013) that other policy instruments affecting farm viability, environmental protection and agricultural land use cannot deliver?
- (9) The future evolution of the scheme, post-2013, within the context of the EU budget review, the EU's cohesion policy and further reform of the Common Agricultural Policy.

APPENDIX 4: RECENT REPORTS

Recent Reports from the Select Committee

Session 2008–09

Priorities of the European Union: evidence from the Ambassador of the Czech Republic and the Minister for Europe (8th Report, Session 2008–2009, HL Paper 76)

Enhanced scrutiny of EU legislation with a United Kingdom opt-in (2nd Report, Session 2008–2009, HL Paper 25)

Session 2007–08

Annual Report 2008 (32nd Report, Session 2007–2008, HL Paper 191)

Priorities of the European Union: evidence from the Ambassador of France and the Minister for Europe (24th Report, Session 2007–08, HL Paper 155)

The Commission's Annual Policy Strategy for 2009 (23rd Report, Session 2007–08, HL Paper 151)

Priorities of the European Union: evidence from the Minister for Europe and the Ambassador of Slovenia (11th Report, Session 2007–08, HL Paper 73)

The Treaty of Lisbon: an impact assessment (10th Report, Session 2007–08, HL Paper 62)

Recent Reports prepared by Sub-Committee D (Environment and Agriculture)

Session 2007–2008

The Revision of the EU's Emissions Trading System (33rd Report Session 2007–2008, HL Paper 197)

The Progress of the Common Fisheries Policy (21st Report Session 2007–2008, HL Paper 146)

The Future of the Common Agricultural Policy (7th Report Session 2007–2008, HL Paper 54)

Session 2006–2007

European Wine: A Better Deal for All Final report with evidence (39th Report, Session 2006–2007, HL Paper 184)

European Wine: A Better Deal for All (30th Report Session 2006–2007, HL Paper 144)

Water Framework Directive: Making It Work (27th Report Session 2006–2007, HL Paper 136)

Minutes of Evidence

TAKEN BEFORE THE EU COMMITTEE

WEDNESDAY 21 JANUARY 2009

Present	Arran, E	Livsey of Talgarth, L
	Brooke of Alverthorpe, L	Palmer, L
	Caithness, E	Sewel, L (Chairman)
	Cameron of Dillington, L	Sharp of Guildford, B
	Dundee, E	Ullswater, V

Examination of Witnesses

Witnesses: Ms JOSEFINE LORIZ-HOFFMAN, Head of Unit, MR ALEXANDER PAGE, Administrator and Ms ANTONELLA ZONA, Administrator, DG Agriculture and Rural Development, European Commission, examined.

Q1 Chairman: First of all can I thank you very much for coming over and seeing us. It is always a delight for us to go to Brussels to talk to people but it is a particular delight to welcome people from the other side here, so thank you very much for coming across and helping us with our inquiry into the review of the LFA scheme. There is a formal part I have to go through now telling you that this is a formal evidence collecting session so a note will be taken and a transcript produced. You will receive a copy of that as soon as possible and you will be able to go over it and correct any slips or mistakes that have crept in. The other thing is that this session is being web cast; there is a small theoretical possibility that somebody somewhere might be hearing what we are saying. We have never, ever had any evidence that that is the case but I have to tell you. Josefine, would you like to introduce your side and if you would like to make an introductory comment that would be very helpful to us, but if you would prefer to go straight to questions and answers that would be fine by us as well.

Ms Loriz-Hoffman: Thank you very much, Chairman. Thank you for having invited us and allowing us to elaborate on the subject and to answer your questions. I would say that from the questions which we have received we understand that you are very well aware of this subject so I will not have to do a long introduction. I will simply present where I am in the Commission and what I am doing. I am the Head of Unit of the Rural Development Unit dealing with the consistency of rural development. What we do is coordinate between the different units working with the Member States programmes and at the same time we develop the content and the legal framework of the rural development policy. On this specific subject I would like to say that the Less Favoured Areas scheme has for a long time been part of the Common Agriculture Policy and it is not a compulsory measure, so Member States can choose whether they want to take it up in their programmes but all Member States implement it at the moment. I

would also like to underline that this current review is not a reform. The legal framework was redefined in 2005 when the ministers decided on the legal framework for the new programming period 2007-2013, so let us say that the framework is in place. The Commission's mandate is to clarify and set down the rules for delimiting the so-called intermediate less favoured areas and also the targeting of payments in line with the objectives of this measure. This also means that the mountain areas and the areas subjected to specific handicaps are out of the mandate and these parts of the Less Favoured Areas scheme will not be looked at. Until we have new rules in place—to be decided by the Council—at the moment we are still with the old system.

Q2 Chairman: I am going to start off and ask you the nice general opening question. When you looked at this issue what did you think and what has emerged in terms of the strengths and weaknesses of the existing scheme as it has worked so far? Perhaps you could then give us an idea of the Commission's objectives in reviewing the scheme.

Ms Loriz-Hoffman: As I have said before, this scheme has been in place since 1975 and the LFA scheme provides a mechanism to support agricultural farming systems and with that the maintenance of landscapes in mountain areas first of all, then in other less favoured areas which call the intermediate less favoured areas and then in areas under specific handicaps. The evaluation which was carried out in 2005-2006 states that the scheme has contributed in maintaining farming systems in fragile and marginal areas. It provides a contribution to this objective and we think in general this scheme supports the objectives as laid out under the Rural Development scheme and in particular under Axis two which is protection of the environment and the maintenance of land management. It is an easy measure because once you have put the administrative arrangements in place then you can provide the support without

21 January 2009 Ms Josefine Loriz-Hoffman, Mr Alexander Page and Ms Antonella Zona

any further specific rules which means that you have delimited the zones, you have to determine the payments but then you have a scheme which is easily applicable. If we look at the weaknesses, I think the weaknesses concern in particular the system which is in place for the intermediate less favoured areas and you know that the Court of Auditors has criticised the systems of delimitation of these areas which have been put in place by the Member States. Certainly for this part of the LFA scheme there is a lack of coherency, comparability and of transparency and this is due to the fact that in the Member States we have in place a diversity of criteria which they use to classify these areas which have been put in place by the Member States. This might lead to discrimination between beneficiaries and insufficient targeting of the aid. What we have also observed and what has also been said in the evaluation is that in some Member States, due to a low level of payment and sometimes strict rules of eligibility, these payments only contribute to a limited extent to maintaining agriculture. This means we have a problem, sometimes very low payments and then it is questionable whether these payments really are sufficient to maintain farming systems in place which we would like to have in a number of Member States. So these are the weaknesses we see and, following on from that, the objectives of our exercise. First of all we think we have to adapt the intermediate LFA delimitation and payment system to the approach which has been decided by the ministers in 2005 and this concerns in particular the elements which are the objectives of the measure which have been refined, then the focus on the natural handicaps as being the reason for support and then the third element I think is the specific way to calculate the compensation based on the principle of costs foregone and income foregone. So these are the areas we have to adapt it to. Then of course we want to do something on the situation of the indicators. We would like to have these indicators more transparent and more based on scientific evidence. We also think that there is a need to have better coherence between the criteria used by Member States, although we are aware that we would like to give some weight to national and regional specificities. So Member States will also need a certain possibility to adapt to their specific circumstances. The objective is, after all, to minimise unequal treatment between beneficiaries. Then another point apart from the adaptation process to the legal framework and the improvement of the criteria I think is the targeting of the aid. There I think we have to ensure that the areas which are delimited are actually suffering from a disadvantage. We will come to that later on if we talk about these further steps in the delimitation process. Then there is also a target focussing more on going in the direction of supporting more extensive farming

systems. This is also laid down in the regulation which says that extensive farming systems or extensive farming systems which are important for maintaining land management should be favoured. Then also to focus on the areas where there is a real risk of abandonment. Of course the systems we have in place at the moment do not all comply with our international commitments. We know that some of them are probably not WTO compatible. These are things we would like to improve within this process.

Q3 Chairman: One is almost tempted to say the best of luck!

Ms Loriz-Hoffman: We know that the Member States are with us in this process.

Q4 Chairman: That was a brilliant and comprehensive review of where we are and where you want to go, so thank you very much. Do I get from you that you think the real benefit of LFAs looking back has been the delivery of environmental benefit?

Ms Loriz-Hoffman: Yes I think so. The real objective of the measure is to maintain farming because we think that farming is important in specific types of areas which are fragile and difficult and where, for example, the ending of an agricultural activity would be a threat for environmental objectives like biodiversity, water, water management and other things.

Q5 Chairman: So it is environmental maintenance or enhancement through agricultural activity. That does not necessarily mean the maintenance of the same number of farmers though, does it?

Ms Loriz-Hoffman: No.

Q6 Chairman: Let us go onto our next question from the Earl of Caithness.

Ms Loriz-Hoffman: May I say something about the last question? If you look into statistics you can see that the farms in less favoured areas, in the intermediate less favoured areas, as regards their size they are bigger than the average farms in non-LFA regions and the tendency we see is that they are gaining more surface in the development of time than the normal farms. So there is, let us say, a certain extensification going on by the merging of farms.

Q7 Earl of Caithness: Can I firstly follow up the Chairman's point on the purpose of your review. How much do you expect to reduce the LFA budget as a result of your work?

Ms Loriz-Hoffman: At the moment we spend about 12 per cent of the overall Rural Development budget on support for less favoured areas, the intermediate areas. There will not necessarily be a change in budget from the exercise we do which means that you have in principle two components. You could have a

21 January 2009 Ms Josefine Loriz-Hoffman, Mr Alexander Page and Ms Antonella Zona

change in the area under the scheme and then you could also have a change of the level of premium. So you have these two components in play and I think if there is a redefinition of areas we do not know what the result will really be although I should say that Member States, in the discussions we have had with them, have signalled—with some very few exceptions—that in principle there is no interest in extending less favoured areas, the intermediate less favoured areas. As regards the premium level we have certain upper and lower limits in the regulations and so far we have not had any specific critics or remarks from Member States on these levels which means that most of them can probably operate the schemes or the systems they have in place within these thresholds. At the moment I do not think it is possible for us to say what the result will be for the budget but anyhow the LFA measure is embedded in the overall rural development envelope and this envelope will not be changed by this revision exercise and by a different delimitation. Member States may take more or less of the envelope in order to care for the farmers in the future.

Q8 Chairman: So it is talking about the allocation within the rural development envelope rather than affecting the size of the envelope itself.

Ms Loriz-Hoffman: Yes.

Q9 Earl of Caithness: Coming onto the question I wanted to ask you, you propose EU-wide biophysical criteria and thresholds in order to classify less favoured areas; could you elaborate on how you arrived at those criteria and why it is deemed necessary to restrict the less favoured designation to areas facing natural handicaps only?

Ms Loriz-Hoffman: First of all let me say that for the moment we do not propose these criteria. We discussed them with Member States and we analysed them in the context of these options which we have also developed in the consultation process, but what I should also say is that these criteria very much correspond to what the Council has set out in the general framework for this measure. First of all we tasked the joint research centre of the Commission to define a common framework for soil and climate criteria which would show and allow us to delimit every country's areas which are suffering from natural handicaps. The idea of the soil and climate criteria is directly spelled out in the regulations; the Council regulations define natural handicap as low soil productivity and climate difficulties. A number of experts from different Member States have been called by the JRC, they have worked on these areas on the basis of an FAO approach on agricultural problem lands. The objective was to find a simple method, which is applicable to all Member States but also at the same time robust and transparent and

which allows from a restricted number of criteria to judge whether areas are under handicaps or not. The outcome of this is that they have developed two climatic and four soil criteria and then there is another criterion which is a mixture, a so-called soil-moisture balance criterion where they have two components in one. Then they have also identified slope as a possible handicap. Each of these criteria has also been attributed a threshold value which indicates a severe limitation for agriculture in Europe, so independent from where this is exercised this is always considered to be a point where agriculture starts to have difficulties. We think that areas to be classified need a certain presentation in the overall utilised agricultural area to suffer from this handicap. This is a condition that the whole area then falls under consideration. The idea is also that as soon as one of these indicators—and the threshold—is achieved in a region then from that moment on the handicap is present. Would you like me to give you the details of the indicators?

Q10 Chairman: No, I do not think we need to go into that.

Ms Loriz-Hoffman: We have two climate indicators: low temperature and heat stress (that is too much heat over a certain period). We have four soil criteria where one is, say, wet conditions characterised under the criteria of rain. Then we have stoniness. All these criteria in principle fix the conditions under which the plants are suffering in a certain period from difficulties in following a normal growth regime. It can be because of the shortage of vegetation days or a shortage of water or, let us say, there is too much stony material which is an obstacle for optimum development. Any of these indicators and the thresholds with it describe a situation where the plants cannot develop as they should normally do and where agriculture is consequently having difficulties in following normal activities. On the question why we focus on natural handicaps, a number of studies indicate quite clearly that natural handicaps quite accurately describe those areas where agricultural production systems are handicapped and where there is risk of land abandonment. A clear direction which focuses on these natural handicap criteria is also set out in the Council regulations which make reference to that. The natural handicap criteria we are looking at also have a specific feature in that they are pertinent, they do not change over time (the circumstances may change and we will come to that later on); this condition in principle in a specific region does not change except if we have a further development of climate change which may change things like the water situation but in general these conditions do not change. We know that in the process before when we were discussing in 2005 the new legal framework, we

21 January 2009 Ms Josefine Loriz-Hoffman, Mr Alexander Page and Ms Antonella Zona

also discussed the so-called economic indicators or socio-economic indicators which were yield and other criteria but the difficulty is that these criteria deviate from the basis of the problem. The basis of the problem is that you have a natural condition for agriculture which makes production difficult and the more you try to measure this difficulty—not at the basis, at the handicap itself; but as the result of the handicap which is the yield or which may be the income or whatever—the more you get in other factors because it makes a difference whether a good or a bad farmer is operating in a handicapped area. So if you look into the yield even in a less favoured area you can have a difference between a surface managed by a good or a bad farmer so all these individual management and also input factors come into that and they no longer provide a clear picture of the handicap. The other point is that if we operated with the socio-economic indicators we would have a difficulty in defining the community reference. For these natural handicap indicators we have a threshold and scientists who say that under these circumstances it is difficult everywhere in the Community. If you have, let us say, a certain yield which you think is a normal yield in Europe, nowadays with a Europe of 27 that can be quite a low yield. We think it would be difficult to have a common reference in such a system. Therefore we think that these biophysical indicators reflect a pertinent difficulty, a natural handicap situation; in principle they do not change over time and they allow us also to operate in a certain common way providing a general framework for a common new system.

Q11 Earl of Caithness: That is very helpful. Your original criteria that you proposed seemed to many of us to be favoured to a central European climate rather than a maritime climate. Could you please confirm that when you are looking at this that you have accepted that field capacity days for rainfall and temperature can now be included and that soils that are already drained can be included? For many parts of northern Scotland and the whole of the UK it is a combination of these factors; it is not just one factor by itself that makes it a less favoured area, it is a complete combination. If you could confirm those two points that would be helpful and relieve many people's concerns.

Ms Loriz-Hoffman: You refer to a point which has been discussed with Member States. The northern Member States had difficulties with specific conditions of, let us say, a kind of maritime climate but under cold conditions. The experts have looked into this question of the field capacity days and it has been taken on board which means that we have refined the drainage criteria to take in this field capacity indicator, so Member States will have the possibility to delimit according to this criteria. It has

been taken on board, yes. As regards the other part of your question, the question whether already drained soil can be considered also as being a natural handicap, in principle there are certain efforts that have been done for soils which are under drainage in order to bring them into a situation where they can be productive. That is my understanding. If the drainage is effective then there should not be a difficulty from my point of view. If the drainage is in, let us say, an imperfect situation or is damaged at all then that could be a difficulty. We have defined under drainage quite specific conditions, what we consider to be drainage, which means this is referring to a specific drainage class according to a specific classification system. If this criterion is still met then it is a less favoured area but beyond that we think that the handicap is no longer present.

Q12 Chairman: There is a difficulty here because it is a penalty on investment, is it not? If there has been prudence and a willingness to invest to improve drainage the farmer is penalised, whereas he has been less entrepreneurial he gets a benefit. There is really a degree of perversity there.

Ms Loriz-Hoffman: Yes.

Q13 Earl of Arran: You have partly answered this question already, but still on this very tricky subject of biophysical criteria, in your opinion what degree of flexibility would Member States have to fine-tune the designations that flow from the biophysical criteria that you have in mind? Would you expect this to be done through eligibility conditions or might this be done through a second tier of country-specific biophysical indicators? Or is it a question of the best of luck? What is your view on this?

Ms Loriz-Hoffman: As I have said, we are starting from a set of biophysical indicators with a specific threshold. The experts say in their judgment that these criteria and the associated critical limits can be used anywhere to classify the land, but they have also recognised that certain natural handicaps can be overcome by technical progress and management intervention. A typical example of that is irrigation; I would say not traditional irrigation but artificial progressive irrigation. In these cases the original handicaps are still present; they are there but as a result there are no longer signs of a less favoured situation which means that the average outcome of the production is more or less comparable to what you have under normal conditions in a country. We think that under these circumstances these areas should not be classified. However, the specialists have looked into the types of criteria and they have identified that this is the case for only three of the categories and these are the soil category which means that the length of the vegetation period or the temperature situation are things which will not

21 January 2009 Ms Josefine Loriz-Hoffman, Mr Alexander Page and Ms Antonella Zona

change. Where you can do something is in the question of lack of water; irrigation can influence the soil/water balance and the other possibility is that you can do something about too wet conditions which means you can drain. The other criteria are, say, stable and always lead to a handicap except these three soil criteria: soil texture and stoniness, rooting depth and chemical properties. There Member States would have to look into whether the handicap is still manifest in these areas in the production. To give you an example, in specific Member States there are difficulties or there is a less favoured situation for agriculture for one of these criteria (this is stoniness and rooting depth) but they are producing champagne quite successfully. So there is a question as to whether this is a less favoured area. There are specific conditions where the handicap does not really lead to a difficulty in production. We think Member States have to look into these regions and into the productivity situation. They should look to see whether the handicap is still manifest, whether it still shows out in production results or not and, if this is no longer the case, they should not consider these regions to be less favoured. I think that in order to ensure that this process is managed correctly by Member States we would probably have to set a framework on how to operate this verification process for three out of the eight indicators.

Q14 Earl of Arran: At the moment it does not look as though there is going to be a second tier of conditions?

Ms Loriz-Hoffman: I would say there is no systematic second delimitation step but there is a sort of fine-tuning exercise to be done by the Member States limited to certain of the criteria and I think it would probably be desirable to have a framework for this fine-tuning process put down in legislation. Member States would have or should have the possibility to use those indicators which, from their point of view, show what are best suited for this verification process. We are in discussion with Member States about this.

Q15 Lord Livsey of Talgarth: In your discussions with Member States and stakeholders, what additional or alternative criteria for classifying less favoured areas have been advocated most frequently? Clearly the status quo is something that may be jealously guarded and, as we understand it, some local authority areas have LFA type land and there is other land which perhaps could not be classified as such but nonetheless benefits. The whole question of the rejection of socio-economic factors which is apparent is probably something that may be on the agenda.

Ms Loriz-Hoffman: We have had a lot of bilateral meetings with Member States in order to allow them to explain their approach. You are right, the result of the consultation process is in favour of maintaining the existing system, but I think this is not really an option which we think we can seriously follow up. The point is that in all the discussions we have had we have not had any indication of other criteria we could use to describe these natural handicaps than what we have at the moment from the JRC, so let us say that we have had nothing new. A lot of Member States I should say are at the moment operating on the basis of index systems and they have, of course, suggested that these index systems are very valid systems as they are based on the same biophysical criteria which are under discussion now. This is partially true but the difficulty is that all these systems are different which means that these systems include a number of indicators, a lot of them stemming from the biophysical indicators we are looking at, but they give different weights to these indicators. To give you an example, you have a scale of points which describe the value of the soil and we have a Member State which pays below 28 points indicating a low quality of soil and we have another Member States which is paying below 53 points but we cannot say now whether the 53 points corresponds to the 28 or not. There is no comparability between these systems and also we cannot imagine that we would impose on 27 Member States a complicated index system only to allow maintenance of these existing systems. That seems to be difficult. Then on the socio-economic indicators I have already said that we consider them to be not sufficiently close to the handicap. Then you have other indicators, the population density and things like that. This stems a little bit from the former philosophy of the method where we wanted to avoid people leaving the countryside but we think that LFA, apart from farmers, will not retain other people. Under the rural development policy we have better measures to address this migration and leaving the countryside problem and other suggested indications we have had that we should take into account, are remoteness, distance from markets or small structures of farms. This is something you can change; this can change over time and this has also been criticised by the Court of Auditors that some of the Member States had not looked for a long time into these kind of indicators and whether it had changed over time. We think that these indicators do not correspond to the underlying idea of what a natural handicap would be.

Q16 Earl of Dundee: We know that the quality of biophysical data in some Member States is far better than it is in others. How do you think that data availability can improve?

21 January 2009 Ms Josefine Loriz-Hoffman, Mr Alexander Page and Ms Antonella Zona

Ms Loriz-Hoffman: You are right; at the moment Member States are not obliged to collect these indicators. Some do it for external reasons, for research or whatever; some have quite good databases on this so they can operate with this data. I think in any case during this process a lot of Member States became aware that it is useful to have this data for analytical reasons but also to look into the question of where there are difficulties and what is the specific qualification of different areas. However, if such a system should become a system within a policy we would have to give Member States some time to build up the system and to get data so I could imagine that there would be a transitional period during which Member States which do not possess this information could get it.

Q17 Chairman: How long?

Ms Loriz-Hoffman: That depends also on what we see from Member States as an answer to the communication process which we will put in place in April. Maybe we can come back to you on that.

Q18 Earl of Dundee: If necessary data is not yet sufficiently available, how can we hope, with any accuracy, to assess the impact of those criteria?

Ms Loriz-Hoffman: First of all on a community level we have done impact assessments but that is on quite a rough level because we are operating with so-called pan-European data. That gives us pictures but they are unsatisfactory because we do not have sufficient detail of data. This detail of data is only available in Member States because it really concerns the situation in very small regional entities. We need the help of Member States to provide a more realistic picture because everything we do in terms of an impact assessment is incomplete at the moment and we are quite aware of that. This is one of the reasons why in the communication, which we would like to put to the Council in April, we ask Member States to use the data they have and to do a more detailed impact analysis of the options we have put forward in the consultation. We think an important number of Member States have much more detailed data than we have available and can provide us with quite a clear picture of what these biophysical criteria would give as a new LFA.

Q19 Earl of Dundee: So you are cautiously optimistic that there will not be an anomaly, that by the time an impact assessment is made there will be much more available data.

Ms Loriz-Hoffman: I would say not for all Member States—we should be clear on that—but for a big number of them.

Q20 Chairman: Do you think there is a danger that some Member States may find that the data they possess does not produce the outcome they wish and therefore may misplace the data?

Ms Loriz-Hoffman: When we were starting with the exercise in a lot of Member States we had the idea that data was not available but we have been working with Member States for more than a year and in this time we have got a lot of mapping and a lot of detailed analysis and then also Member States detecting that there were surveys underway. Meanwhile some of these surveys have been finalised so I think in a lot of cases the data is available but not at a central level in a consistent way or put into a framework. Bigger countries have regional collection systems but there was never a requirement to put all this data together in a consistent system. I think this is also part of the work that has to be done. There is data but sometimes it is dispersed over an area and I think it must be put together in a systematic way and then integrated into a coherent approach.

Chairman: I think we should move onto eligibility questions now.

Q21 Lord Cameron of Dillington: You have indicated that you would amend the rules for eligibility and I was wondering what is your preferred approach in this area is likely to be and what degree of harmonisation you would like to see across the EU.

Ms Loriz-Hoffman: I have already mentioned that a number of eligibility criteria which we have in place at the moment are not WTO compatible because they simply exclude certain production sectors or certain precisely defined agricultural activities from support. This is something which is not acceptable. The other point is that at the moment we have all over Europe about 150 different eligibility criteria in place. We also observe that some of these criteria are in contradiction to the objectives of the measures. There are Member States who exclude part time farmers and we think that this is not quite understandable; as long as these people contribute to the objective of the measure we do not see a reason why they should not be compensated for the specific costs they have. There are a lot of criteria in place where we think they are simply not justified. On the other hand we think we need eligibility criteria which means ensuring we are targeting beyond the delimitation of areas. The delimitation of areas is the first step but then, let us say, within these areas Member States should have the possibility to better target the support and the aid and there we have to find objective criteria which do not discriminate between farmers and which are also in compliance with WTO and our obligations. What we have discussed with Member States so far is a specific point which comes out of the regulation directly. The regulation says that we should support

21 January 2009 Ms Josefine Loriz-Hoffman, Mr Alexander Page and Ms Antonella Zona

extensive farming where it is necessary and where it contributes to maintaining the countryside. So there is the question as to whether we should support intensive farming systems. We have discussed that with Member States and I think the overall view is that there are specifically productive intensive farming systems which can be in place also in less favoured areas. Let us say, in a region that is suffering in principle from a lack of water, if you start concentrated systems of irrigation you can have important yields, very productive farming systems there but they do not contribute to what we consider to be the objectives of supported farming in less favoured areas. You have more extensive farming systems which contribute certainly but there are others where we think the question is whether they provide a contribution. We think that there would probably be a need to exclude such farming systems. This is something we have discussed with Member States and we are going to discuss further. This is an example of where eligibility criteria should be used and could be useful. We think that eligibility criteria first of all have to provide the possibility for Member States to better target the support but, on the other hand, I think we would also have to provide a framework for these eligibility criteria so that we do not end up with the big number and diverse quality of eligibility criteria which we have today.

Q22 Lord Cameron of Dillington: There is a very varied take-up of the less favoured areas payments across Europe, surprisingly low in some places like Spain and Italy. What type of restrictions might Member States face on the eligibility conditions that they can impose in addition to EU-wide conditions?
Ms Loriz-Hoffman: We think that Member States themselves have an interest, given the limited financial framework they have, to bring the aid where it is really necessary in order to serve the objectives. As I said, I think we also have to provide for a certain frame on how they could do this targeting of support because we should not have systems in place which lead to inefficient spending of money and finally a lack of effectiveness. We have Member States where the level of the payment is very low and the evaluation analysis has told us that in some Member States levels are too low and a lot of farmers are excluded so that the aid does not have the effectiveness it should have. This is the situation which we have to avoid. I think we have to provide a framework for the eligibility criteria providing possibilities to target but also ensuring that we have objective criteria in place which do not hamper the effectiveness of the system.

Q23 Lord Cameron of Dillington: Is there not an option for saying that it is up to the Member States? If they do not wish to spend their money on less

favoured areas, providing they use the 25 per cent of their rural development budget on Axis II they could spend it in completely different ways? That is the heart of the problem really.

Ms Loriz-Hoffman: They do not have to include less favoured areas. There are a lot of Member States who have designated less favoured areas and who do not pay at the moment. It is not something compulsory. I suppose that a lot of these areas where there is no payment, where Member States do not want to pay, at the end of the day they are under these regions where I have mentioned that may have overcome the handicap. So this might be a situation, let us say you have a typical situation with wetland in coastal areas but where you have efficient drainage and other things in place and where you can have quite a productive milk production. This is not necessarily something a Member State should delimit as a less favoured area.

Q24 Baroness Sharp of Guildford: Could you tell us a little bit more about how you envisage the new payment system for LFA aid and work in practice? Will there be common rules for calculating additional costs and income foregone related to the handicap? Is the new payment formula likely to reduce the wide discrepancies in aid between different Member States? Are there plans to amend the floor and ceiling for the payment levels fixed by the Council?

Ms Loriz-Hoffman: First of all the principle which we have now fixed in the regulation—costs incurred, income foregone—is a recognised formula in the context of the WTO green box. It should avoid over-compensation which has also been a criticism raised by the court. They have said that they have the impression that in certain regions there is over-compensation so this should not happen with the application of this formula. It is a known principle which we apply at the moment also for the agri-environmental payments where Member States also have to calculate the premiums on the basis of this principle and are then looked at by independent experts and so on and forth. We think that the way to do it is known by Member States but we have also explained and set that out in a working document which we have discussed with Member States at the Rural Development Committee in 2007. We explained in principle how Member States should calculate agri-environment payments. The same principle applies here. We were looking to these explanations and guidelines to see whether for less favoured areas there would be adaptations necessary or something specific to be put in but in principle we think that the rules should be the same. As I have said we think this is an effective possibility to avoid over-compensation and bring the correct payments in place.

21 January 2009 Ms Josefine Loriz-Hoffman, Mr Alexander Page and Ms Antonella Zona

Q25 Baroness Sharp of Guildford: To what extent is it envisaged that there will be a floor and a ceiling here?

Ms Loriz-Hoffman: Before I can answer your question I have to say that we can have difference in payments between Member States because the understanding is that the cost and the situation are different so you can have differences. We have a number of support schemes in rural development where we have upper limits and also for the agri-environmental scheme, but so far on LFA we have one Member State which has an interest in increasing the upper limit; all the others seem to be fine with this. Theoretically this is something which can be reviewed if Member States think that the calculation of costs shows or indicates costs which go much beyond the ceiling.

Q26 Chairman: In what you have said you have made reference to the fact that you think in some areas the payments are too low, how would you tackle the too low payment problem? Would you do it through a floor or would you do it through eligibility or what?

Ms Loriz-Hoffman: The lower limits we have at the moment are simply limits for administrative reasons because we think that under 25 euros a hectare the administrative costs are higher than what the farmer finally receives. I think we will have to look into that. First of all we cannot fix in regulation minimum payments for Member States. This is not possible. This would also say that we have a certain assumption of what a minimal handicap would be in Europe and this is, from my point of view, quite complicated. I think we will have an upper limit but then we would have to look into the amounts which Member States define and they should have calculations behind that. Normally we discuss the element of these calculations. We do not go into the details of the calculations but in principle we discuss with them the level and the amount and what the different components of these are.

Q27 Baroness Sharp of Guildford: Do you think at the end of the day this is going to lead to wider or fewer variations in the levels of payment between different Member States?

Ms Loriz-Hoffman: Fewer variations. I think we would have a tighter range.

Chairman: Let us go on to one of our favourite topics which is management and control. Lord Brooke?

Q28 Lord Brooke of Alverthorpe: I think to an extent you have touched on some of my question when you have been talking about data in the Member States. The Court of Auditors' report in 2003 was extensively critical of some of the Member States' management, control and reporting systems. Since then the EU itself has grown considerably with many new states

now coming into play which may or may not have good systems of control. Could you say what you intend to do to try to meet the deficiencies highlighted by the Court of Auditors' report?

Ms Loriz-Hoffman: I do not think it is necessary for me to say that we have paid a lot of attention to what the Court has said about the scheme and its deficiencies. The first thing we have done is to ask for an evaluation to be carried out. This has been done by the Institute for European Environmental Policy in 2006 with a number of very valid results which we have taken into account now when looking into the scheme during the review process. We have also had a lot of exchange with the authors of this study of the evaluation and discussed the questions we had. Then when we put the new legal basis in place for the period 2007-2013 first of all one of the accusations in the report was that the system has possibilities of over-compensation. This is the reason why we have put in place the principle of calculation of the compensation according to the cost incurred income foregone principle. Over-compensation should not happen in such a system. Then we have harmonised the concept of good agricultural practice. Now LFA is put under the same basic framework as the other area related support systems of the Common Agricultural Policy which is the cross-compliance, so there are the same basic rules now fixed in the regulation and same for all Member States which was not the case before. Then we put in place a new control and sanction system for this new period in the regulation, where we clearly stipulate the control and sanction requirements Member States have to follow for this measure. Then another element which we have put in place for the new period is the common management and evaluation framework with indicators to monitor the progress and the results of the measures. Also for the LFA system there are specific indicators in place. Then we have started this review work by tasking the Joint Research Centre to develop a system to delimit natural handicaps. We have put in place an impact assessment group in the Commission from different services—environmental colleagues, economic colleagues, regional policy—to go through this measure and to see where the difficulties are. Finally we are still in a quite extensive exchange process with Member States where we had a lot of bilateral meetings and discussions with them. This means that there are a number of elements which work for the same objectives so that we try to overcome these difficulties.

Q29 Lord Palmer: What measures, if any, might you consider introducing to improve your ability to monitor Member States' implementation of the scheme, thus enabling you to evaluate its effectiveness?

21 January 2009 Ms Josefine Loriz-Hoffman, Mr Alexander Page and Ms Antonella Zona

Ms Loriz-Hoffman: I have already mentioned this common evaluation and monitoring framework which we have put in place so you have a number of indicators which should measure the progress, efficiency and effectiveness of these measures. You have quite concrete input indicators. This is the amount of the expenditure you put in place for the measure and then we control also the output, the number of supported holdings under the scheme. This builds up in a hierarchical process so finally, after all these indicators, we can better observe what kind of results you achieve in the framework of this measure. You come to an impact indicator on biodiversity, on maintenance of high nature value of farmland and forestry. We follow that up regularly in annual reports so Member States have to report regularly on an annual basis where they are with this measure, what they achieve with it and then also in the evaluation processes which are foreseen. This means that in the mid-term review and also at the end of the period Member States have to look into the impact the measure has had and they have to answer specific questions. One of these questions is as to whether and how far this measure has helped to ensure continued agricultural land use in areas with handicaps. They are specific questions addressing the difficulties which exist in less favoured areas and in the evaluation reports Member States will have to explain how the measure has contributed to these specific objectives.

Q30 Lord Palmer: Do you have any plans to change the annual basis of reporting back?

Ms Loriz-Hoffman: No. We have had the first annual report in 2008 and we are at the moment in discussion with Member States because there are sometimes difficulties with the indicators. Member States feel that it is not easy to report. However, we are in a permanent process and today we have a meeting in Brussels with the Rural Development Committee and there is another discussion on the indicators. We have also set up an evaluation network for rural development in order to discuss at length best practice on evaluation and how to best develop these systems of follow-up and of monitoring.

Q31 Lord Palmer: Is there any penalty if the Member States do not in fact complete the annual return?

Ms Loriz-Hoffman: If the report is admissible, so if the information is there we take it and nothing happens, but they have to deliver the results. I should say, if a certain indicator is missing we do not stop the payments but we work with them on a continuous basis on this and normally we also get that. This was the first report we have. For the coming years we will have a bit more rigid system in the sense that the report will not be admissible if a certain number of

indicators are not provided. I think that through this Member States will themselves put it to a stronger discipline and we will get on board all the required information we need for the budget process. So it is not only a question of evaluation on the basis of these indicators but it is also to feed the budget process and to justify the attribution of the budgetary means for the next period.

Q32 Viscount Ullswater: When the LFA directive was first implemented in 1975 the system of payments to agriculture was completely different. It was very much subsidy payments, intervention payments and supporting for production. Now all of that has changed. How do you now feel the new revised LFA scheme fits in with things like the single farm payment, the agri-environment schemes and all the other things which have shifted away from production and much more to the environmental side of agriculture?

Ms Loriz-Hoffman: You are right, at a certain moment in time this was the only area linked payment but at the time it was also still linked to animals. I think in principle we have three main elements of area linked payments. First of all under the first pillar you have the direct payment schemes. This is clearly an income support instrument where you provide farmers with a certain minimum income which should provide a robust support of the incomes as a basic instrument. Then I think the LFA scheme is more specific. First of all, it is serving a specific objective as defined under rural development policy. Its objectives are at least partially environmental objectives. It is also a payment which adds to the income, that is the income these payments should serve in particular to allow farmers under difficult circumstances to maintain farming and with that to contribute to maintaining land management and the countryside under difficult circumstances. In principle it is a compensation for these farmers operating under more difficult circumstances than a normal farmer in a region which is not handicapped. Under the WTO LFA is classified as a regional support scheme which makes reference to specific difficulties and which also has as an objective to serve environmental purposes, although it must not necessarily include any specific requirements to respect other environmental obligations than what is laid down in the direct payment scheme. Let us say it is simply compensation for the bigger difficulties these farmers incur. Then as a third layer I think we could identify the agri-environmental payment and the agri-environmental measures clearly should compensate farmers because they provide environmental services which go beyond what a farmer is normally expected to do. This is, let us say, the remuneration of an extra activity the farmer undertakes or the specific way to organise the

21 January 2009 Ms Josefine Loriz-Hoffman, Mr Alexander Page and Ms Antonella Zona

management of agricultural land in order to produce a specific environmental benefit. This is then also specified so that the farmer has clear obligations which go beyond the baseline, beyond what a normal farmer is expected to do and there is a specific payment linked to that which then reflects the specific costs and the income losses he suffers by following these specific activities. So I think you have the three layers: a general income support scheme, the direct payments and the specific support for farming in difficult regions in order to ensure that farming, biodiversity and landscape is maintained under these difficult circumstances, and then the agri-environmental schemes where you remunerate farmers for specific, well-defined environmental benefits they provide to society.

Q33 Viscount Ullswater: So this is really the LFA payment is really the only one which actually means that the people have got to farm. The single farm payment really does not include having to farm at all and some of the agri-environment ones can actually say, "No, we do not want you to farm that area, we want you to leave it as natural as possible because it is the bird life we want to encourage". The LFA means that it has to be a farming system.

Ms Loriz-Hoffman: The actual legal basis we have in place defines farming also as maintaining the minimum requirement which means that if a farmer respects the minimum requirements under the first pillar he is also eligible under the Less Favoured Area scheme. Member States can, however, demand more specific conditions. They could, for example, say that farmers in LFAs would have to respect specific environmental aspects going beyond what they would have to do under the minimum requirements. Some Member States, for example, limit the livestock unit density in less favoured areas for those who want the payment. However, you have to see that you then switch a little bit into the direction of the agri-environmental schemes because there you can also support farmers for extensification. It is important to draw a clear line between what you think a farmer has to do under the Less Favoured Areas scheme and what you consider is a specific environmental benefit a farmer is paid for under the agri-environmental scheme. This is a demarcation line to be drawn if a Member State wants to charge or to have specific conditions for LFA payments which is possible in order to better target LFA to environmental purposes. This is possible but in any case should be considered as an area which has to be made consistent with what happens under the agri-environmental payments.

Q34 Viscount Ullswater: Do you see the schemes fitting neatly together or is there some overlap which we ought to be concerned about?

Ms Loriz-Hoffman: No, I do not think so. It depends on the Member States and how they design these systems. I think there is a certain openness and a certain possibility to design that, but I think it is important that there is sufficient awareness of where one scheme ends and the other starts. You cannot remunerate farmers for things twice and under the Less Favoured Areas scheme you should in principle compensate for natural handicaps where the farmer has real difficulties. If you charge the LFA system with a lot of environmental requirements and specific conditions a farmer has to respect then you put him in a more difficult situation than a farmer in a normal region because they normally do not have to fulfil these requirements and you may also end up in a situation where you have a slight discrimination of farmers in LFAs because they would then have to respect higher requirements.

Q35 Earl of Caithness: One of the great advantages of the LFA scheme is that it is, compared to other schemes, remarkably non-bureaucratic and it is non-competitive. I think that is the point we were on a moment ago, just keeping the farmers in places where they would not be farming normally. I hope that does not change. However, given the alterations that you are proposing in your criteria, there is a danger that instead of the whole of the UK being one intermediate area the Commission will be faced with claims in the UK for intermediate areas, the islands and the mountains. Instead of having one holistic LFA for the UK you are going to be faced with three different categories within the UK as a result of your proposals.

Ms Loriz-Hoffman: Yes, but we have always had these three different parts. This is not new.

Q36 Earl of Caithness: It is new for the UK.

Ms Loriz-Hoffman: You do not have mountains.

Q37 Earl of Caithness: Yes, we do have mountains; it depends on how you classify a mountain.

Ms Loriz-Hoffman: You have islands I understand under article 20. These three elements, from my point of view, can play quite well together because the mountain areas are much easier to define because of altitude and you have slope and there are clear rules by Member States to be respected and delimited. Under article 20, areas of specific handicap, the objective is not so much in maintaining against natural handicaps but it is more, let us say, for purely environmental reasons and landscape purposes. Islands are very much remote areas with specific circumstances. I think that all the three parts have specific purposes and objectives. In principle it does not seem to us to be a difficulty to have them in co-existence. I do not see that as a difficulty.

21 January 2009 Ms Josefine Loriz-Hoffman, Mr Alexander Page and Ms Antonella Zona

Q38 Chairman: Can I just say that the level of analytical clarity in what you have said to us today has been enormously helpful to us. It has really enabled us to understand the whole thing much better than we had before, so thank you very much indeed. I think the fact that you have such a high level of approaching it with a degree of analytical clarity actually produces a problem for you, does it not, because it is an area that has no analytical clarity whatsoever.

Ms Loriz-Hoffman: The difficulty is that first of all it is in principle a very technical matter with the presence of the biophysical data and other measures. We did not enter too deeply into the discussion of the criteria and how they are measured. I have people with me in case I needed help. At the same time, of course, this technical exercise of delimitation carries a lot of policy difficulties. If an area is in or out, that is an important question for an area and we are aware of that. In any case, I think that we tried to stick to the facts we have and to try to come with the work together with Member States to a situation where we bring a system into place which serves the objectives and is also applicable and feasible for Member States. I think this is very important.

Q39 Chairman: As I said, we have never had any evidence that anybody has ever listened to what we have said here so, just between you and me, do you think that Member States tended to see LFA payments in the past as a bit of a slush fund that they can use to buy off nuisance farmers and keep them happy?

Ms Loriz-Hoffman: I think it is awareness raising about, let us say, the environment and the importance of farming for the environment because I grew up with the idea that forests are the best you can do for biodiversity which is not the case.

Q40 Chairman: Not our forests. There is no biodiversity in our forests.

Ms Loriz-Hoffman: I also had to learn that a lot of farming systems serve this objective much better. There was the awareness also that it is important to maintain these areas under specific conditions. I think you are right, what we have seen in the past and we have discussed this a lot with Member States and often refused, was that Member States wanted to change the LFA payment from one year to another quite drastically. We have already said that this cannot be a useful measure when it does not make a great difference whether it is paid or not; that is not logical in itself. I think today these things are taken much more seriously and that the Member States are aware that this is one of the three basic area-related

schemes we have and that it should be used, from my point of view, in a good way to serve the whole exercise, in particular these regions.

Q41 Chairman: Can you give us some idea of the timetable for the review?

Ms Loriz-Hoffman: We are now in the impact assessment process and we intend to come to a decision by the Commission in a communication by the Spring of 2009. The communication will explain the exercise in which we are, it will set out these biophysical criteria as a possibility to delimit less favoured areas. We will in particular ask Member States to do concrete calculations and delimitation tests on the basis of these criteria and to come back to us with concrete mapping results.

Q42 Chairman: When?

Ms Loriz-Hoffman: I think Member States should have some months to do this exercise.

Q43 Chairman: Somewhere between what and what?

Ms Loriz-Hoffman: I think six months would be an appropriate time so that we would have a complete picture from the impact assessment. What we have now is an idea and we have a basis to compare with what we have got out of the European data set but we need more detailed information and this should come from Member States and complete the picture so that we can really say something about the impact of this system on delimitation. Then logically on that we should build proposals to be put forward to the Council and to be discussed subsequently in the order of time.

Q44 Lord Brooke of Alverthorpe: Chairman, I have a request rather than a question. I am wondering if we could have some up-to-date information from the Commission on the table of expenditure, what it is now.

Ms Loriz-Hoffman: What LFA is now?

Q45 Lord Brooke of Alverthorpe: Yes. For the whole of the EU, country by country.

Ms Loriz-Hoffman: For the whole of the EU we have an annual amount. Yes, we can get that for you. We have an idea about the total payment which is about 1.8 billion for the intermediate areas. This was in 2005, for one year. You have the data for the UK or should we also include that.

Q46 Chairman: Could you give us a table with the LFA expenditure for every Member State.

Ms Loriz-Hoffman: Yes.

Chairman: Thank you very much.

WEDNESDAY 28 JANUARY 2009

Present	Arran, E	Livesey of Talgarth, L
	Brooke of Alverthorpe, L	Palmer, L
	Brookeborough, V	Sewel, L (Chairman)
	Caithness, E	Sharp of Guildford, B
	Cameron of Dillington, L	Ullswater, V
	Dundee, E	

Memorandum by the Farmers' Union of Wales (FUW)

INTRODUCTION

1. The Farmers' Union of Wales was established in 1955 in order to protect and advance the interests of Welsh families who derive an income from agriculture. In addition to 35 Area Officers, the FUW has eleven offices distributed around Wales that provide a broad range of services to members. The FUW is a democratic organisation, with policies being formulated following consultation with its 12 County Executive Committees and relevant Standing Committees.
2. Less Favoured Areas (LFAs) and previous area classifications have played a key role in sustaining Welsh upland communities and environments for many decades. Changes to the criteria upon which LFAs are based therefore have the potential to damage valuable environments, while simultaneously causing upheaval in many communities. Any model that increases economic pressures, either locally or nationally, will reduce the incentive for individuals to continue to manage land, which will in turn have a detrimental impact on delicate natural environments that rely upon the continuity of farming.
3. In June 2008 the Farmers' Union of Wales considered the potential impact of all four options for a new LFA categorisation criterion, as proposed by the European Commission, and concluded that those options based upon measures set by the Joint Research Council would be severely detrimental to environments and communities, and would also be costly to implement for Member States. It was also concluded that, in the absence of socio-economic criteria, the "Status Quo+" option would have a detrimental impact on environments and communities.
4. It was therefore concluded that the European Commission should continue to allow the existing LFA criteria to continue, while seeking to find more equitable solutions to the problems identified by the European Court of Auditors.

THE STRENGTHS AND THE WEAKNESSES OF THE LFA SCHEME THUS FAR

5. The particular disadvantages faced by Welsh farmers, which effectively provided the motives for the FUW's creation in 1955, were formally recognised as long ago as 1939, when the Welsh Agricultural Land Sub-Commission described the techniques and structure of Welsh upland farming as being in an "*advanced state of dereliction*".
6. As a result, the Hill Farming Act was passed in the immediate post-war period, which provided support for these areas within the framework of the Agricultural Act 1947. The provisions were eventually extended to the upland store cattle and sheep sectors under the terms of the Livestock Rearing Act (1951), and numerous initiatives followed in the 1950s and 1960s as Governments sought to find ways to address the issue of rural de-population.
7. Following the UK's signing of the Treaty of Rome, in 1973, British hill farming support became subsumed within the European legislative framework, and the majority of the current Welsh Less Favoured Area (LFA) was designated as such in 1975, with the final designation in 1984 giving 80% of Welsh land LFA status.
8. Around 30% of Wales' area comprises habitats that are of particular wildlife value, including 1,019 Sites of Special Scientific Interest (SSSIs). Around 80% of non-tidal land categorised as SSSI is in the LFA, as are the majority of lakes and rivers with equivalent status. The latter comprise some 1,588 km of main rivers and 264 lakes.

9. Of Wales agriculturally significant holdings, 63% are Less Favoured Area (LFA) cattle and sheep enterprises. The remainder comprises 14% non-LFA cattle and sheep, 13% dairy, and 2% arable enterprises, with other crop or mixed enterprises making up the remainder¹.

10. Of the land that comprises the Welsh LFA, 28% is categorised as Disadvantaged Area (DA), while 72% is Severely Disadvantaged Area (SDA).

11. The average size of holdings within the Welsh LFA is 84 hectares, while average Single Payments on Disadvantaged and Severely Disadvantaged farms in 2008 were £12,726, compared with £13,000 on non-LFA farms.

12. The situation facing Welsh agriculture was summarised in the Sustainable Farming and Environment: Action Towards 2020² Report as follows:

“Most businesses would not be able to survive on the financial returns which the Welsh agricultural industry continues to produce... If production falls below what is referred to as a critical mass the agricultural supply and processing industries will suffer irreparably as a consequence. Farming, with all its diverse effects on the landscape, the economy, communities and social structures, will only be sustainable if it returns to acceptable profitability in the short to medium term.”

13. Between the financial years 2000–01 and 2006–07 net incomes on LFA cattle and sheep farms varied between a minimum of £1,600 in 2001–02 and a maximum of £15,900 in 2003–04. LFA cattle and sheep farm net incomes in the financial year 2007–08 were £12,200³.

14. In the financial years 2006–07 and 2007–08 average net LFA farm incomes were 73% and 110% of net non-LFA farm incomes.

15. In 2008 the average LFA payment in Wales was £2,521, representing 20% of net LFA farm incomes and 13% of net LFA farm profits⁴.

16. The farming industry contributes significantly to the economic, social, environmental and cultural cohesion of rural Wales. Farming also plays a key role in the preservation of Welsh culture, particularly in terms of the Welsh language, which in many areas is primarily preserved in farming communities, having been largely displaced by the English language in towns and villages.

17. The current position is that returns are well below the level of acceptable profitability. For example, data for lamb production in the 2006–07 financial year showed that, on average, market prices covered just 79% of production costs, with the top third of producers achieving returns of just 5% on their investments. A similar pattern of production costs being well above returns exists for beef enterprises.

18. Agriculture supports over 10% of full time employees in Wales, and any decline in the industry is likely to affect unemployment rates significantly⁵. The numbers directly and indirectly employed in farming therefore make a crucial contribution towards sustaining rural businesses and communities.

19. Within the LFA, population densities and average incomes are well below average UK levels; the Gross Value Added (GVA) per head in Wales is 20% below the UK average, while in areas that are predominantly Less Favoured this figure is closer to 40%⁶.

20. The combination of low population densities, remoteness from markets, and low GVA per head in LFAs severely limits the diversification opportunities that are available to farmers; for example, access to markets that add value to farm produce are severely limited within the Welsh LFA, and this is reflected in fact that commercial outlets, such as supermarkets, within such areas are generally at the lower end of the cost spectrum.

21. The proportion of the working age population in rural Wales who are working and who are self-employed is 7% higher than in Wales as a whole, which reflects the fact that businesses within the Less Favoured Areas have a high dependency on the agricultural sector⁵.

22. The farming industry therefore makes an essential contribution to the viability of other rural businesses, and, without contributions that derive directly or indirectly from agriculture, many of these would not be viable.

¹ Welsh Assembly Government Farming Facts and Figures 2008

² Sustainable Farming and Environment: Action Towards 2020

³ Welsh Assembly Government Statistical Release 191/2008

⁴ Net Farm Income is defined as the return to the principal farmer and spouse for their manual and managerial labour. Net farm profit makes no allowances for rent, depreciation of assets, interest payments and hired labour.

⁵ The Economic Potential of Plants and Animals Not Currently Fully Exploited by the Welsh Agricultural Sector, Central Science Laboratories, 2003

⁶ Rural Development Plan for Wales 2007/13—Situation Analysis

23. Given the above, the FUW believes that the LFA and pre-existing schemes have significantly reduced agricultural land abandonment and the loss of biodiversity in the uplands of Wales, while also stemming rural depopulation.

24. While the failure of the LFA Scheme to redress the imbalances that exist between LFA and non LFA areas might be described as a failure or weakness, it should be emphasised that this is largely a reflection of the permanence of the disadvantages faced by LFA farms.

25. It is therefore concluded that any changes to the criteria upon which the extent of the Welsh LFA is decided should be minimal, and we would particularly emphasise the importance of maintaining socio-economic factors as one of those criteria. In particular, a reduction in the proportion of Welsh land categorised as LFA would have a diverse range of adverse influences on communities and the environment, and would also weaken the framework within which future environmental measures might be applied.

COMMON BIOPHYSICAL CRITERIA

Is it appropriate to set common, EU-wide biophysical criteria for delimiting LFA areas, as suggested by the Commission in its Consultation Paper

26. The European Union comprises a diverse range of countries, climates, and environments. Land height ranges from 23 feet (7 metres) below sea level to 15,771 feet (4,807 metres) above sea level. The most southerly point of the European Union within continental Europe is Limassol in Cyprus, at 34° 39' N, while the northernmost point is Nuorgam, in Lapland, at 70° 5' 30" N.

27. As a natural consequence of such diversity, climates vary significantly, from Arctic, through hemiboreal, to tropical, rendering meteorological averages for the EU as a whole meaningless. These extreme differences are also reflected in the diversity of farming types across Europe, and the wide range of specific handicaps that farmers face.

28. Given such extremes of climate, topography, and environment, it would be virtually impossible to equitably establish or agree upon delimiters according to bio-physical criteria identified by the Joint Research Council, and Member States or regions are far better suited to make their own assessments as to what constitutes appropriate criteria within guidelines set by the Commission. The FUW maintains that the current Welsh LFA is based on just such appropriate criteria.

29. Options based upon the use of common criteria are likely to require significant public money in order to assess the LFA status of land parcels, and considerable administrative and monitoring costs for the taxpayer thereafter. Such bureaucracy would clearly be counter to the EC's own targets in terms of reducing the bureaucratic burden for Member States.

30. The use of a limited number of simplistic criteria could result in areas that are genuinely less favoured being excluded from the official LFA, while a large number of criteria that included diverse factors such as remoteness, transport, presence of invasive species etc. would involve a complex and costly assessment process.

31. Furthermore, an equitable approach using fixed criteria would have to involve variables that represent the contributions made by combinations of conditions. For example, the LFA status of a sloping field should vary depending upon rainfall, drainage, and soil type, given that the eligibility of farming such a field depends upon the ability to access the field with vehicles.

32. The proposals could also result in heterogeneous categorisations, even within small areas—potentially even within single fields. This would create a patchwork of land-types, causing confusion among farmers and the general public alike, and increase the risk of penalisation for genuine errors.

33. Localised and specific categorisations, based, for example, on *high nature* value criteria would result in the isolation of land parcels that should not be considered in isolation, and are in fact reliant upon surrounding habitat. The interdependency of neighbouring ecosystems, and their dependence in turn upon farming practices, is an area of ecology that has become increasingly recognised over recent decades, as has the importance of features such as wildlife corridors.

34. A patchwork of classification could result in changes in management practices on a field by field basis that are counterproductive, or the abandonment of large tracts of land where farming is no longer sustainable, while hindering other EU environmental objectives that require coordinated approaches over large areas of land.

Are the common biophysical criteria set out by the Commission in its Consultation Paper appropriate and effective in identifying disadvantaged areas?

35. As alluded to above, the common biophysical criteria set out by the Commission are not appropriate and take no account of regional disadvantages. Given the diverse range of environments and farming types that exist within the EU, there are likely to be a vast number of genuine omissions that would otherwise account for specific disadvantages within regions of Europe.

Are there any omissions, whether in the form of further biophysical indicators or other indicators?

36. Within Wales, examples of such omissions might include:

Remoteness	Access to markets and cost of inputs varies depending upon Remoteness and transport networks
Population density	Local populations limit market opportunities
Average regional rainfall	Regional rainfall has a significant impact upon production, including winter forage production.
Environmental restrictions	Land that is subject to environmental restrictions is less viable in terms of farming
Invasive species coverage	Species such as bracken have a significant impact on production, and are difficult to control, particularly on steep inaccessible land

37. However, the above list merely provides examples that might be included in a comprehensive list of criteria. Furthermore, the list takes no account of the combined contributions that different biophysical indicators would make to the agricultural viability of a particular area of land, the interactions between which are extremely complex.

THE CURRENT REVIEW: ELIGIBILITY CONDITIONS

What degree of harmonisation of eligibility conditions (for determining access to LFA payments), if any, is needed?

38. Given the diversity of farmed environments that exist within the EU, the FUW believes that Member States and regions should be at liberty to assess eligibility based upon appropriate criteria that are pertinent to the respective Member State or region. However, these should comply with broad criteria established by the Commission that ensure the eligibility conditions are not open to abuse within Member States.

What basic rules and criteria for eligibility for LFA aid should exist if the Scheme is to meet its new objectives?

39. The current eligibility criteria for LFA support in Wales are that recipients must farm more than six hectares of eligible forage land in the LFA at a stocking density of over 0.1 livestock units per hectare; comply with “Cross Compliance”; and give a written undertaking to continue farming at least six hectares of eligible forage land for a period of five years from the date of the first compensatory allowance. On mixed dairy and livestock farms a proportion of land is removed from the eligible forage area calculation to reflect the area given over to dairy production.

40. The transition from Hill Livestock Compensatory Allowance to area based LFA payments, in the form of the Tir Mynydd Scheme, resulted in the removal of payments linked to production, and Welsh farmers have by now adjusted their businesses to compensate for what were for many significant changes in terms of eligibility and payment rates.

41. While there may be arguments for reviewing the current eligibility criteria in Wales, for example in relation to particular handicaps faced by LFA dairy producers, we would argue that the Welsh administration is best placed to assess such criteria.

THE CURRENT REVIEW: PAYMENT CALCULATION

How practicable is the payment formula based on additional costs and income foregone related to the handicap in the area concerned? Is it likely to help reduce wide discrepancies in payment levels across Member States?

42. Prior to the decoupling of payments in Wales, a clear framework for the calculation of income foregone existed, since lower stocking rates could be directly related to lower payments. However, this is no longer possible, and is unlikely to be so in future given the restrictions recently agreed upon by the Council of Ministers in terms of National Envelope payments.

43. The diverse range of additional costs incurred within LFAs are a function of farm type and location, and formulas based upon simplistic criteria and handicaps are unlikely to address particular local handicaps.

44. Furthermore, formulas based upon additional costs and income foregone take no account of the essential contributions that LFA farms make to rural economies and ecologies, both of which are difficult to value in precise monetary terms, due to multiplier effects and the problems associated with assigning values to ecological benefits.

45. The use of such payment formulas may also be problematic due to EC rules regarding co-funding and payment thresholds.

46. Once again, we would argue that Member States and regions are best placed to decide upon appropriate formulas, and these should comply with broad criteria laid out by the Commission that minimise the risk of abuses while recognising the need for regional variance in payment formulas.

To what extent would common biophysical criteria and amended eligibility criteria address the deficiencies of the LFA Scheme as identified by the Court of Auditors in 2003, and, in particular guarantee equitable treatment of beneficiaries, facilitate monitoring, control and audit of the measure, and facilitate evaluation of the impact and effectiveness of the measure?

47. The FUW believes that common biophysical criteria and amended eligibility criteria go over and above the moves that would be necessary to address the deficiencies identified by the Court of Auditors, to the extent that they risk jeopardising the benefits of the scheme, at significant extra cost for the taxpayer.

THE FUTURE DEVELOPMENT OF THE LFA SCHEME

What is the role of the LFA Scheme in the context of the current rural development regulation, and the reformed, post-health check CAP?

48. The FUW is currently in discussions with the Welsh Assembly Government regarding the implementation of the CAP up to and beyond 2013. A key area of concern is the impact of the transition from an historical to a flat-rate Single Payment, and the equitable distribution of payments in less favoured areas.

49. However, the current uncertainty regarding the future extent and nature of LFAs make the assessment of future models problematic, as any changes will impact on the distribution of payments in DA, SDA and non-LFA regions.

50. While the FUW recognises the important interrelationship between future Single Payment models, Rural Development measures, and the LFA, the precise nature of the future role of the LFA is difficult to assess, given that the Health Check Regulations have only recently been drafted, and aspects of the Rural Development Program and Axis II measures are also subject to review (as well as being dependent in terms of funding upon the interpretation of the Health Check Regulations).

What should the LFA Scheme deliver in the short term (pre-2013) that other policy instruments affecting farm viability, environmental protection and agricultural land use cannot deliver?

51. The FUW maintains that the LFA Scheme should continue to deliver socio-economic and environmental benefits in areas that have significant landscape and ecological value, but nevertheless face particular geographical, topographical and socio-economical handicaps.

The future evolution of the Scheme, post-2013, within the context of the EU Budget Review, the EU's Cohesion Policy and further reform of the Common Agricultural Policy

52. The CAP reforms agreed upon in 2003 marked a further transition of the CAP towards decoupled support measures, and it had been anticipated that subsequent reforms would result in an accelerated programme of decoupling. While the Commission remains broadly committed to achieving these objectives, many Member States have expressed concerns regarding the impact that further reforms would have on European food security, and the imposition of export bans by third countries, due to global food shortages, exacerbated such concerns in 2008.

53. These concerns, coupled with particular problems facing farming sectors in various Member States, resulted in a CAP Health Check agreement that has effectively delayed some elements of reform, and allowed concessions in favour of certain coupled measures.

54. Such changes highlight uncertainties regarding the precise form of the CAP post 2013, including the distribution of funds between Pillar 1 and Pillar 2, and the overall budget that will be available across the EU and its distribution within old and new Member States. In light of rising global populations and climate change, the FUW would argue that the post 2013 CAP should recognise the importance of food security, and be funded by a budget that proportionately reflects the increased size of the EU.

55. Given the above, it is difficult to speculate as to the precise role of the LFA beyond 2013. As has already been made clear, the FUW believes that the LFA scheme should continue to recognise both socio-economic and environmental handicaps in a manner that ensures the eligibility of farming in less favoured areas.

56. It is also important to note the likely future role of the LFA in terms of providing a framework for measures aimed at large expanses of land, for example on open mountains where grazing is shared, and in large water catchment areas.

57. The removal of the socioeconomic LFA categorisation criteria would effectively remove buffer zones from around many areas that may be the target of such large-scale schemes. Such buffers are currently taken for granted in terms of their environmental value, whereas their proximity to valuable habitats often makes them an intrinsic and important part of the broader environment.

58. A reduction in the size of the Welsh LFA, due to the removal of socio-economic criteria, would therefore reduce the framework within which other broad-scale EU objectives, such as water catchment area based schemes, can be facilitated. This is particularly the case in areas where lower lying land within water catchment areas is categorised as LFA due to socioeconomic criteria, but nevertheless forms an integral part of an ecosystem that encompasses land categorised as LFA due to its natural handicaps.

59. The generally uniform nature of large areas of land, in terms of their LFA status, is also a feature that provides an important framework within which such domestic and EU objectives can be implemented, and the imposition of simplistic biophysical criteria could result in landscapes that are fractured in terms of LFA designations. This would result in the removal of an overarching framework that might otherwise be utilised beyond 2013.

30 January 2009

Memorandum by the National Farmers' Union

INTRODUCTION

1. The National Farmers' Union (NFU) welcomes the Committee's Inquiry into the European Commission's review of EU Less Favoured Areas (LFAs). For the last century the NFU has represented professional farmers and growers in all its forms and all locations. Together with NFU Cymru over 55,500 farm businesses are represented by the farming unions in England and Wales, many of whom farm within LFAs or obtain livestock from hill farms. Our interest in the Committee's inquiry is therefore clear and the inquiry timely, given the Commission's determination to bring forward legislative proposals during 2009.

2. English LFAs are disproportionately important. Despite the fact that only 17% of English agricultural area is LFA, almost 60% of this area is designated as national park or AONB and it contains twice as many designated wildlife sites as the lowlands: this fragile farm economy sustains a disproportionately valuable environmental asset (see table 1).

3. LFAs are characterised by soils, climate and growing conditions which make farming significantly more challenging and less productive than in other parts of England. LFA farmers have fewer choices about how land can be farmed. Despite these physical and climatic constraints the vast majority of land is used for grazing

by cattle and sheep, sometimes ponies, and outputs are livestock based: beef and lamb, store lambs and cattle, dairy products and wool. According to Defra, 46% of LFA farms are “cattle and sheep”, 10% “dairy” and about 36% mixed farms.

4. Characteristic grazing—dictated by the climate and geography of the uplands—has resulted in a highly valued landscape for both biodiversity and tourism. For the public visiting areas such as the Lake District the perception is of a landscape which is natural and unchanging. Ironically neither perception is true; the landscape is created and managed by farmers and their livestock and change is a perpetual, if gradual process. Currently the greatest change is to farming businesses with restructuring and amalgamation in the face of unfavourable farm incomes (which currently hover around £5,042/year according to Defra Farm Business Survey, see Figure 1), the impact of the 2003 CAP reforms and tensions between food production and biodiversity priorities.

5. Indeed it is uncertainty that is for many hill farmers most disconcerting. The current discussion about the introduction of the successor to the Hill Farming Allowance (HFA) with an upland strand to the Environmental Stewardship Scheme—Upland ELS—is a case in point. While the NFU believes the scheme now proposed is a considerable improvement on that consulted last summer 2008, many hill farmers are yet to assess how they will enter the new scheme and what impacts it will have on their current farming system.

6. It will be no surprise then that we have taken a close interest with other UK farming unions in the European Commission’s proposals for LFA reclassification, the focus of the Committee’s inquiry. Consideration of these proposals is important as we understand that the UK seems to be uniquely impacted by the Commission’s early proposals. Concerned by the business disruption that could result from such a result, the UK farming unions have jointly lobbied Defra and the European Commission.

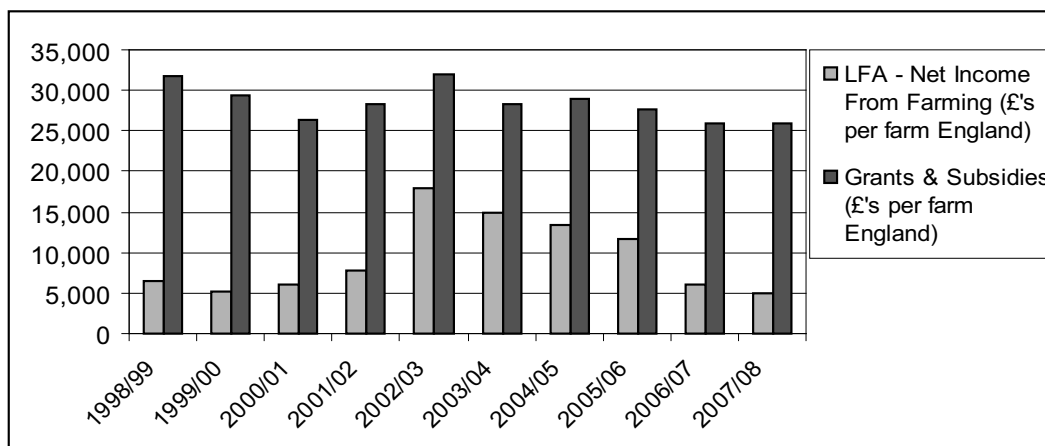
Table 1

OVERLAP OF LFA WITH SELECT ENVIRONMENTAL DESIGNATIONS⁷

<i>Designation</i>	<i>Total Area (ha)</i>	<i>Number of sites</i>	<i>Percentage of LFA</i>
Less Favoured Area	2,213,246		100
National Park	865,796	7	40
Environmentally Sensitive Areas	596,424	9	27
Sites of Special Scientific Interest	450,094	841	20
Areas of Outstanding Natural Beauty	423,752	12	19
Special Areas of Conservation (EU Habitats Directive)	364,057	68	16
Special Protection Area (EU Birds Directive)	274,663	11	12

Figure 1

LFA NET INCOME FROM FARMING (TIFF) AND SUBSIDIES 1998–2008



⁷ After RDPE Programme Document Defra 2007 page 3-63.

NFU LFA RECLASSIFICATION POSITION

7. The NFU understands the Commission's intention that LFA designation should be evidence based and more consistent than is currently the case. The case for LFA reclassification must be robust and broadly consistent across member states to retain credibility in the designation and also to avoid competitive distortions in the Single Market.

8. LFAs reflect the harshest farming conditions in Europe, especially those areas where farming retains land in production, contributes to remoter rural economies, retains land management and heritage skills and provides clear public benefits.

9. However, we question whether bio-physical criteria alone should support designation. LFAs should continue to reflect remoteness from market—such as islands or remote dales. We also believe that while a consistent EU approach is desirable, the EU regulations should provide scope for nationally or regionally defined objective criteria to refine more appropriate LFAs in each member state—perhaps subject to a peer review or management committee process. We are unconvinced by the argument that the EU should define LFA measure eligibility rules for farm types as the range of farming types across the EU is wide.

STRENGTHS AND WEAKNESSES OF THE LFA SCHEME

10. The strength of the current LFA designation scheme is the ability of member states to identify areas on regionally or nationally relevant criteria where farming is central to maintaining food production, the landscape, traditional skills and preventing depopulation and land abandonment in areas that would otherwise be agronomically marginal. Indeed without a succession of LFA support measures, which in England find their origin in the Hill Farming Act 1946, it is questionable whether upland landscapes would look anything like they currently do. In particular forestry would probably cover a far larger proportion of the uplands than is currently the case.

11. Thus, retaining an LFA designation ensures that EU and national rural development measures aimed at sustaining characteristic hill farming systems and the public benefits of farming these areas can be targeted.

12. The weakness of the current approach derives from a combination of domestic and European factors. It is clear from the EU Court of Auditors report (2003) that LFA classification is approached very differently across the EU. A recent Commission Advisory meeting on LFAs indicated that coverage of LFAs varies widely—so that market distortion may be a serious concern. Since the Auditors report a new framework for rural development (Council Regulation 1698/2005) has indicated that LFA measures must support sustainable land management, while the underlying designation basis remains unchanged. We have as a result a partially reformed EU LFA designation and reward structure.

13. Defra Ministers have not helped the confidence of LFA farmers either. Over the last 12 years LFA support levels have fluctuated but overall fallen from over £60 million in the mid 1990s to less than £24 million in 2008 (see Figure 1). During the same time hill farming has often been criticised for livestock overgrazing and damage designated wildlife sites—a concern now reversed to concern about understocking as sheep and cattle are removed because of poor returns. It is apparent from the UELS announcement that Defra values LFA for its environmental value far more than the food it produces, yet both are contingent on each other.

THE CURRENT REVIEW: COMMON BIOPHYSICAL CRITERIA

14. As we have already indicated LFA are characterised by restricted farming systems due to the climate and biophysical character. It would seem logical that defining a common set of such criteria across the EU would ensure a consistent approach. However the JRC report,⁸ and subsequent testing in member states, indicates how difficult such a common approach constrained as it is by data availability, agreed thresholds for farming restriction and the wide range of biophysical constraints on farming across the EU. The application of such common criteria without field testing and regional testing is fraught with difficulty.

15. The UK climate lacks extremes. In the UK LFA farming restrictions result from seasonally prolonged cool wet conditions, rather than the extremes of climate or soil conditions that restrict other member states' farming systems. It is for this reason that we advocate that field capacity days provide an effective criterion for UK conditions and ought to be considered as a first stage designation in any Commission regulation.

16. We also note that it is biophysical conditions working in combination that restrict the choice of farming enterprise—prolonged water logging of organic and heavy soils restricts effective grazing season and workability by machinery even though growing season may be significantly longer than elsewhere in the EU.

⁸ JRC (2008) "Common bio-physical criteria to define natural constraints for agriculture in Europe" EUR 23412 EN.

Thus grass may continue to grow—slowly—but access can be gained for neither livestock nor machinery. The character of agricultural restriction in the UK is therefore unusual in an EU context.

17. The NFU concludes then that if biophysical criteria are to be used as the sole determinant of LFAs, it is important to allow member states / regions sufficient flexibility to reflect their respective natural handicaps. We have suggested with other UK farming unions a two-stage process of designation by which a maximum extent of LFA is identified by reference to common EU criteria and thresholds—if such can be defined—and that this area is refined at Member State or regional scales by reference to locally appropriate criteria. Each member states' proposals should be approved by reference to a management committee or periodic review process that can meet the Commission's requirements.

18. The NFU agrees with its sister organisations across the UK that land exposed to structural handicaps such as remoteness are at genuine and legitimate disadvantage and that these too should contribute to an LFA designation decision as they are permanently attributable to that land. We understand that currently such structural indicators are regarded as socio-economic criteria. We firmly believe that socio-economic criteria should remain as part of any future criterion. If this is not possible we believe that peripherality and distance from markets remain genuine, long-term handicaps which merit continued recognition in terms of LFA designation.

THE CURRENT REVIEW: ELIGIBILITY CONDITIONS

19. The Commission's consultation during Spring 2008 indicated that one option may be both to designate LFAs on common biophysical criteria and develop common eligibility criteria for receipt of LFA support. We rejected such a proposal then on the grounds that eligibility is better defined at a member state level than at an EU level, given the wide range of farm types. While the Council Regulation 1698/2005 (Recital 33) indicates that LFA measures should contribute to "maintaining the countryside...and maintaining and promoting sustainable farming systems", it retains considerable flexibility for member states to develop support measures appropriate to their situation. We believe that this remains the most effective route of rural development measures and is subject to Commission approval via the EAFRD monitoring arrangements.

20. In one respect the Council Regulation (Art 37 (2)) makes a crucial condition of support: that payment should be made to farmers. As the intention of the LFA measure is to sustain farming that is beneficial to the environment, this is entirely appropriate. However in the UK context, we are increasingly concerned that implementation does not achieve this requirement, that funding actually reaches those who manage the land—graziers and occupiers—as opposed to those who may happen to own LFA land but have no interest in active management of the landscape—such as institutional landowners. As the policy objective is to target aid to the preservation of sustainable farming activity the Committee may wish to consider how funds can be targeted at those who are the active partners in sustainable farming.

THE CURRENT REVIEW: PAYMENT CALCULATION

21. Article 37(1) of the Council regulation indicates that LFA payments should be linked to the additional costs and income foregone resulting from the biophysical handicap a formulation similar to that guiding the calculation of agri-environment payments as well. The regulation permits (Art 37(3)) higher payments in "duly justified circumstances"—again echoing agri-environment provisions. The same article provides for degressive payments at member states discretion and fixes maximum and minimum area payments.

22. The advantage of linking payment to costs and income foregone is the establishment of a common reference point. However, the public benefits of LFA support are largely non-market (eg wildlife conservation, accessible countryside, cultural landscapes). It seems then perverse to link the scale of payments to production linked costs, especially at a time when the value of public access to the countryside (as an example) clearly outweighs basic food production, although it depends upon it. It also appears at odds with wildlife theory that LFA payments should be degressive given that island biogeography indicates that increasing scale relates positively with biodiversity security counteracting concerns about fragmented habitats and species survival.

THE IMPACT OF THE REVIEW

23. We recognise that the Commission must respond to the Court of Auditors report and address the wide differences in designation and implementation found at that time. Perhaps, given six years of experience with implementing rural development measures, and especially oversight by the Commission, similar inequality may not be so evident currently. However, we accept that the Commission should take a more active role in

assessing member state activity and promoting a more common approach (as we have argued in respect to CAP reform more generally).

Table 2

POTENTIAL CHANGES IN UK LFA AREA

<i>Region</i>	<i>Cumulative LFA > 15% slope (ha)</i>	<i>Percentage increase</i>
England	8,806,233	+ 298%
Northern Ireland	874,743	– 6%
Scotland	5,825,483	– 13%
Wales	1,276,000	– 22%
Total	16,782,459	+ 46%

24. Thus, we are concerned that the impact of the LFA review is likely to have unpredictable consequences—so contributing to the uncertainty many hill farmers perceive. To understand better the impact of Commission policies, the UK farming unions commissioned work on the potential impact of the proposed JRC biophysical criteria for UK LFA designation (Table 2). We accept that the table presented above represents potentially a “worst case scenario”, however it indicates to us the considerable disruption that could result from inappropriately selected criteria and thresholds. In England the consequence of a 300% increase in LFA area would mean that few English regions would not have LFA designations and would raise expectation amongst farmers of support which the current EAFRD and national modulation arrangements would fail to deliver. Perhaps as significant in the public’s eye would be the taxpayer’s reaction to hearing that the East Anglian fens were designated as “less favoured”.

THE FUTURE DEVELOPMENT OF THE LFA SCHEME

25. We propose that the future development of the LFA measure takes a twin track approach. In Europe we have indicated that the Commission needs to revisit its oversight procedures to satisfy itself (and Auditors) that LFA designations are found in areas of genuine disadvantage. As outlined in this written submission, we have suggested that designation criteria developed at an EU scale should guide member state LFA selection, not constrain selection. A possible model would be the approach taken to setting Good Agricultural and Environment Condition rules under CAP cross-compliance (Regulation /2005 Annex III), which indicate the issues to be covered but not their detailed definition.

26. We have also suggested additional criteria to reflect the specific physical constraints on farming in the UK situation. We have also proposed a two stage process for defining, then refining LFA areas subject to Commission management committee oversight. Finally we have suggested that the Commission review its current approach towards payment reward and compensation.

27. In England, we are extremely concerned that Defra appears to have rejected LFAs as a mechanism for sustaining farming systems. The UELS is to be delivered as part of the Environmental Stewardship scheme and under the agri-environment provisions of the EAFRD. While in delivery terms a single scheme has attractions, a direct consequence of this decision has been that those with less than five years security of tenure cannot enter the new UELS without landlord consent. This is because the agri-environment provisions (Article 39) require a minimum of five years delivery, a requirement that is not required under the LFA measures.

28. Having said this long term it is clear that LFA measures are firmly rooted in the 2nd pillar of the CAP framework. While this recognises that in any long term perspective of CAP reform that LFA support should remain available in principle, the EAFRD regulation does not require member states to implement measures in these areas. Indeed it is not at all clear that member states will be required to review their existing LFA areas—that will be a decision for future Commission and Council agreement.

SUMMARY

29. The NFU has consulted its membership on the Commission's LFA designation options. It is our preference that Defra should argue that the UK's current approach presents a robust basis for LFA designation and that adjusting boundaries would be unwise and create widespread uncertainty for the reasons we have outlined above. We regard the JRC-based approach, which excludes UK-specific natural handicaps such as field capacity days, is unsuited to our farming conditions. Accordingly we support the Commission's proposal to undertake an impact assessment of its provisional proposals before bringing forward legislation—we will encourage Defra to fully engage and resource such a study in England and other parts of the UK.

30. We are also concerned that the omission of socio-economic criteria, such as remoteness from markets, should be an additional eligible criteria for designation. We believe that objective criteria can be derived to measure and substantiate these handicaps.

16 February 2009

Memorandum by NFU Cymru

INTRODUCTION

1. NFU Cymru welcomes the opportunity, on behalf of its 15,000 members in Wales to submit evidence to the above committee with regards to the European Commission's Review of the Less Favoured Area Scheme. We also welcome the opportunity to provide oral evidence to the committee on 28 January 2008.

2. The demarcation of the LFA Boundary in Wales is hugely important to our members in that whilst the demarcation alone does not commit the Welsh Assembly Government to provide resource to these areas it does delineate where additional resources should be targeted to mitigate the permanent physical handicaps that farmers in these areas have to contend with.

3. LFA designation first occurred in Wales in 1975. Based on the criteria set by the EC on depopulation, poor agricultural conditions, low incomes and work force dependant on Agriculture—56% of Welsh agricultural land was designated as LFA in 1975. This increased to 79% in 1984 with the classification of LFA land being subdivided into severely disadvantaged areas (SDA) and disadvantaged areas (DA). In 1990, an adjustment saw just under 1% added to the LFA designation, so that currently around 80% of the land in Wales is regarded as Less Favoured.

4. In addition to the primary role of food production, Hill and Upland farming delivers a vital role in protecting the environment and the sympathetic management of fragile landscapes. LFA farmers also deliver a number of other positive benefits in terms of economic, environmental, social and cultural objectives all of which figure highly on the European Commission's wider agenda. The maintenance of a farmed landscape in the Hill and Uplands of Wales is important to the growth and development of the Welsh Tourism industry, farmers in the hills and uplands of Wales play a crucial role in the survival of the Welsh language and culture.

5. Net Farm incomes in the Welsh LFA's have been at pitifully low levels for over a decade. Figures published by the Welsh Assembly Government on 26 November 2008 show Cattle and Sheep Farms in the LFA in 2007–08 made just £12,200. Average net farm income over the past seven years has varied from a low of £1,600 in 2001–02 to a maximum of just £15,900 in 2003–04. To sustain food production and the managed landscape in the hills and uplands of Wales it is therefore vital that the LFA Boundary is correctly delineated in order that targeted support can be effectively and efficiently deployed.

6. I will now move on to focus on the specific issues and questions that the committee have asked NFU Cymru to express views upon.

THE PAST: STRENGTHS AND WEAKNESSES OF THE LFA SCHEME

Question—*The strengths and weaknesses of the LFA Scheme thus far*

7. Given the economic backdrop highlighted at Paragraph 5 NFU Cymru is of the firm opinion that rural development support delivered to the LFA areas of Wales has been crucial in maintaining food production, the landscape, traditional skills and prevented depopulation and land abandonment in the Hills and Uplands of Wales.

8. The maintenance of food production in these areas has been important in allowing Wales to build a strong, vibrant and economically important food industry. The importance of Food Security has moved high up the political agenda in recent months and with a 50% increase in World population expected by 2050 it is imperative that we maintain the skills and knowledge base of farmers indigenous to these areas to meet future demand for food.

9. The inclusion of Socio—economic criteria has been important to help designate LFA boundaries. NFU Cymru see this as an important criterion and believes that it should remain a part of future designation indicators. Peripherality, remoteness from markets and low service provision are real and major issues in the Hills and Uplands and have the potential to lead to contraction in farming and land abandonment unless their effects can be mitigated.

THE CURRENT REVIEW: COMMON BIOPHYSICAL CRITERIA

Question—Whether it is appropriate to set common EU-wide biophysical criteria for delimiting LFA areas, as suggested by the commission in its consultation paper

10. Clearly the handicaps faced by the various member states will vary hugely. For example heat stress and soil water balance are clearly criteria aimed at the more southerly member states whilst others relating to drainage and stoniness may be more relevant to Northern European Countries so it is important that if Common Criteria are to be used they cover all the potential handicaps throughout the Member states.

11. NFU Cymru believes that if biophysical criteria are to be used in future then it will be important to allow member states / regions sufficient flexibility to reflect their respective natural handicaps. The Commission will need to be satisfied that the criteria are objective and that appropriate thresholds are met.

12. NFU Cymru believe that in Wales the basis for the current LFA designation based on Agricultural Land Classification is robust and transparent. Designation is based on physical objective criteria that measure permanent natural handicap and which by their very definition will not change over time. Whilst NFU Cymru can appreciate the need for objective criteria and for transparency throughout the EU to prevent the criticism made by the Court of Auditors report in 2003 we are confident that the integrity of the current designation in Wales will stand robust and detailed scrutiny by the EU.

Question—Whether the Common biophysical criteria set out by the commission in its consultation paper are appropriate and effective in identifying disadvantaged areas. Are there any omissions, whether in the form of further biophysical indicators or other indicators?

13. NFU Cymru is of the opinion that land exposed to structural handicaps such as peripherality and remoteness are at a genuine and legitimate disadvantage which is likely to remain permanently attributable to that land. We understand that currently such structural indicators are regarded as socio-economic criteria. We firmly believe that socio—economic criteria should remain as part of any future criterion. If this is not possible we believe that peripherality and distance from markets remain genuine, long term handicaps which merit continued recognition in terms of LFA designation.

14. NFU Cymru believe that where a member state / region can prove that the current LFA demarcation is robust and based on objective physical criteria then the Commission should allow the member state / region to continue to use that as a basis for designation. The commission could use an appropriate committee to “quality control” or “peer review” the robustness of the objective criteria used by the Member state / region.

THE CURRENT REVIEW; ELIGIBILITY CONDITIONS

Question—What degree of harmonisation of eligibility requirements (for determining access to LFA payments), if any, is needed

15. With the vast variation in biophysical criteria throughout Europe that may be used to designate a LFA it goes without saying that there is a vast array of different farming activities taking place throughout the LFA's of Europe. Whilst NFU Cymru would again support the requirement for objective criteria and transparency to be used in determining eligibility for access to LFA payments we believe that it is for the member state / region to work up eligibility requirements and submit them to the commission for approval.

Question—What the basic rules and criteria for eligibility for LFA aid should be, if the scheme is to meet its new objectives

16. The basic objectives of the scheme remain unchanged since inception ie due to the handicap to farming there is a significant risk of agricultural land abandonment. The policy objective is to target aid to the preservation of sustainable farming activity in areas affected by natural handicaps. To achieve this member states / regions need to provide objective and transparent eligibility guidelines that ensure support is targeted to those who are actually managing and sustaining the land and carrying out agricultural activity on a daily basis.

THE CURRENT REVIEW: PAYMENT CALCULATION

Question—How practicable is the new payment formula (based on additional costs and income foregone related to the handicap in the area concerned)? Is it likely to help reduce wide discrepancies in payment levels across member states?

17. As in any farming system profitability is the key to farming in the LFA's. Hill and Upland farmers suffer as a result of lower productivity, a limitation on farming practices and fewer diversification opportunities. Unless farmers can be adequately rewarded for managing land affected by natural handicaps in a sustainable way then there will be de-population and land abandonment in the LFA's and loss of the indigenous skills necessary to manage and care for these unique landscapes.

18. The Court of Auditors report alludes to wide discrepancies in payment levels across Member states. NFU Cymru believe that it is for each member state / region to submit to the Commission how the calculation of additional costs / income foregone has been calculated and for the commission to ensure that these costs are transparent and hold up under detailed scrutiny.

19. NFU Cymru have long argued that under Axis 2 measures of the Rural Development Plan mechanisms should be available to reward farmers for the public good performed by farming in a sustainable manner. A simple calculation based purely on income foregone/ additional costs do not compensate farmers for the public / environmental good of traditional hill and upland farming, neither does it put a value on the traditional skills that farmers employ to maintain this landscape.

THE IMPACT OF THE REVIEW

Question—To what extent would common biophysical criteria and amended eligibility criteria address the deficiencies of the LFA scheme as identified by the Court of Auditors in 2003, and in particular:

- *Guarantee equitable treatment of beneficiaries*
- *Facilitate monitoring, control and audit of the measure*
- *Facilitate evaluation of the impact and effectiveness of the measure*

20. NFU Cymru sympathise with the general principals of the review exercise and the requirement to address the concerns of the Court of Auditors report that there needs to be mechanisms to guarantee equitable treatment of beneficiaries; monitoring, control and audit of the measure and evaluation of the impact and effectiveness of the measure.

21. NFU Cymru would contend that the basis for designation in Wales is both consistent and unchanged because demarcation has been based on physical objective criteria that measure permanent physical handicaps and that which by their very definition cannot be changed over time. Clearly if this is not the case in other countries we believe the commission should pursue this with those countries but allow us to retain the status quo.

THE FUTURE DEVELOPMENT OF THE LFA SCHEME

Question—What is the role of the LFA scheme in the context of the current Rural Development Regulation, and the reformed, post-Health Check CAP. What should the LFA scheme deliver in the short term (pre-2013) that other policy instruments affecting farm viability, environmental protection and agricultural land use cannot deliver?

22. In Wales the support delivered to farmers in the LFA through the Rural Development Regulation is crucial to the survival of farming in 80% of Wales. The Tir Mynydd support scheme is relatively simple to administer by the Welsh Assembly Government and delivers support to those caring for the landscape of the hills and uplands of Wales without unnecessary regulatory costs or time delays. Other schemes under the Regulation have often been unnecessarily burdensome, not available to all farmers and because of high staff and resource requirements it often takes a number of years from a farmer expressing an interest in a scheme to actually being admitted. Any delay in receiving support can affect farm viability, and thus the maintenance of the landscape and environmental benefits of hill and upland farming.

23. In terms of timing, we have concerns and doubts about the commission completing what in some parts of Europe could be a radical revision of the LFA's within the original timescale of 2010. Any potential changes as a result of this review would need to be very carefully managed given that they could coincide with the EC budget review and further reform of the CAP.

24. In Wales the Welsh Assembly Government have recently consulted the industry on a Review of Axis 2 measures under the RDP, within that consultation paper were options for changes to the current scheme rules and requirements for our Less Favoured Area support Scheme (Tir Mynydd). The outcome of this consultation and related discussions will decide, subject to EU approval, the short term (pre 2013) evolution of the LFA scheme in Wales. Subject to a successful conclusion to this consultation process NFU Cymru believe that provided the support scheme can be proven to be robust and transparent then this review can be the basis for support post 2013 in Wales.

Question—The future evolution of the scheme, post 2013, within the context of the EU budget review, the EU's cohesion policy and further reform of the Common Agricultural Policy

25. It is very difficult to pass comment on this question given that political negotiations on the CAP Health Check have only just concluded and the implementing regulations have yet to be scrutinised. Budget negotiations and the evolution of the CAP post 2013 have yet to gain any momentum. Until we have a genuine steer as to what is likely to happen within these negotiations it is difficult to make comment on how the scheme will evolve in relation to these other decisions.

CONCLUSIONS

26. NFU Cymru widely consulted its membership on the four options, status quo, common criteria, eligibility rules, high nature values which were detailed in the EC Consultation document as to how designation could be determined in future. The firm view of our members was that we should support the status quo ie that member states / regions should draw their boundaries on the basis of indicators of natural handicaps. We believe that the Status quo established in Wales on the basis of agricultural land classification data, is the best way to proceed given that this designation was based on objective and substantiated physical analysis of handicap.

27. We are opposed to the exclusion of socio—economic criteria which we believe as highlighted earlier in our submission that peripherality, remoteness to markets etc should be added to the list of eligible criteria for designation. We believe that objective criteria can be derived to measure and substantiate these handicaps.

28. NFU Cymru fully appreciates the need to adopt transparent and robust means of demarcation across EU member states and regions, but we believe that it is for member states / regions to be afforded the flexibility to select a range of criteria and thresholds to ensure that true natural handicaps are identified at a local level. Where designation is not proven to be transparent or robust then we expect the Commission to take appropriate action.

29. The support offered to 80% of Wales through our LFA support schemes has been crucial to the maintenance of sustainable farming systems in the hills and uplands. Demarcation is hugely important in terms of defining where additional resources can be targeted. It is vitally important that sufficient resource is available from the Rural Development budget to fund this support.

Memorandum by NFU Scotland

INTRODUCTION

1. NFU Scotland welcomes the opportunity to submit written evidence to the House of Lords European Union Committee's Inquiry into the review of the Less Favoured Area scheme, being conducted through its Environment and Agriculture Sub-Committee (Sub-Committee D).
2. Equally, NFU Scotland looks forward to also providing oral evidence to the Sub-Committee on 28 January 2009.
3. NFU Scotland also recognises that there are currently EU-wide discussions about Less Favoured Areas (LFAs) support that could have significant implications—particularly for the classification of LFAs and for the basis for payments.
4. These changes will require EU-wide agreement and current indications are that implementation is unlikely before 2013. However, the issues are likely to be the subject of a European Commission Communication in Spring 2009.
5. NFU Scotland considers the issues under consideration within this House of Lords Inquiry are of fundamental importance to the Scottish livestock industry and all it supports in real economic terms, as well as a significant majority of Scotland's outstanding landscape and the people who work, live and enjoy being in it.
6. The matters at hand will have a defining influence on the future of many farm businesses, and the habitats, biodiversity and communities they underpin.
7. More importantly, the simple message from NFU Scotland, supported by its members across all regions, is that LFA designation and consequent scheme payments must be focussed to effectively support those delivering a range of rural development benefits.
8. Continuous active management of farmland is of huge significance to local economies, environments and communities.

SUMMARY

9. In summary, the view of NFU Scotland is:

- LFA support is the single most important element of rural development support and priority must continue to be given to it being fully resourced and properly targeted to maximise its contribution to Scotland's remoter rural areas.
- Farms and crofts are the mainstay of most rural communities and economies. Delivery of wider non-market benefits is dependent on active land management, which in turn will only continue if the core agriculture business is viable.
- LFA support is essential to ensuring continued viability, by off-setting the real costs of farming in disadvantaged areas and thereby enabling the delivery of a host of rural development benefits.
- The Less Favoured Areas Support Scheme (LFASS) in Scotland has the advantage of being a non-competitive means of underpinning the best part of 13,000 eligible recipients across almost 85% of Scotland, with extremely low transaction costs. LFASS is, in relative terms, non-bureaucratic for both administrators and participants and represents a very cost-effective means of delivering rural development support over a wider area that results in multiple benefits.
- NFU Scotland is firmly of the opinion that designation based either on the Land Capability Classification for Agriculture model (or with the suggested EU criteria amended to take account of Scotland's soil and climatic conditions and to include "field capacity days") should be developed and implemented to best reflect the disadvantage of Scotland's LFA.
- NFU Scotland believes that "mountain area" designation and "specific handicap" designation for islands should be used when it is absolutely clear that the review of intermediate LFAs across the EU will result in Scotland losing the ability to designate areas and differentiate payments on socio-economic grounds.
- Payments within the LFA must allow for the inclusion of the additional costs that are caused by socio-economic factors, such as distance to market, peripherality and low service provision. NFU Scotland is absolutely certain that LFA designation and support must create a closer link between scheme payments and livestock-related activity.

- NFU Scotland is strongly believes that the LFA support must be founded on the three components— support for active livestock farming, support for environmental delivery, and support for farming in remoter areas.
- NFU Scotland would be opposed to linking payments to livestock-related activity so as to benefit the environment by introducing “conditions” over and above those existing cross-compliance (mainly Good Agricultural and Environmental Condition). NFU Scotland considers that any such further environmental requirements of LFA support would be counter-productive. Additional delivery over and above cross-compliance must be additionally rewarded.

BACKGROUND

10. LFAs comprise 85% of Scotland’s agricultural land and the LFASS is designed to sustain active farming and crofting in these areas. This critically helps to maintain and improve the high economic, environmental and social value of farming in more remote and disadvantaged locations in Scotland. Vitrally, LFA support provides the driver for much of Scotland’s livestock industry, with the entire red meat supply chain and industry depending heavily on animals from LFAs.

11. Scotland’s LFAs stretch from Wigtownshire in the south to the Shetland Isles in the far north, the Lammermuir hills in the east and the Outer Hebrides in the extreme west. Land management in these areas faces particularly difficult physical and climatic conditions and to compensate for these natural handicaps, LFASS provides over £60 million each year to about 13,000 farmers and crofters through the Scotland Rural Development Programme (SRDP).

12. In Scotland, the main objective of LFASS refers to the key role of agricultural activities in sustaining rural economies and also maintaining important biodiversity and landscapes. Furthermore, the multifunctional role of LFA agriculture is also reflected in the new Rural Development Regulation (EC Regulation 1698/2005) which includes the provision of support for LFAs under Axis 2: Improving the Environment and the Countryside.

13. This multifunctional role of LFA farming has become the main rationale for continuing support. The often-cited example of public goods provision from LFA agriculture is an example of government intervention to correct market failure and inequalities. LFA farming suffers from, amongst other factors, lower productivity and fewer opportunities for diversification. It is evident that supporting farmers in these areas provides both public goods and agricultural products that might not otherwise be available.

14. LFASS was also an important component of the previous SRDP (2000–06), and the Mid-term Evaluation (2003)⁹ of that programme found that LFASS played a very important role in supporting farm business viability.

15. A more recent review¹⁰ concluded that LFASS 2000–06 provided socio-economic benefits to the farming community, and indirectly to the wider economy, and contributed to maintaining livestock numbers and stabilising farm incomes. It concluded that future LFA support should encourage “sustainable economic activity within a vibrant, suitably serviced rural community, such that appropriately sited public goods can be provided by an enthusiastic farming body with the necessary capacity to participate”.

16. The key European legislation for LFASS between 2007 and 2013 is EC Regulation 1698/2005 on rural development. The preamble to this Regulation states (in paragraph 33) that “natural handicap payments in mountain areas and payments in other areas with handicaps should contribute, through continued use of agricultural land, to maintaining the countryside, as well as to maintaining and promoting sustainable farming systems”.

GENERAL COMMENTS

17. NFU Scotland is firmly of the view that Scotland’s LFA farmers face adverse conditions in pursuing agricultural production. Lower productivity levels and incomes make the viability of farm businesses vulnerable in these fragile areas. Yet, unless the core agricultural business is viable, farmers will not be able to continue to deliver environmental and social non-market benefits, nor to act as the backbone of rural economies.

⁹ DTZ (2003) SRDP Mid-term Evaluation for the Scottish Executive

¹⁰ Less Favoured Area Support Scheme in Scotland: Review of Evidence and Appraisal of Options for the Scheme post 2010, Macaulay Institute, University of Edinburgh and Institute for European Environmental Policy (2006).

18. The LFA support helps farmers to secure this contribution and, together with other policy instruments, ensures the maintenance of open traditional agricultural landscapes, semi-natural habitats and biodiversity, good soil and water management, and valued assets in the cultural landscape.

19. Supporting farming systems in such vulnerable rural areas also generates wider rural development benefits via the pivotal role that active agriculture plays—not least in underpinning both upstream input suppliers and downstream industries that are dependent on livestock production. Paying compensatory allowances to farmers for the additional costs and/or income foregone associated with farming in less favoured areas is widely recognised as an effective means to ensure positive contributions to the sustainability, attractiveness and vitality of rural areas¹¹.

20. LFA support has proven to be a valuable instrument in the CAP tool-box, as confirmed last by the evaluation report of 2006¹². It has its own distinct purpose alongside the CAP Pillar 1 payments and Pillar 2, Axis 2 agri-environment measures. As such it is fundamental to the fulfilment of the European Model of Agriculture.

21. There can be no doubt that LFA designation and support ensures the continuation of agricultural production throughout Scotland. It makes a clear and cost-effective contribution to the vitality of many rural areas, especially the more remote, and prevents land abandonment and depopulation. Its purpose corresponds to the CAP and rural development objectives.

DEVELOPMENTS ACROSS THE EU

22. NFU Scotland firmly believes that the current system of delimiting LFAs across Scotland has resulted in the correct areas of land being designated as “LFA”, and this is clearly supported by Special Report No. 4/2003 from the European Court of Auditors. If the EU Commission is concerned about the consistency of designation amongst Member States, it should take these concerns up with the Member States involved.

23. If Scotland is coerced to revise the area of land delimited as LFA, the criteria used must reflect true physical and climatic handicaps to agricultural production. That is, the combination of (predominantly) soil and climate factors that dictate the “workability” of land in Scotland and therefore limit its productive potential or agricultural capability.

24. The Land Capability Classification for Agriculture (LCCA), developed by the Macaulay Institute, provides an established means of classifying land according to the limitations imposed on it by physical and biological factors which affect agriculture. As a consequence, the LFA for Scotland could be delimited on climate, gradient, soil, wetness, erosion and vegetation.

25. LCCA Class 3.2 through to Class 7 would provide a continuous, unfragmented LFA boundary that properly reflected both productive capability and the contribution of active farming to the economic, environmental and social parameters of rural development.

26. NFU Scotland is firmly of the opinion that designation based either on the LCCA model or with the suggested EU criteria amended to take account of Scotland’s soil and climatic conditions, and to include “field capacity days”, should be developed and implemented to best reflect the disadvantage of Scotland’s LFA. It is the lack of farming options and limitations on productive capacity that really define LFAs.

27. Delimiting Scotland’s LFA on such foundations would allow the most appropriate targeting of LFA payments (through LFASS) to attain the desired rural development outcomes.

28. NFU Scotland must also insist that broader socio-economic handicaps should be built into the payments system that should be founded upon the objective delimitation of the LFA.

29. To enable those actively farming to deliver a range of public and rural development benefits, then it should be acknowledged that much of the “disadvantage” for such farms is dictated by remoteness and the additional costs of operating farm businesses across a very dispersed and fragile rural landscape.

30. The basis for payments within the LFA must allow for the inclusion of the additional costs that are caused by socio-economic factors, such as distance to market, peripherality and low service provision.

31. The system for designation must ensure that only areas that face legitimate and real handicaps to agricultural production, and where active farming underpins the economic, environmental and social dimensions of rural development, are included in future LFAs and are therefore eligible for support.

¹¹ Paragraph 3.2(ii) and (vi), Council Decision of 20 February 2006 on Community strategic guidelines for rural development (programming period 2007–13), (2006/144/EC), OJ L 55, p. 25f.

¹² An Evaluation of the Less Favoured Area Measure in the 25 Member States of the European Union, IEEP report prepared for DG Agriculture, November 2006.

32. NFU Scotland appreciates that all LFAs in Scotland are currently designated as “intermediate” under Article 19 of EC Regulation 1257/1999.

33. Given the very real concerns of redefining such LFAs only on objective bio-physical criteria, with no socio-economic dimension to reflect the real costs of farming at the margin, NFU Scotland would entirely support the use of Article 18 (“mountain areas”) and Article 20 (“specific handicaps”—islands in the Scottish context).

34. That said, NFU Scotland believes that this option should only be used when it is absolutely clear that the review of intermediate LFAs across the EU will result in Scotland losing the ability to designate areas and differentiate payments on socio-economic grounds. The use of Articles 18 and 20 must be one of last resort, as NFU Scotland still believes it preferable to operate a single LFA for Scotland with the ability to adjust payment rates on both physical and remoteness criteria.

14 January 2009

Memorandum by the Ulster Farmers’ Union

INTRODUCTION

1. The Ulster Farmers’ Union (UFU) welcomes the opportunity to give both written and oral evidence to the House of Lords EU Environment and Agriculture Committee as part of an inquiry into the planned review of the EU Less Favoured Area (LFA) Payment.

2. The UFU would like to make it clear that it should be left up to each Devolved Administration within the UK to undertake a review of the LFA scheme in their region and from which formulate their own conclusions and recommendations.

3. The LFA scheme is part of the Northern Ireland (NI) Rural Development Programme 2007–13 (Axis 2) and is legislated under EU Council Regulation 1698/2005 paragraph 33 which within it states; “Natural handicap payments should contribute, through continued use of agricultural land, to maintaining the countryside as well as maintaining and promoting sustainable farming systems”.

4. The Current Scheme objectives are:

- a. To contribute to the continuation of farming in the LFA and thus, to the maintenance of a viable rural community.
- b. To contribute towards the maintenance of the countryside.
- c. To promote the everyday use of good environmental practices complementary to maintaining sustainable farming.

5. The UFU believe that the NI LFA scheme currently meets these objectives and will continue to meet these objectives as long as active livestock farmers continue to receive support from the scheme.

6. Currently around 70% (712,000 ha) of agriculture land in NI is designated as LFA. The LFA area is subdivided into Severely Disadvantaged Area (63%) and Disadvantaged Area (37%). There are over 18,000 farms in NI’s designated LFA’s of which almost 15,000 are Cattle and Sheep Farms.

7. The NI scheme currently has an annual budget of £21 million and around 14,000 claimants. To qualify for the scheme claimants must have either breeding beef cattle, sheep, deer or goats and a minimum stocking density of 0.2 livestock units per hectare. The livestock must also be available to graze the land on a continuous basis from 1 April until 31 October.

8. Net Farm Incomes (NFI) for Cattle and Sheep Farmers in LFA’s are extremely low and are continuing to decline. In the past four years NFI on these farms have decreased by over 10% from a dismal £6,200 in 2004–05 to £5,520 in 2007–08.

9. Over 90% of eligible farms in LFA’s currently claim the payment which highlights its significance to many of these producers.

10. For those farmers who actively farm in LFA’s, payments from the scheme have been extremely important for the continuation of their farm business. These farmers are faced with significant natural handicaps less prevalent in other agriculture areas, including shorter number of growing days, poorer land productivity, extreme weather conditions and isolation. This has put added economic pressure to farming in these areas.

11. Active farmers play a key and leading role in looking after the landscape, habitats and bio-diversity of NI. Farmers in LFA’s see the scheme as essential to enabling them to continue their work in these areas which are so highly valued by the NI public, tourism industry and environmentalists alike.

12. Unlike farmers in lowlands, farmers in LFA's have little or no alternative to beef and sheep production and whilst beef and sheep production remains extremely unprofitable these producers are faced with a stark decision: To continue to operate for very little return or abandon the land.

13. An independent report carried out by McKinsey Consultants in 2007, which looked into the NI Red Meat Sector highlighted the financial difficulties the Beef and Sheep sector face, particularly those in LFA's. The report highlighted that production costs for Hill Lamb are 35% higher than the cost of producing Upland/lowland lamb, illustrating the financial handicap farmers in these areas face.

THE PAST: STRENGTHS AND WEAKNESS OF THE LFA SCHEME

14. The UFU believe that the NI LFA scheme in its current format is an extremely beneficial and value for money scheme within the NI Rural Development Programme and as such do not believe that changes are required.

15. A major strength of the scheme is that it is open only to active farmers. This has ensured that payments from the scheme are aimed at helping the continuation of active farming in these rural areas that face significant natural handicaps. In doing so these farms significantly contribute to the maintenance of the wider rural environment, economy and landscape.

16. The UFU firmly believe that the LFA scheme in NI has significantly benefited the environment and bio-diversity in these areas. A number of studies undertaken in NI have shown extensive grazing in these areas, particularly mixed grazing of cattle and sheep has greatly increased bio-diversity. This has also been supported by NI Environmental NGO's who fully appreciate the need for an LFA scheme in order to maintain the countryside.

17. There is already evidence to show that some land abandonment, particularly in the isolated, mountain areas of NI has taken place. As a result there has been clear visual evidence that shows an increase in invasive non-endemic species, loss of bio-diversity and loss of semi-natural habitats. Given the financial constraints farmers in LFA's are under, the loss of the LFA payment would force many to reduce or remove their livestock from the land and therefore exacerbate this worrying situation.

18. The UFU recognises the benefit of a two tier payment structure to differentiate between Severely Disadvantaged Area's (SDA) and Disadvantaged Area's (DA). Whilst all areas within the LFA face significant natural handicaps there are areas where the severity of these handicaps significantly increases and the higher rate of payment for SDA against DA recognises this.

19. The UFU consider the low administration cost in delivering the NI LFA scheme a key component of its success. Other schemes delivered under axis 2 such as the Countryside Management Scheme and Environmental Sensitive Areas Scheme have become overly bureaucratic and in many instances unworkable for many farmers. This is reflected in the fact that only 35% of LFA farms are involved in either of the above mentioned schemes.

THE CURRENT REVIEW: COMMON BIO-PHYSICAL CRITERIA

20. The UFU do not feel that that it is appropriate to set common, EU-Wide bio-physical criteria for delimiting LFA areas.

21. The UFU believe that differences in climatic and soil conditions across Europe make it very difficult to introduce a single criterion which properly defines a Less Favoured Area in every member state across the EU.

22. The UFU feel that where the Commission have concerns over the current LFA designation it should be left up to that member state or region (where applicable) to justify its current designation.

23. Failing this the UFU believe that LFA's should be designated in Northern Ireland under the NI Agriculture Land Classification system which considers the permanent physical characteristics of an area and determines and classes the agriculture land capability.

24. The UFU believe that the criteria outlined within the Commission's proposal fails to consider the wet land conditions of NI and the rest of the UK. The UFU feel that the Commission has failed to appreciate that wetness can be a considerable handicap for many areas across the UK.

25. The UFU feel the Bio-Physical Criteria and an additional criterion which considers wetness could be developed as a means of identifying future LFA's in NI.

26. If the area of qualifying LFA area increases within NI as a result of the re-designation there must be an increase in budgetary allowance towards the scheme also.

27. The UFU are concerned that within the Commission's Common Bio-Physical Criteria there is no way of differentiating between areas currently designated as SDA and DA. The UFU believe that this could lead to a single rate of payment across LFA's and in doing so reduce the level of payments in SDA's which would greatly increase the risk of land abandonment. The UFU believe that designation under the NI Agriculture Land Classification System is a way in which this difficulty could be addressed.

THE CURRENT REVIEW: ELIGIBILITY CONDITION

28. The setting of eligibility conditions should be determined at an individual Member State/Regional level so that the scheme rules are best targeted at meeting the scheme objectives. Given that farming practices and land conditions differ dramatically across the EU, the UFU feel it would be difficult to set common eligibility conditions that would ensure the scheme objectives are met in all MS's.

29. The UFU believe that it is vital that claimants of the scheme are active livestock farmers. It is the active farmers who maintain the countryside and without them future viability of the wider rural area and the environment will be under threat.

THE CURRENT REVIEW: PAYMENT CALCULATION

30. Again the differences across Member States will inevitably lead to differences in the rates of payments. Setting the rate of payment based on additional costs and income foregone related to the handicap in the area will be extremely difficult to define and would be a very large administrative burden. In addition it also does not consider the wider public and environmental goods that farming in these areas delivers. The UFU believe that it should be left to each MS/Region to decide and justify the rate of payments they make under the LFA scheme.

THE IMPACT OF THE REVIEW

31. The UFU believe that the current scheme is already targeting the areas where the payments from the LFA scheme are most needed. The UFU understand and appreciate the need for a designation criteria which measures permanent physical handicaps and which do not change through time as a means of justifying and ensuring that those who are most in need of the payment are receiving it. Indeed much of the land currently designated as LFA will also qualify under the common bio-physical if a criteria for rainfall is also included. The UFU would therefore question why a re-designation exercise and the associated administrative burden is required. The UFU believe the Commission should focus on the Member States in which the Court of Auditors has concern over current LFA designation and eligibility rules.

THE FUTURE DEVELOPMENT OF THE LFA SCHEME

32. The LFA Scheme in NI and its continuation is vital to the long-term viability of farms in these designated areas. The current scheme is delivered through Axis 2 of the NI Rural Development Programme where measures are designed to protect and enhance NI natural resources and landscapes in rural areas. Unlike other schemes within Axis 2, LFA is the only scheme which actively promotes and requires active livestock farming. In addition, research studies in NI have shown that livestock are vital to the preservation of the countryside and bio-diversity of an area and support for active livestock farming where there is a clear environmental benefit should continue to be supported.

33. A review of the LFA scheme in NI is currently underway and will certainly influence the development of the scheme post-2013. However with discussions on the CAP Health Check only recently concluded and negotiations on the future budget at a very early stage the UFU do not believe they are in a position to comment on how these may influence the evolution of the scheme post-2013.

23 January 2009

Examination of Witnesses

Witnesses: MR ANDREW CLARK, Head of Policy Services, National Farmers' Union; MR JONATHAN HALL, Head of Rural Policy, NFU Scotland; DR NICK FENWICK, Director of Agricultural Policy, Farmers' Union of Wales; MR DAI DAVIES, President, NFU Cymru; MR GRAHAM FUREY, President, Ulster Farmers' Union; and MR SEAMUS MAGINN, Chairman, UFU Hill Farming, Ulster Farmers' Union, examined.

Q47 Chairman: May I thank you all for coming. It is good of you to find the time to come along. You have already received the list of questions with the nine areas we want to explore. Perhaps one of you could answer a question and then, if anyone has another take on it or disagrees with what has been said, feel free to make that clear. If you are relatively content with what has been said by a colleague, we could move on to the next question. This is an evidence-collecting session. You can correct or modify the transcript of your evidence when you receive it. This session is being webcast. I will start with a general question. What do you see as being the justification for LFA payments? Why should they be there? What is the public getting in return for financing LFA payments?

Mr Davies: LFA is very important as far as Wales is concerned. The way I see these payments is of course to ensure that we have sustainable farming in the hills. Of course it is important to those farms in the hills to make sure that we look after the environment; the social aspect is very important as well; and of course it creates economic activity in the hills. As for LFA demarcation in areas such as Wales as the moment, distance from the marketplace is a major issue for many of these areas, and we want to make sure that we do not get rural depopulation. Tourism is very important to us and of course by looking after these fragile landscapes, we make sure that there is a spin-off as far as the tourist industry is concerned as well.

Mr Hall: I agree very much with that. In many senses, LFA payments perform a unique role. They stand out in many rural development programmes. As you all know, they are a Pillar 2 rural development measure but the function that they play is different from that of other rural development measures. In particular, it is different from agri-environment schemes; in many senses they are more akin to a Single Farm Payment, more like a Pillar 1 payment and in fact they underpin farms and crops in Scotland. Across the board, there are some 13,000 participants in the LFA scheme in Scotland. That then enables them to deliver all sorts of other things via the rural development programme. I think that subtle difference is really quite important as to where they sit in the policy make-up. I know there is a further question about that later. I think they have bridged the gap between single farm, Pillar 1 payments on the one hand and very targeted measures of rural development programmes on the other, the Pillar 2 payments. They are more about facilitation and enabling farms and crofts across a large disadvantaged area,

particularly in Scotland where you are looking at 85 per cent of Scotland being designated as LFA, then to deliver all the things that Dai Davies has just referred to.

Q48 Lord Livsey of Talgarth: I wonder if one of you has information as to what proportion of the net farm income is coming from the LFA?

Mr Furey: Within Northern Ireland, 33 per cent of the net farm income is the LFA payment. The average net farm income in Northern Ireland is small; it has varied between £6,000 and £8,000 over the last three or four years. The average payment is £1,500 per farm. Obviously different farms have varying payments. It has been worked out that the LFA payment is 33 per cent of the net farm income

Q49 Viscount Brookeborough: Are those percentages changing because of the changes in the rate of the pound to the euro? Will this be reflected the whole way through?

Mr Furey: That is a very interesting question. The Northern Ireland LFA payments were set down in euros as opposed to pounds, even though that has been paid out in sterling these last few years but because of the varying rate this year and because it is stated in euros, we have been discussing that with our department and we feel there is an extra payment to come this year. They said they had made a mistake in actually setting up the scheme. That is separate to everyone else. The figures are €30 and €60 converted to £20 and £40 for the last number of years but this incoming year, set on 1 January, farmers should get around probably £28 and £56. The department has said that they will honour their debt.

Q50 Viscount Brookeborough: What about the rest of the United Kingdom?

Mr Davies: I know that Andrew wants to come in here because he is an encyclopaedia of data but I would mention initially that in the areas we are dealing with as far as farming is concerned it is very volatile and as far as Wales is concerned in 2001/2002 the average farm incomes for LFA farms was £1,600 whereas this year it was £12,200. Because of the nature of the land you are farming, that can be very volatile. The average LFA payment in Wales is about £2,500, and so you can see it is going to be well in excess of 100 per cent of LFA incomes in a bad year and it can be down to 20 per cent in a good year. The question you ask about the value of the pound is interesting. That question was asked to our Minister, Elin Jones only last week, whether there was an

28 January 2009 Mr Andrew Clark, Mr Jonathan Hall, Dr Nick Fenwick, Mr Dai Davies,
Mr Graham Furey and Mr Seamus Maginn

opportunity of having a supplementary payment this year because of the weakness of the pound against the euro. She said that these payments are based on seven years and therefore this year might be a good one but perhaps in six years' time it might be a bad year. Her answer is that they have to balance things out a little.

Q51 Viscount Brookeborough: So who is saving this money and where is this little pool of money being held for good or bad?

Mr Davies: We did ask the Minister that question. The answer was that she would try to level it out.

Q52 Chairman: Because it is denominated originally in euro, you are arguing for an uplift on that basis.

Mr Furey: We would be asking for that on the whole Rural Development Programme.

Chairman: You want to win on that and of course you would be winning on the fact that because of the weakness of the pound, you have a competitive edge in export markets as well. So it is a double gain, it is not?

Q53 Viscount Brookeborough: But you have to accept that one day it might be the reverse

Mr Clark: This matter was discussed in an NFU Council meeting yesterday and there was a great deal of interest in the relationship between Rural Development Programme payments that are set for seven years, and set presumably on the basis of modulation receipts, some of which are received in euro and some in pounds, and what the impact would be of changing exchange rates. At the present moment, we do not have a satisfactory answer or one that we understand, shall I say, from Defra as to where the benefits from the changing exchange rates are falling: either it is the Commission or the Treasury or Defra. What was clear from the point of view of the farming community is that apart from the single payment scheme, on the rural development side, Pillar 2 payments, we have not seen any advantage yet. I have other information which I provided in our evidence on page 2 about the balance of net farm income and grants and subsidies. I will not go into detail on that as it is in the paper. I have also done a breakdown.

Q54 Chairman: What proportion of grants and subsidies are represented by LFA payments?

Mr Clark: In the last year, 2007/08, and this is for England (there are differences across England, Wales, Scotland and Ulster), net farm income for LFA farms is £25,849. The Hill Farming Allowance, which is the LFA measure, contributed £3,607 to that net farm income; the environment schemes contributed £5,500 to that. The single payment scheme therefore contributes about £16,700. That is the context of the

net farm income for the farms of £5,000. In effect, and this is something which we show on figure 1 of our evidence, grants and subsidies to LFA farms in England far outweigh the net farm income, and have done for the last ten years.

Q55 Chairman: Do you have similar figures for the other areas?

Mr Fenwick: The figures that I have, which I understand are the latest figures, which have shown a considerable improvement on previous figures due to the change in the exchange rate, are that LFA payments contribute 13 per cent to the latest 2007/08 financial year figures.

Q56 Chairman: Is that 13 per cent of total incomes?

Mr Fenwick: As I understand it, that refers to total incomes. I do not have the reference with me.

Mr Davies: As far as payments to the average Welsh farm, and 80 per cent of those farms would be in LFA, the Single Farm Payment totalled £24,500; the actual net farm income was £23,500. Therefore, the Single Farm Payment was £1,000 more than the net farm income.

Mr Hall: Could I add from a Scottish point of view that the average figures are roughly the same but in Scotland we find an extreme variation around that average. Of course, we can all be fooled by averages and that is always a concern to us in the sense that in the most disadvantaged LFA areas of Scotland we see that the Single Farm Payment component of net farm income, or crofting income, whatever it might be, is often much smaller than the LFA component. Therefore, the LFA policy as an instrument actually takes on a greater significance in many senses, simply because the historical nature of our Single Farm Payment as opposed to an area-based Single Farm Payment goes back to production levels for 2000/02; and we are looking at very low productivity and often it was based purely on the SAPS (Sheep Annual Premium Scheme) in many senses. There is a pattern or a correlation between LFA payments and Single Farm Payment parish by parish, county by county, in Scotland but we do see their relative significance rising significantly as you move further north and west, putting it in general terms.

Q57 Baroness Sharp of Guildford: Carrying on on the same theme, what do you see as being the FLA's relationship to other national and EU policy instruments, such as the Single Farm Payment we have been talking about, and the agri-environment schemes and the land use planning regulations, and so forth? Could you give us some indication of relativities here?

28 January 2009 Mr Andrew Clark, Mr Jonathan Hall, Dr Nick Fenwick, Mr Dai Davies,
Mr Graham Furey and Mr Seamus Maginn

Mr Clark: What we would regard the LFA scheme, and once again this is in an English context, as a very important contribution towards farm incomes and a tacit recognition that farming is being undertaken in areas which are of great importance to public tourism and environmental interests as well as food production. They are not of themselves, certainly at the levels I have been talking about, enough to go and save the business from going out of business but the LFA designation itself I think demarcates very clearly an area of need, an area of great environmental and economic importance in a rural community, and also great cultural importance as well. Something that we have not yet mentioned is that these landscapes are farmed by people who have a great deal of historic cultural interest and skills, the sorts of thing on which you cannot really put a price tag: how to manage fells, how to manage stone walls and that type of thing and understanding that in the environment. They provide an important contribution but not the end of the piece at all.

Mr Davies: That is an interesting question. You talk about the Single Farm Payment. In LFA areas the Single Farm Payment is usually dramatically lower than what you find in lowland farms because naturally the stocking rate historically was much lower. If you are interested in a comparison between Wales and England, 80 per cent of Wales is in the LFA and 80 per cent of England is in the lowland. If you compare the Single Farm Payments, the English Single Farm Payment is at twice the level it is in Wales, so therefore LFA payment is very important.

Mr Hall: Again I would have to agree with Dai's comments and repeat what I said earlier in the sense that where it sits in the quality spectrum it plays an absolutely vital role, in our view, in linking the direct support payments of Pillar 1, the Single Farm Payment, that underpins the business, which then allows those farms and crofts to deliver a rural development benefit through targeting measures. It performs more of a Pillar 1 function in many senses than it does a Pillar 2 function. That is just where it happens to sit. Obviously, we all understand and appreciate that the European Commission would like to see greater environmental conditionality attached to LFA payments and so on. It does sit as access in Pillar 2, but we would continually argue, with a lot of evidence behind that, that it is there to underpin the very nature of those businesses so that they are in a position to do these other things and deliver the environmental biodiversity, landscaping and social benefits. The way in which LFA payments have always been made is very different from agri-environment. It is not about income foregone as such or setting aside land and doing something in a non-productive sense. It does not work in that same respect. It is actually compensating for permanent

physical specific disadvantage which we really cannot do anything about.

Mr Furey: Unlike other EU policy instruments, the LFA scheme is the only one which recognises, supports and requires as a minimum the continuation of active farming. In other words, you can now receive Single Farm Payments; you can go into the agri-environment scheme without having any livestock.

Q58 Chairman: It sticks out a bit now, does it not?

Mr Furey: Yes. We have a minimum stocking density so that you are required to have livestock to receive that payment and that is keeping active farmers on the hills. Therefore, you maintain your environmental benefits because you have people looking after the environment and the system. We see that as crucial to keep the people in the area.

Mr Fenwick: I would add that there are schemes now in place due to the economic pressures there have been on sheep and cattle farming over the years. In certain areas, particularly where there is shared grazing, they have suffered from under-grazing and there are now schemes in place to bring stock into areas in order to graze those areas. Had it not been for the LFA payments, that would be a far more widespread problem. If you look in the uplands of Wales in places like the Cambrian Mountains, you will see larger areas of abandoned farms, chapels and schools where the economic pressures of the early part of the twentieth century caused complete depopulation of those areas. Had it not been for the introduction of the hill farming scheme in the Forties and the subsequent schemes after that, I think that that rural depopulation would have been exacerbated significantly.

Q59 Chairman: Is there rural depopulation in Wales?

Mr Fenwick: There is a significant outward moment of young people, and those people are generally being replaced, as I am sure Dai would agree, with retired people coming in, good lifers and so on. We have a real crisis in terms of the brain drain, as they call it, intelligent young people moving away because of the lack of income. That would be exacerbated were it not for the LFA scheme.

Q60 Viscount Brookeborough: On rural depopulation, is it not right that it is not so much rural depopulation but depopulation of what happened to be less favoured areas, coming down to the lowland? From a Northern Ireland point of view, which is where I live, I think that this is very much the case; it is people coming off the hills from the little farms on the hills and actually moving out of those areas, which then leave those areas susceptible to turning to other things or nothing.

28 January 2009 Mr Andrew Clark, Mr Jonathan Hall, Dr Nick Fenwick, Mr Dai Davies,
Mr Graham Furey and Mr Seamus Maginn

Mr Furey: We are already seeing that in Northern Ireland. People are now moving down lower and lower. They may not be leaving their rural area but they are coming further off the hills and the upland. That is because of the fact that they have little or no alternative other than beef or sheep farming on those hills. That is one of the real designations of LFA ground; they do not have alternatives like lowland farmers have of switching from cattle to cereals.

Q61 Viscount Brookeborough: And the statistics are distorted or made up depending on where you believe rural ends and urban begins and how big a village has to be to become eligible.

Q62 Lord Brooke of Alverthorpe: But is it abandonment?

Mr Davies: That is an interesting question and I think it is quite right to ask it. There is probably not rural depopulation but there is an exchange of people. These holdings or houses are taken over by holiday makers, weekenders, whatever, so the house is occupied at certain times of the year but the farming and the social structure changes and the skills that were there to maintain stone walls and hedges disappear. The quality of the grazing and so forth deteriorates, and of course the economic activity of the area diminishes as well because of that.

Q63 Baroness Sharp of Guildford: Is there not a generational problem then? There is not depopulation as such because you have people moving into the area, but equally you have a new generation of people who are not necessarily going to be maintaining the agri-environment that you have maintained under the Hill Farming Allowance and now the LFA scheme.

Mr Clark: I absolutely agree with Baroness Sharp. The point is that we have a camouflage of statistics here where at a statistical level the economy of rural areas is very often performing as well as urban areas; employment levels can be lower in some areas and there are more business start-ups. Statistically it looks good but I go back to the point I made earlier to a question you asked about skills and the knowledge to be able to manage these landscapes. It is the skills and knowledge and the people who undertake landscape management that where we see depopulation and the loss of capacity. That is why LFA designation is so important and the measures that go with it.

Q64 Lord Cameron of Dillington: I was going to save my question until the end but I will put it now. Playing Devil's Advocate: I want you to bang on the head for me the whole question of whether it matters, Andrew, that those skills are going because there are

new skills required, skills to do with the internet because you have broadband infrastructure coming in? You mentioned the figures, for instance, of the total payment from the Government of £25,845, net farm income £5,000. Would it not be better environmentally to pay the farmer say a salary of £15,000, make him an environmental warden if the environment is a matter he can deal with (he can do tourism, he can add to his income in lots of different ways) and then put £10,000 into the infrastructure so you can get people who are fulfilling travel arrangements, anything to do with broadband, stockbrokers or anything you like, and it becomes more of a sustainable economy? The people are still there. The whole business about the brain drain that Mr Fenwick was talking about, actually happens throughout rural England. I live in Somerset; the school leavers go away and start to come back in their fifties or even earlier because they want quality of life and they bring their brains back again. I wonder whether farming is really important in all of this. Maybe we ought to look at a whole new situation whereby you pay someone to be there to do the environmental work in lots of different ways but actually you run a completely different economy and a more sustainable economy through different means. It was only because farming is the only possible industry 40 years ago that we developed this system, but the situation has changed now. Ought we to be changing as well?

Mr Davies: As farmers quite often we are asked: what are you delivering for the public? You should not be asking that question to us as an industry. Ask the question to the general public out there and I am sure you will receive a clear answer. They want to see their stone walls maintained; they want the environment in the countryside to be protected. I think the vast majority of them would be prepared to make sure that there is sustainable farming on those hills. I am sure if you asked them the question, "Would you subsidise setting up broadband or the internet for some of the yuppies from the town to move out on a permanent basis so they could run their business", the answer would be very, very different; they would not perceive that as delivering public good.

Mr Hall: The key thing for us in Scotland, and in Scotland it is somewhat different, is that we are talking about much more dislocated areas in many senses, much more remote, not least because we have hundred of islands quite literally and hundreds are inhabited. The key role that active livestock farming in the hills plays, other than pure environmental management which would be a possible policy alternative, in a sense is pivotal to all sorts of ancillary industries which pure active environmental management does not. Managing species-rich grassland on a holding for whatever outcome will

28 January 2009 Mr Andrew Clark, Mr Jonathan Hall, Dr Nick Fenwick, Mr Dai Davies,
Mr Graham Furey and Mr Seamus Maginn

improve biodiversity but it does not support the input suppliers and it does not support the downstream processing sector and the haulage industries in what are fragile rural economies. These multiplier effects that we get by channelling monies through LFA support into these areas are far more cost-effective in delivering a wider range of rural development benefits where there are limited alternatives than it is to say that we will deliver it all simply through agri-environmental management, as it were. There are limited opportunities. Having said that, I think we all fall into the trap of saying we have farming, forestry and tourism in Scotland, but those are all effectively land-based when you scratch the surface; they are all dependent upon the backdrop of heather-clad hills and the like. It is integrated land use when you scratch that surface. I think it is vital to retain the activity and the drive to generate an income. It is therefore about LFA payments and Single Farm Payments underpinning those who are active and actively managing. That is the key point about where LFA sits as opposed to just being about taking all the LFA money and putting it into agri-environment schemes. At the end of the day, many of them are competitive. With regard to their contribution to costs, you would still see a draw-down on the reserves of the business and there would be no continuous future investment in the holding. We would see a gradual drain out in many senses.

Q65 Lord Cameron of Dillington: You do not think the money transferred for instance into the HIE for instance would be more beneficial in terms of jobs than the LFA?

Mr Hall: What HIE does has been very useful in trying to diversify a rural economy where there are very limited opportunities, but it is focused not particularly on primary sector interests of farming and forestry; it is focused on issues to try to develop the tourism sector and ways and means whereby businesses can operate, despite the fact they are dislocated, through broadband connection and the other things. The spin-offs and the pay-offs from that are yet to bear fruit. We still rely in many places in Scotland on primary industries, which then underpin a tourism industry. We do not have any middle sector; we have a tertiary service sector and a very basic primary sector. We have nothing in the middle. We do not actually make things in rural Scotland and we do not command any control over the supply chain. That is a fundamental flaw in many parts of rural Scotland. You just have to go to Orkney or Shetland and you will realise that there is a huge oil industry in one respect, which is bringing money in, but it is sitting cheek by jowl with a very traditional, thousand year old culture of managing livestock in a very disadvantaged area.

Mr Clark: At a simplistic level, no amount of internet connection is going to manage the countryside. We can do an awful lot more than simply manage the environment. This is not just gardening on a grand scale. We can manage the landscape, we can also produce food and we can also produce fantastic landscape for tourism. We can do all of those things all at the same time. This is truly sustainable development, whereas focusing your investment strategy in what might seem to the Treasury an economically rational approach into the market towns and villages with internet connection will not create the landscape; it will create a few very attractive villages and a lot of rather ordinary countryside with very little biodiversity and wildlife in it. In terms of value, and I was going to mention this later on, in the latest proposal from Defra to promote an upland entry level scheme in England they value the benefit of the transition from a Hill Farming Allowance to the Upland Entry Level Scheme as producing a public environmental benefit between £108 million and £114 million a year. That is in return for an investment to farmers of £25 million a year. So it is a 1:4 benefit to the public. That does not take into account the attraction of the countryside that brings in tourists, that effectively farming in LFAs makes the Lake District look like the Lake District. That is why people visit it.

Mr Furey: All these things are interrelated. As soon as you take the farmers off the hills and decide to put park keepers up there, or whatever else, it will cost a fortune to do it that way, to grow grass up there for sheep or cattle grazing the grass and having species-rich grasslands. I think proportionately it would be interesting to do an exercise as to how much it would take to do it by manpower rather than animal power, if you like.

Q66 Viscount Ullswater: On designation criteria, I am moving away from money to the physical side or the biophysical side of LFAs. Assuming that the Commission cannot be persuaded to prolong the *status quo* and the continued use of our domestic land classification criteria, how would you propose to amend or add to the common biophysical criteria that are currently under discussion? Perhaps I should add: might a second tier of country-specific biophysical criteria be desirable?

Mr Davies: I am a pretty simple minded LFA farmer from Carmarthenshire and I do not profess to see how they operate in the Commission. My concern is that LFA farms are not produced in a laboratory. If they are not produced in a laboratory, they will be a huge variation, not only within the UK but there will be a huge variation of climatic conditions, physical conditions and so forth across Europe. I cannot see, unless something is produced in a standard fashion,

28 January 2009 Mr Andrew Clark, Mr Jonathan Hall, Dr Nick Fenwick, Mr Dai Davies,
Mr Graham Furey and Mr Seamus Maginn

how you can categorise them and put them in the same box, as it were. Therefore, I feel quite strongly that it has to come back to Member States or regions with Member States to present their evidence to the Commission and the Commission to peer review it or put a quality mark on it and, as they do in other schemes, either accept the classification or reject it and send it back to be reviewed.

Mr Fenwick: To add to what Dai has said, my understanding is that the most southerly point of the European Union is in Cyprus and the most northerly point is in Lapland. To apply a common set of criteria to such a diverse range of environments seems completely unacceptable. The lowest land in Europe is 25 feet below sea level; the highest land is around 16,000 feet. Clearly, if we are forced to have a common set of criteria, then a lower tier nationally is certainly desirable to recognise the particular problems that we face.

Mr Hall: Could I add support to what has just been said entirely? A common approach by 27 Member States, 90 something regions, just does not fit. One size does not fit all in this particular set of circumstances. The key as to why it does not fit is because of the way the EU is setting out the eight biophysical criteria. They are taking them as individual criteria; they are not looking at them in a combination, and yet LFA, particularly in Scotland but I would still argue for the UK, Ireland and probably most of Scandinavia, is about combinations of these physical criteria. The reason why Scotland has such limited options in terms of agricultural production is that it is wet, but it is not extremely wet, despite what we think; it is cold, but it is not extremely cold; we have poor soils; we have slopes; and we have mountains. Above all, the one thing they have missed out, which we will move on to later, is that we are very physically dislocated from markets and dispersed by geography. What makes an LFA farm in Scotland is that combination of things. You can have an LFA farm in Ayrshire or Dumfries and Galloway where it is more wet and boggy with peat rich and carbon rich soils as opposed to the east side of the Cairngorms in Aberdeenshire where there is a much longer, colder winter and where the snow has been on the ground since November and it probably will not go until about March, or April at best, as the Chairman, frankly, knows. The point is that it is the combination of things that defines and LFA, not single criterion. Unfortunately, the EU has gone down the route of the single criterion and in Scotland only two of the criteria apply at all: slope and drainage.

Q67 Viscount Ullswater: I would like to ask you if you are saying that there should be no European-wide criteria, there should only be national criteria,

or are you suggesting that there could be some broad categories which have been agreed at the European level but underneath that it is very important or even very, very important to have the national envelope type of look at it?

Mr Furey: With regard to the biophysical criteria that the Commission is describing, yes, we can use that. The one that we would like added on to that would be a wetness criterion in the new framework where it is mostly in relation to dry and drought. Unfortunately, we do have excess wetness and that can be based on field capacity days; something like that could be a criterion that could be introduced. If you go to a second tier designation, it would be within your own region or within your devolved region or your own national efforts to designate the area and have other criteria, which could relate to remoteness or some other such factors. Certainly biophysical could be used if they do decide to use it, but we would certainly require a rainfall wetness one to be in there as well.

Mr Clark: I would like to associate myself with all the comments that have already been made. There is plenty of precedent within EU regulations already for, in a sense, a guiding hand that provides a standardised approach or a methodology. For example the Cross-Compliance Rules, which we all use in the UK and in EU. It sets a framework; it is interpreted by Member States and is then submitted to the Commission to ensure that it does fit with what the Commission is intending. This is, in a sense, subsidiarity, but with a check point. Both Nitrates Directive and Habitats Directive have situations where proposals are submitted to a peer group of other Member States or a management committee comprising other Member States; that would be to check the Member State's approach or the region's approach in that particular area. With a bit of imagination, we could decide how it could be married together in a much better approach than is currently proposed.

Mr Davies: All we are asking for is flexibility for a Member State or region to include any permanent natural handicap. That natural handicap may be unique to that particular state. They must have the flexibility to include a permanent natural handicap in the classification.

Mr Fenwick: There is a feeling as well that we are being caught in the crossfire of the specific problems that were identified in certain regions of Europe. Those problems were not necessarily present here. I think they were in places like Luxembourg where the vast majority of land was categorised as LFA. Certainly that needs addressing, but to pull us all down with Luxembourg is completely unacceptable. We are effectively being caught in the crossfire. You certainly cannot apply these simplistic criteria across to get rid of one problem in a certain area of Europe.

28 January 2009 Mr Andrew Clark, Mr Jonathan Hall, Dr Nick Fenwick, Mr Dai Davies,
Mr Graham Furey and Mr Seamus Maginn

Q68 Lord Livsey of Talgarth: I declare an interest in having in the past farmed in both Wales and Scotland in LFA areas. What do you see as the role of socio-economic indicators (eg remoteness, population density) of disadvantage? Perhaps we could add to that GDP. I note that you have ten references to socio-economic indicators in your written submissions. Should they be used alongside biophysical criteria to identify intermediate LFAs, or should they be factored into payment levels when additional costs incurred are calculated?

Mr Hall: That is a particularly sensitive issue in Scotland. NFU Scotland certainly believes that we ought to retain socio-economic factors within any designation of LFA. If we based it purely on physical criteria, we would find ourselves—and the mapping exercises have been done by the Scottish Government through the Macauley Institute to look at this—with areas currently designated as LFA that would fall out of less favoured areas in places like Caithness and the west of mainland Orkney. Not for a moment would we think that they are not less favoured. The reason why they are less favoured is that the real costs of the permanent physical disadvantage that they have is the distance involved from markets, not only to get products to the point of sale but also to getting inputs in. You just have to look at ferry costs to the Isle of Mull, which is no distance from Oban at all, and then getting lambs off the Isle of Mull; it puts a completely different face on the economics of farming in what is a relatively productive agricultural island. Likewise with somewhere like Orkney, which is famed for its beef; it is a very productive location in many senses, but it does have to overcome these barriers of physical dislocation. You could say the same for places down in Kintyre and Campbeltown and around that area; it might be further south than Glasgow but it is 150 something miles by road up to the top and round again, and it is an awful road! You will know that if you have ever driven it. There is only one way in and one way out. We would argue that if the LFA measure is to be a supporting measure to underpin those businesses so that they can continue to operate and deliver a wide range of rules about benefits, the fact has to be recognised that the cost structures that they have to overcome are as much about physical dislocation as about the actual productivity of the land.

Mr Fenwick: In terms of socio-economic factors, which we would certainly argue should be maintained, it should also be appreciated that when there is not a lot of money in an area, the options open to farmers are extremely limited. If you take a prosperous area of England, for instance, you can have farm shops, and we have seen huge numbers of farm shops being opened in the last ten or 15 years, and yet a farm shop in the area where I live in the LFA

simply would not be viable. There is not the regional income to support a farm shop in the same sense that some of the more expensive supermarkets would never consider opening branches in some of the towns in our region because it would not be economically viable for them to do so. It is only the lower grade supermarkets that would come to our area. Your options are very much more limited, not just in terms of market access and proximity to your market, but also in terms of what you can do on your own doorstep.

Mr Davies: We support what Nick has said. These socio-economic factors are permanent factors. There is no way of changing them—the distance from the marketplace and the roads and quality of the roads. Usually these are areas of very low population and therefore the economics does not balance up to improve the roads or whatever. You therefore have a lack of services. Of course, if there is a lack of services, you drive out the younger population because they need these people with young families and so forth.

Mr Fenwick: I do not want to jump back to the previous questions too much but, in terms of the perception that brains move away and then brains move back and bring something with them, what they generally bring back with them in the more remote areas in particular is their pensions and they bring back a burden on the regional health care system, et cetera. They do not necessarily bring back much more than that. These people are retiring back to Wales; they are not coming back to open a prosperous new business.

Lord Livsey of Talgarth: If I could add to that, Chairman, the closing of rural schools is quite a problem as result of what has just been described.

Chairman: Part of my PhD was on rural school closures!

Q69 Earl of Caithness: This point is mainly addressed to Mr Hall. I raised this point in the margins last week with the Commission and they said: It is very simple because you have Articles 18 and 20, so you will have a standard procedure and if you fall out of that in Scotland, you will go for islands or mountains, and it is very easy for a farmer. My question therefore is: what is the bureaucracy of filling in these forms? Is it going to be easy for a farmer on the western lands of Scotland to fill in three categories—*island*, *mountain* and *less favoured*? What is the bureaucracy involved? What is that going to affect?

Mr Hall: In many ways certainly the bureaucracy attached to the Less Favoured Area Support Scheme in Scotland that we currently have is very straightforward indeed. There are no difficulties. It is all part of the single application form that has to be

28 January 2009 Mr Andrew Clark, Mr Jonathan Hall, Dr Nick Fenwick, Mr Dai Davies,
Mr Graham Furey and Mr Seamus Maginn

returned on 15 May, as long as individuals meet the eligibility criteria and so on, obviously subject to the usual inspection regime of 5 per cent and so on. Under the current regime, obviously all of Scotland's LFAs are currently designated, as you say, under Article 19 and they are intermediate LFAs, and that is the target of this LFA review by the Commission. Obviously we have been in discussion with Scottish Government and with the Commission about this ourselves. We are very aware of the fact that if need be, if push came to shove, and we were absolutely going to lose the socio-economic dimension of what we currently have, because we do split it into standard, fragile and very fragile areas and we adjust the payment rates accordingly, we would be able to use Article 18 to designate mountainous areas, and we would use Article 20 to designate all the islands as areas with specific handicap. Having said that, there is no real spur for that within our membership in the sense that again it would be further drawing of lines on maps, and we have enough lines on maps as it is. We would find all sorts of situations where people would find themselves in and out. The islands can speak for themselves. You would have to develop criteria to define what the mountain areas are and so on. Potentially we would end up with three LFA areas, all doing slightly different things, arguably with slightly different schemes attached. In many ways from both Government and from our point of view, the simplicity of the current schemes is that we have a discrete LFA boundary which is ring-fenced, for want of a better expression, for 85 per cent of Scotland. It is only really down the east coast that the 15 per cent is not in. We do not have any perforations in that; we do not have any major differences in how the scheme operates within that at all. Everybody is operating under the same scheme with the same eligibility criteria and under the same rules because it is an intermediate LFA under one scheme. We think it would just start to cause complication and confusion and arguably start to distort agricultural restructuring going forward if you start to put further lines on maps. We have enough issues with split holdings, non-LFA and LFA as it is without finding ourselves with land on both sides of lines. We are cautious about that. We will go down that route if push comes to shove. I get the impression from the Scottish Government that they would be prepared to do that. We have that up our sleeve but we would rather have the fight with the Commission first and lose it before we concede that.

Mr Fenwick: I think the same problems would face Wales. We have an ancient system in Wales of *hafod y hendre*, which is lowland and upland farms that are linked together and start being moved in the summer period. Within many of those farms it would be a logistical nightmare to assess even one farm, let alone

the whole of Wales on a field-by-field basis. We could well see fields being split, which in terms of the burden for the taxpayer causes me great concern with regard to going out to assess. We know we have huge problems every year due to the need for cross-checks with cross-compliance, agri-environmental schemes, and they can cause significant delays to payments. Those are cross-checks that are carried out on something like 600 to 800 farms. They cause significant problems and it is quite a thought to undertake that on 18,000 farms for every single field. I sincerely hope that if that goes forward the Welsh Assembly Government are confident that they will be able to cope with that workload. I certainly have some major fears about it.

Mr Davies: Just to reinforce what Nick was saying, it is a simple system that everybody understands because there is transparency there. For instance, I wish to go down the agri-environmental route. We showed an interest about four years ago for our farm. I am now told that I will get a visit to assess the situation in 2010. As you can well imagine, the clock is ticking on and I have not got all that long to go. I am sure I will have retired from farming by the time they give me the go ahead. As far as regulations, costs and bureaucracy are concerned, many of those schemes are very heavy in that direction, whereas the LFA is fairly simple, so simple in fact that in the dark old days of foot-and-mouth when there was a need for an injection of money into these areas, the Welsh Assembly, along with the Scottish Parliament, decided that they would piggy-back their support on top of the LFA payments. It was a quick way of getting money out to farmers who were in desperate need of it at that time.

Q70 Earl of Dundee: Let us begin perhaps with two particular categories: firstly, part-time farmers as a group; secondly, intensive farming as a practice. Do you think within the Commission's eligibility framework that both these categories should necessarily be excluded?

Mr Clark: As we expressed in our evidence, we have grave reservations with the proposal of the Commission that there should be, in addition to questions about whether an area should be designated as a less favoured area, a look also at what type of farming would be supported within that area, for many of the same reasons that we have argued that designation of LFAs should be about the cumulative impact of the various biophysical characteristics and relating that to Member State and regional scale definition. We have exactly the same type of concerns about identifying what type of farms should be supported within LFAs. As my colleague from Wales has already said, farming systems in less favoured areas will vary very widely in the UK and

28 January 2009 Mr Andrew Clark, Mr Jonathan Hall, Dr Nick Fenwick, Mr Dai Davies,
Mr Graham Furey and Mr Seamus Maginn

across the whole of Europe. Being able to draw a line and say, “This type of farming will receive support and this type of farming will not receive support” does not tie up with an understanding of what that type of farming does in that particular area. I suspect in some parts of less favoured areas in southern Europe growing grapes or olives might be considered to be quite suitable from a less favoured area point of view and important in sustaining that rural economy. Clearly, if we had grapes—

Q71 Chairman: We are very much against that sort of thing!

Mr Clark: Certainly, it is a step forward in climate change which we have not got yet. Our view is very much that eligibility rules should be something which goes no further than saying, as it already says in the EAFRD (the rural development regulation that is currently in place) that this is a matter for Member States to define on the basis that it should be supporting sustainable land management systems. I think that is part of the process we suggested where Member States submit their rural development programmes for the Commission to approve. Then, whether it is a whole-time farm, supposedly an intensive farm or an extensive farm, is really for the Member State to argue the case that this is contributing towards the sustainable development of that area. As for part-time and whole-time, if you look at some farms now, they would be considered in economic terms part-time, even though those farmers are actually working full-time on that farm. When you look at the incomes I have just been talking about and we have all talked about, I would argue whether farms can be full-time with those sorts of incomes.

Mr Hall: It is about definition. I entirely support what Andrew has just said. Eligibility issues are key to this. If the Commission pursued that avenue, it would be about defining some of those issues of what is intensive relative to extensive? There is a whole range of extensive to intensive in a Scottish context. Where would you make the cut-off point? The other thing that probably would be very important in the Scottish context is this definition of what might constitute a part-time farmer, given that crofters in particular are recipients of LFA support. The definition of crofting would have some overlaps with the definition of part-time farmer because by definition they are meant to be deriving income from other sources. Picking up Andrew’s last point, the household income of a farm does rely increasingly on income from other sources, not just from the farming enterprise. The total income coming into a farm household would be from all sorts of avenues, whether it is driving a truck or teaching in a local school, and not just from the farming enterprise. I

would have major reservations about where a cut-off might be drawn on that range between very extensive to the point where I would argue that if it is so extensive, is it actually farming at all in an active sense—that is another debate—right through to the intensive and where do you draw that line, where do you make that cut-off between intensive and extensive? Remember that the intensive livestock sectors of Scotland in terms of the beef and sheep, the finishers, are the ones who provide market outlet for the store producers on the west coast, in particular beef calves and lambs. Those two things are linked. If you deprive one sector of resources, they might suffer financially but what impact would that then have on the more extensive producers on the west that you are supposedly trying to ensure get support?

Q72 Earl of Dundee: For the reasons which you have given and argued, I take it that within Commission’s eligibility framework, you would not wish to see any exclusions at all?

Mr Davies: I have had a huge problem with this because I represent a broad church within the union, as it were. As far as young farmers are concerned, the gateway for a young farmer is to have a smallholding somewhere and do his best to farm, and of course have other income from outside and develop it and use it as the first step on to the ladder of farming if possible. I certainly would not want to bar him from having these payments to support him on his way. The other one that concerns me, and I am sure Nick will support me, is that in many parts of Wales we have more than one family working on a farm; sometimes a father perhaps and two sons. They work all the hours God gives to bring that farm forward. They pick the stones, they do the fencing and they become quite intensive but they need an intensive farm in order to support perhaps one, two or three families. They make a contribution as far as the economics of the area is concerned and village life; they bring young families into the area. I would not want to see that type of farmer barred either. This is a very difficult question.

Mr Furey: That is interesting. From the point of view of Northern Ireland, it is slightly different in that there are some farms excluded from receiving LFA payments at present, other than the grant loan payment. If you are arable, the ground does not get it, nor do intensive dairy farms. Dairy farms do not get it at present. We believe that the payment should be made to active farmers. This comes back to active farmers. If it is going to be withheld from anybody, it would be somebody who is not involved in active farming. That is open to people who are breeding cattle, sheep, deer and goats at the present, so it not arable. We also believe that if the scheme was brought in for everybody in Northern Ireland, the budget

28 January 2009 Mr Andrew Clark, Mr Jonathan Hall, Dr Nick Fenwick, Mr Dai Davies,
Mr Graham Furey and Mr Seamus Maginn

would have to be increased, rather than taking off the people who are getting funding and people who are not getting it at present, but that is the scheme and it was devised first in Northern Ireland; it could not go to dairy farmers and it does not go to arable farmers.

Q73 Lord Brooke of Alverthorpe: Still on the same theme, gentlemen, we had the Commission here last week and they were pointing out to us that at present there are over 150 different eligibility criteria currently in existence and within those eligibility criteria as they look from country to country they sometimes see that they are in contradiction with each other in some places—they are admitted in some countries and excluded in others. They have the 2003 Court of Auditors' report to deal with though, which was severely critical in a number of areas on the way that the money was being distributed and they have to address that. We have to look at the issue too and I am sure you will accept your part of the responsibility in dealing with issues. Can we come back to the eligibility criteria and see whether you feel that there is a case for some changes there to try to resolve some of the problems that were around in 2003 and, if so, what would your ideas be there?

Mr Furey: My Lord Chairman, we have subtle eligibility criteria and they are the most active farmers; that includes part-time farmers, maybe in relation to the last question, so again it may be the definition of what is an active farmer. We would feel that they have to keep livestock and things like that, they cannot just be a landlord under the countryside management scheme or an absentee person who is not there. Those would be our main eligibility criteria and there may be others built around it but I am sure the other unions have a list that may well include some of those 154.

Q74 Chairman: What would you do with the dairy sector?

Mr Furey: The dairy sector could be brought in. That has been looked at and if there were extra funds we would bring the dairy sector and other people in, but if there was going to be the same funding with the redistribution that could create, we would probably not agree with that so in other words we would stay in the status quo.

Mr Clark: From the English point of view the dairy sector is excluded currently from the LFA reward structure but under the Upland Entry Level Scheme it would be included because we are going to get more money to get into that scheme. But this is a Member State-defined approach—in our case Defra-defined—because we feel that these farming systems are appropriate to the particular LFAs. The Court of Auditors' report is as much about criticism of Commission oversight as it is of Member State

implementation, and as my colleague from Wales already said it is about criticising what the situation was in 2003—I do not know whether things have changed in the six years since. I do not see why it should end up with a situation of dictating what type of farm systems should be rewarded in the UK because of problems elsewhere in the EU.

Q75 Lord Brooke of Alverthorpe: You do not have a view to express then on what should be applied elsewhere. We pay for all this, do we not? We all pay.

Mr Clark: We all pay, yes. We have expressed a view in the sense that we say there is already set out in the legislation that it is about active management, it is about delivering sustainable land management, and we have argued that that is subject to a Commission process of approval through rural development programmes, so there should be sufficient safeguards to ensure that there is something which works at a regional level and a Member State level and has oversight from the Commission, so it ought to be audit-proof, it ought to be transparent and clear who gets the money and for what and what the benefit is.

Q76 Chairman: One of the drivers for change is the claim that the status quo is simply not WTO-compatible.

Mr Davies: You should never go down the route of change for change's sake. As far as Wales is concerned we have a transparent, robust system in place at the moment which includes biophysical elements as well as socioeconomic elements and those socioeconomic elements are quite transparent.

Q77 Chairman: The point I am making is that if there is a problem about WTO compatibility you have got to look hard and long in arguing for the status quo because you might finish up with nothing at all.

Mr Clark: We do understand that the scheme has to be broadly compliant with the WTO and has to retain the credibility of not just our taxpayers but also our trade partners. Certainly, I know that in the past WTO partners in Australia, the Cairns Group, have been extremely sceptical of agri-environment schemes practised in the EU and have said this is just another subsidy for farming in your areas.

Q78 Chairman: The arguments that you are putting forward do in fact have the very strong flavour of seeing less favoured area payments as a farming subsidy.

Mr Clark: It is a subsidy for farming in the sense that that farming activity provides very significant environmental, public and cultural benefits, as well as having food production as part of it, and we make it very clear that in terms of the amount of money that

28 January 2009 Mr Andrew Clark, Mr Jonathan Hall, Dr Nick Fenwick, Mr Dai Davies,
Mr Graham Furey and Mr Seamus Maginn

goes into those areas, from the LFA measure particularly, that is actually quite a minor component of the total economy.

Mr Hall: In many senses LFA support payments are entirely decoupled now in Scotland, there are no minimum/maximum stocking densities, there is no relationship to what stock should be carried, therefore there is no link to production at all. As Andrew quite rightly says we are actually buying as public goods the co-products of grazing livestock systems and that is entirely WTO-compatible, it sits very much in that green box along with lots of other things. It goes back to what we were discussing earlier about where it sits in the policy framework. It does sit within Axis Two of Pillar Two, therefore it is about land management and countryside management, but the way in which it is paid it is going into farm businesses to enable them to deliver a range of outcomes, which is what the Commission and everyone wants from rural development policy, rather than simply driving money to underpin production. I do not see the difficulty with that at all.

Dr Fenwick: Similarly in Wales where the only thing that could be linked to production is a minimum stocking density which is totally unrelated to production. It is there for environmental reasons and to prevent under-grazing.

Mr Hall: If we go back to the real concern of the Court of Auditors, it was about issues of over-compensation in some places in Europe where monies were paid under LFA schemes when they were not necessarily disadvantaged at all, so it was to prevent or reduce or absolutely minimise that all together that we have got this review of the way things are set down under the standardised approach. Therefore, we can draw it back to activity, but we do not necessarily base it on activity because we cannot base activity on headed payments or stocking densities or anything like that, but more in terms of what is done in the way of active management through grazing livestock, then it ticks all those boxes in the right way.

Mr Davies: The problem we have is that of course the marketplace will not provide an economical and viable return for these farmers to be able to deliver other things apart from food production such as looking after the environment and making sure that there is economic activity in the area.

Q79 Viscount Brookeborough: For those who argue that it is a subsidy, surely the old farm subsidies were actually related to increasing the intensiveness and increasing the production of food whereas this is to keep farming in existence and to main land management through agricultural practices. That is slightly different.

Mr Hall: If there is any food production related point it is about underpinning the means of production, not about underpinning production. We are already aware of not exactly food shortages yet but there are issues of food security in a volatile world, with volatile market prices, and then without payments like LFASS or LFA support payments—I am referring to the Scottish scheme—you would rapidly undermine the ability to produce food rather than LFAs in supporting the production of food. When we want to turn the tap back on at some point in the future that we do not know of then those units, that labour, those skills and the livestock just will not be there.

Mr Davies: We tend to forget really about the amount of food that is produced in these hill areas. As far as Wales is concerned there are 57,000 people working directly on the land and 80 per cent of that land is in LFA. There has always been the dependency of lowland farmers for the stock that comes off the hills, not only in Wales but of course in the English Midlands and so forth for taking on. The economical activity that goes on in the hills, therefore, the lowlands are also dependent on that activity.

Q80 Chairman: It is not part of the LFA philosophy though for it to be a means per se of maintaining agricultural employment, is it?

Mr Davies: No, but as I have already said it is pretty complex, is it not, because we are trying to achieve a lot of things. We are trying to keep people in the hills, we are trying to keep villages in the hills, we are trying to keep schools open in certain areas. Therefore it is quite complex and we cannot take anything in isolation but they all mesh together at the end of the day.

Mr Hall: There are elements of the Rural Development Regulations, particularly in Axis Three, which are about wider rural development issues, and they are about employment and social aspects. Whilst LFA support sits within Axis Two and is about land management, the way in which schemes operate means they do cut across all the axes of the Rural Development Regulations and the fact is that there is an economic component supporting businesses, there is an environmental/land management component about supporting grazing systems and there is definitely a social dimension to all this because you are retaining family units, crofts, and employment in remoter areas which otherwise have a very fragile economy, where there are very few alternatives in terms of year-round employment. There is a tourism opportunity in many of these places, but how seasonal can that be and how transient can it be?

28 January 2009 Mr Andrew Clark, Mr Jonathan Hall, Dr Nick Fenwick, Mr Dai Davies,
Mr Graham Furey and Mr Seamus Maginn

Q81 Earl of Arran: On this tricky subject of the new payment formula, based on a rather clumsy phrase “additional costs and income foregone related to the handicap”, in your view is it practical, is it workable and hitherto how has it worked with the other agri-environment schemes? What are your views on this?

Mr Clark: If I could just start on this, it probably has great attraction to the economist in you but in terms of practitioners it might be not quite so attractive. Certainly on the agri-environment side it presents something of a conundrum or perverse incentive; you are effectively costing out the environment on the basis of not producing food, or not producing food as intensively—that is the income foregone, the income is in comparison to more intensive production. I said earlier on in my evidence that clearly the environmental and public benefits of land management are very significant indeed and yet we are tying them into a system which is inevitably going to be fluctuating greatly and is related to food prices rather than to public benefit prices, and is therefore extremely unstable at a time when we are told that the public is increasingly concerned about the environmental value of land, environmental products and public benefits. In that sense, certainly when you are trying to buy environmental goods, there are legitimate questions about whether the agri-environment formula—which is central to the Rural Development Regulations and implicit in the LFA aspects of Axis Two, Pillar Two—actually makes logical sense at all. We could have a situation, perversely, where some of my LFA farmers are arguing “I am making so little money that I am not foregoing income, I almost need to have to pay to enter the scheme rather than be paid to participate in the scheme”. We really do, therefore, have to find a basis which does more than simply look at putting the farmer back into the position they would have been in if they were not participating in the scheme, because currently agri-environment schemes talk about income foregone and the costs of management, so if you do not do this because you participate in the scheme that is the income you have foregone and the costs of doing it are X. That adds up to £100, you are missing out £100 income, we will pay you £100. That does not seem to me a very logical basis on which to reward people for what is considered to be very important public good. Perhaps when you look at the LFA you can argue that there are economic costs of farming in remote regions and you might be able to cost those out on a clearer basis but as we have been arguing it is very, very difficult to divide public benefit and biodiversity benefit from land management and food production. There needs to be a rather cleverer formula than currently is proposed.

Mr Furey: It is interesting that with regard to the additional costs, two years ago there was a red meat study done over the whole of the red meat sector in

Northern Ireland, which obviously included a lot of the beef and sheep that are coming off the hills. That report highlighted that production costs for hill lamb were 35 per cent higher than the cost of producing upland/lowland lamb so that is an additional cost, 35 per cent above what it would be. You need to factor that into the payment, and it is interesting then that a third of the income into hill farms is through the hill farm and the LFA payments—it roughly relates to that 35 per cent additional cost. With regard to the income foregone, it is very difficult how you relate that to the environmental things that you are doing as against the food production, as Andrew has already said.

Q82 Earl of Arran: I can understand the complications and complexity of it. Andrew Clark was saying that there needs to perhaps be a revised or better formula. Can you think of a better formula, a fairer way of doing this?

Mr Clark: We have raised this issue repeatedly with the European Commission over the last ten or 15 years, saying that in the context of fluctuating incomes it does seem perverse to attach your agri-environment schemes to that fluctuating income. There used to be an opportunity within the Rural Development Regulations for 2005 where there was income foregone, additional costs and an incentive. It has now been turned into a term “transaction cost” and indeed the incentive could be up to 20 per cent of the other two so you could get above 100 per cent, up to 120 per cent sort of levels. There surely has to be some opportunity for farmers to innovate, to experiment, develop new ways of producing a public benefit and get rewarded for that, payment for product, in the same way that they do if they produce a really good quality product in terms of their lamb, beef or wheat they get a better price; if they produce a really good environmental product perhaps they should get a better price. This is the sort of argument that we have been having with the Commission. They would say WTO will not allow it, but there is, however, much more sympathy for this type of approach amongst the environmental NGOs and to an extent amongst Natural England and the statutory conservation agencies. I know they have commissioned some work under the Land Use Policy Group to start to explore some of these areas of payment for product, so I would like to see something enshrined within EU legislation that actually allows and incentivises farmers to be able to do this. It is not always possible: if you are looking at producing lapwings you cannot guarantee the lapwings are going to be in the field when the auditors come round with their clipboard to count them, but that is the principle. They always find reasons why you cannot

28 January 2009 Mr Andrew Clark, Mr Jonathan Hall, Dr Nick Fenwick, Mr Dai Davies,
Mr Graham Furey and Mr Seamus Maginn

do it and I am sure Lord Cameron picked this up in his days with the Countryside Agency.

Mr Hall: I would entirely support what Andrew has just said there, more because of the fact that we are being told constantly as an industry in terms of rural development, particularly in terms of land management rather than the production of commodities, that we are judged on outcomes. We are to deliver outcomes and the schemes are designed to achieve outcomes, yet the payments are totally dissociated from outcomes. It would make much more sense and be much more logical to the participants, whether they are going into agri-environment schemes, whether they are planting up farm woodlands, whether they are going into renewable energy projects in the name of climate change or whatever it might be, if the outcome that they were endeavouring to achieve related to the return or the reward for going down that particular management route. That would then allow individual farm businesses to make their own choices about which direction they wanted to go.

Q83 Lord Brooke of Alverthorpe: On your evidence, Mr Clark, I was mystified by your statement in paragraph 22 and maybe you can just clarify my mind on it. It is the sentence right at the end: "It also appears at odds with wildlife theory that LFA payments should be degressive given that island biogeography indicates that increasing scale relates positively with biodiversity security counteracting concerns about fragmented habitats and species survival." I thought that had been written by Ed Balls for the Prime Minister.

Mr Clark: It probably, on reflection, is lacking a little bit of punctuation and clarity. The point I was trying to make is that LFA payments are intended in the regulations to be degressive so the larger the area payments per unit area decline. From an environmental perspective that is perverse because for every hectare you produce in actual fact the environmental benefit increases and so we have argued successfully within our agri-environment schemes that there are no thresholds or capping, the more you enter into the scheme the more you get paid. That makes sense from an island biogeography point of view because islands are fragmented and there is only so much security you can get for the wildlife within that. If you get a larger area of habitat the ecology and the wildlife are much more secure than the wildlife in a very small area. That is the point I was trying to make.

Lord Brooke of Alverthorpe: Thank you.

Q84 Earl of Caithness: I also have a point on your evidence. Regardless of the payment formula I was concerned in your paragraph 20 when you indicated that the payments were not getting through to those who were doing the farming. Is this a growing trend, does this affect other parts of the UK and should the Commission tighten their regulation up? My second question, which I do not want you to spend a lot of time on, just a very quick answer will do, is do you think we are handicapped in the UK by being a maritime climate when the Commission is influenced heavily by the Member States that have a continental climate?

Mr Clark: The latter answer is yes, for the reasons we have already said. We have already made the case that within the EU you have a very wide range of physical criteria and we are on the edge of Europe. We are in a sense of normal distribution on one edge of it in terms of handicap. On the first question, the LFA measure makes specific reference to farmers and farming and for the reasons we have already said we think that limitation is very important in England because we face a prospect that there will be no LFA measure implemented post-2010 in England. Instead the reward will be through agri-environment schemes delivered within less favoured areas; these measures refer to "land managers", not to farmers. Land managers is a much wider definition to allow many of our conservation colleagues to get into those schemes who, you could argue, for charitable purposes should be doing the job anyway, so why do they need the extra incentive. We are arguing that farming is important and that is why we are concerned about payments going to farmers. In the context of the transition from an LFA payment to an agri-environment payment we also have a situation where people on short-term tenancies have to get their landlord's permission to go into that scheme, the landlord thinks; "That looks like an attractive payment, I would like to have a little bit of that as well". Sometimes their estate agents do not say it in quite such a nice way. Either the payment comes away from the farmer or the farmer, the active grazier, becomes ancillary to the agreement which is between the landlord and the government state; that is where the payment is going and then there is very little going into the rural economy. It should be a big concern, not just in the LFA but across all of the agri-environment schemes. If you look at restructuring of businesses now, virtually every single farm business has let land and much of that is for less than five years. For any area of land with less than five years security you have to have a tripartite agreement between the State, the landlord and the tenant.

Mr Hall: We also have similar concerns about this particular issue of support going to farmers. We would like to see that regulation tightened up by the

28 January 2009 Mr Andrew Clark, Mr Jonathan Hall, Dr Nick Fenwick, Mr Dai Davies,
Mr Graham Furey and Mr Seamus Maginn

Commission to strengthen the words in terms of active farms. That then gives you the headache that we all know about with defining activity and so on and so forth, but there is concern in Scotland at the moment that of the £61 million that is paid out annually through LFA payments—and it is about a quarter of our Scottish Rural Development Programme funding—there would appear to be a reasonable proportion of that going to what might be deemed non-active or inactive recipients of LFA support and the fact is that they are no longer carrying out traditional, hefted, productive hill flock activities, shepherding and so on, in the same way and delivering all the same sort of benefits. We are very mindful of situations in various parts of Scotland where wether flocks are being used simply as part of a sporting estate enterprise and LFA payments are being claimed on that. That is not an agricultural activity, that is an input to a sporting enterprise. We have concerns about that and therefore we would like to see the eligibility in terms of activity issues and active farmers tightened up in many respects. Of course, we recognise that then gives you a headache because you cannot measure it simply by production in terms of lambs produced or cattle on the unit or anything like that; equally with decoupling—and this is the interesting one—a lot of LFA units in Scotland have actually reduced numbers but become financially better off because less is better in that sense. Instead of having 2000 ewes they are down to 1200 ewes but the quality of the lambs that they are producing has improved significantly, and that is exactly what decoupling and CAP reform was all about, to become more market-responsive and so on and so forth. We would not want to see those guys penalised and have a reduction in their LFA payment because they have dropped from 2000 to 1200 ewes, but if somebody drops from 2000 to 200 ewes and gets rid of three or four shepherds, basically only meeting the cross-compliance conditions relating to LFAs, then we would say they should not be getting that payment, or they should have that payment significantly reduced because they are not delivering the same range of public benefits. It goes back to the discussion a few moments ago, as if we could say this is what I am actually delivering in terms of outcome, therefore my LFA payment should be made up of this. If there is incentive built into that you will actually do more—you will produce a forage crop for biodiversity benefits, which is also good for the farm business, you would perhaps try and increase your area of in-bye ground so you could produce hay and silage—again, there are lots of benefits in terms of biodiversity as well as trying to improve the performance of the farm business. At the moment there are none of those incentives because it is easier to be a non-active

recipient or a less-active recipient than it is to be an active recipient.

Q85 Baroness Sharp of Guildford: Is this an increasing problem? We were talking earlier about the increasing number of people coming in for leisure purposes and buying some of the upland properties and that sort of thing. Can they then claim these payments or do they tend to let the land and the farmer then claims the payment? What happens in these cases?

Mr Hall: There is a combination of all sorts of things. Traditionally a lot of upland estates in Scotland have had a land owner who has effectively let out the farming interest but is managing the sporting interest, or sometimes has let out the sporting interest as well. It goes back to Andrew's point about the tripartite arrangements and where does the support actually end up because if it simply manifests itself as increased rents because there is a single farm payment and an LFA payment coming into that tenant farm, who is the ultimate beneficiary. But that is not a new problem; we have had that problem in agricultural policy for decades and decades in the sense that it could distort the price of land and so on and so forth—any payments coming into agriculture. The key thing really on this is defining the activity thing and making it so that there is an incentive to be active, whether it is in environmental management or producing lamb in a beef sense or whatever it might be, but you should have the security and the reward of those payments because you are delivering to a range of outcomes that are specified by that particular policy. At the moment we do not have that link at all, so the temptation for many is to take their foot off the gas, get rid of the labour in particular because that is a big cost and to downscale to a point where it will be very difficult to actually put things back in place. We will see in the glens of Scotland very changing landscapes in a very short period of time as bracken encroachment increases and so on and so forth.

Mr Davies: Historically it has not been a major issue for us in Wales because we have less estates and more owner-occupied farms, but as we move forward things do evolve and, as you say Lady Sharp, these people are coming into the area but, in fairness, in the main they are very good landlords and in fact if you went back ten years ago when they bought the property they would not have realised there was land attached to it. We have had one or two examples where people have actually bought properties overnight, thinking that is a nice house to live in and not realising that they had 50 or 60 acres to go with it and a neighbouring farm has been quite lucky. They are quite co-operative landlords in the main and although obviously you will have one or two who are

28 January 2009 Mr Andrew Clark, Mr Jonathan Hall, Dr Nick Fenwick, Mr Dai Davies,
Mr Graham Furey and Mr Seamus Maginn

less co-operative it has not been a major problem for us.

Mr Maginn: In Northern Ireland we have a problem similar to that one. People would come in and buy a farm, buy the land, join a management scheme but did not want any stock running on it so it would not deteriorate and then five or six years down the line the biodiversity and everything has gone and they say it is abandoned, but it is no good to the local farmers in that condition. That is a big problem in that area.

Mr Furey: There is the potential to put some criteria in—

Lord Brooke of Alverthorpe: You are making the case for focusing are you not?

Q86 Chairman: I have a little bit of an economics problem here. If you have land that qualifies for LFA payments on a permanent basis then surely the value of that payment will actually transfer to the price of the fixed asset, the price of land? If the land is subsidy-generating it increases the value of the land and the payment coming in will be reflected in the value of the land itself.

Mr Clark: I absolutely understand your point that it should be capitalised into land values. We have looked at the single payment scheme—the single payment scheme in England is a much bigger component than the LFA payment—and we have not yet seen a difference in market value, at least not a very significant difference in market value in terms of land marketed with eligibility or without eligibility. Whether that is because of the scale of the market in those two components or not I am not sure; I do not know whether other colleagues have different experiences because I think they have got a situation where they have got no regional eligibility at all.

Mr Davies: Sadly, the value of land is not a reflection of profitability of agriculture and that element of profitability does not actually come into the value of the land, it is usually the attractiveness that that right has for somebody from an urban area to compete with a local farmer. That is what generates the value of a farm or a holding going forward.

Mr Furey: We have to concur exactly with what Dai is saying on that situation with the value of the land; it does not bear any relationship to what the subsidy is on that land at all, it depends on the demand.

Q87 Lord Cameron of Dillington: You have successfully answered my previous question about the need to preserve farming activity in these lands and I was wondering whether you could actually provide me with evidence of a direct link between LFA payments and the preservation of farming activity, bearing in mind that the area of land under agriculture in LFA areas has been kept broadly constant, in spite of the fact that the LFA support

levels have fallen in England from £60 million ten years ago to £24 million now and also bearing in mind that many farmers in LFA areas do not receive payments at all and others receive only a small contribution to their farm income from LFA payments. To some extent, this question coming at the end, you have answered most of it all the way through, but is there a direct link between LFA payments and the preservation of farming activity, or can you provide me with evidence?

Mr Hall: I would say there is definitely evidence. There are a number of reports to that effect—I am not sure whether I mentioned some of them in our written evidence—and there are clear links to the benefits of LFA support payments. The overriding question I always have in my mind about that—and I would put LFA support payments in Scotland together with the single farm payment—to which the answer is completely unknown, is what would the situation be without those two things? How rapid a decline in livestock numbers would we have seen? We are seeing a real freefall in livestock numbers, particularly sheep numbers, in particular parts of the West Coast and further up North—how more rapidly would that accelerate, given the very poor market returns and the rising input costs over the last 18 months to two years, let alone the previous ten or 12 years. In terms of LFA support and the single farm payment, how much of a dampening effect has that had? I would argue that if you could answer that question and really analyse what it has done, in many ways it has saved rural Scotland and does deliver the rural development benefits that we then want from a managed landscape. You cannot quantify that—I do not think anybody will really get to the bottom of it—but we all know that without LFA support in Scotland the situation would have been much worse by now and, arguably, there would be many parishes without any stock on them whatsoever, very few holdings left operating either as farm or croft, and that would have then led to the depopulation issues and the social aspects of keeping families there all year round and so on and so forth. That is all I would really say about it.

Dr Fenwick: My Lord Chairman, I would agree entirely with that. We have already provided some figures that give you a rough idea of the contribution it makes to LFA incomes; those are averages and clearly there are extremes that make up those averages so for some farmers in some years the LFA contribution could be, perhaps, 50 per cent of their annual income during that year. It only takes a couple of years for somebody to say “That is it, I have had enough, I am leaving the industry.” Those percentages speak for themselves; every one percentage point makes a difference to whether somebody is going to stay in that area and continue farming in that area.

28 January 2009 Mr Andrew Clark, Mr Jonathan Hall, Dr Nick Fenwick, Mr Dai Davies,
Mr Graham Furey and Mr Seamus Maginn

Mr Davies: We have demonstrated already really how important it is because it is an important percentage of the income. It compensates for lower stocking rates and it also compensates for lack of opportunity to diversify and so forth. It is very, very important.

Mr Clark: One point I would say is that it is about confidence; you cannot under-estimate how important it is to keep the confidence of the farming sector—particularly hill farmers—that what they are doing is valuable and that they are contributing. That is a very important part of the formula and I think if we had not had that type of support, and support for hill farming since the Second World War, we would have had a very different landscape to what we have now. We would have seen far more forestry land, the Forestry Commission would have expanded over large areas of moorland and upland, especially marginal upland, and as a consequence of that we would have seen a very different pattern of tourism.

Q88 Lord Brooke of Alverthorpe: Could I say, my Lord Chairman, on the same theme—it is a little bit separate from any of the questions you have had so far—the last inquiry we did was into the European Emissions Trading Scheme and we have been looking at the changes which are coming there, and of course there is a possibility that in due course agriculture will come into the sights as a possible industry to be subject to ETS. Do you believe in the long term that that is likely to happen, that it will come in, and if so what do you think the landscape and the management of the landscape might be like in ten or 15 years time? It does link ultimately also with the topic that we are dealing with today.

Mr Clark: It is perhaps a little bit outside what I was expecting but we are starting to talk within the farming industry about managing carbon. If you look at the hills, particularly the uplands of the UK, there is a massive store of carbon in our peat and this is another public value which certainly is not accounted for in terms of rewards for farm management. I am grappling at figures here and we will probably have to go and verify this, but somebody was telling me that about 18 months worth of the total UK production of CO₂ is locked up in our soils and if we increased the organic content of our soils by about half a per cent we could meet our target for carbon reduction by 2050. There are actually, therefore, quite significant public benefits that can be gained from sequestering carbon and holding the current carbon store within the soils of Britain, and the uplands have a disproportionate quantity of carbon locked into their soil.

Baroness Sharp of Guildford: But forestation also plays a part in it.

Q89 Chairman: Take the sheep off and put the trees in.

Mr Clark: There is a balance here.

Mr Hall: Scotland has got a few scars from just taking sheep off and putting trees in and it is not necessarily doing anything positive in terms of the carbon balance. I would just like to echo Andrew's point, especially in the Scottish context; we have very carbon-rich peat soils over extensive areas and it is that extensive grazing management which overlays that which is another additional public benefit that is underpinned by LFA support payments. There is quite a debate kicking off right now about the wider land use debate, whether it should be farming or forestry, trees or sheep sort of thing, and it is not as straightforward as that, it is very naïve to think if we just plant the Forestry Commission target of 10,000 hectares per year for the next number of years it is going to lock up X number of tonnes of carbon. That is all very well and good in many senses but the whole climate change debate is a lot more complex than that and the real carbon balances need to be worked out with some care and some precision. Going back to your question, agriculture will be drawn into possible trading schemes and so on and so forth, but I do not think we should be afraid of that and again it is an area where, as an industry, we can demonstrate that we have got a role to play and a positive role at that. It might actually be a driving force for some elements of Scottish

Agriculture.

Mr Davies: We are told there are 410 million tonnes of carbon in LFA land of Wales; as far as I am concerned long may it remain there.

Dr Fenwick: My Lord Chairman, we recently met with John Houghton, the Nobel Peace Prize winner who, as you know, is an expert in climate change and he acknowledged the fact that there is a clear balance to be struck between the carbon that is retained in the uplands and the contribution that food production makes to carbon reduction by avoiding the importation of food. Clearly, therefore, there is a danger of going too far down one path and saying we will take all the livestock off the hills and we will plant them up with trees; meanwhile we will cut down the Amazon rainforest in order to produce our food. The net carbon production in doing that is far worse—that was acknowledged by one of the world's leading if not the world's leading expert on this subject.

Mr Furey: My Lord Chairman, we have to work with an Environmental Minister who does not believe in climate change so I will leave our carbon there.

Q90 Chairman: I will not make any comment about that. Just one final thing: from your contacts with colleagues in Europe is there an emerging agreement

28 January 2009 Mr Andrew Clark, Mr Jonathan Hall, Dr Nick Fenwick, Mr Dai Davies,
Mr Graham Furey and Mr Seamus Maginn

amongst the farming unions in Europe on how to proceed with this issue or not?

Mr Hall: I do not think there is a consensus yet. Obviously we do work very closely as farming unions through our Brussels office and through Copa-Cogeca as well as the umbrella of the European farming unions in co-operative. I know that it is definitely high on the agenda of all our colleagues in Europe as to agriculture's role in climate change and mitigation and adaptation issues are to the fore of that.

Q91 Chairman: I am thinking just about the LFA issue.

Mr Hall: We have done work with the umbrella organisation Copa, and by and large as a position they are very much in agreement with the broad principles that we have about the fact that one size does not fit all and they have equal concerns, maybe for different reasons, about what the EU proposals might or might not mean for them. Is that fair

comment, Andrew? You have been involved as well as I have.

Mr Clark: That is absolutely right. There is an intense nervousness amongst many of those Member States who have got large areas of LFA-designated land.

Q92 Chairman: Luxembourg is really worried.

Mr Furey: The potential impact on Europe as a whole if you did away with the LFA payments would be dramatic. I do not know whether a risk analysis or impact analysis has been done, but once you take it off the whole of Europe the livestock will move from those areas, and as well as producing the food it does produce the breeding animals for both the sheep and the beef on the lowland farms as well. That is crucial, and the skills thing that we talked about earlier on will be critical. If you lose a generation now you can get the livestock back in five years but you cannot get the skills sector back for a generation, for 30 or 40 years.

Chairman: Thank you all very much indeed. In the end we did actually finish up with quite close to 54 different answers to the questions. Thank you a lot for your time and your trouble.

WEDNESDAY 4 FEBRUARY 2009

Present	Arran, E	Jones of Whitchurch, B
	Brooke of Alverthorpe, L	Palmer, L
	Brookeborough, V	Livsey of Talgarth, L
	Caithness, E	Sewel, L (Chairman)
	Cameron of Dillington, L	Sharp of Guildford, B
	Dundee, E	Ullswater, V

Memorandum by The Royal Society for the Protection of Birds

INTRODUCTION

1. Less Favoured Areas (LFA) support is a very significant component of rural development funding in many EU Member States and regions, including some of the UK countries. It is often the vehicle for delivering more funding than is contained within a country's agri-environment programme—as is the case in Scotland, for example—and can fulfil a unique role within a Rural Development Programme. Securing the maintenance of specific types of farming, based on their contribution to the environment, is a valid role for LFA. This can be done through a stand-alone LFA scheme or by incorporating support within the agri-environment programme. It is clear that the existing LFA measure has not been effective across Europe in achieving this form of targeting, nor has it been implemented in a way that is consistent either between countries, or in line with its revised objectives. The European Commission's review is therefore welcome.

2. The RSPB and BirdLife International (the global partnership of conservation organisations of which the RSPB is the UK partner) believe, however, that the current review does not go far enough to allow an effective re-targeting of a major stream of rural development funding that should play a unique and vital role within EU policy. Without a comprehensive re-examination of both the objectives and the implementation of LFA, there is a risk that the Commission's review would result only in adjustments to LFA boundaries and baseline eligibility for support. The recent positioning of the LFA measure within Axis 2 (the environment and countryside axis) of EU Rural Development Policy demands that it contributes to the delivery of environmental benefits from land management. Supporting High Nature Value (HNV) farming for the public goods it delivers is now recognised as a major challenge for EU agriculture policy, and that challenge could be met, in part, by a reformed system of LFA support, linking payments to the positive environmental outputs of this type of farming.

3. Whilst the Commission's review will not result in comprehensive reform, it does provide some opportunities to improve a support measure that currently operates in a highly inconsistent way, and allow better targeting of payments towards farming that delivers environmental and other public benefits. It is vital that improvements in the equity, transparency and environmental delivery are achieved as a result of the review, and the RSPB and BirdLife believe that this can only be achieved through the introduction of a common framework of meaningful eligibility criteria applied at farm level.

THE EVOLUTION OF LFA SUPPORT AND THE EUROPEAN COMMISSION REVIEW

4. Since its introduction in 1975, the LFA measure has evolved from a policy tool designed to prevent rural depopulation and land abandonment (objectives which it has failed to fully meet), to one that aims to achieve environmental objectives. The RSPB and BirdLife support the positioning of LFA within Axis 2 of the 2007–13 Rural Development Policy, and the clear intention that this signals that maintaining farming in these areas must do more than “keep people where they are”. As stated in the Community strategic guidelines with reference to the LFA measure, “*appropriate farming systems help to preserve landscapes and habitats ranging from wetlands to dry meadows and mountain pastures. In many areas, this is an important part of the cultural and natural heritage and of the overall attractiveness of rural areas as places in which to live and work*”.

5. Despite this evolution in policy thinking, many Member States and regions continue to implement LFA schemes as a form of “income support” to farmers, and rely on socio-economic justifications for payment regimes. Payment calculations based on income foregone perpetuate this approach. In many countries, LFA support is, as a result, largely untargeted at environmental outcomes, and fails to maximise its potential for

sustaining and improving the countryside. Moreover, the extreme diversity of defining criteria for “Intermediate” LFA, designated under Article 19 of Council Regulation (EC) 1257/1999, has led to concerns about the unequal treatment of beneficiaries. Additionally, payment rates per hectare vary enormously between Member States and regions, and there is no common framework for baseline eligibility, leading to significant variation between Member States in terms of eligible recipients. The European Court of Auditor’s concerns were well founded, and the current focus on LFA, in order to ensure it is more consistent and transparent, better targeted, and more closely allied to Axis 2 objectives, is necessary if LFA is to be a justifiable use of public funding.

6. As recognised by the Commission, changes to the delimitation of “Intermediate” LFA boundaries could improve the objectivity, transparency and consistency of the existing LFA measure. However, with a move away from production-related CAP support, heralded by the decoupling of Pillar 1 payments following the 2003 reforms, a support measure that aims to compensate for lack of productive capacity has an increasingly questionable rationale. A comprehensive reform of LFA that saw it evolve into a system of positive payments linked to the public benefits produced by the types of farming typical of more remote and marginal areas, rather than a compensation for productive disadvantage, would fit with the evolving model of European agriculture.

7. Improving the delimitation of “Intermediate” LFA may restore some credibility to the scheme at EU level, but will not improve the targeting of the LFA resource to maintain sustainable farming activities that deliver environmental benefits. Whatever boundaries are drawn to delimit the extent of LFA, there will be those within the boundaries whose farming systems and practices are environmentally more benign and those whose systems and practices are less so. This is also true in the area classed as non-LFA. As a result, the RSPB and BirdLife argue that LFA support, in the longer term, should be transformed into a system of positive payments that recognise and reward the environmental benefits of certain types of farming, rather than a form of compensation for lack of productive capacity. Geographical delimitation would become largely irrelevant. In the shorter term, eligibility criteria that allow support to be targeted at maintaining positive farming systems and practices, even if only within LFA boundaries, provide the only way to ensure the measure has a level of environmental credibility demanded by its Axis 2 position.

HIGH NATURE VALUE (HNV) FARMING

8. In agreeing a review of “Intermediate” LFA, the Council indicated that these areas should be characterised by extensive agriculture considered as important to land management. The RSPB and BirdLife have argued that support for this type of farming should form the rationale for the entire LFA measure in the future. The environmental benefits of low intensity farming are well recognised, and declines in farmland wildlife, water and soil quality across the EU can be linked in a number of ways to the intensification of farming¹. In the UK countries and many other parts of Europe, low intensity farming is now predominantly livestock-based or mixed, although some examples of extensive arable or tree systems can be found in other EU Member States.

9. Low-intensity livestock and mixed systems have a particularly high proportion of semi-natural vegetation, for example in permanent pasture or regenerating fallow. These systems, using lower levels of chemical fertiliser, pesticides, herbicides and veterinary drugs, permit the survival of rich insect communities and a significant group of plants intolerant of high nutrient levels. Low intensity systems can also be associated with “traditional” management practices, such as the late harvesting of meadows and arable crops or seasonal movement of livestock, which can create favourable conditions for wildlife. Species such as the corncrake, chough, corn bunting, twite and great yellow bumblebee benefit specifically from such management, and it helps conserve globally threatened habitats such the machair, now restricted to the north west of Scotland and western Ireland.

10. The concept of High Nature Value (HNV) farming recognises that some types of agricultural systems are intrinsically more benign, in environmental terms, than others. The maintenance of these systems is now recognised as a challenge for EU agriculture and rural development policy, and enshrined in guidelines for the new rural development programming period². In the UK, and in many other EU countries, HNV farming (including crofting in Scotland) is typically the type of low intensity livestock activity outlined above. In addition to the role of low intensity livestock grazing in habitat management, extensive HNV management also contributes to the delivery of “ecosystem services” such as nutrient cycling, water catchment and storage, soil protection and carbon storage. Therefore, the HNV concept is useful to identify agricultural systems, or sets of practices taking place in individual farms that the LFA measure should be supporting.

¹ Krebs et al. 1999, Aebischer et al. 2000, Chamberlain et al. 2000, Donald et al. 2001 and 2006, Pain and Pienkowski 1997, O’Connor and Shrubbs 1986, Shrubbs 2003

² See Council Decision 2006/144 on Community Strategic Guidelines for rural development: “High nature value farming systems play an important role in preserving biodiversity and habitats, as well as in landscape protection and soil quality”.

11. Across the EU, HNV farming systems are facing the twin threats of decline or abandonment, and intensification. Relatively extensive livestock farming in more remote and fragile areas may have been economically marginal for many years, but may have been artificially propped up by headage-based Pillar 1 payments that encouraged the retention or increase of animal numbers. The advent of decoupling in 2005 has served to accelerate existing declines in livestock, due to a lack of suitable incentives under other Pillar 2 mechanisms. The rules that govern agri-environment, for example, mean that it is ill-suited to provide adequate system-level support for farming that is inherently environmentally positive, but is rather a tool for achieving changes to management practice, for example to create or maintain habitats for key species. HNV farming systems require support for maintenance or retention of positive practices, such as low intensity cattle-based or mixed livestock grazing. In other cases, pressure on traditional HNV systems to intensify production has resulted in deterioration of the environmental benefits associated with lower intensity farming.

LFA IN THE UK COUNTRIES

12. A common EU framework for LFA support is essential, to ensure it delivers against agreed EU priorities. However, local flexibility should remain in precisely how this is achieved at Member State or region level. The four UK countries have developed different approaches to LFA support, to suit their specific circumstances, in line with devolved rural development policies. In each UK country, LFA support occupies a different level of importance in terms of funding, area covered, number of recipients and approach to the specifics of implementation. For example, Scotland's LFA covers 85% of farmed land, in Wales the figure is 80%, in Northern Ireland 70%, whilst in England only 14% has been classed as LFA. Its importance in funding terms within each RDP ranges from 5% of the Axis 2 budget in England, to 32% in Wales and over 40% in Scotland and Northern Ireland.

THE UK UPLANDS AND THEIR ROLE IN PRODUCING PUBLIC BENEFITS

13. Large parts of the UK uplands are unenclosed, with large areas managed as common land or common grazings, much interspersed with major water-bodies, woodland and forestry and managed for hill farming, game management (grouse, deer and game fish) and for nature conservation. A small proportion is managed as enclosed land. Our uplands support a suite of priority habitats, often designated for their environmental importance. In England, large areas of blanket bog (255,000ha), heather moor (244,000ha) and other important habitats including hay meadow and limestone pavement are designated for their environmental importance. The uplands of Scotland include extensive areas of blanket bog (1,759,000ha) and heather moor (623,000ha). These and other habitats support a range of internationally important species including freshwater pearl mussel, Atlantic salmon, otter and golden eagle. Wildlife tourism makes a major economic contribution to rural economies—in Scotland alone it is worth up to £400 million annually.

The uplands are also very important in terms of landscape, including 1 million hectares of National Parks in England, and many other outstanding areas of landscape value, which attract over 70 million visitor days each year, and are increasingly recognised in terms of health benefits and wider recreational opportunities.

14. Current research is seeking to evaluate the full range of ecosystem services accrued in the uplands, and it is important that their importance is recognised in the context of a changing climate. 70% of our drinking water is gathered in the uplands, and the capture and processing of drinking water is a major land use. The uplands are also at the centre of an emerging wind industry and in some areas, particularly the Highlands of Scotland, water is collected to generate energy. There is also a predominance of peat soils in the UK uplands, which have been forming for thousands of years. As terrestrial carbon is a major component of peat, managing peatland to protect existing carbon stores and to enhance further sequestration of carbon, against a backdrop of increasing green house gas emissions, is now a major land use objective in the uplands.

STRENGTHS AND WEAKNESSES OF EXISTING LFA SUPPORT

15. The rationale for supporting less productive agricultural areas (areas of natural handicap) and compensating them for farming in more difficult circumstances was valid in an era of agricultural payments that were based entirely on production. Although LFA payment regimes at country level often do not truly reflect this disadvantage and mirror the pattern of production-related payments, the aim of redressing the balance of production-oriented support allowed the continuance of other products of agricultural land management, including habitats, species and ecosystem services. Now that support payments are decoupled from production, however, a system of support that aims to compensate for productive disadvantage is redundant. The RSPB and BirdLife believe that LFA support should evolve into a system of payments linked

to the positive externalities of appropriate agricultural land management, such as maintenance of habitats, species and ecosystem services.

16. A key strength of LFA support that differentiates it from agri-environment in particular, is a focus on supporting existing farming systems, and allowing the maintenance of generally positive practices (such as low intensity grazing). This is in contrast to payments that may require changes to existing practices, for example to create or manage specific habitats. From the recipient's perspective, the ease of access to such a payment regime has been very positive, and the level of administration associated with the application process is comparatively low. National governments have also viewed this as a strength of the LFA measure.

17. The LFA measure has been acknowledged to have many weaknesses. The lack of transparency and equity of implementation across the EU, allowed by the "Intermediate" delimitation process and the absence of consistent eligibility criteria and payment rates, noted by the European Court of Auditors, prompted the Commission's current review. Any delivery of environmental benefits from the LFA measure has been largely an incidental result of LFA's role in maintaining livestock based farming in more remote and marginal areas, although eligibility criteria and graded or uplifted payments linked to prescribed activities introduced at Member State or region level, have been successful in increasing the environmental benefits derived from LFA schemes. These have not been consistent across the EU, however, and no common framework is in place to require environmental delivery beyond cross-compliance. The lack of overt targeting of the LFA measure at specific types of farming, such as low intensity HNV farming, has meant that, at country level, perverse situations where distribution of LFA support mirrors production-related Pillar 1 payments can exist.

THE CURRENT REVIEW

18. The RSPB and BirdLife have argued for the replacement of the CAP with a common, sustainable land management policy for Europe³. This would include a system of positive support payments (rather than compensation payments) in recognition of the environmental and other public goods produced by HNV farming. This support could evolve from a reformed LFA measure, and would sit alongside agri-environment payments designed to encourage enhanced management of farmed land, to deliver additional environmental benefits. It is disappointing that the Commission's current review will not significantly reform LFA support in this way, continuing to frame it as a compensatory payment, available in areas of productive disadvantage. The review contains some areas for potential improvement, however, including the introduction of eligibility criteria to be applied at farm level.

BIOPHYSICAL CRITERIA

19. The identification of HNV farming systems should provide the basis for targeting support, and a priori designation of LFA areas should ultimately be redundant as a mechanism. Until this becomes possible, biophysical criteria, based on soil, climate, and topography provide a way to delimit areas considered to be at a natural productive disadvantage. Creating a set of common criteria that suit every LFA circumstance in the EU is, however, likely to prove a considerable challenge on a technical level, and there is clearly concern that the criteria, as originally proposed by the Commission, may not have been ideally suited to defining LFA circumstances in the UK. Regardless of the extent of "Intermediate" LFA that is delimited under any new criteria, however, Member States have the discretion to limit payments to a subset of recipients via eligibility conditions, to differentiate payments within the designated area according to level of disadvantage or fragility, or to decide not to have a stand-alone LFA scheme at all. The RSPB and BirdLife therefore take the view that the country-level distribution of payments, including the potential to target payments within any designated area is considerably more important than the delimitation process itself.

ELIGIBILITY CONDITIONS

20. The only real way to properly target LFA support is through environmentally meaningful eligibility conditions, even if only within areas designated for their natural disadvantage. Filtering access to LFA payments at farm level using these conditions would ensure targeting of support in order to improve the countryside and the environment. Within the current LFA, access to payments can be filtered using eligibility criteria devised at country level, but there is a very inconsistent use of these across the EU. Harmonising the range and scope of eligibility conditions within a common EU framework would allow equal treatment of potential recipients across the EU, in a way that is currently lacking. The detail of the eligibility conditions, most suited to targeting support, should be defined at Member State or regional level. The RSPB and BirdLife

³ BirdLife International (2007) "New Challenges, New CAP" <http://www.birdlife.org/eu/pdfs/CAP%20Brochure.pdf>

believe that most environmentally sustainable extensive farming systems (or HNV systems) could be effectively identified using some of the following EU-wide conditions:

Common criteria

- Limits on drainage
- Limits on irrigation
- A minimum percentage of semi-natural habitat/landscape elements in the holding
- Limits on use of chemical inputs

Livestock-based systems

- Minimum and maximum stocking densities
- A minimum percentage of grassland area in the holding
- Limits on indoor keeping of livestock

Arable systems

- Limits on field size
- Minimum length and complexity of crop rotation

Tree systems

- Maximum tree density
- Maintenance of semi-natural ground cover

21. Member States should be required to show how they would apply some or all of these categories to identify the HNV farming systems that they seek to support with the LFA measure. The detail of the conditions (such as actual stocking densities or specified percentages of semi-natural habitat) should be determined at Member State, regional or sub-regional level, to reflect the locally specific nature of these systems. Additional or alternative eligibility criteria could be used if they can be demonstrated to identify key features of HNV systems in a particular country or region. However, eligibility should not be limited by age, part-time status or other socio-economic criteria, as these have no bearing on the environmental sustainability of the land management involved. Indeed, HNV farming activities tends to disproportionately feature part-time and older land managers, due to economic and geographical marginality.

January 2009

Examination of Witnesses

Witnesses: MISS MANDY GLOYER, Head of Land Use Policy Unit, RSPB Scotland, DR PAT THOMPSON, RSPB Uplands Policy Officer, and MR PETER BARFOOT, Director of Conservation, on behalf of the English National Park Authorities Association, examined.

Q93 Chairman: Hello and welcome. Thank you for coming along and helping us with our inquiry. We are less than half-way through now so we are still learning as we go along, although you will not be surprised to know that this is one of the inquiries where this subject is of some familiarity to some members of the Committee. This is a formal evidence taking meeting. There will be a transcript taken and you will get a copy of it. You will be able to go over it and any corrections, if necessary, can be made then. We are also being broadcast, although we have never had any evidence that anybody has ever listened to us! Could we start by you introducing yourselves? Do you want to make any opening statements? It would be good if you could, otherwise we can get straight on to questions and answers. I realise you are representing different organisations and so there will clearly be different voices on some issues, but we will recognise that as we go through the questions.

Miss Gloyer: I am Mandy Gloyer. I am Head of Land Use Policy with the RSPB in Scotland where we have obviously a particular interest in less favoured areas, 85 per cent of our agricultural land being less favoured. I also lead for the RSPB on UK and EU advocacy on less favoured areas in conjunction with our partner organisations in other EU Member States. We are part of an umbrella body called BirdLife International where equivalent organisations to RSPB operate throughout Europe. We have recently been in discussion with the Commission about less favoured areas across the EU Member States. I have been leading for the RSPB on this inquiry so I would like to make some opening comments. The first thing to say is that we recognise LFA support as potentially a hugely important strand of rural development support indeed in many countries, Scotland being one. It is more important in

4 February 2009

Miss Mandy Gloyer, Dr Pat Thompson and Mr Peter Barfoot

terms of budget and probably impact than agri-environment support. That is not the case in England, as you will be well aware. However, our view—and this is shared by our partners across Europe—is that the current system is not working either for its old objectives in terms of halting rural depopulation or for its newer objectives which are specifically related to the environment and the continuation of appropriate land management in the countryside. It is quite obvious certainly from the Scottish point of view that the system is not working. We have had a combination of 50 years of direct support and LFA-type payments and we still have a situation where our uplands are in fairly serious decline. We have got figures coming forward about a loss of livestock in the uplands, younger people leaving and a loss of skills. I will not elaborate further because I am sure you will have plenty of examples of your own. However, although we feel the Commission's recent review does not quite go far enough to reform a system of support that could be really important and currently is not working at its best, we do have views on where we think that support should go in future. I think there is general agreement that it has a unique role to play in supporting the kind of extensive livestock-based farming systems that produce a range of what we call public benefits, so benefits for habitats, for species and benefits in terms of environmental services like water catchment and carbon storage. There are farming systems and crofting systems in Scotland that deliver those as part of their existence, no change in practice is required to deliver that and we feel those are the systems that are not currently being properly supported through the LFA scheme.

Dr Thompson: Good morning. My name is Pat Thompson. I am the RSPB's Uplands Conservation Officer. I am based in Newcastle. I have worked for the RSPB for about 15 years. I was born and brought up in Sutherland in the north Highlands of Scotland so I am very familiar with the upland landscape and spent a significant proportion of my working life in the uplands. My role in the RSPB is to help shape our uplands policy across the whole of the United Kingdom. I work with scientists, policy colleagues and colleagues who actually deliver land management in practice across the uplands. My role is to act as an external conduit for our thinking, engaging with a range of external interests about the uplands and trying to re-profile the way we think about our upland landscapes.

Mr Barfoot: Good morning. My name is Peter Barfoot. I am the Director of Conservation for the North York Moors National Park Authority. I am here representing the English National Park Authorities. I provide a lead on our joint working group on agriculture in conjunction with my chief executive. Whilst we have more severely limited

resources than the RSPB to put into these exercises, we do try and comment on both European and national policy. My background is in rural conservation. I have worked for the National Park for over 20 years. Most of that time has been in terms of conserving and working with upland farming communities and so I do have reasonable experience of upland agri-environment schemes, indeed I have designed and delivered them, and in the current agri-environment schemes that are available to farmers in our LFAs. I understand you have already received information about the proportion of English LFA which is actually National Park or an Area of Outstanding Natural Beauty; it is about 40 per cent and a significant proportion of that is also SSSI. The evidence I hope to provide is emphasising the wider values of those landscapes not just in terms of conservation but also in terms of appreciation by the wider public, their recreational value and their cultural heritage value.

Q94 *Chairman:* Thank you very much. The RSPB's evidence outlines some of the public benefits produced by uplands. Could you elaborate on the public benefits that flow from management of less favoured areas, and how it is possible to assess public demand and willingness to pay for such benefits?

Dr Thompson: First and foremost, for us LFA, in particular the severely disadvantaged area is very much synonymous with what we define as upland across the United Kingdom. Increasingly we are coming to understand how incredibly important our upland landscapes are. I say increasingly because I think hitherto we have often not given them the respect that perhaps they deserve. When we think about the upland landscape in terms of the benefits they deliver for society we are really thinking about things like water capture and water filtration. Water capture is a really good example. Something like 70-90 per cent of the water we drink in the United Kingdom is actually captured in upland catchments and that water goes to our great cities like Birmingham, Liverpool, Manchester and Glasgow, for example. Water is one of those products that have a marketable value, but interestingly the price that the consumer pays for water is in part related to the expenditure that the water companies invest to make sure that the water reaches us both in good colour and good quality. In terms of some of the benefits that we will talk about, clearly water already has a marketable value. It is also highly relevant to remember that something like 50 per cent of the UK population gets water which is from a peatland catchment. So water storage is important. Water regulation is increasingly important. We are very interested in thinking about the upland catchment in the context of what happens downstream. So actually managing these big upland landscapes in a way that

4 February 2009

Miss Mandy Gloyer, Dr Pat Thompson and Mr Peter Barfoot

makes sure we have not got run-off happening in an uncontrolled way or in a way that causes problems downstream is clearly something that we are very interested in from a management perspective. Our upland soils, particularly peat, have a very important climate regulation function. Peat, as I am sure many of you will know, is an incredibly important carbon store. Peatland is formed by peatland vegetation which when actively forming actually sequester carbon. So healthy peat bogs not only have a big supply or store of carbon underneath them, they also grow and accumulate peat and lay down carbon. Our upland habitats, particularly our peatland habitats, have a very important function as we begin to think about the context of the upland landscape and a changing climate. If we manage these landscapes in the wrong way that vast peatland store, which extends to something like five billion tonnes of carbon, would be put at risk. That takes us on to the landscapes themselves. Our upland landscapes, many of which are protected landscapes as National Parks and Areas of Outstanding Natural Beauty, are incredibly important places both in terms of the opportunity that they offer for society to recreate and to test themselves. They are landscapes that inspire people. We recognise that these landscapes are increasingly important to our overall spiritual and physical health and well-being. So we see our upland landscapes as offering a variety of different public benefits, many of which we think are actually almost delivered coincidentally through the support systems that we have in place at the moment. It would be inappropriate for somebody from the RSPB not to talk about wildlife. We believe that wildlife or biodiversity is indeed one of the incredibly important services that our upland landscapes provide us with. The LFA comprises extensive areas of special sites that are designated as Sites of Special Scientific Interest and Sites of European Importance and these sites comprise a suite of internationally important habitats, things like machair, blanket bog, upland heathland (heather moorland), for example, which supports a range of important birds, mammals and invertebrates. Increasingly we are beginning to understand the overall value and, in some cases, the economic value of the range of different benefits that exist but, particularly from our perspective, we recognise the economic value that wildlife can have in some rural communities. Let me come back to the key point about what impact management has on a variety of these benefits. In some cases we have conflicting land uses sitting across these upland landscapes, some of which benefit some of these services and some of which actually impact in a negative way on some of these services. We have got a variety of different support mechanisms that underpin the delivery of some of these services but by no means all. Some of them have a marketable value

and some of them do not. On the second part of your question as to where on earth the public comes into this in terms of the value that society puts on some of these kinds of services, I actually think that this is very much an emerging science. There is a range of different work underway right now, some of it being conducted by Defra, some of it being conducted in England by Natural England, that is seeking to better understand what the true benefits of some of our upland landscapes actually are, where those benefits being delivered and what value society puts on them. So we have got a range of work going on to try and understand if we can put economic values on some of these services. As I have already hinted, some of these services clearly have a marketable value and some of them may have a marketable value going forward into the future, carbon being a really good example. I think we have got an awful lot more to do to better understand the role that the public play in shaping the policy for our upland landscapes and clearly there will be some areas where the public very much have an affinity with some of the aspects that I have been talking about and there will be other areas where perhaps the public are not that interested, but that should not mean that those benefits are of any less value. Obviously we have got things like National Parks where we get 70/80 million day visitors a year. To some extent in some of these places the public are voting with their feet, visiting as they do in their thousands, but it is also interesting to note how some of our big businesses use upland landscapes to sell some of their products, food, drinks, cars and outdoor clothing, for example. Clearly there is something about the upland landscape, that sense of freedom, that sense of wildness, whatever it is, that even corporate interests sometimes cling on to as being something that they think will help sell their product or add value to their product. It is very much an emerging science and more needs to be done to better understand the public perception of some of these benefits.

Mr Barfoot: The value of these upland landscapes cannot be underestimated. We have recently done survey work of our visitors and non-visitors and 96 per cent of the response regarded the National Parks' landscapes as being their key value. We have rough figures just coming out from the last couple of years of visitor numbers to the National Parks and those show that there are approximately 66 million visitors per annum to the 12 English and Welsh National Parks, that is just over 100 million visitor days and it is worth a total of about £3 billion to tourism businesses. That is an awful lot of money for those areas, but that money does not go into the management of those remote areas. The uplands landscape and their continued management are very important. I have circulated the study on the south-west uplands, I do not know if you have received it as

4 February 2009

Miss Mandy Gloyer, Dr Pat Thompson and Mr Peter Barfoot

part of your papers, which is a selection of public benefits in the south-west uplands with an emphasis on moorland and that is looking at Exmoor, Dartmoor and Bodmin Moor, which is very interesting reading. One of the things that emphasises is the cultural heritage, the historic value of these areas. The three uplands in the south-west of England contain ten per cent of England's scheduled ancient monuments. My own National Park, the North York Moors National Park, contains 33 per cent of Yorkshire and Humber's scheduled monuments, although it is only 9 per cent of the area. I have here a photograph of one of our areas in the North York Moors, it is Danby Rig near Castleton and it shows the density of prehistoric features on that rig. The visibility has improved because it has recently received a controlled burn. Behind that is a map of the density of these archaeological features. They are right on the surface. They are exceptionally fragile. If you drove a tractor across them you would destroy them. You can scarcely put your foot down without stepping on prehistoric remains. Can I pass that round?

Q95 Chairman: Yes, please do.

Mr Barfoot: These areas are unique in terms of the density of the archaeological remains and they are all concentrated. We have everything from Neolithic through to recent industrial heritage remaining right on the surface and without continued management these areas become very vulnerable. They have never had trees on them since the last Ice Age because it was the people who put the archaeology there who removed the trees, so they are very vulnerable in that respect. People do not tend to realise just how rich these sites are.

Q96 Chairman: On the basis of the case you are making so far, if you look at the map the RSPB have provided us with on the "Average Less Favoured Area Payments 2005", there is a bit of Scotland that I know something about, that bit in the north-east, that seems to have some of the highest payments, yet basically it has just about the most boring countryside in Scotland that you can have. Why make any payments to them?

Miss Gloyer: That certainly has to be an issue that has to be addressed in delivering public funding and the objectives for which it should be delivered. The reason we submitted these is really just to show how broken the LFA system of support is when you can look at it very closely at national level. I make no excuse for using Scotland as an example, I know it best, but it is also, luckily for us, one of the examples where we have managed to secure the data from Government. For a lot of other EU Member States this information simply is not available and they look with envy at us for managing to have the

transparency to look at this data in the first place. Really what this highlights to me and certainly to my colleagues in other EU countries is that the current rationale for making less favoured area payments is supposed to compensate for productive disadvantage. Therefore, one would expect a pattern of payments that was the reverse of direct support payments, ie Pillar I single farm payments. What you find when you drill down and look at the data is that the map of single farm payment direct production related support looks like that and curiously the map of less favoured areas support in Scotland mirrors that pattern. There are a number of reasons to do with the complexity of how the system is administered in Scotland and its historic basis, coming from an almost production linked compensatory allowance, that allow it to look like that, but I would have thought any objective eye on that would recognise that that simply does not fit with what less favoured area support is meant to do.

Q97 Chairman: Your justification of LFA payments would seem to me to lead to the inevitable conclusion that there is a very strong case to reduce the area covered by LFAs.

Mr Barfoot: I think the situation in Scotland and Wales is very, very different to that in England. In Scotland and Wales the Single Farm Payment Scheme is based on historic payments and therefore reflects the historic distribution of production based support. In England that still is the case to a certain extent, but there are transition mechanisms in place towards a single flat rate payment. The HFA payment in England is focussed on limited areas to a much greater extent than in Scotland and Wales. That is a single flat rate payment for moorland and non-moorland areas and is decoupled. Therefore, at the moment it does not support farming activity per se in as much as you can claim HFA on moorland and other areas which you have access to but you need not necessarily farm. This has caused the removal of stock from areas in England and I think is partially responsible for the removal in Scotland. I think it is important to recognise that the two systems, Scotland and Wales and England, are very different and a similar approach may not be appropriate in the two areas. Certainly we would be concerned at a reduction in the LFA. We support the move to an Upland Entry Level Scheme because it supports farming activity directed at environmental benefit. Any dilution of that is removing what limited support there is in recognition of the difficulties of farming in that area. The English system has LFAs deeply embedded in the whole support structure. The standard payments from the Single Farm Payment Scheme are lower in disadvantaged areas. The management payments for a lot of the elements in the Entry Level Stewardship Scheme are lower in the

4 February 2009

Miss Mandy Gloyer, Dr Pat Thompson and Mr Peter Barfoot

LFA areas. The HFA at the moment and the UELS in due course is the only mechanism by which some sense of balance can be restored and whereby farmers who are in effect delivering most by way of public benefits can be recompensed for their extra labour.

Q98 Lord Brooke of Alverthorpe: I would like to come back to wildlife with rather a simple question. I would like to know what is most beneficial for birds, reversion to land in its common natural state or does the RSPB prefer it to be managed instead?

Dr Thompson: I think increasingly we recognise the importance of positive, active management. It does depend what your objectives are, but for many of the birds in our upland areas, for example, we recognise the contribution that land managers make, both hill farmers and heather managers, in the way that their livestock grazes, the vegetation, or the way in which the moorland manager may in some places burn heather to create diversity and structure across the moorland upland landscape. So management is incredibly important. The maintenance of the livestock and the skills and people to deliver that management is also incredibly important.

Q99 Lord Brooke of Alverthorpe: Is there any science on what is most beneficial for the birds?

Dr Thompson: Yes. For some of our moorland birds like black grouse, red grouse, the golden plover, birds like those, for example, we do recognise that it is having this diverse structure, both in spacing and composition that is the most important thing for the birds. If you stop managing those landscapes and they become homogenous then the density of some of those species of birds declines.

Q100 Lord Brooke of Alverthorpe: Would not others grow as well?

Dr Thompson: Some things would benefit. Often our management activity is delivered for species that are of national or international importance or of biodiversity importance, for example. Whatever you do, there will always be winners and losers.

Q101 Lord Brooke of Alverthorpe: So you are not really in the business of looking for the reclamation of land from farmers so that it can go to its natural state for the benefit of birds?

Dr Thompson: I never said that! Clearly as we go forward with a changing climate and changing markets then I think it is becoming increasingly clear, whether we like it or not, that some things are happening in our landscapes that we are going to have to start thinking about in a completely different way. So understanding how our biodiversity and indeed other systems react to processes that are more to do with natural processes rather than management is clearly something that we also need to understand.

It may well be that our natural processes approach in some places would be a good thing but we do not know that. We are involved, along with a range of other interests, in trying to get beneath the science of this stuff and to understand what impact management or non-intervention has on a range of these so-called ecosystem services.

Q102 Lord Brooke of Alverthorpe: I heard you say that you are increasingly working with other similar organisations across Europe. I was wondering whether in fact you have made any enquiries along these lines that I have been putting to you with those where there is more prevalence of abandonment has there been a growth in the population of birds there or a decline.

Miss Gloyer: I think the science is incredibly complex. It depends on which particular species or set of species you are looking at. If you are looking specifically at the impacts of land management changes on birds, it is very difficult to say X is good for birds altogether or Y is bad for birds altogether. This is where RSPB's management differs from management in the wider countryside and this is true across Europe as well. We would manage with specific biodiversity objectives in mind for specific species. We recognise that that is not the case across the wider countryside. However, what we are concerned about not only in the UK but elsewhere in the EU is the impact of increasing unplanned abandonment of traditional agricultural systems with low intensity grazing. Such grazing is good not just for birds and we often use birds as an indicator for the general health of farmed land, but birds are used as an important biodiversity indicator and also as an indicator of the health of ecosystem services or the general health of the farmed land and that is accepted across Europe. Our concern at the moment would be, if support systems are not working properly together, to support that type of farming. What we are increasingly seeing is a non-strategic abandonment and we are not sure yet what the impacts will be.

Mr Barfoot: I think the science that is building generally not just with regard to birds but other elements of wildlife indicates a mixed landscape with a variety of different habitats present and a variety of different crops, oil seed rape and linseed and so on, which all contribute to the breadth of wildlife that is present and the diversity that is present. Abandonment, particularly on uplands and on moorland, leads to a more homogenous landscape, ie it all becomes similar. We have moors in my own National Park that have not seen management for 25 years and in fact their bird populations are much, much poorer than those that are managed and grazed. I have spoken about the value of these areas for cultural heritage. I have three photographs here

4 February 2009

Miss Mandy Gloyer, Dr Pat Thompson and Mr Peter Barfoot

of part of this moorland that had not been managed at all for 25 plus years with a lot of very old heather present. It had an accidental fire across it in 2003 which completely demolished nearly two and a half square kilometres of moorland. This area is particularly renowned for its prehistoric remains and particular the cup and ring stones, which are carved stones with rings and cup shapes in them. The following two photographs show the impact of this fire. These monuments are 5,000 years old and have sat up there perfectly happily for all that length of time and they have virtually been destroyed by the heat of the fire, which I think is a very, very good example of how a lack of management contributes to the loss of something which I think society should be valuing very highly.

Q103 Viscount Brookeborough: Therefore, good grouse, moor management and good sporting management is important to the RSPB?

Dr Thompson: Absolutely, yes.

Q104 Lord Cameron of Dillington: You have mentioned various benefits that payments or management in the uplands brings on water quality, peat preservation, landscape, the cultural heritage, tourism and biodiversity. I am just wondering to what extent those are the direct result specifically of the Less Favoured Areas scheme as opposed to more general farm subsidies or even Pillar II development support. If you can provide a non-agricultural wage for a farming family then you are probably more likely to keep them in the right place. Is the LFA scheme really important in all of this?

Mr Barfoot: I think at the moment as it stands the HFA payment is enabling some farm businesses to keep going certainly in England, it is an extra strand of income. It is not necessarily contributing to the management of the land perhaps in the way that we would ideally wish to see it. I hope that the Upland Entry Level Scheme will move in that direction. Historically the old HLCA, because it was headage based, led to potential damage in upland areas. So I think we are moving in the right direction, but I do not think under the current HFA system it necessarily contributes to the ideal form of management. Having said that, the loss of that level of support could be catastrophic for a lot of upland farm businesses. We have done some work with our upland farmers on our hill flocks, which are losing money. It costs so much per ewe to keep the flock on the hill. Without some form of support then we will get abandonment of grazing off those moor areas.

Dr Thompson: We would absolutely endorse that. We recognise that the LFA payment at the moment is actually helping sustain some businesses that clearly are struggling. There is an argument about whether LFA as a whole is working given that we have got

declining farm incomes, the average age of farmers increasing, sons and daughters not succeeding into the farm business and in some places reductions in livestock per se. So there is kind of an argument also that is saying "But LFA generally is not working". We would say that some of the benefits that we are securing in these upland landscapes are almost coincidental of the fact that we have got LFA support at all, although we accept what Peter is saying, but we are helping sustain a land management capacity in these places using the support payment as it exists at the moment. The basis for our whole submission is that this is a really odd way of supporting people. We think that the LFA in itself is a complete contradiction. We have got this upland landscape that delivers so much for society as a whole. The basis of the LFA is to sustain people that are trying to produce food in a really difficult place, a long way away from the markets and a long way away from labour forces. We should be turning that on its head and saying, "these are our most special places. Why do we call them the less favoured areas? We should be calling these places the most favoured areas and actually directing support at those people that are making a positive contribution to sustaining those landscapes and the associated services."

Q105 Chairman: In what you have been saying you have frequently, understandably and approvingly, used the word "uplands". If we look at the map of LFA payments, there are clearly non-upland areas involved; in fact, most of the high value areas are upland areas getting large receipts. In Scotland it is Caithness, Banff, Buckie and even the Western Isles, Coll, Tiree, Islay, places like that. Would it be your argument that the LFA scheme ought to be radically revised to just concentrate on uplands? Your argument in favour of it has been linked strongly to uplands.

Miss Gloyer: I think the problem we have in the terminology we are using in this debate is that we are starting from certain premises which are geographically limited, whether it is geographically the LFA as it now stands or a place that we can draw a line on a map and call "the uplands". Our view is that in order to justify the continuation of this payment of quite significant amounts of public funding we have to have a robust rationale that is based on what is delivered in return for that public funding. It just so happens that there is a kind of almost handy coincidence often between some of the existing LFA within that boundary and some of the uplands. You have quite rightly shown that it is not an absolute overlap when you map what the European Commission and the European Environment Agency have been trying to do, which is map high nature value farmland, but effectively within the big picture, if you looked at most of

4 February 2009

Miss Mandy Gloyer, Dr Pat Thompson and Mr Peter Barfoot

Europe, you are talking almost about a coincidence of the same places. Our view is that in the future the rationale should not be based on where you draw a line on the map and what you call it but based on the practices and systems of land management and of farming that as a public we think should be supported with this public funding. Our view is that that should be an evolution of what we are calling high nature value farming. I know the terminology is in development, but we know what we mean and we know what we mean in the United Kingdom, we mean the sort of relatively low intensity livestock based or mixed farming, that tends to be associated with a higher proportion of semi-natural habitat. It tends to have lower inputs of fertilizers, herbicides and pesticides. It tends to deliver more of the habitats and species benefits that we have been talking about and the landscape benefits and the cultural associations, linked to the fact that these areas that we are talking about which, when you do have to draw a boundary round them to illustrate what you are talking about, tend to be geographically and economically remote. What we are saying is the system as it stands now relies on the drawing of maps. Where we think things should be going in future is a payment based on the practices that are carried out and what is produced as a result of them, which kind of makes this debate a little difficult when we are talking about existing LFA boundaries or the uplands. We have to remember this is rural development policy, this is Axis II of Pillar II of a policy that is Europe wide and meant to be delivering environmental benefits and maintenance of the countryside; it is not a food production policy. I understand the difficulty when we are talking about geographic delimitations, but that is because we think the system is broken as it is and we should be moving to something that can target a bit more accurately public benefits delivery.

Mr Barfoot: Again, there is a danger of confusion between the Scottish and Welsh situation and the English situation, which is very different. The fact is that LFA and the existence of LFA is embedded in Pillar I payments to farmers in England because the farmers in the severely disadvantaged area receive a lower payment and that is presumably because of the lower productivity of that land. If that is the case then we are already recognising a social and economic factor, ie that land is less productive and therefore is less profitable. Without LFA recognition then there is no counter-balance to that. The second thing is that I am very wary of the term high nature value farming because I know how these things can get embedded in European legislation and we will find that if it is not of value to nature then it is not regarded highly, and I would be very concerned at any policy that pursued that particular term.

Miss Gloyer: The policy is now enshrined within the European rural development policy.

Mr Barfoot: Yes, but the introduction to the RDR recognises farmed landscapes, I think it is paragraph 33 of the introduction and paragraph 32 refers to farmed landscapes and the features that they contain.

Q106 Lord Palmer: Perhaps I should declare that I am a farmer on the edge of Lammamuir Hills on the edge of an LFA. Turning to the future, what really ought the rationale and objectives be of the LFA payments? You must have some fairly strong thoughts on this.

Miss Gloyer: The rationale going forward with LFA payments has to be fairly robust. When we are talking about the economic, social and environmental issues that affect our more remote rural areas there has to be a very robust justification for spending public money. Farmers constitute one per cent of Scotland's rural population, for example. So in social terms you are paying significant amounts of public funding to a small proportion of the population. In economic output terms, you would be paying significant amounts of public support to a relatively small contributor to GDP, for example. Our argument going into the future is not that that support should be removed from farming at all, it is that we need a justification that is based on what makes the farming constituency in those areas different, what do they produce that is different that can justify paying them and not others.

Q107 Lord Palmer: Therefore, it could make the economic argument very, very bleak if it was purely based on economics.

Miss Gloyer: Absolutely. That would be our complete view. If there is to be a justification in the future for why that funding continues, it has to be based on the fact that the thing that makes farmers different is that they manage significant proportions of land and, in addition to producing food, which is rewarded now in different ways through different CAP mechanisms and through the market, the key thing that farmers are doing is managing rural areas. In our case 75 per cent of Scotland is farmed. So everything that happens on that land affects everyone in the country. It affects not just rural dwellers but every single inhabitant of the country because of the influence that farmers and crofters of Scotland have on that land, the environment, the landscape and the services that we have been outlining. So if there is to be a robust justification in future then our view is that it should be based on land.

Q108 Earl of Caithness: Do you not really want to shred the whole of the support base for farming and tear it all up and start again? Your policy is much more comprehensive than the route we were undertaking because if you are going to channel funds towards the management of upland areas, how

4 February 2009

Miss Mandy Gloyer, Dr Pat Thompson and Mr Peter Barfoot

is that going to fit in with all the other farmers and managers of land who do not fit into the uplands but are equally important? Shetland would fall out, most of Orkney would fall out and Caithness would fall out. How does that fit in with the existing system? What are your proposed changes to the existing system for Single Farm Payments and the Habitats Directive? What is all this going to cost?

Miss Gloyer: I think you are quite right to recognise that at the moment we are talking about LFA support in isolation. Of course, reform of that support structure has to be seen within the bigger picture, particularly the bigger picture of reform of other CAP mechanisms. The bulk of the CAP payment structure is still paid through Pillar I, so 75 per cent of CAP funding is delivered through the single payment. Our view—and I think this is a view that has increasingly become echoed across Europe—is that since Pillar I payments, that is 75 per cent of the CAP budget was decoupled, so the link was severed to the production that it used to pay for following the 2003 reforms, there is a questionable rationale for that payment. At the moment the rationale is that it avoids environmental deterioration through cross-compliance or ensures basic animal health and welfare standards through the conditions. Beyond that, there is an increasing debate in the United Kingdom and elsewhere in Europe about what that payment is for. In Scotland our Single Farm Payment is delivered on an historic basis. So what people were practising between 2000 and 2002 and the subsidies that they received in that reference period determines what they are paid today. Increasingly that becomes an irrelevance. So moves to reshape Pillar I support I think are pretty much inevitable even amongst Member States and regions that have already gone down the route towards moving it more to the area-based system, such as England. The RSPB's view—and this is shared by environmental organisations and many other organisations across Europe, in fact the United Kingdom Government as well—is that the future for the CAP should be its evolution into a system of support that is paid through a developed Pillar II. It would be very dangerous to do this too quickly, but gradual evolution would mean that the direct subsidy payment support would decrease but the same amount of funding would be delivered through Pillar II, through schemes such as an LFA scheme that was defined by its public benefits delivery, through the agri-environment, through other Axis I schemes that encourage competitiveness, diversification of the rural economy, all of those sorts of schemes that can be financed through an evolution of what currently stands as Pillar II of the CAP. That is the direction that we would favour things going and it would undoubtedly redistribute the funding that we see on our maps now, that is without question. I would say

that is probably why there is resistance not just in the United Kingdom but across Europe from people whose interests are served by the existing structure. So there would be this redistribution of all of these maps, but we would argue that that is the right way to go.

Q109 Earl of Caithness: Have you costed your proposals?

Miss Gloyer: The CAP budget would remain the same.

Q110 Earl of Caithness: Would you get all the management benefits just by using the existing funds?

Miss Gloyer: I believe you could, yes. There is a common mistake which is made when people think about Pillar II funding at the moment. Because we are used to the evolution of sometimes quite complex agri-environment schemes or competitive agri-environment schemes there is a view that Pillar II rural development funding has to be administered only in that higher level, competitive, quite administration heavy way, but that is not the case at all. The sorts of schemes we are talking about would be base level non-competitive schemes such as an evolution of the LFA scheme that would pay farmers in the same way as they are paid now but within the confines of the benefits that are delivered from their management.

Mr Barfoot: I think the question from the English perspective actually hits the nail on the head because without complete reform of Pillar I and the existing agri-environment schemes, the Entry Level Scheme in particular, the removal of a geographically based LFA payment would be inequitable because those existing schemes already reflect the existence of the LFA, severely disadvantaged areas particularly.

Q111 Viscount Ullswater: I am interested in what you were saying about targeting. Are you suggesting that you are really talking now about land management rather than food production and food production is a byproduct of your land management?

Miss Gloyer: It is impossible to separate the two. I think we have to start from that baseline position, food production and management.

Q112 Viscount Ullswater: But the land management is more important?

Miss Gloyer: Not at all. The direction of public subsidy support is changing. That does not in any way mean that food production is less important. What it means is that the Common Agricultural Policy that we have had since the 1940s or 1950s had a particular purpose and that was increasing food production by linking payments directly to what was produced from the land in terms of food products. We know since 2003 that that is no longer possible.

4 February 2009

Miss Mandy Gloyer, Dr Pat Thompson and Mr Peter Barfoot

Global trade pressures have meant that that element of CAP funding has had to change its justification. Although food production is the key activity from farmed land, of course it is, what our argument is saying is that we cannot pay farmers any longer based on what they produce in terms of food product, it is not possible. We have to recognise that the other products of that food production which is rewarded by the market, and rightly so, should be the focus of public subsidy support which is not paid for through the market. So all the benefits that we are talking about, the wildlife, the landscape, the thriving rural communities that we want to see, are unrecognised by markets. What we would argue is that public subsidy support should be targeted at those products and at the same time that supports food production, of course it does, because you cannot separate the management of the land that produces those from the production of the food.

Q113 Lord Cameron of Dillington: Your association seems to be indicating that a change to the upland ELS scheme and using the same money in that way would be likely to make it less available to the majority of farmers. Am I clear that you are indicating that there may be dropouts and therefore you would not get the overall benefits of management in that way?

Mr Barfoot: No. In broad principle we support the development and implementation of the Upland Entry Level Scheme, although it is yet to be tested in practice. We have lobbied quite considerably. The reason we did not provide written evidence to this Committee was that we were rather busy lobbying on the UELS in order to try and make it workable, to ensure that the full LFA budget was delivered into the severely disadvantaged areas, et cetera, et cetera, and we want to see it work in practice, but it is a geographically based scheme targeted to the severely disadvantaged area which we support. To move to a scheme which is targeted on a broader area in terms of high nature value would not reflect the LFA payments which are available through the Entry Level Scheme and through the Single Farm Payment, both of which pay a lower rate than the LFA. There would be nothing to redress the balance of that. It costs more to farm in these areas. Our farms in the North York Moors have an average of 75 metres of dry stonewall per hectare. That is an awful lot of maintenance on quite a small farm.

Q114 Lord Cameron of Dillington: Are they in the SDA?

Mr Barfoot: Yes.

Q115 Lord Cameron of Dillington: So they would benefit, but it is the other areas which are only in the disadvantaged areas that would have a disbenefit.

Mr Barfoot: In the North York Moors we have quite a lot of arable land and quite intensive dairy farms that were in the disadvantaged area and I think that is fair, but they are getting the higher rate from the single payment. I wanted to add two things. From the English National Parks perspective, we do regard food production as rather a useful public benefit from farming and so I do not think we ought to lose sight of that. Also, I think real politic would suggest that Europe would not want to lose completely any influence over food production throughout its entire area. So I do think that the future will not be a complete shift to public goods, environmental benefits, but we will see a mixture. We may see some shift and obviously being an environmentalist I welcome that. I do think that we should not lose sight of the food production elements. I do think that will continue to form part of European policy. That is a personal view.

Dr Thompson: The pragmatist in me says that we are on a journey here and there probably is not an ideal answer. We accept that food production clearly is important because that is the thing that land managers say they are doing most and want to do. What is ironic is that very often many land managers do not recognise the important contribution they are making in delivering some of those services and society more largely does not recognise the contribution that they are making to the delivery of those services either. So we kind of recognise that we are on a journey here. I think we are a long, long way away from coming up with a final result that is a total area-based measure with food not being factored in at all. I cannot imagine that that is in the foreseeable future, but the pressure is definitely growing and the question about what is this going to cost can be turned on its head by saying "What do I get for my money?" and therein lies the tension.

Q116 Earl of Dundee: To designate LFAs the Commission suggests several common biophysical criteria. How would you like to summarise your critical evaluation of that approach?

Dr Thompson: Obviously we are more interested in what happens inside the boundary than necessarily where the boundary is drawn. We already have a Europe-wide common approach to the designation. We think that will work across the whole of Europe. Each of the Member States and perhaps designated areas need to have the discretion to decide exactly how future support is targeted. I think it is inherent in what we have been saying already, when one talks about the different areas across the United Kingdom landscape, that it would be very difficult to come up with a unified series of eligibility. If one thinks about the south-west uplands through the Lake District, North York Moors and then right up to the north-west Highlands of Scotland, they are all so different

4 February 2009

Miss Mandy Gloyer, Dr Pat Thompson and Mr Peter Barfoot

that we would have to have a very specific approach to the way in which the support was then targeted in those areas. Adopting a common approach to designation and then a much more dedicated approach to the eligibility on a country basis, a Member State basis or perhaps even on an area basis would fit well with the RDP.

Q117 Earl of Dundee: Would you recommend to go in one of two directions or even in both of them at the same time? The first direction being simply to add to the Commission's current criteria and the second direction to perhaps evolve separately in its own right a second tier of countryside specific biophysical criteria.

Mr Barfoot: We accept the European Court of Auditors' desire to see some kind of transparency in the way that these areas are designated and I think that is all very good and right. Our deep concern is that Europe-wide criteria could result in some very, very strange anomalies in England and Scotland and Wales because of our unique oceanic-type climate. So I think we would need additional country-based criteria. I do not have any specific suggestions except to say that in England the severely disadvantaged area is about right. I am afraid I am not well enough informed to understand exactly what criteria they were designated on, but they seem to pick up the areas that we would be most concerned about.

Dr Thompson: I do not think we would add much to that, my Lord Chairman.

Q118 Baroness Jones of Whitchurch: On the issue of socio-economic indicators, it seems that the RSPB take quite a hard line against this. You talk about needing to reward the environmental benefits of certain types of farming rather than a form of compensation for a lack of productive capacity and that is a theme that runs throughout your evidence. Do you see that there is any role at all for taking into account socio-economic factors? It does not come out from your evidence at the moment. If so, are there particular indices that you could identify that you would see as relevant? What is the National Parks' view on this? Do you concur with the evidence of your colleagues?

Dr Thompson: You quite rightly identify that the whole basis of our argument is that the ideas of fragility and distance from market and distance from labour and other indicators was all well and good when the support was there to deliver food production. Because the basis for our argument is all about a wider suite of public benefits then we kind of struggle with identifying the relevance of those criteria. What those criteria tell us is pretty much what we know, that it is difficult farming in areas where the soils are poor, where you are a long, long way away from your markets and things like that.

These clearly are important indicators in the context of thinking about how we deliver land management in the future because clearly if we have not got the right policy in place to maintain the right kind of skills and infrastructure in the heart of our rural communities then how on earth are we going to manage these landscapes? Clearly some of those indicators are highly relevant.

Miss Gloyer: It would be easy for it to sound as if we do not think those issues are important.

Q119 Baroness Jones of Whitchurch: They do not come out as being important.

Miss Gloyer: I think what we are trying to do is focus on what we think LFA support should deliver. That does not mean there are a whole range of rural issues that are associated with being remote, with a lack of infrastructure, with schools closing and with aging populations which are hugely important and affect every aspect of life in rural areas and generally the more remote the more difficult things are. What we are saying is that LFA support should have a specific purpose and it is not the purpose of this support to address those issues. If that is the objective that is decided for the scheme, there would be a much more cost-effective way to keep rural schools open or retain infrastructure or improve ferry services to the remoter Scottish islands than to pay farmers public subsidy to do that. I think we have got to be very clear what the objectives of this part of a rural development policy are and that does not mean that those other issues do not impact on every single person that lives in a rural area or that they are very, very important to their lives.

Mr Barfoot: The difficulty we have here is that the proposals put forward by Europe actually specifically exclude social and economic criteria and so to a certain extent that is a given. However, I think we have to accept that the economic criteria are already built into the system. The reason that the Entry Level Scheme payments for land management in severely disadvantaged areas are lower is because the land is less productive and therefore the income foregone is lower. We need to look at the cost of management. It costs more to produce a bail of hay in the uplands than it does in the lowlands. We are now moving towards a situation where the old system of calculation for payments, which was income foregone and additional labour, is reversing itself. It used to be income foregone and that was the basis of most of the payments. We now need to look at the cost of management. I have said that keeping a ewe on the North York Moors costs the farmer about £30 a year. That is because the subsidy payments are decoupled from that ewe. If we want grazing on the North York Moors and we do, then we have to find a way of paying for that and that is an economic consideration in terms of the cost. How much does

4 February 2009

Miss Mandy Gloyer, Dr Pat Thompson and Mr Peter Barfoot

that management cost? If we want a shepherd on the North York Moors, we have to ensure that that shepherd can earn a living wage and that shepherd staying in the area then keeps the local shop and the local school open. I think that that is very, very important in these uplands. I think that the current system of calculation of payments by its very nature takes that economic element into consideration or is capable of doing so. One of my disappointments with the new UELS is I think it looked more at income foregone rather than cost of delivery. I am used to that kind of calculation. I cannot see how we start to move away from that and say, "Well, looking after an aquifer is worth this much and looking after woodland is worth that much to the public." It is a much more nebulous form of calculation and I think would be much more prone to skewing and a lack of justification as to how those payments are calculated.

Chairman: Thank you very much.

Q120 Earl of Caithness: Is it not going to be much more bureaucratic too because if you are looking at the cost of managing and, if you follow Dr Thompson's argument that you can not only just have the EU criteria but you can have national criteria as well, there is going to be a huge emphasis on management in an area which can be very bureaucratic and very costly to ensure that there is (a) sufficient training for people to change the way that they have been brought up from children on what they envisaged they were going to do on the land, and (b) to make certain that annually the person who does the management does it in a sufficient way that justifies the money you paid him, which is a much more bureaucratic system than we have now?

Mr Barfoot: It is more bureaucratic than a flat rate payment per hectare—there is no question of that. I think in England we have had those systems set up; we have had the agri-environment system established which establishes monitoring. Indeed, the Single Farm Payment, which should be very simple, now comes with the cross-compliance requirement which requires monitoring. In terms of training and people managing the land in a different way, there will inevitably be an element of that and that is a very important part of working with farmers generally, but what we are mostly saying is: "We want you to continue managing in the way that you have been but, perhaps, with slightly fewer stock or not using fertilizer on these particular fields, etc". So I do not think we are usually talking about a massive shift in the way that these areas are managed.

Miss Gloyer: Can I follow up on that? I absolutely agree with that. What we also have to remember is that England is an anomaly in the wider European view of what is happening with LFA. What you are talking about in England, effectively, is an agri-environment scheme delimited by a designation.

That designation happens to be part of your LFA, but it could theoretically be any other line on a map that you choose to use criteria to define. So this is a plea, really, with my European hat on and, also, my Scottish and Northern Irish hat, to say that when you are considering, for example, making payments for changes to management, (perhaps you are conceiving of something like the English approach, which is an agri-environment approach), what we are suggesting is that payments made through the LFA scheme should not involve changes to management at all. We are talking about retaining what is there, and that is threatened by decline and abandonment at the moment, and that is true across Europe. We have to remember that in all of these discussions England is probably the odd one out in terms of not having an LFA scheme as such but using the designation to deliver other rural development instruments.

Q121 Baroness Jones of Whitchurch: Can I just ask a very simple question: where does the phrase "high nature value" come from? Is it common parlance in the European sector now?

Miss Gloyer: It is now, yes. It emerged, I think, during the early-1990s from policy discussions about European pastoralism, and the problems it was facing, particularly. However, it is now accepted by the European Commission and in every country's rural development programme as a challenge for rural development funding. Each Member State and region is currently involved in a process of trying to pin down exactly what it means in their own country, and I think although it is early days yet in terms of development of a concept it is here to stay.

Q122 Lord Livsey of Talgarth: First of all, I would like to thank you, Miss Gloyer, for what you have just said, which is helpful and, also, some of the comments of Peter Barfoot as well. What I want to test is how robust your policy is in a very dynamic situation that we have at the moment. If you look at it, we have, in relatively recent terms, had a complete reorganisation of the CAP and decoupling of payments. I was never in favour of paying for every ewe. That is a huge change. If I can speak from a Welsh perspective, we have seen a 20 per cent reduction in the number of ewes kept in the upland areas of Wales. At the same time, you have got the downstream situation; we calculate, certainly in Mid-Wales, that 17 per cent of the population is involved one way or another in the products of the farming industry—that is quite a lot of people. Also, there is the whole question of the stratification of sheep reduction, where the upland sheep are supplying to the lowlands a very valuable commodity which keeps the entire UK sheep population going. That is by the by. So this policy, I think, has got to be set against that. Food security has suddenly become a big issue.

4 February 2009

Miss Mandy Gloyer, Dr Pat Thompson and Mr Peter Barfoot

We have got to think about the people to do this. You have acknowledged that but not, perhaps, spelt it out sufficiently. In its written evidence in paragraph 20, the RSPB suggests that the only real way to properly target LFA support is through environmentally meaningful eligibility conditions, and goes on to make some suggestions of appropriate EU-wide conditions. Could you explain, please, your views on the type of eligibility criteria that may be appropriate, and what sorts of farming practices (eg intensive farming) and farmers (for example, farming part time) should be excluded from the scheme?

Miss Gloyer: I completely agree with your analysis of the situation in Wales, which is mirrored in Scotland, as you know, particularly in terms of livestock declines, although we have seen lambing quality increased as part of that process as well, so I would hesitate to give an overly-simplistic view of what is happening in terms of changes in livestock numbers. I, again, accept issues of food security and food production are not unimportant in the slightest, and that the CAP is changing. It has survived yet another round of reform through the health check, and I think it is widely anticipated that it is going to change again significantly, probably in 2013. So our vision, if you like, is framed within that dynamic context, and what mechanisms or levers we should use to ensure food production and ensure food security, but what the rightful place of these rural development instruments might be in securing the currently unvalued products of rural land management farming, primarily. Our view is that the problems—and, again, I do not apologise for using Scotland as an example—that exist within the current LFA system, so the distribution of our current LFA support at country level, would be remedied by a move towards the inclusion of properly meaningful eligibility criteria, which would mean that support was redistributed towards exactly these people who are facing problems at the moment. So the areas of most accelerated livestock decline are in the North and West of our country, and similar patterns occur across Europe. Where the LFA money is currently going, in the bulk, is not the areas that are in trouble, all designated as LFA, but what we are talking about is targeting within a geographic boundary those who are facing the current problems, as well as those, coincidentally, who are producing the public benefits that we are talking about. It is the same people, and those are the people that currently are not receiving the proportionate amount of LFA support, Single Farm Payment support in countries that have gone for a historic basis or, it has to be said, agri-environment support, because we can map that, and it, again, goes to the more productive parts of the country. That is perhaps a slightly separate argument. In terms of eligibility criteria, this is why we feel that simply redrawing, at EU level or at country level, a

boundary within which you are either LFA or non-LFA is not enough to help target that support at the people who need it, who are also the ones who are producing the public benefits. We have suggested, in line with Commission thinking, that there could quite easily be a common EU framework. Again, we stress a common EU framework because, as you are more than aware, the LFA scheme in the past has been subject to criticism, not least from the Court of Auditors, about its operation in terms of commonality across Member States and anomalies that occur which is the reason, primarily, for this review of intermediate LFA. So what we are saying is that a common EU framework could allow Member States to identify the types of farming practice—not the type of farmer but the types of farming practice—that deliver the public benefits and are most at risk at the moment. Without going into the detail of each and every criterion, there are things like limits on livestock numbers, livestock density, for example. We are not saying that the European Commission should set a livestock density across the whole of Europe that was appropriate—that would be insane—but what we are saying is that within that very loose, common framework Member States or regions would have the capacity to identify their own (I use the terminology “high nature value” farming systems—we do not have to call them that) systems that require support at country or sub-national level and show how, within that common framework, that is what they are doing. So LFA support would be targeted within the boundary at those who fell within these criteria limits. Again, what we are talking about is not people changing management practices, but what we are saying is it would be such broad categories of criterion that have been applied, for example, in the Scottish case. I would imagine everybody that currently receives an LFA payment would still get one; it would just be the distribution within that which would change.

Q123 Lord Livsey of Talgarth: You answered the first part of the question I was going to ask, but the second one was: what do you say to policy makers who say that the historic basis of LFA should be abolished?

Miss Gloyer: The historic basis in terms of?

Q124 Lord Livsey of Talgarth: Well, Scotland and Wales, for example.

Miss Gloyer: Of the Single Farm Payment?

Q125 Lord Livsey of Talgarth: The LFA is, in part, based on the historic basis that is the Single Farm Payment, obviously.

Miss Gloyer: It is entirely a historic basis. In our vision we would say that a historic basis for payments does not provide a current justification. What we are

4 February 2009

Miss Mandy Gloyer, Dr Pat Thompson and Mr Peter Barfoot

talking about—and I know farming unions also want this point to be made clear—is that we are talking about people who are currently actively farming and actively practising particular types of farming. So within the current system of Single Farm Payment, and in the current system of LFA support, you have people whose farming practices cannot be said to be active. I do not want to be too critical but there falls within the system, at the moment, a number of cases where you can have payments made with very, very little by way of farming activity on the ground, which maybe suggests that Single Farm Payments should reflect the current activity, and LFA payments should also reflect current activity.

Mr Barfoot: I think we come back to the system in England where we have a certain amount of the LFA embedded right the way through the system. I would certainly accept that from our perspective the Single Farm Payment system, meant to reflect the degree of public benefits deriving from farming, is not fair because it pays very large amounts of money to people farming very large amounts of arable with very little by way of public benefit other than the food that they produce, and one could argue that that should perhaps be based more on a market-led system. However, without that overall review, without that fundamental review of the whole system, I think the process in England, at the moment, is moving in the right direction, and the criteria for selection of recipients of the LFA payments under the upland entry level scheme will be based on environmental commitments. Therefore, we do have a benefit there. Again, I come back to concerns over this term of “high nature value” because it is defined specifically about the value of farming to nature; it does not take into account landscape and, therefore, I would suggest it is actually in contravention of Europe’s own Landscape Convention which suggests that all policy should take the landscape into account. I think that ought to be put in the middle of these things to say Europe has a convention on landscape and as part of its proposals it is actually ignoring them. I feel very strongly that landscape is one of the things that the public identify with the uplands, and is one of the reasons why they visit the uplands, and that is where our public support comes from, in terms of conserving them.

Q126 Viscount Brookeborough: Firstly, could I declare an interest in that I live in Northern Ireland and farm in a Less Favoured Area? I wonder if you would like to say something from a National Parks point of view. We have some idea of the depopulation in hill and upland areas of Scotland and Wales, but what has been the effect in English National Parks which are closer to markets and, possibly, civilisation?

Mr Barfoot: We have certainly seen stock reduction. We have not seen depopulation. We have seen a significant threat to hill grazing. Again, this is a map that I have brought along. As I have mentioned, it actually costs a farmer money at the moment to put ewes on to the hill, the open moorland, and because of that and because they can claim the current hill farm allowance without grazing (they merely need to have access to the grazing, for which they use their common rights), we have seen a reduction in the number of flocks on the moor. This first map is a map of the different hefts of sheep on the moors showing those that were actually ungrazed in 1998. We had 125 moor flocks in 1998; we had 101 moor flocks in 2005. It went rapidly into decline. We then had an English Nature scheme called the Sheep Wildlife Enhancement Scheme in place, because all of the moorland is SSSI, and that loss was halted. However, we did a survey of our hill graziers and it suggested that if that kind of support was no longer available then by 2010 we would have only 25 moor flocks left and we would have a very substantial amount of our moorland that was no longer grazed. That is something that our authority has made as a first priority in terms of trying to influence and ensure that we get the kind of support needed to maintain the correct grazing on our moors. So I would not say “depopulation” but a very big environmental threat in terms of stock reduction.

Q127 Viscount Brookeborough: So it is a change in the nature of the work being carried out by that population. Thank you. To move on to the question: you have actually spoken, to some extent, about harmonisation within the EU. Would you like to tell us something more about other problems which you think exist in the remainder of the EU? You have already said that England is, of course, a bit of an anomaly. How is the rest of Europe affected and what do you think their reaction is to this review?

Miss Gloyer: A lot of the areas that, from an environmental and social point of view, our sister organisations across Europe are particularly noticing worries about are the same sorts of issues that we are seeing in Scotland, in Northern Ireland, to an extent, and certainly in Wales, as well as parts of the English uplands, which is that there are, I suppose, twin pressures driving what direction farmers go. Part of that is determined by the current structure of the CAP mechanism, whether Pillar 1 or Pillar 2, and, also, market demands. What we are seeing is these twin pressures either to intensify across Europe—obviously, increasing food production is demanded and is a good thing—but what we are seeing is a change in the environmental nature of these farming systems because of that pressure. There are examples across Europe—Italy, in particular, is one—where practices such as rock-crushing change the nature of

4 February 2009

Miss Mandy Gloyer, Dr Pat Thompson and Mr Peter Barfoot

the soil and associated plant and animal life to respond to the pressure to produce more, I guess, in areas where the carrying capacity required for is probably lower than practices that are being changed to. What we are also seeing across Europe, however, and I would say this is probably more prevalent, particularly amongst grazing systems and particularly amongst what are currently low-intensity grazing systems, is serious declines and, in some cases, abandonment. There are environmental issues in relation to that, which we touched upon earlier. In some very small geographically targeted areas, changes to lower-intensity livestock grazing might be seen as environmentally beneficial but what we are noticing across Europe is this accelerating decline in areas that were previously low-intensity, so that the land is changing as well as the structure of the population, as you have just outlined—not the population, necessarily, *per se*, but the way that they manage the land and the things that they do associated with that; you lose skills and you lose particular parts of the rural population who traditionally have managed in certain ways. We are seeing this across the older Member States but, also, increasingly in the newer Member States, so we are seeing it in Slovenia and the Czech Republic—places like that—where these traditional systems are responding to either the pressures to intensify or, more commonly, the pressure to abandon.

Q128 Viscount Brookeborough: You mentioned earlier that other countries might be jealous of the type of recording that we already have in place. Do you think that this will get in the way of harmonisation? Do you think that we can have harmonisation, accepting that they are so far behind in that respect?

Miss Gloyer: I think we should strive for harmonisation because what we have, I think, all signed up to with the Common Agricultural Policy is a common set of EU-wide priorities. Whether we remain within a Common Agricultural Policy is a separate debate, but while a Common Agricultural Policy (and the rural development component of that) exists there should be commonly agreed EU priorities that that policy has to address. The rural development priorities are agreed throughout Europe. The difference then becomes the more local Member State or regional implementation of those, and absolutely there should be the flexibility for England to carry on in the direction it has chosen to implement its rural development policy, as there should be the flexibility for Scotland to do likewise or Slovenia to do likewise. On the degree of harmonisation, to come back to your point, on the data, it may be more difficult to monitor in some Member States than others exactly what is happening on the ground, but that does not mean that we should

not have a set of common goals, if you like, within which we should develop that.

Q129 Baroness Sharp of Guildford: We have already touched on payments systems when we were talking about the socioeconomic issues, but it would, I think, be helpful if you could just talk a little bit more about the new payment formula which is based on this “additional costs and income foregone related to the handicap”—whether that is adequate. Has it worked effectively when applied in other agri-environment schemes? What do you make of the argument put to us by the farmers’ unions that if there is to be a link between LFA payments and the delivery of environmental and other public benefits there should be a positive incentive component in the payment formula, as opposed to just compensatory elements?

Mr Barfoot: My Lord Chairman, again, we are, to a certain extent, dealing with a given here because the rural development regulation specifically rules out any incentive element in these payment calculations. I would add that these payment calculations are not a hard science and they can be made more attractive or less attractive depending on figures put into them, and they will be perfectly justifiable and verifiable at the same time. One of the arguments we have had over the upland entry level scheme was the level of income foregone and costs that would be considered in terms of payment; with some of them they were only considering paying 80 per cent of that calculation and, after discussion, they agreed that they would pay 100 per cent. Therefore, these payments can be varied within the existing framework. Our experience (we have done payment calculations ourselves with our own agri-environment schemes) is that they can be made to fit the purpose, and that you would not expect any other trade who is being offered full payment for doing a job, for the costs involved in doing that job, to seek an incentive to do that job. We are talking about payment of up to 100 per cent of costs and income foregone, and that should be, I think, seen as a full payment for that work.

Miss Gloyer: I think we are, maybe, slightly different in this. I agree to an extent with the farming unions—indeed I used to work for one of the farming unions, so there are many areas of this whole debate where we have a lot of common with their view in looking forward to what both agri-environment and LFA support should deliver. The key point is, as has already been said, that we are working within the constraints of European Commission rules until 2013, and those rules for agri-environment are based on income foregone, additional costs incurred, and now a 20 per cent transaction cost, it is called—it used to be called the incentive cost. Our view is that we have to move to a system that properly recognises what is being delivered; we have long argued that the

4 February 2009

Miss Mandy Gloyer, Dr Pat Thompson and Mr Peter Barfoot

production of landscape, the production of wildlife, the access for urban populations, the production of the tourist “backdrop”, if you like, that farmers produce is undervalued (in fact, unvalued but undervalued within the current payment calculations), so using payments that are based on what you would have got had you been producing food instead of producing these others goods, which is how it is calculated, does not take into account the true value of the unmarketable things that are being produced. That is where we want to see things go to. Working within the constraints of “additional costs and income foregone” I think there is a justification for using what is now called the transaction cost, so the incentive element, if it comes to what can be approximated as a more realistic payment for what is being delivered. Where we have a problem is transferring that to LFA payments. It works, to an extent, with agri-environment payments and therefore will probably work, to an extent, within the English system. With LFA payments, what we are seeing is farming systems that frequently do not have a great amount of income to forego. As you have already said, producing a ewe is a cost, but where is the income within that calculation to forego? Additional costs incurred, absolutely, is part of that calculation, but there is a problem there.

Mr Barfoot: My Lord Chairman, I would come back on that because the formula does allow for that additional cost incurred, which can be a full payment for costs and labour needed to deliver that particular service. So if we are talking about maintaining a dry-stone wall, a cost can be calculated per metre (and has been calculated per metre) as a labour cost which will pay for that maintenance. I think we are moving, particularly in these more remote and more difficult farming areas, into a system where we are not talking about income foregone because very often that is a negative; we are talking about the cost of management, and that can be delivered through the existing payment calculation. That is certainly something we have been doing in terms of maintenance of traditional buildings, etc. What does it cost to keep somebody on the land doing that work? I think that can be accommodated within the current system.

Q130 Baroness Sharp of Guildford: Can I just clarify something for myself? Am I right in thinking, therefore, that post-2013 there may well be an opportunity to move to a different system in which, as you were indicating, you could actually perhaps value the current immeasurables in terms of landscape maintenance, and so forth? However, equally, shifting over to these sorts of issues poses almost just as many problems—I think Mr Barfoot, earlier, was saying how do you value looking after an aquifer or something like that. There must be so

many difficulties in this, but in some senses the income foregone is actually an easier standard than moving to something as vague as that.

Miss Gloyer: I think you are absolutely right; the difficulties are not to be underestimated. The problem lies in the whole philosophy of what the Common Agricultural Policy may become post-2013, which is completely separated from rewarding food production or foregoing that food production to do something else. So, philosophically, having income foregone and additional costs calculations does not fit. Pragmatically, moving to the system that we are talking about, I think we are a long way off. However, we know that the European Commission has contracted research work, a large body of research and information gathering, to work out how to move towards that system. I doubt it would be ready on 1 January 2014 but it is clear that the direction of travel is set, and although we are constrained by these formulae at the moment we kind of know where we are trying to get to.

Q131 Lord Cameron of Dillington: I would like to carry on pursuing this whole question of the rationale of the whole LFA system. You quite rightly say that grazing sheep in the uplands actually costs a grazer money, at the moment. I have two questions: is grazing sheep the cheapest way of managing the uplands for the benefits that we get? If it is, and I am assuming the answer to that is more or less yes, in the New Zealand uplands they manage sheep without subsidy, so are we doing something wrong?

Mr Barfoot: I do not know. I think it depends on the farmer and the area. In the North York Moors, where most of my experience has been, the upland flocks have only, I would say, over the last 30 years, rarely, made any profit in their own right. They were not viable without some form of support, and that is because our moorland is mostly heather, there is very little grass there, the grazing is very poor, we have got disease problems, and lambing percentages are particularly low. The situation on the Pennines and elsewhere, such as the Lake District, is different those flocks have been more profitable—but more recently the kind of situation in the North York Moors has spread across other parts of the country, and that is reflected in the loss of sheep on the Scottish Highlands, because if it is not making money and you are getting a subsidy anyway why would you keep the sheep? So I do not think there is one-answer-fits-all here. With regard to grazing management, I think we accept that the best form of management for these uplands is a mixture, of the right kind of burning and the right kind of grazing. Without those two combined you will start to lose some of the value of that area in terms of its environmental capacity. So yes, we want grazing on the hills; yes, it has been unprofitable for some time, but support mechanisms

4 February 2009

Miss Mandy Gloyer, Dr Pat Thompson and Mr Peter Barfoot

have changed; the LFA is there as an important means of maintaining that grazing and, also, maintaining the kind of skills and expertise that goes with the maintenance of that grazing. I suppose, in a pure market situation, these areas would have been ungrazed years ago.

Lord Brooke of Alverthorpe: For the record, I want to declare an interest as an adviser to Accenture plc.

Q132 Viscount Ullswater: I am just trying to fathom out the roll-out of this LFA scheme after 2014. What you seem to be indicating to me is that each enterprise would have to be separately assessed as to the payment required for the public benefits that are going to be provided. Mr Barfoot, you were talking about walls, barns, moorland grazing or upland grazing—and, possibly, again from the Scottish perspective, remoteness from the market has to be taken into consideration, the availability of food and whatever it is that keeps a sheep flock going on the islands. I just wonder about the bureaucracy if each individual enterprise has to be assessed for payment.

Mr Barfoot: My Lord Chairman, I think these processes are already in place for things like the entry level scheme. They have been designed very much as a hands-off approach; farmers registering their land, undertaking certain commitments and receiving points which equal pounds for those commitments. So it certainly is more bureaucratic than a flat-rate payment per hectare, but it can be simplified. The upland entry level scheme is an example of that; it will be more complicated than the HFA payment but I think there should not be any particular barriers to obtaining those payments should farmers wish to enter the scheme. It has been designed, again, as a fairly simple approach, with points for particular undertakings and points equal pounds, and that is

what the payment becomes. It should not involve a detailed farm survey or farm-by-farm assessment, and that is certainly something we need to keep an eye on; if there was a drift in that direction it would certainly become unworkable on a large scale, which is the kind of scale we want it to work on.

Miss Gloyer: Can I come back on that in a Scottish context as well, because it is an important point? We are not talking about the abolition of an LFA scheme post-2014 that suddenly increases the levels of bureaucracy or assessment procedures. Our LFA scheme, at the moment, operates on a number of criteria, including grazing categories. There was a distance calculation some years ago where someone actually drove a van from point to point. So these assessments have been done. We are not suggesting we move to some very much more complex way of administering this funding; all we are saying is that within new parameters, I guess, you would have people that would move in and out of the system. So, for example, if livestock densities dropped below a level that you could say was active farming, that farmer would no longer be eligible for that form of support. If the converse happened and the enterprise intensified and livestock density increased beyond a certain parameter, again, that farmer would drop out of that particular support. However, there would be no necessity, as there is in certain higher tier agri-environment payments, for example, to look specifically at management for habitats or species or landscape features; that would be a completely separate stream of funding.

Q133 Chairman: I think that is it. Thank you all very much indeed. I think we have really gone into this inside, outside and up and down! Thank you.

Mr Barfoot: Thank you.

WEDNESDAY 11 FEBRUARY 2009

Present	Brooke of Alverthorpe, L Brookeborough, V Caithness, E Dundee, E Jones of Whitchurch, B	Livsey of Talgarth, L Palmer, L Sewel, L (Chairman) Sharp of Guildford, B Ullswater, V
---------	---	--

Memorandum by the National Sheep Association

INTRODUCTION

National Sheep Association (NSA) is delighted to be able to offer the perspective of the UK sheep industry to this call for written evidence to the House of Lords Review of the EU Less Favoured Area Scheme. As a UK wide organisation NSA, through a combination of direct individual membership and through the affiliation of around 90 breed societies, can claim to represent the views of the big majority of sheep farmers, who between them farm the big majority of sheep in these islands.

With around half of all sheep production in UK being based in the LFA it is true to say that just about every sheep farmer in UK is directly affected by sheep farming in the LFA. This is mainly due to the seasonal movements and sales of predominantly breeding and store sheep from the LFA area into the lowlands where they form the mainstay of the UK breeding meat producing sheep population or are improved on better lowland pastures ready for slaughter.

It is extremely important for NSA to highlight those long established links between lowland and upland farming that are created by sheep and the subsequent interdependence that has developed over the centuries between the valleys and the hills. This deeply embedded relationship is not only vitally important from a sheep farming point of view but it acts as the bedrock for economic, environmental and social sustainability in so many rural areas within the UK.

In Wales and Scotland the designation of LFA as a percentage of overall land mass is higher than it is in England, therefore the relative importance of the role of LFA sheep farming is greater here than it is for some regions of England. In many of these areas there is already a considerable shrinkage of the national flock caused by the appalling long term economics of sheep farming and a gradual reduction in public financial support. It is also very important to highlight that public support, when available, is often linked to reducing numbers of sheep in an often misguided attempt to improve environmental biodiversity.

Against that context any potential changes to the current LFA designations are of particular relevance to NSA and its sheep farming members as so much of their relatively meagre income is derived from this designation and the various support mechanisms that are linked to it.

The papers associated to the call for evidence ask for comment in relation to specific areas which are addressed below.

The strengths and weaknesses of the scheme thus far

No one would claim that the existing LFA scheme is perfect and most, including NSA, would also argue that whenever any sort of designation is made based upon the drawing of a line on a map then there will always be winners and losers and some of the decisions will be very open to comment and criticism. That is the case under the existing scheme and will no doubt be the case in any revision of the existing scheme.

The main strength of the scheme thus far in many ways is quite simply nothing more than its actual existence. Having the ability to define an area of land which due to its very nature is challenging from all aspects of sustainability—economic, environmental and social, is vitally important if the multitude of benefits those areas deliver which cannot be supported from the marketplace are to be maintained and enhanced.

A considerable concern for NSA over any review of designation would be that the previously accepted balance of factors needed to secure designation i.e issues connected to economic, social and environmental sustainability is in danger of being upset. Sheep farmers will often compare this balance to a three legged stool where the ability of the stool to stand up and be solid is entirely dependant on its three legs being equal and

balanced. In this instance economic, environmental and social issues represent the legs of the stool so one of the strengths of the existing scheme would be the good (but not perfect) balance that exists between them. The framework for review would seem to be in danger of reducing the importance of economic and social factors and leaning more towards environmental considerations in respect of designation. If that happens the stool will be in danger of toppling over with the result being damage to all three legs—all of which are needed for sustainability—caused by the weakening of two.

Whether it is appropriate to set common, EU wide biophysical criteria for delimiting LFA areas, as suggested by the Commission in its consultation paper

NSA believes that the setting of common biophysical criteria on an EU wide basis should be nothing more than a framework within which individual member states are free to work based upon their more detailed knowledge and requirements of their own area. That said, this should not be seen as a “free for all” with a loose framework in place that is open to abuse. Implementing the correct balance will be vital in setting this framework but at its heart must be the flexibility to accept factors which are more subtle designation indicators. For instance taking account of the critical importance of people being present and creating economic activity in the rural LFA.

Without people being present in these areas—and they will only stay in these areas if they can make a living from being there that is equitable to other areas of society—then these areas will very quickly lose their ability to deliver environmental, economic or social benefit and will often result in abandonment. Use of rigid biophysical criteria which in essence seek to shoehorn all situations into a small box in order to recognise designation will be totally counterproductive and result in people leaving many areas and those areas subsequently failing to deliver the needs of the local communities and wider aspirations and desires of society.

Whether the common biophysical criteria set out by the Commission in its consultation paper are appropriate and effective in identifying disadvantaged areas. Are there omissions, whether in the form of biophysical indicators or other indicators?

The rationale behind setting the biophysical indicators is easy to see and to its credit the Commission have recognised the factors which might lead to an area being deemed to be disadvantaged. So as broad brush headings it is difficult to suggest alternatives. However it is important to return to the point, which in fairness is made in the consultation, that the biggest challenge will be to give the appropriate level of freedom to individual member states to ensure that their particular situations are allowed for. That said, there is such a wide scope of priorities comprising rural development programmes within the EU that if member states are not guided there will be a loss of focus which will create a big threat to sustainability. In respect of the UK and in England in particular that threat undoubtedly lies with the imbalance that currently exists towards favouring sometimes extreme biodiversity and environmental objectives which have been derived without a full recognition of the importance of economic and social sustainability if they are to be successfully delivered.

What degree of harmonisation of eligibility conditions (for determining access to LFA payments) if any, is needed?

Harmonisation of eligibility criteria should only apply at a framework level and in ensuring that the broad objectives for intervention and designation are fulfilled. NSA would wish to comment that in the context of harmonisation this should focus around ensuring that the three areas of sustainability—economic, environmental and social are proportionately delivered in the LFA with each being “in harmony” with the other two. NSA is still concerned that this balance is not reflected or recognised within the UK authorities. The danger is that unless this is fully considered then sheep and the people that look after them will continue to leave the LFA which will not only be extremely damaging for the LFA but also impact on the lowland as well due to the breakdown of stratified sheep farming and all that goes with it.

What the basic rules and criteria for eligibility for LFA aid should be, if the scheme is to meet its new objectives?

If the new objectives of the scheme are interpreted by UK government to mean a much greater emphasis for eligibility being placed upon environmental and biodiversity considerations then the rules must include criteria for eligibility which help economic activity in the form of sheep farming to be a viable option. NSA has already emphasised in this paper the interdependence of all three aspects of sustainability and the setting of the rules and eligibility criteria must reflect an understanding and acceptance of this interdependence.

There will be no environmental gain either in respect of climate related issues, maintenance of soils or enhancement of biodiversity if the activities of sheep and other grazing animals decline still further due to a lack of economic sustainability. This will also lead to people, particularly young people, leaving the LFA due to the lack of income and with that will go the loss of many skills and traditions which will never return. It must also be remembered that removing sheep from the hills is not like turning a tap off; once gone unlike the tap they can never easily be turned back on again. This is for a whole variety of management issues but also who will be there with the necessary skills to look after them?

How practicable is the new payment formula (based on additional costs and income foregone related to the handicap in the area concerned)? Is it likely to reduce wide discrepancies in payment levels across member states?

NSA is concerned to ensure that the basis for subsequent payments based upon LFA designation is not solely derived from a calculation of income foregone and additional costs. Use of this methodology has its advantages from an administrative point of view but clearly in respect of ensuring that sheep farming can continue in the LFA the principle is flawed when the economic situation has for so long been so difficult and income levels have been so weak. With sheep farming being so economically difficult to justify in the current economic climate the LFA will achieve little if it merely substitutes public money for the income gained from the private sector, which was at an unsustainable level.

NSA believes that in determining payment levels there must be consideration given to the amenity value that sheep farming brings to the LFA. So many other industries which are present in the LFA are able to prosper because of the aesthetically pleasing backdrop created by the presence of appropriate levels of grazing animals and in particular sheep. This is especially true of the rural tourism industry whose setting is entirely due to the activity of sheep and cattle. Linking the consequential value of sheep farming into LFA designation and subsequent support is a principle which must be pursued often in preference to the principle of basing payment on income foregone.

In respect of reducing payment level discrepancies across member states NSA believes that it is difficult for this to be achieved in any great detail. There is such huge variation in terms of LFA land and its ability to deliver sustainability that to be rigid would be folly and lead to land abandonment.

To what extent would common biophysical criteria and amended eligibility criteria address the deficiencies of the LFA scheme as identified by the Court of Auditors in 2003, and in particular

- *guarantee equitable treatment of beneficiaries*
- *facilitate monitoring, audit and control of the measure*
- *facilitate measuring of the effectiveness and impact of the measure*

NSA believes that addressing the deficiencies of the LFA scheme as identified by the Court of Auditors is a wholly worthwhile exercise especially as there are such large amounts of public money involved. However in addressing these deficiencies it is critical that the overall aims and objectives of the scheme do not end up being forgotten or put to one side. All too often agriculture has found itself in situations where much of the benefit to be gained from intervention and the use of public money is lost by “the tail wagging the dog”. The desire for perfect auditing and monitoring and the ability to judge a scheme based upon the number of boxes that are ticked on an auditor’s check sheet is a flawed desire and leads to greater inequity than by taking a more subjective and holistic approach to benefits gained whenever it is possible to do so. Sheep farming and all that goes with it is a classic example of an industry that does untold good for so many others who are touched by it yet this is never recognised as it does not fit with rigid assessments of success.

What is the role of the LFA scheme in the context of the current Rural Development Regulation and the reformed post Health Check CAP. What should the LFA scheme deliver in the short term (up to 2013) that other policy instruments affecting farm viability, environmental protection and agricultural land use cannot deliver?

The LFA scheme is the best placed of any interventions involving the public purse to deliver the combination of help and measures needed to ensure longer term sustainability in the LFA. It could be uniquely placed to forge the necessary combination of actions which give the best chance of ensuring a vibrant LFA that has people at its heart carrying out the activities, based around the use of grazing animals, that will deliver the

aspirations of society and with an economic return which means there is good reason for people to stay and be active in these remote areas.

Nothing will function in the LFA in a way that is desirable without the presence of people, creating activity and continuing the centuries old work which has manufactured the environment and biodiversity which is so highly valued. If that manufactured environmental backdrop and all that goes with it is not continually worked upon by sheep and other grazing animals then it will not flourish and it will simply either stagnate and die or become a monoculture, often of bracken which is something we now see all too often and cannot be desirable from any viewpoint.

NSA therefore believes that what LFA schemes and designations should deliver that other schemes cannot are the economic reasons for people to stay and ensure that the desirable sustainability balance is achieved. Without people none of this happens and so it is the people that the scheme can help to keep in place.

The future evolution of the scheme (post 2013 within the context of the EU budget review) the EU's cohesion policy and further reform of the Common Agricultural Policy

In the longer term the challenge will focus more and more on trying to find ways to keep people in the LFA. Land abandonment is a real issue and it is already taking place and rewilding is occurring in remote areas of Scotland where sheep are coming off the hills because the sheep farmers are tired of living like paupers. What is being lost in these areas with the loss of the people as they follow the sheep away from their communities is impossible to quantify. However what is being lost is knowledge and skills that cannot be found in any book and a way of life from which there is so much that society can gain.

NSA believes that sheep can keep people in these areas and as a consequence allow the sheep to deliver so much of what is often taken for granted but which will be so sorely missed when it is no longer there. People living and working in their local community and earning a decent living from doing so can deliver society's expectations of the LFA but they won't do unless the sheep farming industry upon which so many of them depend is given the help it needs and deserves to play its part. That is what the LFA is all about and that is what it should be given the chance to do.

30 January 2009

Memorandum by the Scottish Crofting Foundation

1. This Scottish Crofting Foundation (SCF) welcomes the opportunity to input to this review of the LFA scheme. The SCF is the only organisation dedicated to the representation and promotion of crofting and crofters and is the largest organisation of small-scale food producers in the UK. The SCF advocates small-scale, low artificial input food production as the sustainable way forward for resource management, rural population retention and food security. The associated land management also provides numerous public goods which should be paid for from public funds.

THE PAST: STRENGTHS AND WEAKNESSES OF THE LFA SCHEME

2. Our comments in this regard primarily concern Scotland. The LFA scheme in Scotland is still closely linked to production: land inside the LFA boundary with historically higher levels of stocking receives higher levels of support. Comparative disadvantage is not being sufficiently addressed by payment under the scheme, nor is the delivery of public goods provided by low-intensity High Nature Value systems being adequately recognised. This—and a current loss of incentive under the Scottish LFA scheme to maintain active agriculture—is contributing to a strong decline in agricultural activity across many hill, upland and island areas.

THE CURRENT REVIEW: COMMON BIOPHYSICAL CRITERIA

3. Although most of the Scottish LFA is not threatened by the proposed new guidelines for the definition of disadvantaged areas, the greater flexibility in payment levels means that a Mountain Area designation is desirable. We support the division of the scheme in Scotland between Mountain and an "Other" LFA, since the result will be a set of claimants with a very high proportion of rough grazing and a set with lower proportions. This allows the setting of high payments but low maximum livestock densities for the former and the setting of lower payments and higher maximum density for the latter. In the case of the "Other" LFA, an option which might be considered is targeting the payments at semi-natural vegetation only, but on balance

we feel that it is the *proportion* in total forage which truly represents a disadvantage to the producer; other areas are best managed through agri-environment.

4. The interaction of the Atlantic with altitude should be made clear to the Commission. Blanket peat forms at sea level in the extreme west, but at higher altitudes in the east. The case is clearcut, but will not be familiar to those living in continental climates.

5. We believe that peripherality is a real cost, which is related not just to the cost of fuel (or ferry transport) but to factors such as the Working Time Directive, rules on the welfare of animals in transport, and the effects of the weather on transport routes. Thus we encourage the UK Government to fight the principle of dropping of peripherality as a criterion for the designation of the LFA. We agree with the Commission however that the effect in practice will be limited; the big question for us is whether peripherality costs are permissible in the disadvantage calculations in areas which qualify for other reasons. The Government must ensure that this case is made.

6. Whether or not it succeeds, the record in Scotland on recognising the rapid escalation in disadvantage that island status brings is so poor that we believe that an “island” LFA based on the “specific disadvantage” provisions of the Regulation is called for. If the lack of a “peripherality” criterion within the new LFA rules means that the extra costs it imposes on claimants on islands¹ cannot be met in the under the intermediate classification scheme, use must be made of the “specific handicap” classification.

THE CURRENT REVIEW: ELIGIBILITY CONDITIONS

7. The aims of the LFASS should be in accord with and directed squarely at those set out in the Regulations and the Community Strategic Guidelines.

8. This means that the supporting the use of agricultural land is not an end in itself: the systems supported must be sustainable and maintain the countryside. While all EAFRD schemes can contribute to achieving the aims of the three Axes, the LFA measure fits within Axis 2 and must primarily contribute to the preservation and development of High Nature Value (HNV) farming systems² and traditional agricultural landscapes, and to addressing biodiversity, sustainable water management and climate change issues. The maintenance of population and the support of marketing chains are not valid objectives for LFASS, though they may well be incidental benefits; in Scotland a scheme which is well targeted at valid objectives will have considerable socio-economic benefits.

9. Since the major focus in Scotland is likely to be the maintenance of HNV farming systems, the scheme should reflect that in its rules. Payments should be directed to those who by the character of their land and the nature of their management deliver on this goal. Fortunately there is no contradiction between this rule and the desire to target on the most marginal farms in any particular area.

THE CURRENT REVIEW: PAYMENT CALCULATION

10. The payments in the scheme should be limited to overcoming market failure in the provision of the specified public goods and integrated with the operation of cross-compliance and should be calculated solely on the basis of the costs of meeting the requirements of the scheme in the year of participation by the particular claimant.

11. Two fundamental weaknesses of the present arrangements need to be addressed without delay. Payments must relate to *current* management. They must also be calculated on the basis of the gross margin generated by the minimum activity necessary to ensure compliance with scheme rules, *not* of current agricultural management. Payments should make a substantial contribution to the cost of fulfilling the scheme rules, so that the time spent by claimants on those activities is rewarded at the minimum wage. This implies a calculation of the deficit from market returns and SFP and that payments will vary as and when SFP is reformed. It also implies that the reward for time spent should be the same for producers throughout the LFA. Overpayment should be calculated solely with reference to the minimum wage return on time spent to fulfil scheme rules.

12. Costs generally diminish with the scale of the farming operation. The principle of linking payments to the costs of the specific claimant implies the use of degressive payments.

¹ An island should be defined for this purpose as any area whose day to day access to the main Scottish road network is by ferry.

² HNV farmland has two characteristics: it is managed by low-intensity systems, and this results in a high proportion of the farmed area being semi-natural vegetation of some type. In some areas the result is a large-scale landscape of open hill, while in others a small-scale mosaic results. However, a small-scale landscape without low-intensity use is not HNV.

THE FUTURE DEVELOPMENT OF THE LFA SCHEME 2010–13

13. From a Scottish perspective we believe that LFASS 2010–13 should have the following characteristics:
14. There would be three schemes, one each for islands (specific disadvantage, taking account of costs of peripherality), mountain and “other”. (These could be run as one scheme from the perspective of the applicant). The schemes should aim to reward each LFA farmer with the minimum wage for the time spent achieving LFA objectives, taking into account market returns and SFP income.
15. Within each scheme, there would be a set minimum and maximum stocking density. The former would be set at an ecologically-meaningful level (and allowing, as in Ireland, for active management by livestock at densities below the general minimum where required by environmental schemes or recommended by SNH). The latter would be set to separate out units where the costs of meeting the minimum density are clearly minimal. For the Mountain LFA, the values might be 0.1 and 0.5 LU/ha. Farms in the Mountain LFA which failed to meet Mountain LFA criteria could opt to qualify for Other LFA criteria and payments. While some regional variation in payments is likely in order to reflect the varying quality of rough grazings, the final payment will depend primarily on and be in direct relation to the proportion of rough grazings on the holding.
16. Cattle uplift payments would be available in each scheme in circumstances where cattle deliver enhanced environmental benefits and the market and SFP would fail to deliver cattle keeping. Cattle payments must be proportional to the market failure and will therefore be higher on farms with a low proportion of inbye.

2013 ONWARDS

17. It is clear that in Scotland, as in most of Northern Europe, the main Axis 2 issue which requires urgent *support* from the public funds is the lack of economic viability of HNV farming systems, wherever these are located. Correcting this market failure should be the main focus of LFASS.

30 January 2009

Examination of Witnesses

Witnesses: MR CHRISTOPHER THOMAS-EVERARD, Chairman, National Beef Association, MR PETER MORRIS, Chief Executive, National Sheep Association, and MRS BECKY SHAW, Scottish Crofting Foundation, examined.

Q134 Chairman: May I first of all welcome you and thank you for coming and finding the time to help us with our inquiry. This is a formal evidence taking session, so a transcript will be taken and the transcript will be sent to you within a matter of a few days. You can look at it and correct any slips that have crept in. We are being webcast and so there is a slim possibility that someone somewhere may hear what you say. I can reassure you that we have never had any evidence that anybody has heard what has been said, but there is technically a formal possibility. I think you have got a list of the interests of the Members of the Committee. You will note we have ten questions and there are three of you. That does not necessarily mean that we want 30 answers! If you find that your colleague has said something which you are broadly in agreement with then do not feel that it is necessary to say something in addition, but if you do think that there is something that has been missed or you disagree then please speak out. I think it would be helpful to us if you could just introduce yourselves and explain your organisation, how many people you represent and that sort of thing.

Mr Morris: I am Peter Morris, Chief Executive of the National Sheep Association. We are a UK-wide organisation representing all interests of sheep farmers in any arena where their interests need representing and also in the provision of information.

We would have over 90 breed societies affiliated to us and that combined with over 8,000 individual members would give us representation in the region of two-thirds of the sheep in the country and the sheep farmers.

Mrs Shaw: I am Becky Shaw. I am here on behalf of the Scottish Crofters Foundation, which is an organisation representing in the region of 2,000 crofters predominantly and people who support the crofting way of life as well. The majority of our membership is made up of active crofters from within the crofting counties in the Highlands and Islands.

Q135 Chairman: Are you the successor body to the Crofting Commission?

Mrs Shaw: The Crofters Union.

Mr Thomas-Everard: I am Christopher Thomas-Everard. I am a hill farmer on Exmoor. Since July I have been Chairman of the National Beef Association. We have about 12,000 members, of whom the majority are pedigree breeders. I really ought to start by saying that our anxiety today is that in the hill areas the number of people getting rid of their suckler cows is alarming us very much because if you do not have a calf at the beginning you do not have a beef industry.

11 February 2009 Mr Christopher Thomas-Everard, Mr Peter Morris and Mrs Becky Shaw

Q136 Chairman: Would you like to kick off and make any initial statements giving the general position or would you prefer to go straight into questions and answers?

Mr Thomas-Everard: I suspect most things will come out in the questions and answers.

Q137 Chairman: Could you outline for us what you see as the rationale for LFA payments? In particular, what is the public supposed to be paying for? What is the public getting in return for the money it makes available through LFA payments?

Mr Thomas-Everard: In England, where there are more national parks than in Scotland—I would almost say the whole of Scotland is a national park and probably Wales as well because 85 per cent of those two countries are hill farms—about 17 per cent is upland. I think I am right in saying that the production in the south-west of beef cattle and sheep is equivalent to Wales and Scotland put together, so the south-west's agriculture production is important. Speaking personally, we have about 200 people a day for nine months of the year going through our farm,—not straight past the farmhouse but going across the farm—and we take that into account in our farming. We are not able to do some of the things that other farmers can do because we live in the national park and therefore are under very, very strict planning controls. So there is a disadvantage to being a farmer there because you cannot very easily make money out of people who walk across the farm. They tend to stay on caravan sites on the outside or a very few designated camping sites inside national parks. Many of our NBA farmers are in Scotland. There has been an equally big reduction in beef cattle and suckler cows because at the moment the figure is a loss of about £150-£220 per cow, according to EBLEX, which does an analysis of the figures, and I have got information saying the same thing from Exeter University. My anxiety is that since the start of the single payment and the end of headage linked payments the figures for many beef farmers have gone down from about £400 per hectare to £160 by the end of the transition period, 2013, less, currently, 18 per cent modulation. People are getting rid of their cattle because their cattle carry all the bills,—silage making by contractors, dung spreading and all of that. If people go out of beef cattle they then go into sheep. The sheep industry has been reasonable for the last few years. It has been very volatile but on balance it has been reasonable since the 20 per cent reduction in 2001 from Foot and Mouth. That is slightly controversial to say but it made a difference to the sheep industry. 'Dog and stick' farming is the best way to survive if all you get is a single cheque and you do not have to produce anything for it. My great anxiety is that we are going to end up with a very small employed population. In national parks where

we have to make hedges and things like that there will not be a working population to do so.

Mr Morris: The higher up the hill you go and the further into the LFA area you go the more difficult it is to envisage market conditions where it would be possible to earn a living from activity in those areas. What the public are paying for through the scheme is the ability to have the manufactured environment, that is the LFAs that they desire, to maintain a degree of social activity, the communities, all that kind of thing and then the economic activity as well. Without the economic activity the other two do not happen, so it is a balancing act. What they are paying for is the maintenance of that area as they wish to see it and as they wish to see it operate. As to whether we are always correct in our view of are they seeing it as they want to, it is difficult to say. Clearly without activity—and activity is people and grazing animals—the abandonment, wilderness and forestry scenario moves ever closer. It is quite clear to me that the payment is to keep things happening.

Mrs Shaw: I would like to agree with my colleague. Certainly in terms of the crofting area, since 2005 there have been quite dramatic and increasing declines in livestock numbers in the more marginal areas. Between 25 and 50 per cent of livestock have been lost in some parts of the Western Isles, Shetlands, Skye and Mull, and the declines are really quite significant. Those systems that are being lost are some of the most high nature value, with the most extensive use of land and so are marginally characterised by lots of semi-natural land management. The biodiversity aspects of that kind of management are well known. There are those who argue that you may lose biodiversity completely from some of these areas in its current form if you have not got any form of activity. As Mr Morris said, it is this whole aspect of keeping people in a place doing something on that land, managing the land in that way that is important. The LFA support payment to our mind is very much focussed on maintaining active land use. In many, many cases the maintenance level for cross-compliance standards, particularly the minimum maintenance level, is so low on the large and extensive moorland that you really do not need very much in the way of activity at all to maintain it. If you want to maintain the public goods associated with extensive farming in the LFA, that is where we see the LFA support scheme coming in.

Q138 Chairman: Is the support targeted sufficiently to deliver those goods?

Mrs Shaw: Certainly from a Scottish perspective we would argue that it is not. The Scottish scheme is peculiar in its level of support for the less disadvantaged land being significantly higher than in the most disadvantaged areas. The Scottish LFA follows the pattern of Single Farm Payment

11 February 2009 Mr Christopher Thomas-Everard, Mr Peter Morris and Mrs Becky Shaw

distribution. The Single Farm Payment distribution is obviously based on previous production, but our LFA conversely follows the same pattern and does not sufficiently support the most marginal farms in the most difficult areas.

Mr Morris: Draw a line on any map and you have winners and losers and you have people who feel they are in the right area and people who feel they are in the wrong area. LFA designation is a fairly blunt tool. I am not sure that it is possible to refine the criteria much more accurately to take away that level of bluntness. Basically LFA designation is the hook upon which you hang things in terms of public support. It is a basic blunt tool but it is difficult to see how you could refine it.

Q139 Chairman: The United Kingdom has the lowest percentage forest cover of any country in Europe. Environmentally it could be claimed that the types of forests that are being developed now are much friendlier in terms of biodiversity and indeed in terms of carbon sinks and things like this. There could be a strong case made that indeed some of the land which is presently benefiting from LFA schemes should be turned over to forestry.

Mr Morris: The Scottish example is probably the easiest one to highlight. On the land where that is applicable, because there is a balance to be struck between forestry and other activity, the livestock have largely gone because the economics have not allowed them to stay. I think what you are saying is a possibility. Short of the trees being planted, it is not the livestock that is stopping that happening because they are not there anymore.

Q140 Viscount Brookeborough: There is an issue with the uplands in that the forestry is not very good quality once you have produced it and this is why it is not being done, because it blows down and it cannot be thinned and all you are producing is pulp. I just want to ask you about crofting because I do not really know anything about it. How much of the upland area is farmed by crofters? Is there an average size of area that they farm? What are the costs of their rent over and above people who might own such land?

Mrs Shaw: Within the crofting counties the total area of crofted land is about 750,000 hectares.

Q141 Viscount Brookeborough: And that is as a proportion of upland?

Mrs Shaw: It is almost all upland. There are very small coastal fringes but the majority of the rest is upland. You typically have a unit which is based on a smaller scale, the in-buy of the unit, the croft itself, on a small strip close to the valley bottoms, which each person is a tenant of individually and then a large shared common hill grazing rising more or less

directly behind that. Of the proportion of land which a crofter manages, his own in-buy bit is relatively easy to improve and then he has the use of a much larger area of peat moorland.

Q142 Viscount Brookeborough: And he is paying rent for that?

Mrs Shaw: Yes. The rents are very low.

Chairman: He has a right to buy it.

Q143 Viscount Brookeborough: Does he own the improved bit or is that also rented?

Mrs Shaw: Traditionally it was a rented system, but since 1976 he has had the right to buy the bit that he is tenant of and to apportion and buy his share of the hill grazing. Some 20-odd per cent of crofters are now owner-occupiers.

Q144 Chairman: It would be fair to say that the level, degree and quality of management of crofts varies enormously.

Mrs Shaw: That is a fair comment. There are some crofts which are being worked effectively as full-time units, although it is very few because obviously crofts are particularly small in size and almost everybody is involved in other economic activities as well. There are some people who will perhaps run a number of crofts between them and effectively be making a farm income as their primary income. There will be others who are full-time employed in other activities who are making perhaps less use of their croft. There are certainly some very good quality livestock coming from the crofting area which are then passed through the chain. Almost all of the crofting livestock system is sold store for other parts of the country. There is almost nothing finished in the crofting area, but an awful lot of output goes from the area.

Q145 Lord Palmer: When you said almost nothing is finished, it is a very, very low figure, is it?

Mrs Shaw: Yes. It is certainly under five per cent.

Mr Morris: From the sheep industry point of view, the further up the hill you go that figure would be matched. So it moves down the hill and all the links between the stratified system and all the rest of it that is in place then become important.

Q146 Chairman: You have all made the case for maintaining LFA payments and described what the public gets in return, which is the continued activity which maintains an environment that is valued through that activity. The more difficult question is what evidence do you have? What evidence is there to document the causal link between the maintenance of farming activity that is supported through LFAs and the public benefits that go with it in the LFAs? Is there real evidence to suggest if you did not have LFAs you

11 February 2009 Mr Christopher Thomas-Everard, Mr Peter Morris and Mrs Becky Shaw

would not have the activity and you would not have the benefits?

Mr Morris: If you do not have the hook to hang things on, which is what the designation is, it becomes much more difficult to do anything. Where we are seeing abandonment or much less livestock because of the economics that exist what you basically start to see in most situations is the development of a monoculture and that monoculture is bracken. We see huge swathes of upland now where, because there is not livestock continuing to manufacture the topography and the landscape, it becomes a monoculture and a pretty ugly one at that with all sorts of different negative impacts. I would also look to public benefits in a wider sense because in many ways what we do as a farming industry is almost an amenity provision in the sense that the public benefit from the ability to enjoy themselves in those areas based on a rural tourism industry and the backdrop for that rural tourism is what is manufactured by the grazing livestock and the people who look after them. So you take that away and suddenly there is a whole pack of cards that starts to collapse.

Q147 *Earl of Caithness:* Do you have any figures for the increasing amount of bracken? A lot of people have said that there is more bracken. Has a survey been done of this?

Mr Morris: There is the beginnings of some work being done. I do not have the figures with me. There are figures that can be found, certainly. You are talking of increases of two to three per cent per year in the land mass. It directly links itself to the depopulation of livestock.

Mr Thomas-Everard: I serve on the Uplands Land Management Advisory Panel and we had a paper read to us on bracken and I can send details of that. Defra did not seem as worried as the farming members of that committee were. On the spread, particularly in a national park scale, the Exmoor biodiversity study and the National Park Plan have a lot of information in the individual areas. I do not know that we have it right across the whole country.

Q148 *Earl of Dundee:* Did you offer a prescription within your paper?

Mr Thomas-Everard: We had a paper read to us by Defra rather than producing a paper ourselves. The right prescription is to winter animals on land because that treads any young bracken back into the ground. For the last 15 years unfortunately there has been a ban on all cattle grazing on moorland. That has been a cause of the spread of bracken suppressing heather, and it has been one of the worst ecological things that any government has introduced. The other thing it has done is it has reduced very substantially the number of people keeping native breeds because native breeds do best if they are out of

doors in the winter. So people have been forced to put up sheds—and that causes a planning problem in some cases—instead of being able to outwinter their cattle. The cattle do better out from a health point of view. There is also new evidence that animals grazing right through the year have a higher level of Omega 3 in their beef and that you can taste the result from that, particularly with native breeds because they have more marbling as they have to survive by putting fat on in the summer and losing it in the winter. That one decision to keep cattle off the hills has led to a lot of other things with unexpected consequences.

Q149 *Viscount Ullswater:* The ban was imposed because of soil conditions, was it not?

Mr Thomas-Everard: The ban was imposed on our own ground. At the time I was on the minister's Hill Farming Advisory Committee and I was not reappointed because I was too outspoken over this. What happened was that the youngest retired Major General from the Parachute Brigade, who had been used to pushing people out of airplanes, suddenly came along as our national park officer for Exmoor and he remained General like! The National Park asked our neighbour who had rights on our hill, to stop doing what he was doing, which was taking a small light tractor to put hay in the worst weather conditions on top of gorse bushes and that encouraged the cattle to eat the gorse, particularly in the spring when there was young gorse growing. There was no sign of where the cattle had been three months later. He had been doing it for 30 years. The NP asked this particular farmer to put two ring feeders at the side of this hill of 1,400 acres and a month later brought Mr Heseltine along and said, "Look, there is a sea of mud around these two feeders. This is what happens if you go on allowing animals to be grazed out in the open," and within a month the whole thing was banned. I would dearly like to recommend that you ask Defra if that could be re-looked at because it does seem to me it has had many unexpected consequences.

Q150 *Baroness Sharp of Guildford:* Is this true of all national parks?

Mr Thomas-Everard: Not even the national parks, all upland moorland. It has really affected the breeders and kill farmers of rare native breeds. They are rare now but they were then popular native breeds.

Q151 *Baroness Sharp of Guildford:* New Zealand manages to graze sheep on upland areas in the Southern Island and to make a profit out of it. Could the same be done in the UK?

Mr Morris: The New Zealand sheep industry is shrinking faster than our sheep industry because they cannot make a living out of it. Sheep meat trade is on

11 February 2009 Mr Christopher Thomas-Everard, Mr Peter Morris and Mrs Becky Shaw

a world market. New Zealand is the biggest exporters in the world trade. They have seen something like a six million decrease in the number of sheep. They cannot do it. They are in exactly the same situation. They have got great areas that are returning to wilderness and some of that is with the blessing of the government because they desire to see such a thing and that is fine, but not all of it. We should not underestimate the bracken issue. It is a huge issue. It is about the impacts of what bracken does. It is not nice to look at. The public cannot walk through it. It thrives with ticks which create animal health risks as well as human health risks. It really is impossible to manage the bracken cost-effectively outside of using livestock as the tools.

Q152 Lord Livsey of Tagarh: You cannot actually spray bracken out, can you, with chemicals?

Mr Morris: No. First of all, there is the problem of getting there to do anything with it, but, secondly, it is an incredibly tough, resilient animal. Asulox has been banned or is about to be banned. We have not got any options. There is nothing you can do with it.

Q153 Chairman: I asked a chap from the North York National Park about bracken and heather because when I went there a few years ago there was the real problem of the spread of bracken. He said that they had had a number of victories in increasing heather cover and controlling bracken.

Mr Thomas-Everard: I went and had a look at the North York Moors because I rather worried that it might be the future of hill farming generally. There are only three full-time farmers who have got more than 1,000 sheep, which is very roughly a man's worth, a living. All the rest were part-time farmers, that is, they drive the school bus, they teach in local schools or they deliver things. It just worried me that that is the way that other areas would go.

Q154 Chairman: But that is crofting!

Mr Thomas-Everard: What I saw there was that a huge amount of energy went into managing heather because the only remaining income coming in there is from shooting. So controlling heather for grouse and its different levels and ages for grouse was very important. Where the bracken was really bad up there was in sloping fields, in the valleys and you saw farms going downhill and you saw walls enclosing merely acres of bracken. It was very sad.

Q155 Viscount Brookeborough: I live in Northern Ireland, a less favored area and this issue of grazing animals out in the winter is not confined to the national parks in that we now have inspectors coming round to us saying, "You are poaching that field and therefore you cannot do so." However, they are not the people who have farmed it for the last 150

years. When they come and look at it in summer those systems of farming are still working and the field recovers. This definition of poaching is intruding on every level of farming in those areas.

Mr Morris: It seems to be that people like something that they see and they think that the way you keep it that way is to do nothing to it, which is wholly misconceived.

Mrs Shaw: That has certainly been something which became evident through ten years of agri-environment scheme support, where particularly areas were fenced off around water courses or any particularly flower rich meadows and so on. The evidence of the ecological reviews some ten years down the line was that the best thing for this ground was the low intensity grazing management which had been on it in the first place albeit perhaps with closure dates to allow seeds to set and so on. The idea of closing areas off completely has led to them going fairly rank. We certainly see LFA as being the instrument which maintains that level of activity upon which you can then build more targeted agri-environment responses for specific habitats, but the LFA is the instrument in our minds which actually incentivises and encourages—or should if it was better targeted—the continuing activity on which you can then say, "What we would really like to do here is manage this area for chough or this area for corncrake and so on," but if you have not got the baseline activity in the first place you have no chance of building on the additional success for agri-environment type approaches on top of that.

Mr Thomas-Everard: My Lord Chairman, can I answer a question that you asked but we have not answered? You said about carbon and trees. One of the big worries is that a large part of the uplands is peatland and that locks up a huge amount of carbon. The only way usually of being able to plant on peat is to take a Cuthbertson plough, it is about two-foot wide, it turns huge furrows upside down, but it ruins the land forever because you cannot get across it. If you look at the Flow country in Scotland where it was done badly, you then have stunted trees. If they do grow up, nobody can get there to thin them and then you see whole hillsides blown over. It is one of the most miserable things to look at.

Q156 Baroness Sharp of Guildford: I wonder whether you could tell us how far you see the LFA's relationship with the other national and EU policy instruments, such as the Single Farm Payment, agri-environment schemes or land use planning schemes. How do you see the LFA fitting into these other schemes?

Mr Morris: Particularly if an agri-environment scheme is put in, they are inextricably linked. As to whether the controls of agri-environment schemes are delivering, you need to know, first of all, what you

11 February 2009 Mr Christopher Thomas-Everard, Mr Peter Morris and Mrs Becky Shaw

want to deliver when you put a scheme in place. People's views of what is a desirable LFA area from the environmental aspect would vary hugely. The relationship is strong and it is not going to weaken in the foreseeable future. The weakness is in the lack of schemes that have a socio-economic impact. It is too narrow and it is focused purely on the agri-environment scheme. Time and time again you do see areas and it is all anecdotal, but the people that live in the areas tend to know a lot more than we ever give them credit for, where land that is not in environmental schemes and not controlled in the way that some view it to be correct to do so, the diversity of wildlife and things that go wrong, is much greater than in the controlled areas where the grazing management is tighter, it is de-stocked and all the rest of it. There is no simple solution or one-size-fits-all. We got it right by doing what we do and stopping us doing it does not leave it where it is.

Mrs Shaw: In terms of the relationship of Single Farm Payments to LFAs in particular, as I mentioned briefly earlier, the pattern of distribution of Single Farm Payments, given that in Scotland we have gone for a purely historic approach, is fairly much as you would expect it to look. The areas which were the highest in productivity have the highest levels of Single Farm Payments. You may argue whether that is a continuingly valid justification when it is no longer linked to production in the long term. However, what we have always seen is that for people in the more marginal areas the most cost-effective way to maximise your return from the Single Farm Payment is to cease doing anything at all. You will be considerably better off if you put your Single Farm Payment in the bank and do nothing. As I said earlier, maintaining a minimum level of activity for cross-compliance on a large and extensive area of moorland does not require much in the way of grazing livestock for the minimum level, not for its desirable level but certainly for the minimum. There is an inherent tension there in a decoupled system where the economics are such that the most sensible economic activity is to say "Thank you very much" and close the door. Fortunately for the public goods delivered by this kind of system most farmers and crofters do not always act in the most economic, rational kind of way because there are many other factors influencing the decision as well as the economics, but certainly in the longer term you cannot keep supporting your agricultural activity from other ways of making a living. I was part of the Shucksmith Inquiry on Crofting last year, we took evidence all round the crofting counties and one of the most frequent comments was, "If only my wife knew how much I spent on crofting". There are a lot of people subsidising systems in other ways. We have always seen the LFA as being effectively the thing that says, "Well, actually, what we are trying to do

here is maintain sustainable land management with the kind of thing which is desirable for other reasons," because it produces the public benefits that we have discussed. So it should be targeted at the kind of systems where it is uneconomic and the most sensible thing to do is to quit but where there are other objectives coming into play in terms of the environment and maintenance of the rural population and so on as well.

Mr Thomas-Everard: The worry on agri-environment schemes is that they are paid on an acreage basis without, as Peter says, having the livestock which actually does the work. Just for owning land some people are now able to be paid. Certainly in Northern Ireland we have had some of our members getting very unhappy and angry because the National Trust there has been just collaring all the money in on an acreage basis, and the individuals who would have rented it are told, "You pay this amount and if you do not put stock there we're not worried". I was very pleased at the Oxford conference that the Minister for Agriculture in Scotland said that he did not want a system that paid people where there was effective land abandonment, he wanted public money to go to where there was farming activity and I think that that ought to be across the country rather than just in Scotland.

Q157 Chairman: I think you said that with agri-environment schemes you can get the money for doing nothing.

Mr Thomas-Everard: That is the worry.

Q158 Chairman: Clearly they may not have stock on the land, but you have to be doing something to get the agri-environment on it.

Mr Thomas-Everard: I helped somebody put in a High Level Stewardship Scheme and that was at a time when there was a huge amount of restriction on that system, which has now being lightened a bit, and there he was told that on in-bye ground they wanted to see some fields not stocked at all, they wanted to see the area of rushes doubled and the area of gorse that was kept by the owner doubled. He had a few gorse clumps so that animals in really extreme conditions would get in the lee whichever side they went. He kept this to a particular size and he drove roads through the middle of it so that it was an outdoor building. They said, "You mustn't cut it anymore," which destroyed the whole purpose of why the farmer was managing it in the way that he did.

Mr Morris: It is a points make prizes scenario and you can get an awful lot of points for doing very little. You can get most of what you want from doing very little.

11 February 2009 Mr Christopher Thomas-Everard, Mr Peter Morris and Mrs Becky Shaw

Mr Thomas-Everard: On the new scheme that is coming in, the Upland Entry Level Scheme, which starts in October 2010, from an environmental point of view there is a very low limit, you cannot do more than 40 metres a year of hedging. In our part of the uplands, the south-west generally and in the north on the Pennines, stone walls and hedges provide the shelter for all living things. If we can only make 40 metres a year, a total of 200 metres over the five-year scheme, it is pointless, we are going to get hedges going to rack and ruin. The only alternative is the Higher Level Stewardship Scheme and that is now so difficult to get into. I think it is possible to make it easier and I am working hard to try and achieve that. At the moment you have to be dedicated to be a non-farmer to be able to get in easily to the Higher Level Stewardship Scheme.

Q159 Viscount Ullswater: We are tasked to look at the review which the Commission is undertaking and my question to you is about the designation criteria. I would like to know your view on the common biophysical criteria for the designation; this is of the intermediate LFA that is currently under discussion? Might a second tier of country-specific biophysical criteria be desirable?

Mrs Shaw: This might be a particularly Scottish point of view given that so much of Scotland is LFA and under the proposed common biophysical criteria most of it would remain LFA anyway. Certainly from our point of view the designation is perhaps not so much the huge issue, it is what you do inside the designation that actually matters. We obviously have a large LFA area but within that there is quite a variety of different circumstances, land handicapped by different things in different parts of the country. Obviously some areas are wetter, some are higher and some are colder. The costs and so on which are faced by somebody achieving something in that area continuing an active management of some form are different right across the country because of these various criteria. From our point of view the actual boundary need not be tightly defined in that particular sense but what you are trying to achieve inside it, what your eligibility criteria are for farms that fall within that boundary and then what you are setting up a payment mechanism to support are perhaps more critical than the actual outline of the boundary area itself. That said, we have been quite keen for sometime to investigate the use of the "mountain area" designation and the other "specific handicap" designation. We are looking at that for island areas. The UK is the only country which has the option to use the "mountain area" classification which does not. Also, we have more inhabited islands than almost everywhere, apart from Greece, but we do not make any specific use in Scotland, although I understand that England does, of the other "specific

handicap" for island areas. Our view is that it would be worth investigating the options presented by those two other designations as well.

Mr Thomas-Everard: I have tried to look at it from the position of other countries as well as our own. Taking Greece as an example, where they had those appalling fires last year, they plainly have an interest in having livestock grazing to stop vegetation growing which will then go tinder dry and burn. We do not have that problem so therefore I am sure that you have to have a dual system. At the moment the EU is offering you four choices and I think you have to combine them. You have to have an overarching thing which says what you are trying to achieve in the different areas and then you have to have some central direction from Brussels as to what qualifies and whether something is a try on or is genuine. Once you have done that then I think within that country you leave it to the national government to select its type of controls and its type of area designation.

Q160 Viscount Ullswater: Mrs Shaw, how much more bureaucracy is there going to be for the crofter if there is going to be highland and intermediate designation? You might be a crofter that has got all three.

Mrs Shaw: That is possible, although I would expect that you would talk about an area designation for an island, for example, because if you were designated under "specific handicap" as an island LFA area that would not count as any other LFA area, you would be designated for that purpose. We do not think that the actual one that you are designated under need necessarily be complicated for the land manager because a scheme would be set up for each LFA area which said, "What are we trying to achieve in this LFA area?" We would leave it to the Member States to say, "What are you trying to secure within this LFA? What are your objectives? How would you need to do that?" That takes place at a level which does not necessarily provide a direct interface with the land manager, he sees a form which says, "We require you to do this, that and the other". In terms of the level of bureaucracy faced by the land manager, it need not make any particular difference.

Q161 Earl of Dundee: You mentioned the option of "mountain area" designation and that we are about the only country which does not use that option. What are the arguments that you are familiar with which are deployed against using it?

Mrs Shaw: One of the main ones has been that, if you look at the 1975 Directive which defines areas as mountain areas for the purpose of the regulation, it is quite specific in terms of its slope criteria and its altitude criteria. If you were to take that as it is exactly worded, you would have the tops of a number of mountains and a very pinpoint effect. However,

11 February 2009 Mr Christopher Thomas-Everard, Mr Peter Morris and Mrs Becky Shaw

the European Commission has made it very clear that they would not be interested in that kind of a definition. If Scotland was to make a case for a mountain area, they would want to see why you justified drawing the map as you did and would be willing to take a much lower altitude than it says in the regulation, as they have in areas of Sweden, for example, where they have taken a much lower altitude than is written in and said, "We accept that because of the lower latitude this is a much more relevant one". There seems to be an awful lot of potential for discussion with the European Commission about what that designation should be, more than is perhaps present in the 1975 regulation.

Q162 Lord Livsey of Tagarth: What do you see as the role of socio-economic indicators (for example, remoteness, population density)? Should they be used alongside biophysical criteria to identify intermediate LFAs, or perhaps factored into payment calculations a part of 'additional costs incurred related to the handicap'?

Mr Morris: It is important that the socio-economic indicators get all the recognition they deserve and if they are not included alongside some of the biophysical criteria I think there is a danger they do not get that recognition.

Mrs Shaw: One in particular, remoteness, can be argued very strongly to be a natural handicap. Let us say you live on the west side of Lewis and there is nothing that can change socio-economically about it in terms of the additional cost it is going to bring to bear on you. Even if there were social mechanisms put in place to address the cost difference of perhaps the ferry fare, that does not then address the difference in time that you require to travel or the effect of the working time regulations or the animal transport regulations. In terms of remoteness, I regard that in the same category as the natural handicap.

Q163 Chairman: Counter to that is that remoteness is indeed variable over time. You go from a single track road up to Lochinver and Kinlochbervie to a dual track road.

Mrs Shaw: That is a very fair point. The difference is that although your journey time becomes faster, your markets are still significantly distant from you and increasingly distant. If you take the county of Sutherland, for example, there were 11 livestock markets in the county of Sutherland 50 years ago; now there is one. On the one hand you are quite correct, remoteness can be decreased by one factor but then increased completely in another way.

Mr Morris: There is a revision of animal transport regulations going on now with proposals for a very strict eight hour limit on journey times from the start of the first animal going on the lorry to the end of the

last animal going off. If this scheme is not adapted to take account of things we need not worry about livestock being in the areas because of what we are doing here, they are gone, because you cannot get anywhere in eight hours from the first animal going on. Remoteness is a huge issue and it is linked in to so many other regulations which at a swipe you can take out.

Q164 Lord Livsey of Tagarth: Several of you will be very familiar with the common land issue; I know Mr Morris is. We spent nearly a year in 2005/06 on common land legislation here and it addressed particularly commoners' associations and grazing associations. A factor in some areas is that there is a certain amount of in-buy land which if it was isolated economically would not be profitable, but if you put your allocation of sheep onto the common that is a totally different situation. What are your views on this in terms of the LFA areas? In the area that I live we have our own hedging, local crop and pleach, which the young farmers go into and it creates an attractive countryside and also keeps the livestock in. Have you any views about common land? Is it abused? Is it a good thing?

Mr Morris: What a task it would be to try and square up something that has been a bit topsy-turvy! If we are making progress with putting the correct structures in place which gives the people in the common land situation who have activity via their animals in those areas the ability to manage their own farms and to manage the land over which their animals roam at a more local level within the framework then that is a good process and the LFA is linked to it because there will be very little common land that is outside an LFA from a productive point of view. It is one of the tools that can help make this happen, but what a complicated piece of work there is to get through.

Mr Thomas-Everard: The south-west, Dartmoor, Exmoor and Bodmin, are a magnet for people who want to buy second homes. In some cases on Exmoor, Dartmoor and Bodmin each cottage or each small farmhouse has a right on the hill and that is an accumulating problem because, as soon as there is money to be paid for managing the common, people who do not take any part of the management suddenly say they want their share, just like the National Trust, because they own this right. It is very difficult to find a way of getting the money to the people who do the management with the livestock and not the people who say, "Here is the piece of paper that says I ought to have it". I understand that limiting yourself only to slopes is partly the thinking behind the Brussels proposals. I have seen a paper from the NFU that says there would be a 298 per cent increase in England of mountain and moor if you take slopes into account, 8.8 million more acres, and

11 February 2009 Mr Christopher Thomas-Everard, Mr Peter Morris and Mrs Becky Shaw

that will bring back in more than the DA, the disadvantaged area, than has been taken out of the LFA in England, leaving only the SDA, severely disadvantaged area. I understand from ministry circles that they think that their removal of DA will be acceptable to Brussels so that effectively in England LFA status will be SDA land. I may be reading more into it than I have heard. If one then started putting the DA back in again I would have thought you were putting your hand in the fire.

Q165 Lord Palmer: I find this evidence absolutely fascinating. I used to overwinter a vast quantity of sheep in my previous existence. As part of the review the Commission is seeking to provide a framework for the eligibility criteria that will in theory determine access to aid. What sort of eligibility criteria would you like to see in the future? What sort of farms and farming practices should be excluded from the receipt of LFA payments, if indeed any at all?

Mr Thomas-Everard: Once you have got an area designated, if you start excluding people because they are dairy farmers on the top of the hills in Derbyshire, as did happen before under HFA, if you exclude people because they have an arable field, you are then curtailing mixed farming, which is one way of people surviving. You are also, from an environmental point of view better, if you can have a bit of arable, if you can have somebody growing a field of cereals,—because the cost of straw has gone so high,—particularly if it is spring cereals, going to increase enormously the available food for bird life. So the more you can keep diversity once you are within the designated area the better.

Mrs Shaw: I would have to take a slightly different view from that. Our view is not so much that it is the boundary on the outside which should be so tightly drawn but the eligibility criteria within that boundary and it boils down to what you are trying to support and what are the objectives of your LFA. If the objectives of your LFA support mechanism are about the maintenance of sustainable land management and particular types of farming involving large areas of semi-natural habitat then I think you probably do want to exclude people who have intensified beyond the ecological limit but not on a field-by-field basis, looking at it from base level. There may be farms where you have that good arable field down the bottom and an area of good intensive grassland but the bulk of your area is large areas of semi-natural vegetation. That would obviously be characterised largely by its semi-natural vegetation. You really do need to tie it to your objectives. To make the scheme defensible and to make the provision of public money for the support defensible you have to say, “We are using an LFA scheme to support this kind of land management for these reasons”. If people are outside of those criteria because they have intensified

significantly with all their activities taking place in sheds, with very intensive permanent pasture outside or whatever, then I think there is an argument to exclude them.

Mr Morris: The designation has to be very wide. It is the designation and it is what you do with that designation and the specific parts of it that is the key thing. It is important to keep it as wide as possible. Within that area you must decide on a much more specific basis which particular hooks you want to hang on things depending on what you want to do. You have got to accept the fact that when you put an LFA designation around an area there will be parts of that designation that are not less favoured. Pragmatism says that is the case, but it is what you do with the bits within the designation that is important.

Q166 Chairman: You two, Mr Morris and Mrs Shaw, are really arguing for fairly broad designation but focused eligibility, is that right?

Mr Morris: Yes, and those eligibility criteria will vary from area to area, from objective to objective and from desirability to desirability factor.

Q167 Chairman: And Mr Thomas-Everard is basically saying anything goes, is he not?

Mr Thomas-Everard: The problem is the moment you say you have to do something specific, you then bring in inspectors to make sure that you have not ploughed up a field and put it into kale. It is very worrying. I would look ahead at the controls that might be imposed once you start.

Q168 Chairman: Put a poultry shed on it?

Mr Thomas-Everard: If the wife wants some pin money from eggs, but I suspect not anymore at the moment, I do not know. I just know that because hill farming particularly has become so dominated by grass only (and people who used to have an arable field kept diversity) there has been a drop in farmland birds in the uplands which plainly got fed on the stubbles that were left over winter on one or two fields. I am not talking about a major arable farm because that would mean per se somebody has got the line wrong if you can have a wholly arable farm in an SD area.

Q169 Viscount Brookeborough: To what extent should eligibility criteria be harmonised in the EU? I think you have almost exhausted it unless you have anything else to add on it. I think we understand what you are saying, which is that there ought to be pretty broad criteria and then different areas must be treated in a different ways. Okay, let us move on. One of the biggest flocks or herds of grazers you have in Scotland are deer. I know they do not come within funds that are issued from the EU or whatever. Do you have anything very quick to say on that? They do

11 February 2009 Mr Christopher Thomas-Everard, Mr Peter Morris and Mrs Becky Shaw

change the landscape. In particular, a few years ago I was at a place west of Loch Shin and it was simply unbelievable, the ground was poached to a greater extent than any of my fields at home.

Mr Morris: And it is not just a Scottish problem. The deer population everywhere is out of control.

Mr Thomas-Everard: It is a welfare problem.

Mrs Shaw: Scottish Government staff went round all parts of Scotland last year talking about the things you needed to do for cross-compliance and trying to clarify to everybody what cross-compliance meant in their particular holdings. You can be found guilty of breaching cross-compliance if you are a tenant farmer, so you have no right over the deer or what is happening on the moorland with the deer, but you can still be held liable for breaching your cross-compliance conditions by poaching if the area has been poached by deer, which is quite a significant concern in some areas.

Q170 Viscount Ullswater: Some of the schemes that are going to be on offer are for five years and sometimes tenant farmers are not going to be able to access those or the landlords will not give them permission. Is that a concern for you, because I know that quite a lot of people are tenant farmers on these uplands?

Mr Thomas-Everard: Defra say that it is a very small amount. I think it is two per cent they claim is in shorthold tenancies of one sort or another in England. (I think the situation for Conacre is very different in Northern Ireland). I would estimate that it is much more like 15 per cent. Bearing in mind that the average age of farmers is now approaching 60, the traditional way of getting started in farming is to rent grass and have a few animals as a part-time job and then expand if you are successful at it. If you are going to cut off the opportunity for people to start with renting grass and being unable to get the rest of the market's payment you are going to pull the rug out from underneath those start-up farmers. We need to find a way to be able to support people who have something like a two-year tenancy or even a one-year annual grass rent on a regular basis. At the moment they get the Hill Farm Allowance but they will not be getting the Upland Level Entry Stewardship Scheme.

Q171 Lord Palmer: Are rents payable to all dependents on HFA payments? If one was a huge landlord in your part of the world, does the LFA payment get taken into account when re-assessing rents?

Mr Morris: As a tenant farmer it would be a very visible part of my income and as such very easy for a landlord to adjust rents accordingly knowing what the income of the farm is. Yes, I think it must have a huge effect.

Chairman: That contradicts the evidence that we had last week because I asked a similar question along the lines that if you have a payment related to land then one way or another the value of that payment will accrue to the capital asset, which is the land. I was told that that did not happen because rents and land values had much more to do with other things than the agricultural productivity.

Viscount Ullswater: Land values but surely not rent.

Viscount Brookeborough: In Northern Ireland, because we have Conacre, we had a slight variation in the rules so that whoever opted in on the original date to pick up the eligible funds owned those, but because we have Conacre we could not let the tenants pick it up or otherwise if they left the land they would still pick up the funds. It is done slightly differently because we have Conacre.

Q172 Earl of Caithness: On costs and payments, do you regard the new payment formula—based on 'additional costs and income foregone related to the handicap'—as adequate and appropriate?

Mr Thomas-Everard: No is the answer.

Mrs Shaw: It is back to the discussion we had earlier about what are you trying to achieve in the LFA. It is time to say what would we like these farmers/crofters to do? If you go to the economic reality in our part of the world, the most economic thing to do is do nothing. Then to an extent if you want that man to continue in agricultural activity you have to look at the costs of maintaining that desirable level and, of course, the handicap is relevant to that. It is slightly awkward, but rather than looking directly at the handicaps, what is it that we are requiring him to do and what are his costs going to be in achieving that? If you require him to maintain cattle grazing at a certain level or sheep grazing at a certain level, or whatever, what are the actual costs to him of achieving that? That is where the level of the payment should be set, so you are turning it into quite a positive thing in saying we are actually paying for the provision of something; we are paying for the provision of a management system which provides public goods and we have to look at the cost to this chap of achieving that—and that will obviously relate to the level of handicap that he faces—and set the payment level accordingly.

Mr Morris: I would agree that income foregone as a principle is very difficult to show. You forego income largely by reducing your stock numbers—that is the basic principle—and the extra pressure that that puts on the remainder makes it very difficult to actually sustain yourself having just worked out a little bit of income foregone for what was got rid of, there is too much pressure on the rest of the business.

11 February 2009 Mr Christopher Thomas-Everard, Mr Peter Morris and Mrs Becky Shaw

Q173 *Earl of Caithness:* Can I follow that up then? If you are looking to say in a less favoured area there are going to be certain objectives the beauty of the current LFA scheme is that it is paid to the farmer because of active farming. If you are talking about managing the countryside you are going to have to split the payment between the land owner and the crofter or tenant because a lot of the work will be of a landlord nature. Is this not going to be much more bureaucratic? I know a lot of crofters who are very keen to show me their prize ewe lamb but not once have I been shown the latest curlew nest by a crofter; the mindset is farming whereas you are now talking and the Commission now seems to be talking about managing the countryside, which is totally different from pure farming because who is going to maintain the slate walls in Caithness?

Mrs Shaw: What I am talking about is not so much the onward level of environmental management if you like but the baseline level of agricultural activity. To then start targeting more specific environmental management things, as you say they are often going to be landlord and tenant type relationships in terms of more specific habitats and features, but what we see LFA as being is the maintenance of active agricultural land use by the farmer, by the crofter. Maybe I would just have to question slightly the justification given in Scotland at the moment for LFA payments. Since 2007 we effectively decoupled our LFA payment, a move which everybody at the time was concerned about, but effectively what happened in 2007 was that everybody received the same level of LFA payment as they did in 2006. In 2006 it had obviously been related to stocking mixtures, proportions of stocking and so on, from 2007 to 2009 it is purely historically what you got in 2006, provided that you maintain some level of agricultural activity. That some level of agricultural activity clause is quite subjective, it depends on the chap coming out from the local office and saying "It looks a bit like farming to me." As a result there has been a considerable decline in agricultural activity in spite of the fact that the LFA measure has been there, supposedly to support and maintain that level of agricultural activity, hence the reflection coming through from the current secretary, Richard Lockhead, in his speech to Oxford. He was reflecting the view from Scotland which is saying "No, we have to be paying for active agricultural use, not for some form of what you used to be doing provided it looks a little bit like farming." That was very much reflected in the Scottish concern which came about since the link in the scheme was no doubt broken in 2007.

Q174 *Earl of Dundee:* In less favoured areas and in terms of your members what do you reckon to be the average cost per head of maintaining a unit of livestock?

Mr Morris: A man is expected to be responsible for 1000 breeding ewes to have any chance of being economically viable. That, at the peak time of the year, even in LFA areas where perhaps he might have a annual percentage of 1.3 or 1.4 means that he could well be in charge as an individual of 2500 sentient beings, and I think there is something morally wrong in all of that, to be honest, it is an awful lot of responsibility for one person. To have a person look after that is going to cost you £30,000 a year; £30,000 a year over 1000 ewes is £30 a ewe; that is just for the man. Then depending on what level of severity you are up the hill the level of management will be different in terms of input costs, but you could quite easily be looking at variable costs of £11 or £12 a ewe and fixed costs again would vary dependent on the extensiveness of the farming enterprise, but you could easily find yourself in a situation where the 1000 ewes the man is responsible for are carrying a cost of £50 a head.

Q175 *Earl of Dundee:* Very roughly how would that figure alter when you take account of the value of the animal at slaughter?

Mr Morris: Those LFA people are not the ones slaughtering the animals in a large number of circumstances, they are the people producing the stores, as we identified earlier. If you go back to this last autumn's trade, sales up in the Highlands, the Blackie lambs coming down off the hill, with 1000 ewes they would be lucky if they had 1000 lambs to sell by the time they have kept their ewe lambs back to keep the flock going, and figures of less than £20 a head would be very common; £15 a head would be realistic so you might sell 500 or 600 lambs at £15 a head—that is £9000 off his cost of £50,000. It is going to be a job for the marketplace to make that gap up. They are ballpark figures.

Mrs Shaw: I would agree with that. We looked at it in terms of somebody running about a ewe to a hectare, so we would be talking effectively about one unit of LFA support plus two units of single farm payment, because that is roughly the proportion it works out at for larger areas, giving you one unit of income. If you are getting £10 a head for LFA, £20 a head for single farm payment you might be making £10 income per head per hectare, so you are effectively losing £20 for every hectare. It is a similar sort of scenario.

Q176 *Lord Livsey of Talgarth:* Can I just ask a question about breed diversity and the survival of breeds in the UK because we know in many different areas you have a breed that is specific to the environmental conditions in the area. If there is a radical alteration in the formulation of LFA payments do you anticipate that some of these breeds will disappear?

11 February 2009 Mr Christopher Thomas-Everard, Mr Peter Morris and Mrs Becky Shaw

Mr Morris: Yes, probably. The debate about the strengths or weaknesses of having 90 odd breeds of sheep is an ancient debate which goes around and people have very strong views about. The thing is that you could actually, if you take breeds and group them into types, look at 80 per cent of the sheep being covered by 12 types and you may lose individual distinctiveness within a type but the types will maintain themselves. In this last week in Eppynt there is a new breed that has been formed—there is a recognised process for developing a breed and we should continue to see a proliferation in different ways for a variety of reasons, sometimes good and sometimes bad. The unique distinctiveness will not stay, but the types will be maintained although some of the individual features will be lost.

Q177 Lord Brooke of Alverthorpe: I declare an interest; I am an adviser to Accenture Plc which is not directly relevant here but has an interest in LFA payments. In part you have possibly answered my question about the proportion that the LFA payment makes up of income, and you were talking primarily there about the single farm payment, but earlier you also spoke about the extent to which people are employed part-time in farming and are doing supplementary work such as postal work and so on. Could you give us a clearer indication, do you think, of the element the LFA payments makes up of the total payment?

Mr Morris: It would vary the further up the hill you go and there would be situations in the sheep industry where, on the top of the hill, for want of a better choice of words, when you clump together all the public payments—the single farm payment, the HFA payment, anything that is related to where that land is—you can easily be looking at 70 plus per cent of total income coming from the public purse. The further down the hill you go in the LFA that might then drop down to 40 to 50 per cent. A big percentage of LFA farmers take the majority of their income from the public purse.

Mrs Shaw: I would agree and if you look at, within Scotland, more disadvantaged areas versus less disadvantaged areas, obviously, as you say, the higher up the hill you go the lower your single farm payment tends to be because it is production-linked and the higher the proportion of your income which is made up of the LFA payment. We are looking at figures of somewhere in the region of 40 per cent of farm income being made up of LFA payments, not necessarily because LFA payment levels are particularly high but relative to more favoured areas where that figure may be in the region of 20 per cent. The point my colleague here makes is very fair, that the majority is on balance coming from elsewhere.

Q178 Lord Brooke of Alverthorpe: Can I divert onto a marginally separate issue which was raised right at the beginning on depopulation and beef. You mentioned right at the beginning that you were concerned about the fall in beef. What is the percentage drop that has taken place; similarly, has there been a percentage drop in sheep or is there a growth in sheep to compensate for the drop in beef?

Mr Thomas-Everard: The figures that I have got are only up to 2007 which show that over a period of two years it dropped by 5.2 per cent in Scotland and by about five per cent in England—I do not know the figure for Northern Ireland but I would guess it is the same and I think there has been a drop in Wales. This is for suckler cows which is what we are interested in. I think it is accelerating at the moment because the further we come away from any form of support that was based on the original base years of 2000 to 2002 the less money there is available for people to keep on going—as was said earlier, “Don’t tell the wife how much I am spending on keeping cattle”, to paraphrase what was being said. We, as farmers, all ought to be grasping the nettle and looking at our accounts and getting rid of cattle, but we keep on hoping that somehow or another you, and the EU and the Government, will keep the system going, because our parents and grandparents did. It is quite a brave farmer who actually says I am going to give up keeping stock and just live on the single payment, but that is theoretically what we ought to be doing and what in fact some people are doing. What concerns me is the socio-economic bit of it. If you have 1000 hectares, 2500 acres, if you keep cattle you have very roughly 16 people actively employed under the age of 70 at least and you will have among those, people who work for a local contractor making silage in the summertime, and in the winter they are making hedges or putting up walls, so there is active employment throughout the year for them and there is a balance to that employment. If you have sheep—I would take advice from Peter but I would think it works out at about six people per 1000 hectares, 2500 acres. If you have arable you are down below two people per 1000 hectares, yet when they decided the distribution of the single payment £191 was considered right in of 2013 for the arable 1000 hectares (per hectare) and yet the people with high numbers of cattle and the high employment actually had a lower figure of £161 instead of £191, so, if you put 1000 on the end of that it is £161,000 which has to be split among 16 people, and yet you are splitting £191,000 between two people. When one of the reasons is for keeping people employed in the countryside, to pay the money in that way seems to me rather counterproductive.

Q179 Chairman: Have we not got a problem here, to be quite frank? You are arguing, quite understandably, for the maintenance of the

11 February 2009 Mr Christopher Thomas-Everard, Mr Peter Morris and Mrs Becky Shaw

agricultural population when you are talking in socio-economic terms.

Mr Thomas-Everard: Yes, but my Lord Chairman it is rapidly becoming an environmentally-employed population for a large part of the year, but what keeps them going through the rest of the year is agricultural work.

Q180 Chairman: My argument is slightly different in that what we do know is that for however many decades agricultural employment has been going down, and the growth often in rural employment—and rural employment overall is increasing—is in non-agricultural employment. Do we not just have to accept that really the future of the countryside and our rural areas is in non-agricultural employment, and to see the public purse there to provide agricultural employment as a means of maintaining rural employment is a misuse of resources?

Mr Morris: My Lord Chairman, yes, I cannot argue with the trend but it depends on the type of people because clearly the agricultural based population, the indigenous population, for want of a better choice of words, in those areas is very, very good and always has been very good at making the money sticky. They keep it in the local community much more than the changing nature of people who live in those rural areas where the money they generate and earn is much less likely to be spent within the local community. There is quite an important counterbalance there. The other point then is going back to the sheep figures. For the last three or four years the biggest proportion of sheep are in LFA and we have seen a gradual decline, slightly higher in the LFA than in the lowlands, of three to five per cent over the last three or four years. Every indication is that that will have accelerated in the last 12 months; the number of sheep going through, culled breeding ewes, has gone up quite significantly and the biggest concern for me at the moment is that we now have a flying sheep trade—we really are seeing tremendous prices, all on the back of the decline of sterling and being driven entirely by exports. Exports are driving our trade tremendously well and we are seeing prices that we have not seen for several years. The biggest concern is that there is no confidence, and that is manifesting itself in the fact that people are killing their breeding stock on the back of the high prices, and that is because there is no confidence to carry on farming. That is the real worry, so how do you inject the confidence back in there that says because I have got high prices and because there is a chance I could be getting a bigger part of my income from the marketplace I am going to carry on doing what I am doing—no, I am not doing that actually, I will get out because it is time to cash up.

Q181 Viscount Brookeborough: It is also true that those prices which have accelerated, which we have not had for several years, are only a price in numeric terms, it does not take account of the inflation in fertilisers and everything else. If you take it from six or seven years ago, that price is not really as good as it was then.

Mr Morris: Yes, it is a price in figures. Obviously, everybody's costs have gone up quite considerably, we fully accept that. The sheep industry does not carry the level of costs, particularly in respect of capital costs, that other industries do, but it is a real worry when we are seeing those prices and we are getting out of it.

Q182 Chairman: The argument must be that if people are acting in the way you say, ie they are cashing up when prices are high and getting out, that should be perverse. The only reason they are doing that you say is because of lack of confidence, and that must mean that there is a realisation under there that there is a structural imbalance in the market and there is structurally an over-supply of sheep so that the price cannot be maintained once you have gone through this bubble.

Mr Morris: If you look at what is happening to sheep numbers on a worldwide basis they are all cutting back, driven by lack of profitability, but we are not self-sufficient. The demand is there for the product but the supply chain does not allow each part of that supply chain to take its living from it.

Baroness Sharp of Guildford: Put that, if I might say so, together with the average age of your farmer in these marginal areas, and the fact that they frequently do not see their children wishing to take over the farm, you have a situation in which this is perhaps a good time to cash up and get out.

Lord Livsey of Talgarth: At the same time if I may say so, as an agricultural economist, the supply and demand economics that are taking place mean that you will have a deficit in the number of sheep and you will maintain higher prices for quite a considerable time.

Q183 Lord Brooke of Alverthorpe: There was a logic in the question I was trying to pursue, which we have come round to, which is what were the percentages in the fall of the market and the next question then was the reasons why. We seem to be having different views on that.

Mr Thomas-Everard: To answer Lord Livsey's question first if I may, my Lord Chairman, it is because people see an opportunity. In the case of cattle, if they can get their animals clear of TB, a lot of people are getting them sold as quickly as they can to get out because they know they will get re-infected, but generally right across the world people are getting out of suckler cows. Your point applies to pigs very

11 February 2009 Mr Christopher Thomas-Everard, Mr Peter Morris and Mrs Becky Shaw

well—if the price is well enough up then people will restock with pigs—but in the case of cattle you are talking about three and a half years lead time and my anxiety is that at a time when we are going to go to a population of 8.5 billion by 2035—which is a lot sooner than the figure people normally quote which is 2050—and we are also apparently talking about levels of arable land reducing by something like 50 per cent because of underground salination of water where people are deep-pumping for irrigation and getting salts coming up, it just worries me that though in the future we will be all right as beef farmers, to get from here to there we could well have a terrible dip, and we could end up with riots, and people going into stores, as they do in Zimbabwe, where there is no food.

Mr Morris: I think it is deeper because particularly in the LFAs if we see the animals go you cannot put them back, (a) because the people go with the skills and (b) what happens to that area after the animals go makes it pretty much impossible—particularly in hefted situations. It just will not go back, so it is not going to be a supply balance thing, once it has gone it has gone.

Q184 Lord Brooke of Alverthorpe: How do you keep people there and animals there when in fact the profits now are as big as ever?

Mr Thomas-Everard: Can I answer that, my Lord Chairman? One of the anomalies at the moment is that profits are there for selling suckler cows because at the moment the price of mince has gone up by about 36 per cent in a year but the price of the quality joint has gone up a lot less than that, so you have a

situation now where the price of a fat suckler cow is coming to as much or more than the two-year old progeny which the farmer thought was going to be his market-beater. When people see that similarity between the cow that he used to think of as being an expense to get rid of, and suddenly now because of the price of mince being so high his suckler cows are worth a lot of money, people are remarking on that to each other in the market or in the pub and taking decisions to get rid of any fat cow that is getting on in years and not replacing it. Does that help you, sir?

Mr Morris: On the sheep side it is a fair comment, it is the killing of capital stock. In the sheep sector it is the ethnic trade that is driving the ewe price to the extent that ewes that were breeding animals in the autumn, making perhaps £40 or £50 as breeding animals, can have their throats cut now in the spring and they are £75.

Q185 Chairman: Basically this is disinvesting in a rising market.

Mr Thomas-Everard: Yes.

Q186 Lord Livsey of Talgarth: That is because you have got 60-year old farmers.

Mr Thomas-Everard: There is another phrase that 60-year old farmers use which is “Catch the ball while it’s hopping”.

Chairman: That was absolutely fascinating. I do have to be careful because Lord Livsey is here but I once said that agricultural economics was a contradiction in terms and I sometimes think that that is the case. Thank you very much indeed, that was very helpful and very enjoyable.

WEDNESDAY 25 FEBRUARY 2009

Present	Arran, E. Brooke of Alverthorpe, L. Brookeborough, V. Caithness, E. Dundee, E. Jones of Whitchurch, B.	Livsey of Talgarth, L. Palmer, L. Sewel, L. (Chairman) Sharp of Guildford, B. Ullswater, V.
---------	---	---

Examination of Witnesses

Witnesses: MR DAVID BALDOCK, Executive Director, and DR TAMSIN COOPER, Deputy Head of the Agriculture and Rural Development Programme, Institute for European Environmental Policy, examined.

Q187 Chairman: Thank you very much indeed for finding the time to come and help us with this inquiry. I think you are in many ways the best placed people to give us assistance. This is a formal evidence-taking session of the Committee so a full note will be taken of the evidence. You will receive a transcript in a matter of days, hopefully, and be able to correct it and rub out any errors that have slipped in. This is being webcast so there is a slight possibility, a very slight possibility, that someone somewhere may be hearing what you say. That should not deter you in any way shape or form because we have never received any evidence that anybody does listen to us. The last thing is that you have a list of the interests of the members of the Committee. Would you like to start by making a general introductory statement or would you prefer to proceed with the questions and answers?

Mr Baldock: I think we will make a short introductory statement if that is helpful. Thank you for asking us and I am sorry we were not able to come on a previous occasion. I am David Baldock. I am the Director of the Institute. This is Dr Tamsin Cooper, who is one of the leaders of the Agricultural Policy Group and she was the main author of the report we both worked on with quite a large European team. We are an independent institute based in London and Brussels. We do a lot of work on agriculture policy as well as on environment policy. Some of that is for the European Commission, including this LFA evaluation study. It is not mentioned here but we also do quite a lot of other work around the subject. We have been involved in LFA policy for some time but this morning we will try to base any comments we make principally on the evaluation since that is the main point, but, as I say, that is not our only interest in this whole area of policy. We are quite actively engaged in discussions about where the future of the CAP should go and in particular how environment and agriculture issues should be addressed at a European level insofar as that is possible.

Q188 Chairman: Be careful: you might be here all week! Thanks very much. In your evaluation report you argued that LFA payments are intended to

provide a contribution to the additional costs of agricultural activity in LFAs in order to secure the continuation of appropriate agricultural management and ultimately the public goods that flow from that management. Could you elaborate on that view and how you justify that approach and how it differs from other approaches? I will give you an example based on the evidence we have received, which, at its crudest, is, "It's our money and we want to keep it", to, "LFA payments are an essential element of income support to help farmers continue to exist and to continue to have sheep on the hill and if we do not have LFA payments the sheep will disappear and the farmers will disappear", so it is an income support measure rather than a means of delivering public goods.

Mr Baldock: We spent quite a lot of time trying to think through what the objectives of the LFA measure were and we were very much guided by what it says in the current regulation, which is quite different from the original directives which date back to 1975, so one can see a progression over time in what the intention of the Less Favoured Areas measure is. That has not always been reflected in the way that Member States, farmers and other stakeholders see the purpose of the measure, so I think a gap has arisen between the evolution of the policy on the one hand as expressed in the regulation and on the other how many people see it on the ground. The logic, as we see it, is that the purpose of the regulation now is to maintain the countryside. Insofar as that should be achieved by maintaining agriculture, in other words, large parts of the uplands, the less advantaged areas, maintaining the countryside as we understand it is dependent on agricultural management, and at the same time the measure should support sustainable agriculture, not any kind of agriculture. Because agriculture is inherently associated with a number of positive environmental benefits, including landscape, biodiversity, watershed management, fire prevention, et cetera, in different European contexts, there is some logic in maintaining agricultural management

25 February 2009

Mr David Baldock and Dr Tamsin Cooper

rather than letting any other kind of management take over. If you accept that logic you say, “We need to maintain the farming, we need to provide sufficient aid to compensate farmers for the conditions in which they are trying to maintain that management”. What follows from that is that we need to provide a payment which is in some way related to the scale of the disadvantage. The measure then has a logic but at the bottom of that logic is the maintenance of the countryside and sustainable farming. We perhaps would distinguish ourselves from the view taken by other people in three or four respects, one being that we would say that the purpose of the scheme is no longer socio-economic, as it used to be. Originally, when I started in this business in 1975, we were talking about keeping people on the land. That is no longer part of the logic of the measure. Secondly, we would say that the environmental logic behind it means that you then have to support appropriate kinds of agriculture in the LFA, not any old form of agriculture; it is a prism through which you look at the agricultural management. Thirdly, we would say that within that general framework you would need to deliver measures which were sensitive to those environmental requirements so that the delivery of the LFA measure was not simply a matter of maintaining farming by injecting in a certain amount of payment. You are trying to target to some extent your ultimate objectives. We probably would not argue either that you need to have agriculture absolutely everywhere in the LFA. There is room for some discussion about where you need it and where you do not, but we do accept and we agree with the regulation that, certainly from the point of view of landscape and biodiversity, there is a strong case for maintaining agriculture in large parts of Europe, in the context that it is in these marginal areas where we have a lot of the biodiversity left.

Q189 Chairman: The important difference, I suppose, is that you reject the socio-economic argument and you say you have to look at the environmental public goods?

Mr Baldock: Yes.

Q190 Chairman: That is the objective, securing those environmental public goods. Essentially is that a conceptual difference or does it lead to fundamentally different policy approaches?

Mr Baldock: It leads to different policy approaches because if your aims are purely socio-economic—and we are not saying that socio-economic objectives are irrelevant or unimportant; we are saying that is not the purpose of this particular measure—then you are more concerned with keeping a certain density of farm population, perhaps a larger number of small farms, you want to keep your agricultural employment and you would be worried about

upstream and downstream sectors associated with agriculture. If it is a land management objective, which is what we are saying, then the focus of the measure is via the land management. You are less concerned by the number of farmers, you are more concerned by the type of agriculture rather than production *per se*, you are more concerned about trying to make sure that you are delivering real public goods and you have some evidence to show that there is some public good at the end of the day for the money you have spent. I think it is significantly different.

Q191 Chairman: I think that you hinted in your opening comments that many of the recipients of LFA payments perhaps see it more in terms of socio-economic support rather than environmental objective driven.

Mr Baldock: They do and it is very clear that we have not got a consensus amongst stakeholders about the changes that have occurred in the LFA system. If you look back over time there was not perhaps a very vigorous debate at a European level saying that LFA is now changing from a rather socio-economically determined measure into an environmentally driven measure which is seen as WTO Green Box compatible by the Commission and has been aligned with the new rural development package. I think farmers, quite naturally, see it as very much an unchanged approach and Member States have not been particularly vigorous about changing their national delivery mechanisms to follow behind the logic of the changes in the European policy, so there is a bit of a gap between where we have got to at one level and where we have got to at another.

Q192 Lord Brooke of Alverthorpe: Your evaluation found that relatively little farmland in LFA areas in the EU-15 has ceased to be managed by agriculture but highlighted a decline in land management potentially preceding farmland abandonment in several regions of the EU. Could you tell us more about the areas most at risk, the size of these areas, the factors leading to the land use change and the reasons why farmland abandonment should be avoided?

Dr Cooper: As you say, the report indicates that agriculture abandonment is minimal or has been minimal in the Less Favoured Areas of the EU-15. In fact, it is quite difficult to detect land abandonment through data that exist at a European level. We have quite crude proxies and data sets in order to do this. You can do this through aerial photography and you can do it via the Farm Structure Survey, which gives you a measure of total area of land under utilised agriculture. In our report we used data from the Farm Structure Survey, so at a broad aggregate level there is little indication that the total utilised area has

25 February 2009

Mr David Baldock and Dr Tamsin Cooper

declined, but we picked up structural trends which are some of the precursors to land abandonment in Europe, such as a diminution in the number of farms and certain population criteria. When you look at the literature, there have been a couple of other reports and recent studies that have looked in more detail at these processes of marginalisation and abandonment. What these reports have done is draw together composite indicators of different criteria of abandonment, both physical criteria relating to soil conditions and also socio-economic criteria. What these results show in terms of a geography of abandonment is that you see a prevalence of abandonment particularly in southern Europe. Places like Portugal, Italy, Spain and Greece have very high levels of abandonment, up to eight or nine per cent of the utilised agricultural area. Also, in some of the new Member States in central and eastern Europe is where there is a concentration of agricultural abandonment and decline. In terms of the drivers or the risk factors of abandonment, these play out in different ways in different parts of Europe. There is a temporal and spatial specificity of some of these drivers as they interact. We see that there are social drivers behind land abandonment, there are structural characteristics, such as size of farm, that are important, there are economic drivers and there are also biophysical criteria, and abandonment happens at different scales. You will have it happening at the very micro scale in terms of abandonment of small patches of farmland, and you also see it happening on a much more extensive scale, and this tends to be linked to land use type. In terms of what are the effects of abandonment and what are the impacts, in social and economic terms, these effects tend to be negative. In environmental terms the picture is less straightforward and it depends on the scale of abandonment but also the land use that is being taken out of activity. Just to expand on that point, if there are small patches of arable land that go out of production in an arable landscape this can have positive environmental effects in the sense that you are adding diversity to the agricultural landscape. Where it has a negative environmental effect is when it tends to be associated with extensive livestock systems, and because of the extensive nature of these systems and the minimal levels of disturbance they tend to be associated with high levels of biodiversity. If those systems cease to be managed you see the encroachment of scrub and juniper and such like, which tends to be in the uplands. This leads to quite severe environmental decline.

Q193 Lord Brooke of Alverthorpe: But there are pluses too?

Dr Cooper: Depending on the scale of the abandonment. If small patches are abandoned in landscapes there can be positive environmental benefits in the sense that it introduces diversity into the landscape.

Q194 Lord Brooke of Alverthorpe: Is anybody doing any research on this?

Dr Cooper: Yes. There are three pieces of work to refer to. The first piece of comprehensive work on agricultural abandonment was conducted in the late 1990s by the Institute for European Environmental Policy; indeed it was a European study. That made the link between abandonment and different types of land use. The second big study is a piece of work that was funded by the Joint Research Centre¹, which is the research arm of the European Commission. They looked at abandonment in three Member States: Poland, France and Spain and they published a report last year which was trying to capture a variety of different land use types, and have come up with concrete figures on the extent of abandonment which range between two and eight per cent. The final piece of work is a prospective study, so it is based on modelling impacts, and it was conducted by a Dutch team, Floor Brouwer et al; 2008 in the Netherlands, and they looked at composite indicators of abandonment across Europe.

Q195 Lord Brooke of Alverthorpe: What is the objective behind the research there? Is it to make the case for environmental abandonment, is it to make the case against it, or is it just to find what it finds and leave others to make the conclusions?

Dr Cooper: These pieces of research are not politically driven, to use “political” in the broader sense. The aim of this research is to understand the complex interaction of different drivers of abandonment and how they play out spatially. There are policy implications of this research but not a prescriptive judgment of whether it is positive or negative *per se*. I think they very much flag up the contingency of the benefits and threats associated with agricultural abandonment.

Chairman: Now you have set the hares running here because everybody wants to come in.

Q196 Viscount Brookeborough: First of all, do you expect land abandonment to increase; secondly, it is accepted that farmers in the Less Favoured Areas are older average ages than those in the lowland areas, so what effect do you think this will have in the near future from the point of view that the economics of European policy since 1974 have meant that there are fewer young people going into agriculture? At what

¹ Analysis of Farmland Abandonment and the Extent and Location of Agricultural Areas that are Actually Abandoned or are in Risk to be Abandoned. Pointereau et al; 2008, Institute for Environment and Sustainability, Joint Research Centre, EC.

25 February 2009

Mr David Baldock and Dr Tamsin Cooper

point will it suddenly come to bear on the figures, the fact that there are no following-on farmers?

Mr Baldock: First of all, going back to our previous discussion, we do not really have a consensus about where abandonment would be beneficial or not, so the studies Tamsin has been talking about help to provide a foundation for this in broad terms. Of course, that is very different from saying that in Caithness or Rioja it would be better or worse to have more land in agriculture or forestry or something else. It is not an entirely black and white situation, as you will all know very well. Land does not necessarily go simply from normal use to abandonment. It may go into forestry, it may go into decline. In the future one of our perspectives would be that, of course, we have had the Single Farm Payment since 2003 and there is an economic incentive to keep land nominally in production because there is a payment on it and that will slow down nominal abandonment all over Europe. On the other hand, you are not incentivised any more to keep livestock particularly, so there could be a lot of actual abandonment because it is no longer cost effective to keep animals even though you are getting a Single Farm Payments. So there will be some tension between the pressures of the policy framework to keep land in production effectively, and the economics going on behind it which could be driving it in quite a different direction. When we look ahead in Europe, therefore, quite a lot will depend on what commodity prices are and the profitability of different sectors. If you look at studies which project large-scale abandonment, they assume that there will be a very low margin per hectare from livestock farming and therefore people will stop livestock farming. On the other hand, we have a lot of evidence that, despite the very low margins, many people carry on livestock farming against the economic logic. There are quite a lot of factors to weigh up.

Q197 Viscount Brookeborough: So although the purpose is, you said, not to keep the people on the land but to keep farming on the land, at what point do you come to the stage where you simply have not got enough people to farm it with any meaningful effect?

Mr Baldock: That is a very good question and the answer will depend a lot on farming circumstances. In many parts of Europe you have still got extremely small holdings, so in principle you could keep a lot of land in production with a great reduction in the number of people working it and you could go more to a UK type of situation, but, of course, in somewhere like Bulgaria they have got a lot of very small farms with terraces and it is not particularly well structured for large-scale landscape forms of agriculture of the type you might have in the uplands in the UK, so people might in fact abandon that land even though on paper they could merge their

holdings and have one much larger holding. You are right: there will be some very real social constraints but you cannot easily deduce exactly where they will fall from looking ahead.

Q198 Lord Palmer: I thought I heard you say that the level of abandonment in some countries is as high as nearly nine per cent. Do you have figures for what the abandonment percentage is in the UK?

Dr Cooper: I do not, I am afraid. The figure of nine per cent comes from this study done by the JRC and that was for Spain. The figure for France is two per cent.

Q199 Chairman: Sorry—this nine per cent and two per cent: what time period is that over?

Dr Cooper: It is 1990 to 2000, so it is a ten-year period, based on Farm Structure Survey data.

Q200 Viscount Brookeborough: Is that of LFA?

Dr Cooper: No, that is of the total UAA (Utilized Agricultural Area).

Q201 Chairman: But that would not include land lost to urbanisation?

Dr Cooper: No. They use a definition of “abandonment” which is land that has ceased to have agricultural activity on it and which has not been transferred to an alternative land use.

Q202 Lord Palmer: Did that ever include set-aside?

Mr Baldock: No, it should not have done.

Lord Palmer: Because that could make quite a big difference.

Q203 Earl of Arran: Is there any evidence yet that this abandonment has started to affect tourism? Is that a concern, that it could?

Dr Cooper: That is a good question. I would have thought the answer is yes. There is a fair amount of evidence that looks at the relationship between agriculture and the second order economic benefits for rural areas, and with that what the implications for recreation and tourism are. Therefore, one assumes that if that agriculture is withdrawn the knock-on effects would be negative. The evidence base is in relation to the positive effect of agricultural activity and agricultural landscapes on tourism and the attractiveness of rural areas.

Q204 Lord Livsey of Talgarth: I want to ask you a very specific question. It seems to me that evidence is very sparse in some European countries. Specifically, the Central Massif of France has been abandoned for some time and yet we have very little evidence of that. In fact, it has had a socio-economic impact as well. You have only to drive through it to see it. Have you done any work on that and have you got out of the

25 February 2009

Mr David Baldock and Dr Tamsin Cooper

French government exactly the amount that has been abandoned and what the impact of that is?

Dr Cooper: Personally, no, I have not done any research into this area specifically, but, to refer back to the JRC study, France was obviously one of the three countries where abandonment was studied, and they came up with this figure of two per cent. I think part of the difficulty is with the data we are using to measure abandonment and that is a really big problem. The extent to which you can capture this sort of small-scale abandonment through land cover data and through the Farm Structure Survey data is hampered by the fact that it takes quite a long time for the data to catch up. If you are looking at using aerial photography, for example, first of all, the snapshots are taken once every ten years; there was one in 1990 and one in 2000, so the frequency with which you are picking up land use change is slow.

Q205 Lord Livsey of Talgarth: Excuse my interjecting, but you are only getting a marginal increase there whereas there is a very large area which before the time phase that you are using was already abandoned.

Mr Baldock: That is true but I think abandonment slowed down in some parts of Europe once direct payments came in. We have to stress that abandonment is a dangerously black and white term. If you go to the dehesas or somewhere in central western Spain there are very large areas of very light land management and you end up with a situation where the number of livestock might be steady or declining but they are kept more and more around the farmhouse and not taken out to the rest of the land. The rest of the holding is nominally in production because the farmer is making a claim on it, and they would be mad not to, but actually the day-to-day management has shrunk down to part of the holding. When you drive through the countryside you can often see areas, “Oh, that is abandoned”, but it would not show up statistically as abandoned because it is still part of a holding which is making a claim, even though within that holding there might be quite varied levels of management going on. On a very large holding, like in parts of Spain, that could make quite a big difference, and, of course, you may also have totally part-time holdings where nobody actually lives on the farm any more but statistically that will still be in production. Certainly in central France you can see this. That does not mean when we come to look at our statistics that no claim is being made on that farm, that nothing is happening, so, as Tamsin was explaining, getting to the bottom of all this is a little bit more difficult than it can look.

Q206 Viscount Ullswater: Dr Cooper, I am interested in the studies that you have made about this rather difficult term “land abandonment” and I

am just wondering where extra extensification becomes land abandonment apart from the ones that I think you have just explained as to if livestock are held around the farmstead and the outer areas are left, but what about areas which have extensive sporting interests? I am talking about, for example, the moors in Scotland, Yorkshire, Cumbria, where perhaps there was a tendency to over-graze at one moment and harm the sporting side—I do not know; deer shooting in Scotland as well—and now, because of the amount of sheep that have been taken off the hill, that has improved the sporting in some instances and maybe had a bad effect on increasing the number of deer in others. Do your studies look into that sort of land use as well?

Mr Baldock: You are absolutely right that you will get mixed land use in some parts of Europe. We have more difficulty in getting data on this because where there is a sporting interest or a primarily recreational management, this, of course, does not show up through any normal agricultural data or statistics. We discover this when we are talking to people and just through what we read in the day-to-day literature, but we cannot quantify that very easily. In relation to abandonment that may be another explanation why a limited amount of agricultural activity may be tolerated on a holding; it may be welcomed by the landowner because they may have different objectives than simply farming. We do not have any comprehensive way of telling how large-scale that area is. Certainly in parts of Spain there are large areas which are managed for sporting purposes but I would struggle to tell you how big that was. In central Europe you will not see very much of that. We do not really have a good sense of how big an issue that is on a European scale.

Q207 Chairman: Is there a danger with LFAs that you have given an incentive to persist with agricultural activity in an area which really ought to be abandoned? Take climate change—southern Europe, parts of Spain, drought. Why keep on pouring money into trying to maintain agricultural activity in some parts of southern Spain where the game is up, really?

Mr Baldock: We would say that you do not want to support agriculture everywhere inside the designated LFA because, you are right, there are some areas where it is not suitable for one reason or another. There are quite large bits of Europe where there are very thin soils and you certainly would not want to be continuing to cultivate those soils in any way.

Q208 Chairman: You do not have a mechanism for saying, “This has got to the stage where we will not do LFA payments”?

25 February 2009

Mr David Baldock and Dr Tamsin Cooper

Mr Baldock: I think we would say that ideally one should be zoning areas more than we have been able to up to now. The UK is one of the more advanced countries in thinking about this in relation to woodland and afforestation. In other words, we do have some means of trying to say, "We would like to see woodland here and not woodland there". The same principle in a way applies to the cessation of agricultural activity and effects on the environment or something else. There are some areas where we really do need to keep the agriculture for public benefit purposes and others less so but we do not have a fine mesh at a European level which allows us to say that. Of course, these are quite normative decisions. Not everyone is going to agree. There is not a great scientific matrix that one could apply to get the right and wrong answers. People are going to have different ideas about this.

Q209 Baroness Sharp of Guildford: Turning the question on its head, have you come across evidence to suggest that LFA payments have prevented farmland abandonment, and to what extent can the effect of the LFA payments be separated from the direct payments under Pillar I?

Dr Cooper: We approached this question in our report in three stages. The first stage, which was what we were discussing previously, was the extent to which agriculture was being maintained in the Less Favoured Areas, and the report showed that, based on the data that we were using, it was. The second stage in answering this question was to calculate what proportion of the area within the LFA was receiving a compensatory allowance or a payment because those areas, or that proportion of land that is not receiving a payment, obviously is continuing in agricultural production irrespective of the payment. What the report shows is that across different Member States there is a huge variation in the proportion of the land that is receiving a payment. In some countries it is as high as 90 per cent, so there is almost complete coverage of agricultural land within the LFA that has received a payment. In other Member States it is much lower. It is as low as—

Q210 Chairman: Sorry: can I just jump in a minute? You keep saying things like "in some countries".

Dr Cooper: Do you want me to be more precise?

Q211 Chairman: Yes, name them. I will not say "name the guilty"!

Dr Cooper: For precision, in countries like Ireland, Luxembourg and Finland over 90 per cent of the total hectareage area receives a payment. We have also done a calculation in relation to the number of farms, but I think it is helpful to do it in hectares, and these figures are specifically for 'Other' LFAs. This is not the whole LFA area; it is for this particular category

of LFAs. For those countries such as France and Portugal it is less than 20 per cent of the total area receiving a payment. That led us to conclude that in those countries the payment was not essential for the continuation of agricultural activity. The third part of the analysis was to look at what contribution the payment made to net farm incomes. Again, we found variation across the Member States and this seemed to follow in very broad terms a north-south variation. In countries such as France, Germany, Luxembourg, Ireland and the UK the contribution of the LFA payment to farm income was in the region of 20-28 per cent, so roughly a quarter of the farm income. In the southern Member States it was five per cent and less, so a much smaller proportion. We again found differences not just between Member States but also in terms of farm type, and the dependency of livestock farms on the LFA payment tended to be higher compared to other farming systems. What this led us to conclude was that, even though the contribution to the farm income was relatively small in some cases in some countries, the effect may be significant, given the narrow profit margins under which some of these farmers are operating. The final point to note was that farms within the LFA, those farms that are beneficiaries of the payment in some Member States, such as Italy and Austria, also had the opportunity to access other rural development measures, so they were eligible to receive higher levels of investment aid, for example, because they were a Less Favoured Area beneficiary, so there were some spin-off benefits in terms of other measures that they enjoyed because they were beneficiaries of the payment. The picture is quite a complex one.

Q212 Baroness Sharp of Guildford: We were very intrigued to see in your report that Luxembourg was among those with 90 percent.

Dr Cooper: Yes.

Q213 Baroness Sharp of Guildford: With France you were saying that actually when you looked at the area covered it was only 20 per cent of the LFA where payments were actually made, and yet it ends up as being one of those where the payments become quite significant. I find that an interesting statistic because one would have assumed that we fall into the middle of this category but LFA payments are relatively significant here in the UK, particularly perhaps in Scotland and Wales.

Dr Cooper: The dynamic that has played out is in part a choice in terms of programme design and the minimum and maximum level of the payment is stipulated in the regulation, but there is obviously a range in terms of the level of payment that can be made to farmers. With a certain amount of money there is obviously a choice between distributing it quite broadly across a large area of the farming

25 February 2009

Mr David Baldock and Dr Tamsin Cooper

population within those areas or to have higher payments which are targeted at fewer farms. The situation in France is that the payments are higher but the number of beneficiaries is lower.

Q214 Baroness Sharp of Guildford: How about the second part of the question which is the link up? The conclusion as I understand it is that at the margin you think the LFA payments have actually been significant in terms of stopping land abandonment but equally you have now got a situation under the direct payments of Pillar I in which you have got some income coming through to these farms anyhow.

Dr Cooper: What the analysis of the report showed was that what was supporting farming and farmers in these areas was a bundle of different support mechanisms; that the direct payment was important alongside the less favoured area payment, alongside other rural development support that they were receiving. We did some calculations which took account of the dependence of farms within the LFA on a total bundle of subsidies, which includes the direct payment relative to farms outside the less favoured areas. What this showed was that the dependence of the LFA farms was much higher on subsidies, the whole bundle of subsidy within the LFA. The conclusion that we take from this is that whilst it is difficult to disentangle the relative effect on the maintenance of agriculture between the direct payment and the less favoured area payment, this does not necessarily mean that these payments are substitutable because they are contributing to slightly different objectives. The direct payment has a degree of environmental conditionality attached but it does not have specific land use and land management objectives whereas the LFA payment does, so they are both important but they are not substitutable.

Q215 Baroness Jones of Whitchurch: So far we have been looking at the different payments and how people respond to the payments that they receive, but you have already indicated a little bit earlier that farmers are not necessarily rational when it comes to that; I think you said that they carry on having livestock even when it is not economically viable for them to do so. Have you done any research about what are the factors that would persuade someone to carry on farming because it might not be, necessarily, because of the financial incentive, it might be some other form of incentive that would keep them on the land. I just wondered whether there was anything else in terms of policy directives that we could do that would encourage that—it does not necessarily have to just be a rather complicated financial calculation.

Dr Cooper: This is an important point. We are always saying that it is important not to interpret farmer behaviour through an economically rational perspective or model. There are lots of studies that

indicate why farmers or certain types of farmers continue to remain in farming. There are historical reasons, there are family reasons, there is the attractiveness of the countryside, there are all sorts of cultural reasons for the continuation of farming linked to a sense of place, linked to the quality of life that is derived from being in the countryside.

Mr Baldock: To add to that we do know that people are also very reluctant to part with their land, there is an attachment to land and to the lifestyle as Tamsin says. This is not totally economically irrational. Land is a big economic asset as well as a family asset for a lot of people and we also know that family farm incomes are often quite a lot higher than you would think from the data on agricultural income; you can go to a lot of places in Europe where the family can survive despite the very low level of income coming through from the agricultural activity because of the mix of activities and because there might be different people working in different sectors of the rural economy, money might be coming from abroad, from people who travel. A family home can therefore extend to an agricultural unit in all sorts of different ways and different settings, so I think it would be a mistake to dismiss the economic element there—income is not all through agriculture but at the same time you are absolutely right that there is a whole suite of issues which are more emotional, cultural and social if you like. Where we pointed out earlier on that the LFA measures changed their focus to become more environmental of course there are other rural development measures which are much more intended precisely to keep people in rural areas, to keep a more dynamic (whatever that is) rural economy. It is not the idea that LFA has purely become an environmental measure or that socio-economic interventions have disappeared, they have just changed away from that same relationship with agriculture.

Chairman: I suppose a phrase from Marx comes to mind, but I do not think we will use it. Lord Livsey.

Q216 Lord Livsey of Talgarth: Thank you for making those points; it is certainly my view that the Welsh language would not survive without LFA, but that is another question altogether. In your evaluation report you highlight the convergence between single farm payments under Pillar I of the CAP and LFA payments under Pillar II which have become area payments conditional on land management obligations. You point out that meeting cross-compliance conditions is potentially more onerous for farms in LFA areas, yet single farm payments are often lower in those areas due to low historic yields. You suggest that LFA payments should be used to help plug the shortfall, but in the longer term could there be a case for attacking the root of the problem by reviewing how farms in

25 February 2009

Mr David Baldock and Dr Tamsin Cooper

disadvantaged areas fare under the single farm payment. If I could add to that, you have covered quite a lot of this territory already, but if one is looking for solutions perhaps is there a case for amalgamation of the two payments into one LFA payment with cross-compliance involved?

Mr Baldock: That was a short question, thank you, my Lord Chairman.

Chairman: We do write essays.

Q217 Lord Livsey of Talgarth: I did not write the question; I did the question at the end.

Mr Baldock: One way we could perhaps start to reply to that would be to spend a minute on cross-compliance and the argument we are making. We have, incidentally, done another evaluation for the Commission on cross-compliance which is still at quite an early stage of implementation in Europe. The reasons we are saying that cross-compliance tends to be more onerous for farmers in the LFA are threefold: first of all their margins tend to be lower and they are not such profitable farms for the most part; secondly, there is a preponderance of livestock farms and, as it happens, both types of cross-compliance conditions—both what we call the SMRs, at the mandatory level, and the good agricultural and environmental conditions (GAEC) tend to bear slightly heavier on livestock farmers than they do on arable farmers, it is just the way it has turned out, I do not think that was the intention particularly. Thirdly, because these farms in the LFA tend to be more extensive they are much more likely to be experiencing scrub invasion; I go to Wales a lot and you see an awful lot of bracken coming up the hill, so there are much more likely to be breaches of good agricultural and environmental conditions in terms of not maintaining pasture and so forth than there would be in a more intensive area where that is very much part and parcel of everyday agriculture management, so we do see LFA farmers as being quite disadvantaged in a sense by this. When we then look ahead to how some future architecture of policy might work our perspective would be we do want to maintain farming in these areas, we do need therefore to maintain some incentives to do so which are appropriate. The fact that the farming in these areas is more difficult because of the various constraints we have referred to, means that we do need to address those constraints. We have seen in some sorts of future architecture quite a distinctive role for LFA-type payments because not only do we want agriculture which maintains public good and public benefits in a broader sense, but we are aware that there is a very particular slice of the European agricultural estate, if you like, which does have in general an environmental value and in general does experience a whole series of handicaps. That is different from the role of the single farm payment

which, as it now stands, is essentially a broad brush compensation for withdrawal of certain historic payments which were made on a different basis, and therefore the single farm payment is not in any way calibrated, targeted or adjusted to the sorts of conditions that we have got in the LFA. On the other side of the coin, looking beyond the LFA, we would see a role for a more precisely targeted, more administratively finely tuned agri-environment type of payment where we are asking farmers to follow this, that and the other condition quite specifically in a more contractualised environment and therefore they are getting paid for that. They are doing more than is normal farming whereas in the LFA we are talking about broadly keeping the system going as opposed to interfering with it. In the future you could say all this should be in Pillar I or Pillar II of the CAP and we could rearrange the way those pillars work, but we do see the LFA as relevant to a future European policy where these public benefits are an important strand.

Q218 Lord Livsey of Talgarth: Could I just follow that up? In that context if we look at the lifetime of the single farm payment it is said that it may in fact cease in 2013. That is certainly the view of some governments and even perhaps some elements of our own. If that happens then what you have just said becomes more and more relevant, I would think. Would you agree with that?

Mr Baldock: Yes, and we would be slightly surprised to see the end of the single farm payment.

Lord Livsey of Talgarth: So would I, but quite a number of people have a different view.

Q219 Chairman: Pleasantly surprised or unpleasantly surprised?

Mr Baldock: We do think there is a need for targeting agricultural policy in a new way in the future beyond 2013 to focus on what we want and we see a role for a measure like the LFA, modified potentially—which we can talk about—inside a spectrum of support.

Q220 Earl of Dundee: Let us take these fairly obvious focuses, firstly that of public good and secondly that of the hazard of abandonment. Do you think that common biophysical criteria as currently put forward by the Commission are sufficiently precise and accurate to serve those focuses?

Dr Cooper: As we are all familiar with, there are four clusters of biophysical criteria that have been proposed and they replace 32 currently existing criteria for the classification of 'Other' LFAs. At the moment we have a very broad range of criteria relating to productivity of land, economic performance and rural population issues, and we are combining them into four consistent criteria. We think that these biophysical criteria are quite

25 February 2009

Mr David Baldock and Dr Tamsin Cooper

accurate proxies of natural handicap. What we are not so convinced of is the extent to which they therefore serve as proxies for those areas that are under greatest threat of abandonment because natural handicap is just one of a whole confluence of drivers that precipitate agricultural abandonment, and we are not convinced they are sufficiently precise to identify those areas where environmental benefits are most prevalent.

Q221 Earl of Dundee: But precise or imprecise?

Dr Cooper: We think they are precise for the identification of natural handicap, but to extend that therefore to the identification of areas where environmental benefits are prevalent within that, we do not think they are sufficiently precise.

Q222 Earl of Dundee: Nevertheless, in so far as the fine-tuning of such designations will always remain desirable what degree of discretion would you leave or be inclined to leave to Member States?

Dr Cooper: We welcome the fact that there is a broad European framework, we think that is important. What we have questions about is the availability of data to fulfil these criteria. We have recently done a report on the conservation of agricultural soils across Europe—soils is one of the key criteria to which we are referring—and the availability of data on these sorts of soil characteristics is not consistent across Member States, so there are issues there. We welcome a common framework and in terms of the flexibility to the Member States we think that these biophysical criteria and the thresholds that relate to the biophysical criteria obviously will be regionally and nationally specific and will need to be defined by the Member States. In terms of having a whole suite of additional criteria we are not convinced necessarily of the value of that.

Q223 Earl of Caithness: On biophysical criteria—continuing from Lord Dundee's point—do you agree that the biophysical criteria as set out in the Joint Research Centre's report do not represent the natural disadvantages of cool, wet maritime climates that we have particularly here?

Mr Baldock: That is probably a fair comment. I have to say we have not had the opportunity to go over the JRC proposals with a fine toothcomb and we have not been involved in some of the meetings that have been taking place between the Commission and Member States, so we would be a bit reluctant to go into too many details. The danger of these biophysical criteria is in looking for some things that work at a pan-European level; there will need to be some fine-tuning around the edges.

Q224 Earl of Caithness: Unless the proposals from the Commission are changed Britain stands to be disadvantaged.

Mr Baldock: We have not actually got a proposal from the Commission yet, as I understand it, we have got this report from JRC inside the consultation document with a number of criteria, but the Commission has not actually yet said these will be the new criteria. We would want to have a look at the exact proposed criteria before we answered that question.

Q225 Chairman: Could I go a little bit further on that because it does seem that the criteria are discrete criteria, you either possess it or you do not possess it.

Dr Cooper: Yes.

Q226 Chairman: Surely another way of looking at it is actually to develop an index so that you have a little bit of X and a little bit of Y, you weight it and you can then locate that field almost based on where it ranks on the index.

Dr Cooper: That is certainly the existing system in countries like Germany, for example. They have got a complex index system that is currently in place which is based on similar sets of criteria, but an index system requires quite sophisticated data sets to support it and again it is not clear from the proposals of the JRC exactly how one would combine these different indicators and these quite different criteria.

Q227 Chairman: It would make it a more appropriate way forward to deal with the cold wet maritime climates if you get a bit of cold and a bit of wet that is recognised as giving you a sufficient disadvantage, rather than possessing one discrete characteristic.

Mr Baldock: Yes, that is a fair point. Looking at it from the Commission's point of view they have always got this difficulty in trying to find some kind of scientific bottom line. These criteria that the JRC have come up with have been derived from FAO criteria in turn and they are not going to fit all the circumstances in Europe. We would certainly agree with Lord Caithness that there are very genuine disadvantages in the UK which one would not obviously capture by an excessively inflexible system.

Earl of Caithness: Can I move from biophysical on to eligibility?

Chairman: Does anybody else want to come in first?

Lord Brooke of Alverthorpe: The moment has passed.

Q228 Earl of Caithness: On eligibility criteria the Commission wants to provide a framework. What sort of criteria would help identify the farms most at risk and where the benefits of continued agricultural land use are most evident? Do you have any thoughts

25 February 2009

Mr David Baldock and Dr Tamsin Cooper

of what types of farms and farming practices should be excluded?

Mr Baldock: We feel that if you are going to pursue the objectives of the regulation in a systematic way—to go back to this point about maintaining the countryside and sustainable farming—then the criteria should be to support those objectives; you have to work from the logic back to think through what kind of farms we want to support and which ones really are not needed to maintain the countryside, or are not sustainable or do not need to be supported particularly through this measure. The kind of measures or criteria that we would start to look at would be those that are able to distinguish more extensive farming systems and to exclude certain forms of intensive systems. We think there is particular value in trying to develop criteria which are able to distinguish those features of the countryside in quite a broad sense, so meaning land uses which are desirable from an environmental point of view, that would include semi-natural vegetation, it would include some of the features of very extensive arable systems like fallow, for example, and very dryland arable systems, terraces and things like that, aspects of the countryside which we are actually trying to maintain. We would also accept that that would require, in terms of distinguishing between the extensive and the more intensive, some kind of measurements, some kind of threshold which might be connected with stocking densities in a livestock system, but we would not want to see a system whereby you were trying to replicate agri-environment through these criteria, so setting very high and demanding standards for farmers through an LFA. We would want to do that through paying them more money through the agri-environment measure, so this is quite a difficult area in which to get these eligibility criteria right. The logic would be that if you have an area such as Ireland, for example, where nearly all farms in the LFA at the moment do receive a payment, and also in Luxembourg, some of those farms would not receive a payment under our model because they would be too intensive—they might be irrigated—so some of them would drop out. On the other hand, if you go to somewhere like Spain we think that at the moment a lot of these farms which do meet all these criteria are not getting any payment because of the way that the Spanish Government operates the system. To, if you like, align the actual implementation of the measure with the objectives it would require some changes.

Q229 Earl of Caithness: Can I follow that up? Do you think there ought to be two levels of criteria? Ought there to be a European level and then allow Member States to add their criteria underneath that?

Mr Baldock: We do believe there needs to be some European-level criteria and also a need to stop the Member States introducing some sorts of criteria which are not required and we do not think are very appropriate because they are totally socio-economic for example where you have to live within ten miles of the farm—things which do not belong in the regulation. We want to be able to prune out some undesirable criteria but we would accept, yes, that you need a second layer because you cannot settle these eligibility criteria at a European level; you need some guidelines and you need some transparency and scrutiny so that Member States would then develop their own second layer which would need to be looked at fairly rigorously in my view.

Chairman: Let us go on with Viscount Brookeborough because he is going to attack it from the other end and talk about harmonisation, which is the other side of the coin really.

Q230 Earl of Caithness: Could I just have one more question? If you have a European level and a Member State level are you not going, in 20 years time, to be in exactly the same position as we are now where the EU is off thinking on one plane, the Member States are still on another plane, you are going to do another report that says this has all got to be revised again?

Mr Baldock: It is a matter of trying to give the Member States a firm set of principles under which they can operate eligibility, rules without over-constraining them. This is not easy in a union of 27 countries, you are right, but we could do better than we are doing now; that is definitely possible.

Q231 Viscount Brookeborough: You have verged on the same subject as harmonisation but what degree of harmonisation of eligibility criteria would you regard as appropriate, or indeed to what should we aspire and is it possible, accepting the information which is currently available in most countries?

Mr Baldock: We think there needs to be some level of harmonisation, both for the negative reason that we think certain types of eligibility criteria should not be permitted and for the positive one that we think it would be a more effective measure if the eligibility criteria fitted within certain principles. On the other hand, we have not produced a set of eligibility criteria which I could present to you and defend before you, and it is not particularly easy to do—we would acknowledge that. There are some things where we would be very clear: certainly all farms with a significant percentage of semi-natural vegetation are going to be meeting bio-diversity criteria however you look at it. Something like stocking density is a little bit more difficult, we would say there has to be a maximum stocking density which is not too demanding; that would have to be regionalised and it would not be entirely straightforward. Most forms of

25 February 2009

Mr David Baldock and Dr Tamsin Cooper

irrigated land you would want to take out—unfortunately I have to use the word “most” because there will be some circumstances where more traditional forms of irrigation are actually very much part and parcel of the LFA. One would need to commit oneself to a process of developing those eligibility criteria with quite a lot of expertise around the table. It also means the Commission would need to be quite vigorous in appraising and looking over those criteria which requires a certain amount of effort at a European level which has not necessarily been associated with the LFA.

Q232 Viscount Brookeborough: How much willingness have you found in various different countries to move towards or to be happy to move towards a form of harmonisation, or are these different nations protecting their own pot and saying “We are not going to go further down this road; we want to run it as we have always run it?”

Mr Baldock: There is quite a lot of reluctance to accept a higher level.

Q233 Viscount Brookeborough: Can I ask a quick question about woodland? I know for the last 30 years there has been encouragement of really planting woodland on less favoured areas; how do you think that this fits into the future? We are so far under being self-sufficient in timber, with the lowest level of forestation within the EU, do you think we should continue to encourage woodland on less favoured areas and do you consider it to be agricultural in itself because, quite clearly, as a form of agriculture it is entirely different from the others in that you can put a cow in the field or a sheep in the field or dig it up with pigs, and it can revert fairly quickly. Once you actually put woodland on it, it does to all intents and purposes destroy the area completely as far as normal agriculture is concerned.

Mr Baldock: First of all many Member States do not encourage afforestation or woodland on less favoured areas; some do and some do not, there are quite large differences in policy on that inside Europe. Our view would be that there certainly is a role for more forestry in some parts of Europe, but that has to be balanced against the fact that we are quite dependent on highly extensive, agriculturally managed farmland for a lot of our biodiversity. We are losing biodiversity right across Europe, we have not succeeded in reversing the decline in biodiversity which is meant to be a European target for 2010, so we are very well aware that it is these extensive farming systems which are fairly critical outside the key nature conservation areas for maintaining that, so having a blanket forestry programme could be in exactly the wrong places in terms of biodiversity. This is one of these things where we have to be rather specific so that there is the right woodland in the right

place, rather than a sense of a blanket rolling out of one land use or the other and, of course, as we move into a carbon dominated world our balance of judgment in some of those places will also be different.

Q234 Chairman: Can I ask finally on this area of eligibility criteria and the discretion of the two-tier model that Lord Caithness mentioned how important are single market considerations in limiting the discretion that should be given to Member States?

Mr Baldock: They are in principle quite important but we have lived with rather different rules between Member States for quite a long time, and this of course applies in a large number of other areas of policy we could mention. So there is an outer limit at which the level of difference becomes intolerable but, being quite pragmatic about that, Member States are prepared to live with significant differences. If we find that there is a much smaller level of subsidy going into agriculture after 2013 I think the issue could become rather more sensitive because we have been in an era of relatively large payments and in future we may be on a rather more limited budget and people may be rather more sensitive to actually looking at exactly how other countries are supporting their farmers.

Q235 Baroness Jones of Whitchurch: We have been looking at the inconsistencies and the link between the less favoured areas and the payments that are made. In your report you said that there was a need for some fresh thinking on the payment formula; do you think that the proposals we are now looking at about additional costs and income foregone relating to the handicap will affect that fresh thinking, or do you have some other proposals on this?

Mr Baldock: If we had more clear-cut measures of what disadvantage was, if we had clearer criteria for the level of disadvantage, it would be easier then to calibrate payments against some more objective sense of precisely what the economic impact of disadvantage was on a farm; so we do see more precision in that area helping to get more consistency in payments. Secondly, we would say that the original requirement on Member States to provide appropriate compensation and not to over-compensate was quite vaguely worded and this new formulation, although pretty broad brush—talking about additional costs and income foregone—does provide if you like a framework whereby the Member States might present their calculations in a slightly more consistent form and be slightly more easily cross-examined by the Commission in presenting this data. So it certainly is not a guarantee that we are suddenly going to get a completely consistent or brilliantly calibrated set of payments, but if one looks

25 February 2009

Mr David Baldock and Dr Tamsin Cooper

at a slightly revised approach to the LFA we could reduce some of the level of inconsistency, yes.

Q236 Baroness Jones of Whitchurch: You were talking earlier about the grant being modified in some way as part of a broader spectrum of other grants—I cannot remember the exact words you used—but would you still have something called an LFA payment or would it just be absorbed into one of the other grant options?

Mr Baldock: That is an interesting point. For the moment there is a value in having something called a less favoured area payment because it does have a clear set of objectives, and for that to disappear into this morass of interpretations of the single farm payment could be rather dangerous. If we are building up, perhaps, a new architecture for payments to farmers beyond 2013 it would be quite helpful to keep a few of the building blocks where there is a reasonably coherent objective and we know what we are trying to do rather than to submerge those. In the longer run one can see quite a lot of different ways of actually rearranging payments, where this might be a component in perhaps a more comprehensive kind of support scheme rather than being a freestanding thing on its own—it might be one element in a multi-tier type of system. We are not of the school of thought that the LFA should be swept away and then we start again with a totally new one.

Q237 Viscount Ullswater: In your document written in 2006 you found that payment rates across and within Member States have varied significantly—in fact you state that in 2004 there were 156 payment rates varying from £10 per hectare up to £800 per hectare. Do you see any changes envisaged as part of the present review? What you said was so many had been built up on various different paths and there was path dependency; is that likely to change?

Dr Cooper: The answer to that question is quite complex, like many of the responses. There is a huge diversity of payment rates currently in operation and we found in the report that they are calculated in a whole variety of different ways within four broad criteria that are set out in the regulations. One of the bases for the calculation of payments is the relationship to the severity of handicap and if you make the measurement of handicap more consistent in relation to these four biophysical criteria then the link between the severity of handicap and payment inevitably becomes more transparent, so in that respect the proposals go some way to addressing this diversity of payment rates. It was also linked to eligibility criteria and we found that there were certain top-up payments available for some Member States to adhere to different eligibility criteria and, therefore, as soon as you have got flexibility in

eligibility criteria across Member States that increases the variation. In terms of the current programming period if the new scheme begins in 2010 as stipulated in the regulation Member States will be operating within a fixed budget and so the flexibility to radically change payment rates for this programming period up to 2013 are quite constrained, so to the extent that there will be an immediate path dependency with existing rates, that is probably quite inevitable. What happens beyond into the next programming period is that there could be more of a break with past levels of payment. That said we have seen over time, over the history of the measure, changes in its objective, changes in the designation criteria, and still payments have followed certain trajectories.

Q238 Viscount Ullswater: It is one thing that the Court of Auditors paid special attention to and obviously if it is going to improve then something must be done because, as you indicate, there are lots of rather quirky little things as to why payments vary even within one scheme.

Dr Cooper: One of the advantages of these clear biophysical criteria is to establish this transparent link between the payments and the severity of handicap, and I think that helps.

Q239 Earl of Caithness: I want to be clear in my own mind on one thing and ask you another question. So far as the LFA payment is concerned you believe that that should only be for agricultural operations and therefore anything else environmental should be covered by a different payment scheme. If you want to tighten the classification and eligibility criteria should anything be done for the farms that just fall outside that boundary, because there will be a lot of marginal farms that exist on LFA or are helped to exist on LFA now who will be taken out. Should something be done to help those people as part of compensation or as part of a broader look at farming?

Dr Cooper: In response to the first part of the question we do agree with the objectives that are set out in the regulation in terms of this is about the maintenance of the countryside through the maintenance of support for the continuation of certain types of agriculture. With the introduction of a new set of classification criteria, coupled perhaps with some principles defining eligibility, there will be inevitably some redistribution and the beneficiaries of the payments may change from the existing pattern of recipients. You say some may fall out but in some Member States as we discussed earlier, like in Spain or some of the other southern Member States, there may be some farmers that fall into the net, so there is a two-way dynamic to this. This is always one of the problems in terms of developing targeted schemes,

25 February 2009Mr David Baldock and Dr Tamsin Cooper

that there is inevitably at some point a cut-off point, and some farmers fall within it and some farmers fall without; whether that is a spatial designation or another form of targeting there are always these problematic boundaries. What we think about the future of LFA policy is that we support its continuation within a broader framework of support for farming, where there is complementarity between the different objectives. For those farmers that fall outside it, therefore, there will be other instruments available within a more coherent policy framework.

Mr Baldock: If I could just add to that, some farmers would fall out of it—you might say that a number of dairy farmers would fall out of it for example. What would need to happen in that situation, if you did see a lot of losers from the redistribution, is that you would need to have arrangements which might be tapering changes over time—I do not think anyone would really argue for a lot of sharp shocks to the

system—and also one would want to see how other bits of the rural development regulation were playing out. For example, the Germans have put great emphasis on supporting dairy farms in the LFA as part of the recent Health Check on the CAP and it is not clear to many of us exactly what that is going to mean, but you could see, for example, that that kind of emphasis could actually compensate some farmers coming out of LFA. One would want to see some real numbers, therefore, and see whether negative impacts were particularly concentrated in certain sectors, but having a brutal change in policy is not desirable; one would want to see some tapering.

Chairman: You do not want a system where everybody gets a little bit; that is the last thing we want. Thank you very much, that really was exceedingly valuable to us and the great thing was the clarity of what you said in your evidence; that will be very, very helpful so thank you very much indeed.

WEDNESDAY 4 MARCH 2009

Present	Arran, E. Brooke of Alverthorpe, L. Caithness, E.	Cameron of Dillington, L. Sewel, L. (Chairman) Ullswater, V.
---------	---	--

Examination of Witness

Witness: MR ALOIS BAUER, Agriculture Counsellor, Germany, examined.

Q240 Chairman: Thank you very much for taking the time to come in and help us with our inquiry on Less Favoured Areas. This is a formal evidence-taking session of the House of Lords Select Committee and a note will be taken. You will get a copy of the transcript within a very short while when you will have the opportunity to revise it and take out any slips or mistakes. The best thing to do, I think, is a question and answer conversation. I think you have seen the list of topics we want to cover.

Mr Bauer: Yes.

Q241 Chairman: Could you begin by outlining for us the LFA in Germany in terms of the proportion of land covered by it, who is eligible to receive LFA payments, how land is classified and, I suppose, critically, what proportion of farm incomes in the areas that are covered by LFA payments is dependent upon LFA payments themselves?

Mr Bauer: I will, of course, help myself with papers from the experts in the ministry.

Q242 Chairman: We are all right then, are we not!

Mr Bauer: As you know, I am responsible for the whole range of issues the ministry is covering, so here in the Permanent Representation I am dealing with everything from agriculture, food law, fisheries to consumer protection. Land designated as LFA has an important proportion in Germany. Under the legal definition we have almost ten million hectares out of roughly 17 million hectares of agricultural land.

Q243 Chairman: Ten million out of 17 million?

Mr Bauer: Yes, but not the totality of LFA is receiving payments. This is due to the different implementation which is done by the Länder in Germany. Specific payments are paid only for 4.3 million hectares. This, I think, makes it clear that the relationship is a little different. For the designated LFA area the exact figure would be 9.992 million hectares. The largest part is what is classified under Article 19, which is generally Less Favoured Areas. We have 370,000 hectares of mountain areas, then 199,000 hectares of areas with specific handicaps and 567,000 hectares with specific environmental handicaps. This is the total picture for Germany.

Q244 Chairman: Have you any figures that give an insight into the extent to which farmers in receipt of LFA payments are dependent upon LFA payments, so the proportion that the LFA payment represents of total farm income?

Mr Bauer: I have a figure which is not very new. It comes from our Agriculture Report in 2007 and it says that within the areas the LFA payments make up 11 per cent of the farm income. This is an average figure and you must realise that agriculture in Germany is very diverse between the Länder and the areas.

Q245 Chairman: So there will be some farmers who will be pretty heavily dependent upon LFAs, will there not?

Mr Bauer: Yes. I do not have a table where it shows that, but the average would be 11 per cent.

Chairman: Let us move onto the interesting issue of where the Länder fit in and the governance of the system.

Q246 Lord Brooke of Alverthorpe: This is following up some of the statistics which are given where the numbers eligible and the numbers actually paid are quite significantly different and, as you mentioned, this varies depending on the policies pursued at Länder level. Could you describe a little bit more how the issue is approached at Länder level and how the take-up and the implementation of the policy vary between different parts of the country?

Mr Bauer: The division of competences in this sector is governed by our Basic Law. For agricultural structures we have what we call *Gemeinschaftsaufgabe*, the joint task of the federal level and the Länder. This is why we have a framework plan for rural development which is decided together by the Bund and the Länder, and within this framework plan the Bund finances 60 per cent and each Land then takes up the rest. Within the framework of this federal plan the Länder have a broad range of common criteria they can choose from and a broad range of measures, for example, the level of payments, payments per hectare and so on. This is the joint framework for the whole of rural development and within that we also have the LFA scheme. We have Länder which do not implement the payments under the LFA scheme. We have three

4 March 2009

Mr Alois Bauer

Länder, among them, Lower Saxony, which is quite important for agriculture in Germany, and Schleswig-Holstein, which do not have payments under the LFA scheme.

Q247 Lord Brooke of Alverthorpe: So it is possible that they do meet the criteria but a political decision is taken?

Mr Bauer: Yes. It depends sometimes on the priorities of available financing.

Lord Brooke of Alverthorpe: What is the feeling amongst the farmers then if they are in one of the Länder where they know there are criteria which they could meet and they are not being paid by anyone?

Q248 Chairman: They are not very happy!

Mr Bauer: Apparently it is not a problem for the Länder governments to implement the rural development plan without LFA payments. Maybe there are groups of farmers who would prefer to have the payments too, but I think they accept that in their regions the conditions, the structures, the landscapes are different. Among the Länder the average payment per hectare varies. For example, in Bavaria it is around €100, in Rheinland-Pfalz it is €56, and in Saxony it would be €15 on average, so there is a broad range of payments per hectare too. This reflects different conditions the Länder set for receiving the payments. We use an agricultural indicator ("Landwirtschaftliche Vergleichszahl") which combines the quality of the land with socio-economic factors and also climatic factors, so this is a combined index which we traditionally use to classify agricultural land and compare farms with other regions. The joint framework only says that the payment has to be differentiated according to this indicator, but in principle it leaves to the Länder how they implement it and how they value each step of this classification.

Q249 Lord Brooke of Alverthorpe: So at the end of the day, presumably, if the Länder are looking for budgetary savings they ignore those factors and they do not make payments just the same?

Mr Bauer: No. As we see it, different Länder are making different levels of payment for these steps. They even start with setting higher levels of this indicator for the entry level, so to speak.

Q250 Lord Cameron of Dillington: Is it done on a farm-by-farm basis or is it done on an administrative area basis?

Mr Bauer: It is done on an administrative area basis. I have some figures here, just to compare them, for Baden-Württemberg and some other Länder, for example, Hessen. They are very similar. Baden-Württemberg differentiates on grassland where in mountain areas they go up to €150 per hectare. In a

special area, in the Allgäu, their limit would be €140. In other less favoured regions they differentiate with an indicator. In regions where the indicator is less than 14.9 points farmers can receive €120 and in regions with an indicator from 30 points upwards farmers can receive €50. In the respective areas in for example, Hessen, they do not start with 14.9 points; they start with 16 points and they do not have €120, they have €146 as a limit. The €50 payment, which is in Baden-Württemberg starts with 30 points, in Hessen begins at 25 points. That is just to illustrate that there is quite a variety among the Länder in how they implement these provisions.

Q251 Chairman: And that is generally accepted? That does not become an issue of tension?

Mr Bauer: No. We appreciate our federal system. Of course, sometimes it depends on the budgetary situations and priorities of the Länder which are different within Germany. Sometimes it is interpreted as the Länder government's different attitude towards agriculture, towards the sector. I remember it was a small issue in some of the elections we had in the past, but we still have this wide range and people accept it. They accept policies which are adapted to the different Länder situations.

Q252 Earl of Caithness: Is there any evidence of farmers going out of business and land abandonment as a result of the different Länder taking different views?

Mr Bauer: I do not think so. Farmers are going out of business, of course, but until now the proportion of land being abandoned is very low in Germany. Usually the first step out of business is not simply stopping doing agriculture. It is more typically to have some income combination, to go for additional income, be it tourism or be it outside agriculture. In general, and relating to one of the questions I received, our experts tell me that the goal of the system in principle in Germany has been achieved, to avoid land being abandoned to a large extent.

Q253 Viscount Ullswater: That really goes to the heart of my question because this is the rationale of the whole scheme. What do the federal government and the Länder see as the rationale for the LFA payments? Is it to keep agriculture in place, is it to keep the environment in place, and is it properly targeted so that it is delivering that return? What are people paying for?

Mr Bauer: That is a question you can always discuss from different angles. In a scheme which has a certain average design, which is not really targeted to each individual situation of an individual farm, of course, you may in principle expect that there is some room for improvement concerning the effectiveness of the payments, but in general the aim as we see it within

4 March 2009

Mr Alois Bauer

the Less Favoured Areas, is to keep the land under cultivation as much as possible. That is our goal, because we think this is what then delivers the other goals, which are maintaining rural communities alive, keeping the land in a good environmental condition and avoiding abandonment in some regions which then would be followed by afforestation, so what we call keeping open the landscape. It is also to avoid negative effects, for example, by farmers trying to react in the way of over-intensification because this also could be an effect when you are under pressure. You have in principle two paths which could be followed. The first would lead to extensification and at the end abandonment, and the other would be intensification. There are limits to intensification, of course, especially in these areas, but you can never exclude the possibility that somebody will try it. We have seen that, for example, in milk production, and we are also trying to avoid with the possibility of these payments an intensification not adapted to the location..

Q254 Viscount Ullswater: So you see it still as an agricultural subsidy rather than environmental subsidy?

Mr Bauer: Yes, but delivering environmental goals also, by maintaining the agricultural land in good condition.

Q255 Viscount Ullswater: In a viable farming condition?

Mr Bauer: Yes.

Q256 Earl of Arran: Knowing, as you do, the intentions and the objectives of the LFA scheme, how do you see them either differing from or complementing those of the existing CAP instruments, such as the single farm payment or agri-environment schemes?

Mr Bauer: If you take the agri-environment schemes since the latest developments, agri-environmental schemes only pay for what you have to invest in addition, so there is no income effect in principle. You achieve a higher level of environmental standards and the cost you have is paid via the environmental schemes, so for the farm income in principle it should be a zero sum game. On the other side, the direct payments, which contribute to a very large extent to the income of farmers, first of all they do not differentiate between areas. In a sense direct payments are the basic income instrument we have, with, of course, links to cross-compliance, and by those linked to environmental benefits too, but they are not specifically designed for the specific disadvantages of certain areas. Maybe we can say that direct payments and Less Favoured Areas are the same types of instrument regarding their income

effect, whereas the environmental programmes as we see them normally have no income effect.

Q257 Earl of Arran: By and large in Germany as a whole is there great pressure from the farmers to come to the negotiating table and renegotiate the LFAs?

Mr Bauer: No.

Q258 Chairman: They prefer to keep things as they are, do they?

Mr Bauer: Yes. I suppose farmers are more on the conservative side relating to the scheme.

Q259 Chairman: "It is our money. We'll keep it. Go away", yes.

Mr Bauer: You have heard about the very large proportion of land which is under the LFA area in Germany even if they do not all receive payments. Maybe it is also because the design of the system is not so bad at all.

Q260 Chairman: Can I put to you that one way forward is to keep single farm payments and put something like LFA on top of the single farm payment for the disadvantaged areas, move it as part of a Pillar 1 support?

Mr Bauer: No, we are still not very far in the discussion about future agricultural policy here, and thus I should avoid going into details, unfortunately. We are preparing for it, of course, but we still have our internal procedures which have to be done before we come to a position on this.

Q261 Chairman: That is the sort of issue you identify as being part of a future debate?

Mr Bauer: Yes, of course.

Q262 Earl of Caithness: I would like to change the subject to the suggested biophysical criteria suggested by the Commission. What are your government's views on this? Do you agree with the Commission or would you like to see other or alternative designation criteria, and if you do is that going to have any effect at all in Germany?

Mr Bauer: Our experts think that the biophysical criteria proposed by the Commission are possible criteria which we can use, in other words, that we do not reject them. We would have to discuss the threshold values which you have to pass in order to be classified, of course, but in principle the criteria are in our view valid. The first step, to classify the bigger areas according to such criteria, would be possible at EU level, we think. The next step then, to refine this classification, we think should be done at national or even regional level because it would then be rather difficult to have sufficiently sophisticated criteria at an EU-wide level. In principle we think these

4 March 2009

Mr Alois Bauer

biophysical criteria are valid but we are not sure if they are so very far away from what we have achieved with the indicator which we have used, because into this indicator we also feed things like climate, rainfall, slope, et cetera. We have done a test at a very general level with these criteria. There would be changes in the single areas, but it is not that we only lose areas. It is more that in some areas there is also a shift to new areas and out of existing areas. They have done the test in a few of the Länder and apparently the overall difference would not be very huge.

Q263 Earl of Caithness: But besides the EU criteria you would still like a separate level for national or regional criteria?

Mr Bauer: Yes.

Q264 Earl of Caithness: So that the Länder can still be flexible, as they are now?

Mr Bauer: Yes.

Q265 Lord Cameron of Dillington: That brings me on to my question, which is about the eligibility criteria. The Commission now are obviously seeking to put in a framework for eligibility criteria to determine access to aid. I am just wondering what sort of rules you might like to see within that framework, what criteria you might like to see, and what sort of harmonisation across Europe you would like to see within that, and whether any farms or any farming practices should be excluded from the eligibility criteria.

Mr Bauer: I will begin with the last because it is easier. We already are excluding now in our national framework programme certain areas which are classified as intensive agricultural production areas, and this would be maybe the same as we would like to see at the EU level, a general provision saying intensive agricultural production should be excluded.

Q266 Lord Cameron of Dillington: But what do you mean by “intensive”? Is ordinary dairy intensive?

Mr Bauer: No, not ordinary dairy. We would exclude, for example, maize but also specific intensive cultures and this exclusion we already apply in our programmes. But, again, at EU level it might be a general provision and then leaving room for the Member States and the regions to decide themselves how far they go.

Q267 Chairman: So you say intensive, no, but leave it to the regions and the Member States to decide what “intensive” is?

Mr Bauer: Yes.

Q268 Chairman: That raises single market issues though, does it not?

Mr Bauer: As I said, we are doing that already. Of course, nobody would exclude, for example, ecological production or production types which are clearly extensive. We have a lot of Community regulations defining what is extensive, so nobody would believe you if you excluded extensive production. As I said, corn production and wine are intensive. Sugar beet would be intensive too.

Q269 Viscount Ullswater: But you would not exclude part-time farming as a classification from receipt of payment?

Mr Bauer: No, especially because, as I said before, part-time farming, while seen sometimes as a first step out of farming from, let us say, the farm level or the family level, it is very valuable for keeping land cultivated.

Q270 Lord Brooke of Alverthorpe: We talked earlier about the conservatism of farmers and that they probably would not wish to see any changes taking place in the present basis on which payments are made. However, if the terms of eligibility and so on did change and some farmers had to lose the present entitlement or have reduced entitlement, would you see a case being developed for them to be given some parachute assistance, so to speak, whilst they adjusted to the changes?

Mr Bauer: No, we have not yet developed a detailed position on that, but if the areas were considerable then certainly we would be in favour of some transition scheme in order to help them over the loss of this payment. The direct payment you lose has an immediate and direct effect on your income. That is not something we usually do without some phasing out.

Q271 Lord Brooke of Alverthorpe: You would envisage some form of compensation?

Mr Bauer: Yes.

Q272 Lord Cameron of Dillington: Can I go back to the previous question that I asked you, and I know you are speaking for Germany but consider the rest of Europe? To what extent do you think the eligibility rules ought to be harmonised? LFAs are very different in every country and there is a case for Member States being able to say, “These are the ones that are important in our country”, but on the other hand that makes the Commission rather nervous, and I was just wondering what position your country might take on this.

Mr Bauer: We think that harmonisation is achieved by the common criteria of designating the areas as such, but then would favour not to have too detailed rules about the eligibility of individual farms. Of course, and I think the Commission had some examples of this, you can always have some

4 March 2009

Mr Alois Bauer

discussions on the average harvest or something like that, but the value added of such an exercise for harmonisation, I think, is not too big. We are in favour, once the areas are designated, of also having farms in the area being eligible, once they fulfil the criteria, of course, but not in the first step of designating the areas and then again designating certain sub-areas which are eligible or not. We think that by having too many detailed EU-wide criteria we would end up in a patchwork of sub-levels of areas, and for the farmers in the regions we think it would be a very difficult situation because then you would have, of course, many situations of eligible and not eligible neighbouring areas. Also from an administrative view it would not be very easy. It would be much more complicated than now.

Q273 Lord Cameron of Dillington: Moving on to the payment formula, at the moment it is based on “additional costs and income foregone related to the handicap”. Do you think this is a good formula? Do you think it is going to change? Obviously, with the different payments you have already described that happen in Germany the Länder are taking different views. Do you expect to see more convergence on an EU-wide basis in dealing with this issue?

Mr Bauer: No. We are happy with the principle of “additional costs and income foregone” because this in our view is the formula which should be applied, even with the differences among the Länder, because in the Länder the differentiation is based on objective criteria on the basis of this indicator.

Q274 Lord Cameron of Dillington: Because essentially it remains an agricultural subsidy?

Mr Bauer: Yes.

Q275 Lord Cameron of Dillington: And the environment is just a spin-off?

Mr Bauer: Yes, and we think there are limited possibilities for having such an EU-wide harmonisation because this type of measure is typically very regionalised. It is designed to take into account the different and difficult regional situations, so we do not think that beyond this formula and beyond the flexibility we have now there should be too much convergence on the basis of unified criteria, for example.

Q276 Earl of Arran: I am afraid it looks as if you have to go mapping in order to arrive at some kind of assessment of what the impact will be of these new proposals if they come about. You have got to draw a map of how they will exist in the future. Do you have a mapping procedure? Do you have a map in existence at the moment of the land under LFAs and do you have the data or do you have to prepare one from the beginning?

Mr Bauer: You mean for the existing scheme?

Earl of Arran: Yes.

Lord Brooke of Alverthorpe: No, for the new framework.

Q277 Earl of Arran: For the new framework. Do you have one for the existing framework?

Mr Bauer: Yes, of course, for the existing framework we have maps, also the Commission has maps, but for the new framework we have done only a very rough estimate for a few Länder in Germany, and the ministry has the data, and this is where we came to the result that the overall differences in relation to the existing system are not too heavy. This was done on the basis of five Länder, including western and eastern Länder and in principle those with the biggest areas.

Q278 Lord Brooke of Alverthorpe: Do you think there is a real public benefit from the scheme or do you think there could be better alternatives?

Mr Bauer: There are always better—no: there are always alternatives. I remember a discussion with university experts about the development of the basic idea behind agricultural policy, starting with, say, “steering” the markets, then decoupling, and a next step which would be “targeting”. This was, of course, a discussion about direct payments, not especially the LFA payments. The experts developed an idea of how future payments at a very regionalised level could be very targeted, really oriented only towards what society would get for a certain payment, and, of course, this would be an alternative. But you always have to keep in mind that you have to administrate that. We would need a lot of administrations at regional level to have a very sophisticated and very refined alternative payment system, and so, even if we want to have a more targeted system, we have to keep in mind that it must be possible for the administrations to run it and control it. The system we have, the LFA system, is not something new. It has a long history, it has evolved, and this is maybe why, at least as we think, it has very high merits, and, to answer your question, we believe that it delivers value for the public.

Q279 Chairman: Finally, what is your feeling, your perception, of how difficult it will be to get agreement among the Member States on this topic? Do you think it is one where it will be relatively easy to get agreement or do you think it is one where there are real differences among the Member States and it will be controversial and difficult?

Mr Bauer: No. Until now it did not look too difficult. But we see that in discussions about other aspects of agricultural policy, especially new Member States feel that they need some compensation, as they feel that

4 March 2009

Mr Alois Bauer

the level of payments is too low in their states. If such a discussion comes into the LFA topic then it may be more difficult. If it is done on this technical level, as the Commission has started now with its consultation paper, I think it should not be too difficult.

Q280 Chairman: But the fear is that it will move away from being a technical exercise?

Mr Bauer: Of course.

Chairman: Thank you very much indeed. That was very helpful and very clear.

WEDNESDAY 4 MARCH 2009

Present	Arran, E. Brooke of Alverthorpe, L. Caithness, E. Cameron of Dillington, L.	Dundee, E. Sewel, L. (Chairman) Ullswater, V.
---------	--	---

Examination of Witnesses

Witness: MR ANDRZEJ BABUCHOWSKI, Agriculture Attaché, Poland, and Ms KARINA MAKAREWICZ, examined.

Q281 Chairman: Can I first of all thank you very much indeed for coming and helping us with our inquiry into the revision of the Less Favoured Areas scheme. We are a Committee of the House of Lords and this is the topic of one of our inquiries. We will be issuing a report at the end of the inquiry with our conclusions. As it is a formal evidence session there will be a transcript taken. You will get a copy of it within a few days, hopefully, and you can look at it and take out any mistakes or errors that have crept in. My first question has been very well answered by this piece of paper we have. The only trouble is that we do not understand the second box because the number of farms supported with LFA goes from 116,552 to 1,264,756, and then down to 128,001. Are those figures correct or has there been an error?

Mr Babuchowski: My colleague is a specialist. She is just looking at it.

Q282 Chairman: I think there are problems with the whole of box two because there are difficulties with a number of the figures.

Mr Babuchowski: Yes. In fact, that was delivered to the ministry and I asked them whether they were correct and they said they were correct. I could not understand why they were correct. In fact, 2006 was the end of this period, but anyway we will try to help you and maybe correct it.

Q283 Chairman: Perhaps you would have a look at it
Mr Babuchowski: Yes, because for me also I could not believe that in 2007 so many quit again with LFA. It mentions the lack of data. They are not available because our statistical office has not produced them in the statistical year book.

Q284 Chairman: Okay; that is fine. If you could have a look at that and clear that up that would be super.

Mr Babuchowski: Yes, we will.

Q285 Chairman: The next question I have is about farmland abandonment. Is that a problem in Poland? Do you get people not just leaving agriculture, which I assume is happening, but the agricultural activity being lost and land just being left without cultivation?

Mr Babuchowski: In fact, we have observed this problem starting from the 1990s. After the economic transformation many people abandoned land and there were several reasons for that. Some of the reasons were economic. They did not have enough money to support activities and many state supports ceased from that period. Secondly, some of the tenants took a huge amount of formerly state-owned farms, hoping that they could manage to do farming, but they could not. The third was that at the beginning there was a very high interest rate on any credits given not only to the farms but also to the farmers, and this led to a period of very high inflation. Later on what happened was that the accelerating economy made it more attractive for many people to work in industry or services, especially those living near the cities, so they abandoned the land. The trend was reversed from 2002. In 2002 we had the highest percentage of abandoned land when, if I remember, about 17 per cent of land was abandoned. Now the trend has started to be reversed because people knew from that very time that we were going to join the EU and then there would be some payment.

Q286 Chairman: Something called the Common Agricultural Policy!

Mr Babuchowski: Yes, the Common Agricultural Policy, but what we found also was that there was no one factor which influenced abandonment of the land. Usually there were several factors. In most cases these were physical factors, especially concerning the climate, the poor soil and the short vegetation period which mean low land productivity, but there was also another factor, the close proximity of another source of income. If these factors co-existed abandonment was much higher. Also what we should say is that this phenomenon occurred mostly in north east and north west Poland as well as in southern Poland. The north east and north west areas were not very highly populated anyway. In southern Poland it was a little different, but perhaps the factors which influenced them were also very different. In southern Poland we have very small farms, so they definitely could not support life or activities, and we have quite substantial, well developed industry in southern Poland, so it is not too difficult for them to move

4 March 2009

Mr Andrzej Babuchowski and Ms Karina Makarewicz

there. As for northern Poland, on the other hand, our biggest farms are in this region so the reason was more economic; they did not have enough resources to support this because the average area of farms in north-western Poland is now 25 hectares. This may seem low but in Polish conditions it is relatively big, but the lack of capital was the problem.

Q287 Lord Cameron of Dillington: Does anybody start farming in Poland? Does anybody buy a farm in Poland?

Mr Babuchowski: Oh, yes.

Q288 Lord Cameron of Dillington: So is the land being abandoned or is it just that they are going out of farming?

Mr Babuchowski: This is quite a good question. Even if people abandon the land they do not sell it.

Q289 Chairman: They stop farming but they keep the land.

Mr Babuchowski: Yes, they keep the land. If they are tenants sometimes they stop farming but they do not want to give the land back to the owner, in most cases the state agency, but also if somebody wants to start to farm, yes, she or he could do this, and, of course, she or he could buy the land either from a private person or from the state agency, but definitely it is very difficult because the business is very capital-intensive now.

Q290 Chairman: In percentage of income terms how important are LFA payments to farmers who receive them? Is it a very significant part of their income or not?

Mr Babuchowski: Yes, it is. First of all, we must say that direct payment in Poland was set at rather a low level because our land productivity per hectare was calculated slightly below three tonnes per hectare, 2.98, so it was very low, which gives a little more than 300 zloty per hectare. Secondly, we have phasing in of our payments, so we started in 2005 with 25 per cent plus 30 per cent national top-up, but this 30 per cent of national top-up is the highest percentage and it also depends on the willingness of the government or the availability of funds. For example, this year farmers are getting this 30 per cent and for next year perhaps also, so together they got 50 per cent, which is for this year, and then 30 per cent top-up, which is 80 per cent, but in some other countries there are some cuts because of the crisis and so it is 22.5 per cent, 17 per cent; it depends on the country. Therefore, starting from this level, this payment for LFA was very substantial. I have some data, so, for example, the single area payment basic for 2008 was 339.31 zloty, let us say 339 zloty per hectare, but from the LFA, for example, in mountain areas they could get 320 zloty, which means almost double, which will

not be the case in the future when you have got 100 per cent, but now it is double. Even in the lowlands, in zone one, it is 179, and in zone two it is 264. In an LFA with a specific handicap it is 264. Anyway, it is more than 50 per cent of what they got from direct payments, so it is very substantial.

Q291 Chairman: And how much would they get from the market, roughly? Any idea?

Mr Babuchowski: For what?

Q292 Chairman: For selling their product. How much would they get from the market?

Mr Babuchowski: That depends what is the production.

Q293 Chairman: Yes, I know. Have you got an average figure to sit with those single farm payments and LFA payments?

Mr Babuchowski: No, because you just want to know how much the farmer can get from one hectare, but that depends on the production, so let us put it that way. Let us talk about this year, because last year there was a different situation. This year, for example, the average productivity for wheat will be about four tonnes per hectare, and the price is set now slightly above 400 zloty, 440/450, so when you multiply by four it will be 1,800-2,000 zloty. Then the payment which they get from the LFA in this respect will be about one seventh or one sixth, so 16 per cent. That is only for LFA.

Q294 Chairman: That is fine. It just gives us an idea.

Mr Babuchowski: Also, when you think about rape seed it will be different, much higher, but I just say about grain.

Chairman: Let us move on to the rationale of the scheme.

Q295 Viscount Ullswater: Could you explain to us why the Polish government are using the LFA as a scheme and what are the benefits for the public out of it? Is it properly targeted to the right areas? Is it to sustain agriculture? Is it to give environmental landscape value? What is the public getting from this subsidy?

Mr Babuchowski: All of them.

Q296 Chairman: Which is the most important?

Mr Babuchowski: The most important for us is to avoid abandonment and migration, so to keep the population in those areas. We can use the rural development programme for infrastructure but what happens to this infrastructure while investment is down and people migrate somewhere else and we have thousands or millions of euros somewhere in the ground as a pipeline but nobody is there? For us, therefore, the most important thing is to avoid

4 March 2009

Mr Andrzej Babuchowski and Ms Karina Makarewicz

migration. It also means that we want to keep the agricultural character of the rural areas. The policy is directed rather to family farming, this type of activity, and if the farmers are working on sandy soils with very low productivity there is a very high risk that they will abandon the land, so this payment keeps them in these areas because they can improve productivity but they can also have a comparable income to those living in areas with better soil or a bigger farm, et cetera. We must also not forget about the environment because the animals and birds live in areas which are used by farmers, they do not really live in wild areas, so when farmers leave those areas the eco system changes and that which exists disappears, so we want to preserve the eco system which exists, and also the landscape. Therefore, we think this is very important for us everywhere, but especially in the mountain areas, where by their nature the farms are very small, and in northern Poland where you have a very nice landscape. There are plenty of forests, lakes, et cetera, so it is a recreational area, and these areas are the most prone to abandonment and migration.

Q297 Viscount Ullswater: So it is in order to keep the viability of the farms that this payment is necessary?
Mr Babuchowski: Yes.

Q298 Viscount Ullswater: And in doing so it preserves the landscape that you wish to preserve?
Mr Babuchowski: Exactly, and also helps them to keep up good agricultural practices.
Ms Makarewicz: Exactly, we have to encourage that.

Q299 Viscount Ullswater: That is important?
Ms Makarewicz: Yes.

Q300 Earl of Arran: Knowing as we do the implications and the intentions of the LFA, how in your opinion do they differ from, or indeed complement, those of other CAP instruments, such as single farm payments or other agri-environmental schemes?
Mr Babuchowski: We think there is a very positive synergy between the activities which are done between the single area system and this area-based scheme because we can continue agricultural production in some handicapped areas and so we can also improve the competitiveness of those farms. We also observe that there is a very high correlation between farmers applying for the LFA scheme and the environmental programmes, so we think this is very important. We also think that this helps farmers to preserve the extensive way of production and sustainable production. Otherwise they could turn to more intensive forms of production. The income from this environmental issue and LFA payments

plus the national payment therefore allows them to be more competitive.

Q301 Earl of Arran: Taking this into account, are your farmers very anxious to come to the table to negotiate a new LFA agreement or are they content with the status quo?

Mr Babuchowski: That is a very tricky question because the new LFA system perhaps will be in different areas from the existing one, so it depends to whom you direct the question. Earlier, when we were trying to use the present system, some farmers said, "My land is almost as good as another person's and he is getting the LFA payment; I am not", because he is just in another community which is not covered by it, and some farmers say, "My land is partly in this community and partly in another. I am getting LFA for part of my land but not for the other part. What happened?". There were always these questions, who can gain and who can lose, but generally I guess the farmers will be getting it as a whole in order to maintain the system.

Q302 Lord Brooke of Alverthorpe: Looking to the future and the discussions that are going to take place on further reform of the CAP, at least some of us hope there will be some and there will obviously be linked budget reviews as well, to what extent do you think these might have an impact on LFA payments, and do you have any ideas on the way in which you think LFA payments should develop in the future, notwithstanding what you have just said about your farmers' interests?

Mr Babuchowski: What do we think generally in Europe? That the level of payment should perhaps be maintained at the same level. We do not say anything about the distribution. Perhaps the distribution as a result may change because there are no priorities, but we think that this is one of the most important payment activities and we think that it should be maintained. This is also very important for us because this activity was very effectively realised in Poland. Besides, it is very simple and it is well accepted by the farmers, but also it is important for small and low income farms. If they are deprived of this activity then we will have problems in keeping our rural areas agricultural, so we think it is very important that this payment should be maintained, if possible at the same level.

Q303 Lord Brooke of Alverthorpe: Looking at your statistics, I see that the number of claimants has increased between 2006 and 2007 because there has been a change in the eligibility terms, a re-definition anyway. Do you see this continuing, the numbers going up?

4 March 2009

Mr Andrzej Babuchowski and Ms Karina Makarewicz

Mr Babuchowski: Oh, no, because the LFA area has increased a bit in 2006 due to the one-time change in delineation methodology which went down much lower than NUTS-5 level, thus is even more transparent and fair at the moment.

Q304 Earl of Dundee: For the designation of intermediate LFAs what does your government think about the common biophysical criteria that are currently proposed?

Mr Babuchowski: First of all, I was requested to say one thing, that we are very happy with the system which exists. This is a very curious situation. Usually we are backward. There was something in the EU which was much better developed than in our country and we always were requested to catch up with those who were the best. Now we, Germany and Austria have perhaps the best system and quite simple, and now we are going to retreat a little because there are some difficulties, so it is a little awkward for us.

Q305 Earl of Dundee: So you do not want anything different, but that is not to say that you might not, if you had the choice, want to have something additional?

Mr Babuchowski: In fact, under the new system of biophysical criteria we can select some of them because, when we consider the new system, it is only devoted to or aimed at the lowlands, not mountains, and in Poland we are very flat, so many of those criteria do not apply. In fact, we do not know which will relate only to the soil and the soil quality in this respect and one criterion which is missing is the acidity of the soil.

Ms Makarewicz: In fact, for the moment it is a bit incoherent because in some EC documents we can see acidity as one of the toxicity criteria in general, but in others it is not there so we cannot be sure if it is included or not for the moment.

Q306 Earl of Dundee: So you would like clarification?

Ms Makarewicz: Yes, of course, we would like to have that.

Mr Babuchowski: We also think that each country should determine itself which criteria it wants to apply because the climatic situation and soil quality differ among the countries, but it is very difficult to find out what criteria should be applied for all countries.

Q307 Lord Cameron of Dillington: So, as far as biophysical criteria are concerned, you do not want to see harmonisation of the biophysical criteria, judging from your last answer?

Mr Babuchowski: It is harmonisation perhaps. It depends what you mean by harmonisation. Harmonisation should be brought in but, for

example, we think that countries should have a margin of freedom from the criteria which are set because some criteria which now concern the soil, the water permeability and the temperature are more suitable for southern countries than northern ones. They are completely different.

Q308 Chairman: I think I have got the argument. On the designation criteria you do not like the common biophysical criteria. You want to have a recognition of other factors, like toxicity and acidity and things like that.

Mr Babuchowski: Yes.

Chairman: You want that in the designation criteria, but then, when we come on to eligibility, it is a matter of what sort of activities should be included and what sort of farms.

Q309 Lord Cameron of Dillington: It is the framework, ie, from what you are saying you want as loose a framework as possible so that Poland can set its own rules and therefore include as many farms as possible.

Mr Babuchowski: No, not necessarily. It is rather that countries should be allowed to select two or three criteria which they will use and then the limits, minimum or maximum, should be set at some, let us say, broad value because they could vary depending on the country's condition and climatic conditions and so on.

Q310 Lord Cameron of Dillington: We heard from Germany earlier on that any intensive farming which seems to involve any crop growing is excluded. Obviously, in Poland, because you were talking about your yields of wheat, you do not exclude intensive farming. What farms get excluded under your eligibility criteria?

Mr Babuchowski: We would like to exclude definitely the big farms.

Q311 Lord Cameron of Dillington: So it is farm size?

Mr Babuchowski: Farm size, definitely, yes, because sometimes even the farms which are big farms on the very sandy soils, because of the size, are profitable, so it is not necessary to be used as an LFA, but the way it is done must be very precise so as not to throw away those who are not sustainable.

Ms Makarewicz: And the criteria have to be very well documented and also the reference to the criteria.

Mr Babuchowski: The only problem is that we do not have the data concerning some of those criteria, so there will be a problem in using some of those criteria only because of the lack of data.

Ms Makarewicz: We do not have the resources and if we have resources we have to aggregate the data at a certain level and we can only go up to a certain size.

4 March 2009

Mr Andrzej Babuchowski and Ms Karina Makarewicz

Q312 Earl of Dundee: On the accumulation of relevant data, what is happening in your country? Is it now being accumulated rather well? How long would it take you to assemble the facts?

Ms Makarewicz: What do you mean? What data? LFA or other country data?

Q313 Earl of Dundee: You were saying that you lacked data.

Ms Makarewicz: No. In fact, if we are talking about biophysical criteria we do not lack data because, as Mr Babuchowski said before, our current system is a sophisticated one and we have data for those criteria in the last European Commission proposal, but if we are talking about eligibility criteria and production criteria, so non-biophysical criteria, we have a problem with that.

Q314 Earl of Caithness: Given what you have said about the size of farms in light of the existing system, do you think the proposed new payment formula of “additional costs and income foregone” meets your requirements and is the right test for a Less Favoured Area?

Mr Babuchowski: Concerning this proposed new payment, definitely, we are not very happy that we can verify the size of the payment according to the new criteria, because what is suggested is a lump sum payment. This is based on the calculation of lost or foregone income and also some additional cost which relates to the economic data concerning the agricultural production average for the last three years. In our case the problem is that these data, depending on the region, could be very substantial, and to make this average for some regions implies that eventually some of the calculations of income for the farms are either under- or over-estimated. We think that is the problem, because in agriculture in Poland counting is only done for a very small number of farms. It is about 17 per cent of farms that are covered, so most of it will be made based on estimation and that could imply substantial error.

Q315 Earl of Caithness: Could you give us a suggested formula that you would prefer for a payment system?

Mr Babuchowski: The best systems for us will be those which exist now. That means that when somebody complies with the existing criteria it includes a requirement that it should be paid per hectare, as it is now, because that is the simplest system for us.

Q316 Chairman: Is Poland likely to be in the Presidency when this comes to decision-making?

Mr Babuchowski: No, no.

Q317 Chairman: I was going to say you will just close it down all the way.

Mr Babuchowski: We are in the second half of 2011, and this is supposed to be implemented in 2010. This year is the Swedish Presidency, and next, after the Swedish, it is going to be Spain and Belgium. They will have to deal with the matter.

Q318 Lord Cameron of Dillington: What do you call a large farm?

Mr Babuchowski: Ha, ha. A large farm is supposed to be more than 300 hectares because we think that up to 300 hectares it is a family farm, but the common perception by farmers is that a farm which is over 50 hectares is already a large one.

Q319 Viscount Ullswater: You were saying about reducing payments from large farms. Were you thinking of 300 hectares as being a sort of cut-off point, that if you farmed 400 hectares you would not get an LFA payment?

Mr Babuchowski: No, no. Let us say that the policy of our government is not to deprive the big farms of any payment, rather to decrease it by percentage.

Q320 Viscount Ullswater: Not withdraw it?

Mr Babuchowski: No, definitely not. We are not against big farms because some of them could think that we are against them. They are very productive but in the areas which are, let us say, precious environmentally because of the landscape, it is better to keep these smaller farms which allow us to preserve the natural values, the environmental values. In fact, the biggest farm in Poland which we used to have was 32,000 hectares, so it was rather big. Now it does not exist. It was split up. There are still several farms of about 1,000 hectares, so we do not want to exclude them from payments.

Chairman: Thank you very much indeed.

Supplementary Memorandum by the Polish Government

Additional explanation for the table “Poland—LFA Statistics for the years 2005, 2006, 2007”, as requested by the House of Lords during Inquiry into the review of the LFA scheme

	2005	2006	2007
Total number of farms	2 733 364	2 598 624	lack of data ¹
Number of farms supported with LFA	116 552	1 264 756	128 001
In % of total farms	4,264	48,67	lack of data ²
Number of farms supported under Art.19	87 713	1 087 873	106 079
In % of total farms	3,208	41,863	lack of data ³
Payments under Art. 19 in PLN ⁴	202 353 108,77	2 053 086 699,52	263 703 562,34

In fact, numbers given within the table are correct. The perplexity could arise due to the specificity of the Polish Paying Agency system for applications counting.

In Poland, we have two phases of LFA applications proceeding. One of them is finalized with applications submission, the other—with commitments (final decisions). After the final decision farmer can obtain the LFA payments.

To illustrate how the system is operating, as a virtual example one may take 5 farms which submitted their applications in 2005. Only 2 of them received final decisions and payments in 2005. Only those are registered by the system. The 3 remained received payments in 2006, so they are registered in 2006. That is the reason we have only 87 713 farms supported under Art. 19 in 2005, and 1 087 873 in 2006.

The situation is similar in 2007. **The systems itself generates certain displacement of the applications number, but in fact the number of farms supported under Art. 19 is in general stable.** It is c.a. 670 000 farms supported under Art. 19 and it could slightly fluctuate every year.

SUPPORT OF AGRICULTURAL ACTIVITIES IN LFA

<i>Status on</i>	31.01.2009		
	Index		
	2004		643,171
Applications submitted (year)	2005		712,941
	2006	Number	720,500
	2007		756,338
	2008		755,658
	2004		607,905
Applications accepted (year)	2005		692,565
	2006	Number	706,864
	2007		736,980
	2008		580,629

¹ Data will be available as soon as the “Statistical yearbook of agriculture and rural areas” for the year 2008 is published.

² Data will be available as soon as the “Statistical yearbook of agriculture and rural areas” for the year 2008 is published.

³ Data will be available as soon as the “Statistical yearbook of agriculture and rural areas” for the year 2008 is published.

⁴ Payments under Art. 19 in PLN (Polish currency) according to the information given by the Paying Agency, not in Euro.

WEDNESDAY 4 MARCH 2009

Present	Arran, E. Brooke of Alverthorpe, L. Caithness, E. Cameron of Dillington, L.	Dundee, E. Sewel, L. (Chairman) Ullswater, V.
---------	--	---

Examination of Witnesses

Witnesses: MS LENE NAESAGER, Member of Commissioner Boel's Cabinet, and MR ALEX PAGE, European Commission, examined.

Q321 Chairman: Thank you very much for coming along and helping us with our inquiry into the LFA scheme. This is a formal evidence-taking session so a note will be taken. You will get a transcript within a little while and you can read over it and do any corrections that are necessary, as usual. I do have to say that just about all the evidence we have taken from anybody having any interest in agriculture—I am not saying the environment—is, “Please go away and don’t disturb us”. Does that come as a surprise?

Ms Naesager: In agriculture? No. For instance, when we started with the wine reform, where you also had an investigation and when you came to Brussels, we met the same reaction. It was, “Things are more or less doing fine. Don’t change what we have now, or, if you change, then just give us more money”. That was it, so I am not surprised. The agricultural world is quite conservative. However, this is a matter of life and my Commissioner, who unfortunately could not meet you today because she has other activities, is perfectly aware of this, of course, and she is used to it. Also, if we look at this exercise that we are doing here under the LFA, we consider that this is more a technical than a political exercise, so we are not so concerned about this attitude of “No change, please”.

Q322 Chairman: What is your killer argument to come up with and convince people that there is a need for change?

Ms Naesager: For the intermediate LFA, because we only talk about the intermediate LFA in this exercise, it is that we had a report from the Court of Auditors in 2003, I think it was, giving us some criticism, saying that there were too many criteria, that Member States were doing basically what they wanted to do and that there was not enough control. We also had our Rural Development Regulation adopted in 2005 in which we set out the overall criteria for the intermediate LFA but we were not able to delimit the areas, and we are now in a situation where, due to the criticism from the Court of Auditors, due to what happened in the Rural Development Regulation where we had a certain deadline by which to react, we believe that we need to

do something. These are our main arguments to Member States for saying that we cannot just continue with the situation as it has been more or less since 1975. We need to look at the criteria, we need to harmonise the criteria for the LFA, we need to use objective elements. From a political point of view, because that is what I represent, I think it is important to indicate that so far there has been a lot of calm around this exercise. From the technical point of view in DG Agri, of course, there have been a lot of technical meetings, more than 100 meetings with experts from Member States and a lot of meetings in our impact assessment group. There have also been meetings with the Joint Research Centre and there has been established an expert panel. However, at the political level Member States so far have been quite calm. We did not have the same experience when we did the wine reform, so I am pretty confident that this could be an exercise that would be smoother than the wine reform or the health check.

Q323 Chairman: We have clearly not been speaking to the same people!

Ms Naesager: You might have some information that I do not have.

Q324 Chairman: I wonder if we could go through the timetable that you are working to—publication of your communication, discussions in Council, mapping by Member States and the legislative proposals. Can you put a timeline on all that for us?

Ms Naesager: That I can do. We are in a process inside the Commission where we consult the different services, which is what we always have to do, and our communication is scheduled to be adopted on 21 April, so next month, at the college meeting in Strasbourg. That is the first thing I would say. What we do after that is that the Commission is going to present the communication at the Council on 23 April and, of course, there we will have the first debate with Member States and we will have their initial reaction to the communication. In regard to the communication, I cannot give you all the details, of course, at this stage because it is still an internal

4 March 2009

Ms Lene Naesager and Mr Alex Page

document, but we will do the review of the criteria that we have announced and that we have to build upon. We will suggest the methodology to be used by Member States in order to define what are considered as intermediate LFAs, which will be based on the biophysical criteria. We will also invite Member States to provide us with maps, so there will be an exercise for Member States to carry out from the date of the publication of our communication until a certain time limit in which the Member States need to collect data at a national level, draw up their maps and send the maps to us so that we can use this information in our future work because we have to make our impact assessment as solid as possible with the maps. After, we have to decide how to draw up the legal proposal. I think that for the legal proposal you will not see something from our side in 2009. It will be at the earliest in 2010. If I can just go back, I mentioned that the discussions in Council will start on 23 April. We will, of course, in Council have a lot of working groups and meetings in the special committee on agriculture. That goes without saying. This is usual business. I know that the Czech Presidency is very keen on having conclusions on this communication during their Presidency in June. What the conclusions will be, how they are going to be drafted, is so far an open question. We will have to see. We have to talk with them, but that will definitely be something that they would like to go for. This also means that, for instance, for the Swedish Presidency there might not be a role for them to play in this exercise because if the Czechs really succeed by having conclusions and they close the debate in June, then what we have to do in the Commission is wait for the maps from Member States in the autumn, and that means during the Swedish Presidency, we will have to have extra contacts with Member States, and then we come to after 1 January 2010.

Q325 Chairman: Have you identified points of agreement or points of disagreement amongst the Member States? Do you see the political landscape yet?

Ms Naesager: Personally, I do not quite see the political landscape yet. It is not so clear yet. From a technical point of view I think that the contacts with Member States have been quite good and it is going well, but sometimes you can have a situation whereby, even though the contacts are technical, although they are smooth, the political landscape may change a bit later on. Since the Cabinet has hardly had any contacts with Member States on this exercise on the LFAs, no direct discussions with ministers from different Member States so far, it is difficult for me to say now what the political landscape is going to look like. However, as I mentioned beforehand, I do not think the exercise is going to be extremely controversial.

Q326 Chairman: Let us assume we get Lisbon. How does co-decision play into this and having to work with those well-known agricultural reformers, the Agricultural Committee of the Parliament?

Ms Naesager: That will be a major challenge for us.

Q327 Chairman: Too true!

Ms Naesager: As you know, we are used to the consultation procedure with the European Parliament. Politically speaking, we have to look at what the European Parliament tells us. When we go to the co-decision procedure, hopefully, (that is a personal point of view) as from 1 January 2010, it is clear that the political landscape will change because we have another player in the decision-making process, the European Parliament. A lot of things will depend on how the European Parliament is composed after the elections here in June 2009, what the committee on Agriculture will look like in the future. We simply do not know, but it is clear that if we get the co-decision procedure we will not be able with our legal proposal later on to have our fast-track procedure that we are used to in agriculture, which basically means that we have a proposal and six months after we have the political agreement. These days will be over and gone, so it means that we will have to be well prepared, we will have to do from our side, from the Cabinet side, from the DG Agri side, a lot of work in order to make contact with the MEPs in the European Parliament to explain the necessity of what we are doing. Then we will have also to integrate in our decision-making process the fact that we might be heading for at least 14-15 months of procedure before we have the final decision. This will be the reality of life and this is the reality of life that many other DGs are living with today. We are one of the last sectors to be spared this experience.

Chairman: And we all think it is a very good thing, of course.

Q328 Lord Brooke of Alverthorpe: On the mapping and the consultation with Member States, what is the timetabling on that and do you expect them to be in a position to respond to your timetable?

Ms Naesager: We will put a time frame in the communication that you will see on 21 April. That goes without saying. We need to have a clear time frame for Member States to send us the information and the maps. I cannot tell you precisely what the date is today but we will talk about it somewhere in autumn this year to give Member States sufficient time to do their homework. We also know that most of the Member States do actually have quite a lot of the information that we would like to get hold of, and we do count on good collaboration from the Member States' side. It is in their interest. If they do not provide us with sufficient information, with the maps, we might have to look at the official data that we have

4 March 2009

Ms Lene Naesager and Mr Alex Page

and then we might have to draw up the map for the Member State, which could be an interesting exercise.

Q329 Chairman: I think you will get the data in that case.

Ms Naesager: I think so too.

Q330 Viscount Ullswater: The revised LFA scheme is likely to be applied from 2014. In the meantime discussions will take place on the EU budget period post-2013, and, of course, by extension, discussions will take place on the future of the CAP and the size of it in that budget period. To what extent do you think that the review of the budget and, by implication, the review of the CAP, will have an impact upon the LFA scheme review which is under discussion at the moment?

Ms Naesager: First of all, on the date, the new LFA scheme will come into force from 1 January 2014. This is the date for the new CAP that we will have. What is important here is that what we are doing is not a reform. It is a technical exercise that we are looking at. What we will also do is try to help Member States to better target the money on the basis of the biophysical criteria that we want to establish. We do not believe that the exercise we are carrying out now will have an impact on the budgetary discussion. This is an exercise that is separate from what we are doing now. Also, when we talk about an intermediate LFA, as you know, this is within the Second Pillar, the rural development policy. It is within Axis 2 on agri-environmental measures, so I think we have to look at it as two different issues. I do not think there will be any overlap because when we talk about budgets for post-2013 this is a major political task that we need to get into and there is already a lot of work that has started in order to try to see how we can define objectives for agriculture in the future in order to discuss the amount of money that should be allocated to agriculture.

Q331 Viscount Ullswater: Are you suggesting that there are two parallel lines of discussion going on? One is the rather technical one which is a review of the LFA scheme that you have outlined; however, what has not quite taken place yet is the financial discussions about the CAP and its future into which the LFA scheme drops somewhere but you have not decided quite where?

Ms Naesager: The LFA scheme will be somewhere in the future, a part of the future scheme, but I cannot tell you today how the future scheme will look. I cannot tell you today how much money we will have for our future CAP. What is clear from my Commission's side is that, of course, she wants to fight to keep what we already have. This is extremely important for us, but how the complete drawing is

going to look is difficult to say. In any case, we maintain that the LFA review is technical and we do not want to start talking about money in that context because they are simply two different things.

Q332 Chairman: You think so?

Ms Naesager: I think so. If we look at the situation now, under rural development you have the allocation for Member States. The Member State has decided how much to allocate to the LFA. This is not going to change until 2014 when we will have a new scheme. When we talk about the budgetary review it is an overall political exercise where we look at big political principles and ideas and the structure for the future CAP. It could be that LFA could be mentioned as an element but I do not think that the LFA will take a major part in the main discussion on how the post-2013 CAP should look. This is my personal point of view.

Q333 Chairman: You do not think some Member States might say, "Why don't we put everything into a basket and look at it all in the context of the new CAP?"

Ms Naesager: I do not exclude anything, that I do not, because we are still early on in the process, but I think that we are going to talk about broader principles when it comes to the future of the CAP.

Q334 Earl of Arran: My question has already been answered, but if the CAP budget were to be reduced after 2013 might that in turn provide additional pressure for the LFA scheme to be applied similarly across the European Union in order to avoid distortions of the single market?

Ms Naesager: I have to some extent answered that but what I can add is that it is important to note that the LFA scheme is not compulsory; it is voluntary for Member States. It is implemented in all our Member States in different ways. A few Member States do not have intermediate LFAs. I think it is important that we maintain this flexibility, that it is up to the Member State itself to decide, on the basis of the criteria that we would like them to accept, what are the intermediate LFAs. Another thing is that I also think that the LFA will still be a part of the rural development structure or be linked to agri-environmental issues. That is also extremely important. What we are aiming at is to diminish the differences between Member States. You talk about distortion of competition. The whole exercise that we are doing now is to diminish the differences between Member States because there are many, also due to the fact that we have more than 100 different criteria being applied by the different Member States, so we want to have clear objectives, we want to have clear criteria and we want to have transparency, which is very important as well. That will lower the risk of

4 March 2009

Ms Lene Naesager and Mr Alex Page

unequal treatment among Member States without saying that everybody will have to do the same with regard to the LFAs.

Q335 Earl of Arran: How determined are you as the Commission that the LFA should change?

Ms Naesager: We are very determined. First of all, the Council is determined. The Council gave us a mandate to look into the LFA criteria. We have the Court of Auditors' report as well, so we have no choice; we have to do something.

Q336 Earl of Arran: But you accept the fact that it could be kicked into touch and the status quo could continue?

Ms Naesager: We have not decided upon any of the options yet. When you see our impact assessment we will have four options and what we call the status quo plus is an option. We always have several options that we have to look into. I must admit that the status quo plus I do not think will be retained as an option by the Commission.

Q337 Lord Brooke of Alverthorpe: If I may come back to the subject that I particularly want to focus on, the technical aspect of the exercise, we have been taking evidence in London and many of the witnesses have repeatedly raised concerns that the new approach to LFA designation based on common biophysical criteria could result in the omission of some disadvantaged areas whose handicap is based on interaction between two different indicators, neither of which is above the threshold value used. Have you come any closer to resolving the problem, given that you are trying to reduce, as you have said, the differences between countries?

Ms Naesager: I know from DG Agri that we have not got any evidence that proves this concern. I know that you probably have had a lot of different contacts with farmers and farm organisations and so on. What DG Agri tells me is that the Joint Research Centre has been working together with the panel of experts in order to evaluate what should be the criteria and the indicators to be used. The problem is a little bit that if we have a system whereby we add on different indicators in order to reach certain thresholds would that really be an objective exercise? Could it lead to a lot of discrimination between Member States and a lot of discrimination between farmers if Member States have the possibility of saying that they look at different indicators in order to reach a certain threshold to consider the area as being less favourable? I do not know. The debate is not closed, so, of course, if we get some evidence that is able to persuade our scientific experts and ourselves we can always look into the matter, but I think it is key that we have as objective and clear criteria as possible.

Q338 Chairman: Is there not a methodological problem here, because disadvantage is a relative concept and you are measuring it in terms of, above a threshold value, the possession or not of a discrete variable? If you are measuring disadvantage would not a better approach be to build up an index and, as long as you use a number of variables which are dimensions of disadvantage, you can find out what you score on each variable which can place you on an index? Why not do that? I think logically that is a more defensible position than saying it is the possession of a discrete variable above a threshold.

Ms Naesager: I see where you come from but I think that we might end up in a situation whereby the situations between Member States could be very different and where we will not really meet the concerns of the Court of Auditors because there could be left a lot of discretion to Member States to build these indicators and add them as they want in order to reach this index. However, the debate is not closed.

Q339 Lord Brooke of Alverthorpe: So even the technical issues are not simple and straightforward when nation states' interests start to arise?

Ms Naesager: Technical issues are always, in political discussions and negotiations, influenced by the political decisions at the very end.

Q340 Earl of Dundee: At present, as we know, LFA payment levels vary a great deal across different Member States. Do you think that the new payment formula will properly narrow or even eliminate those gaps?

Ms Naesager: I do not think that the new payment formula will lead to some kind of harmonisation or convergence of payments between Member States, and this is not what we are searching for. We are looking at the additional cost and the income foregone and this notion is different in each Member State because it depends very much on what is the cost of the different efforts which are being made, what is the cost of labour, what is the income that is not being received and so on, so we will never, I think, be in a situation whereby we will have a totally harmonised system, and this is not our objective in relation to the payment formula. We will put out the general criteria but we will not start to harmonise the level of payment.

Q341 Earl of Dundee: But, as you say, we do not really want harmonisation. What we do want is an improvement in the system and presumably we would agree that that aspect of improvement is to narrow the gap that subsists at the moment between different Member States when they receive their payments. It could be, I suppose, being pessimistic, that the new payment formula might not even achieve that. Are

4 March 2009

Ms Lene Naesager and Mr Alex Page

you confident that, as it is and when it works, it will do what it is supposed to do?

Ms Naesager: I think it is going to do what it is supposed to do. The additional cost and income foregone is also a notion that we used in state aid. There we employed it quite a lot when Member States had state aid schemes and they notified that to us, so it is something that we are very familiar with. Plus, it is a notion which is recognised in WTO terms. As long as we have big gaps between the poorest and the richest Member States we can only choose a method and we cannot in such a case go for a fixed level of payment.

Q342 Lord Cameron of Dillington: Can I ask a question about the income foregone formula? Is it redundant as a formula now? For a lot of the farms we are talking about survival income rather than income foregone. They are already losing lots of money, as are farms outside the LFAs, and especially with new criteria, new ambitions, say, environmental wishes connected to the LFA, is the income foregone formula now redundant?

Ms Naesager: I do not think so. You are talking about if the farm is profitable. That is something that we do not look at. We simply look at what are the additional costs and what is the income foregone. These are the only things that we look at in this context. We do not look at whether the farm is earning a lot of money. I know there are constraints in relation to some environmental conditions and that life is not always easy in the LFA areas but I think that the formula is the formula we need to use and it is also the formula that is in our Council regulation on rural development, so I think this is a formula that is going to stay, also because it is a WTO recognised green box formula.

Q343 Lord Cameron of Dillington: So what do you see as the main purpose of the LFA payments?

Ms Naesager: The main purpose of the LFA payments is to maintain farming in handicapped areas.

Q344 Lord Cameron of Dillington: So it is an agricultural subsidy rather than an environmental one?

Ms Naesager: It is under the agricultural policy.

Q345 Lord Cameron of Dillington: It is in the rural development policy.

Ms Naesager: But this is also the agricultural policy. I would consider it still as an agricultural subsidy but it is one type of agricultural subsidy. We have many agricultural subsidies. We have the direct payment under the direct payment scheme. Under rural development we have different types of agricultural subsidies and we have the LFA payment, which is

also an agricultural subsidy but with a certain heading, which is to maintain farming and protect the environment.

Q346 Chairman: This becomes theoretical and theological, does it not? Is it an agricultural subsidy that is there to maintain agricultural activity in order to deliver environmental benefits?

Ms Naesager: I think so, yes.

Chairman: That is what I think as well. The only trouble is, everybody we have spoken to sees it just as a form of income support.

Q347 Lord Brooke of Alverthorpe: “And do not change it, please”.

Ms Naesager: Yes, that you said beforehand. I think that throughout the years since 1975 it has been looked upon as a kind of income support, but things have moved on and we cannot just say “income support by all means” to farmers today. We need to rub it in with some other requirements and here we have environment, we have land management, we have maintenance of farming in some difficult areas, and this is still under the heading of agricultural policy.

Q348 Viscount Ullswater: At least it is now decoupled because it started in Britain as the hill cow subsidy; that was a coupled payment, but now it is a decoupled payment, which is probably better.

Ms Naesager: Yes.

Q349 Earl of Caithness: As a result of your proposals, if a number of farmers no longer receive the LFA payment, and from the evidence we have taken it does look as though that number could be quite substantial, do you have proposals to compensate those farmers and should they be so compensated?

Ms Naesager: We have still not drawn up our legal proposals, so this is really for the future. In general terms, if we see that there are some difficulties in moving from one system to another we always try to find solutions. We do accept using transitional periods in order to solve specific problems. What counts is the end result. If it takes a little bit longer it is not the main problem; getting there is the issue. A kind of transitional period for Member States in order to adapt to the new system could be envisaged, of course, but this will be under a new Commission, maybe a new commissioner, I do not know, so I cannot give you any guarantees about specific compensation. On that I cannot pronounce myself.

Q350 Earl of Caithness: Would the transitional proposal, if there is one, come from the Commission or would you allow Member States to add their own transitional proposals?

4 March 2009Ms Lene Naesager and Mr Alex Page

Ms Naesager: Normally, when we have reforms and when we change systems it is the Commission that proposes a specific transitional period. What could be envisaged is a time frame for transition and then Member States can use the available transition as they want. We had something similar in the fruit and vegetable reform where we had maximum periods for the transitional period and where some Member States chose to go earlier into the single payment scheme for some fruit and vegetables than they could according to the transitional period, so it could be envisaged but the overall frame is to be set in the Council regulation.

Q351 Earl of Arran: Witnesses have pointed out to us that meeting cross compliance conditions is often more onerous for farms in LFA areas, yet single farm payments are often lower in those areas due to low

historic yields. In the longer term do you see this as providing a reason to review how farms in disadvantaged areas fare under the single payment scheme, and looking to improve the targeting of that support?

Ms Naesager: I think that you are heading quite far there. My only answer to this is that it could be one element that could be discussed in the CAP post-2013, the new CAP. We cannot really go into that discussion now.

Q352 Chairman: That is a very safe answer!

Ms Naesager: In any case, I cannot commit the Commission here.

Q353 Chairman: You could say, “We have no plans to”.

Ms Naesager: Yes, but this is really for the future.

Chairman: Thank you very much, as usual.

WEDNESDAY 4 MARCH 2009

Present	Arran, E. Brooke of Alverthorpe, L. Caithness, E. Cameron of Dillington, L.	Dundee, E. Sewel, L. (Chairman) Ullswater, V.
---------	--	---

Examination of Witnesses

Witnesses: MR PAULO GOUVEIA, Director, Copa Cogeca, and MISS NELLA Mikkola, Policy Advisor, Rural Development and Forestry, Copa Cogeca (Federation of Farmers' Unions across the EU), examined.

Q354 Chairman: Thank you very much for coming along and helping us with our inquiry into the LFA scheme. This is a formal evidence-taking session of a Sub-Committee of the House of Lords and a note will be taken of the proceedings. Shortly you will get a transcript and you can make sure that any errors are edited out. We provided you with a list of questions and you have very thoughtfully and helpfully provided us with some written answers, so I am not quite sure what we are going to do for the next three-quarters of an hour.

Mr Gouveia: First of all, thank you very much for the invitation to provide, as you said, evidence for the proceedings of your work. We tried on receiving your questions to provide you with a short text that would act a bit like a basic skeleton of the comments that we would provide you with on this occasion, but, of course, leaving some margin of manoeuvre for questions that might arise from our exposé. If you agree maybe I could start by going from question to question unless you have another suggestion.

Q355 Chairman: No, I think that is right. We can start with question one, to be original.

Mr Gouveia: Yes, it is always better to start from the beginning.

Q356 Chairman: Could you begin by outlining for us what you see as the rationale for LFA payments and what is the public getting in return for the money it puts in?

Mr Gouveia: Basically for us, representing farmers and agri-co-operatives at EU level, we are very interested in the agricultural side of things and representing the interests of farmers. For us the LFA scheme as it was conceived, and even as it was adjusted in the recent regulation in 2005, aims at providing compensation for natural handicaps. Compensation for what? Basically, two things—higher costs of production and income foregone. These are, to put it simply, the two elements that we can find in situations where you have to farm in more difficult areas, be they mountainous areas or other types of LFAs, because currently, and I stress this too, this is what you get in terms of delimitation of LFAs.

Previously, as you all know, (and when I say “previously” it was until the end of 2006, the previous programming period) you had three types of LFAs. You had mountainous areas, you had intermediate less favoured areas and you had other types of less favoured areas. However, this was put in question by a report from the Court of Auditors published, if I am not mistaken, in late 2002 or 2003, where they questioned the issue of intermediate LFAs mostly because of the use of socio-economic indicators and the fact that these socio-economic indicators had not been, let us say, updated over the course of a long period. That was clearly not acceptable and therefore, according to this report, the Commission had to do something about it. Of course, the Commission brought this up in the preparation of the new rural development regulation and during the discussions that started from mid 2004 until its adoption in 2005 towards the end the part concerning the revision of LFAs was a big chunk of this regulation. Fortunately, Member States at the Council level decided not to go in that direction at that moment. They said, “We will get back to this in 2008/2009 with the aim of having a new system revised and operating by 2010”, roughly speaking. This is what happened. Of course, currently what we see is that the Commission did indeed start looking at this using the expertise of the Joint Research Centre and they came up with some indicators that would be used for this work, but so far we have not seen a new proposal from the Commission, not even a communication. We have the understanding that something might come up later in spring this year, but in any case I do not believe that it would be tackled by the current composition of the European Parliament and any decision on this will probably not happen during this year, 2009, so the horizon of 2010 might not be feasible or realistic to consider. Therefore, from our point of view, looking towards 2013 and beyond will be the best thing to do. I have digressed here a bit concerning the first question but I wanted just to put an overall framework into this broader picture that is the debate on the LFA scheme. Coming back to the first question, I have given you what we see as the rationale for the LFA payments.

4 March 2009

Mr Paulo Gouveia and Miss Nella Mikkola

We strongly believe in Copa Cogeca that this tool that the Common Agricultural Policy provides is the only one to address these natural handicaps. Of course, no other tool, no other system—and I am referring here to the direct payments under Pillar 1—is targeting these natural handicaps. In Pillar 2, rural development policy, as you know, there are other tools but none is overlapping with the LFA scheme. Even if there was something that could be overlapped, you cannot receive twice a subsidy for the same thing. Clearly, this is a tool that needs some fine-tuning but it is necessary to address an important element, which is to maintain farming in areas that have natural handicaps. Why? In order to prevent abandonment.—land abandonment, abandonment of population and migration of population from those areas which are already sparsely populated which then would migrate to the urban areas and with this cause other lateral indirect effects.

Q357 Chairman: You have got a very comprehensive list in your written commentary—maintenance of open traditional landscapes, semi-natural habitats and biodiversity, forest fire prevention, good soil and water management and valued farming featured in the European cultural landscape. Is there any evidence that LFA payments have been successful in preventing land abandonment?

Mr Gouveia: I could say very simplistically that if we do not talk very much about land abandonment in these mountainous areas it is because the tool has been successful and people are still operating in these areas. I could use these arguments and stay like this. On the other hand, it is very difficult to have data on this particular topic and the data that is available is not the most up-to-date data. There is always a delay between the collection of the data and the year of reference of the data and the moment you can make the analysis and look at it. I believe that you might know a report that the European Commission has used for its impact assessment where they used data from the Farm Accountancy Data Network, which is a sample of farms from each Member State. Their study covers 23 out of the 27 Member States and this data refers to the period 2004-2006, so again this is a period still covered by the old scheme of LFAs which were in place until the end of 2006, meaning the three divisions of the three types of LFA—mountainous, intermediate and others, but not according to the current system. There are some indicators there that point to the weight of the support provided by the LFA scheme going into the overall economic results of the farm, because this is what we are talking about. What we need to understand is that this tool needs to address the economic impact of these handicaps because at the end of the day, when I referred earlier to the higher cost of production and income foregone, this represents income for farmers and this

has to be translated by an indicator. The indicator clearly shows the weight. It is variable between Member States. We ourselves are not an organisation that has as a mission collecting or processing data. We use the data that is provided by reliable sources and we look at it and interpret it or we even use reports from other sources. What we can say is that, generally speaking, this represents, if my memory does not fail me, between ten and 19 per cent on average of the farm net value added. Now you can ask me is this an appropriate level of compensation? Should it be higher? Should it be lower? To be quite honest, I cannot tell you. On top of that, in the current situation with rising costs of production and price volatility it is even more difficult to provide a tangible opinion on that because of the extreme fluctuation of the figures. Things can fluctuate very much and will not be picked up in terms of the annual or bi-annual average.

Q358 Viscount Ullswater: I would like to touch on the criteria if I may. What are your member organisations' views on the common biophysical criteria for designation of intermediate LFAs that are currently under discussion in the technical group and on the threshold values that might be set by that? What degree of fine-tuning do you agree Member States ought to have in order to deal with their own problems?

Mr Gouveia: Your question is right on target because this is the key to the problem. With the decision from the Court of Auditors stating that socio-economic indicators could no longer be used, the only alternative to classifying and address natural handicaps has to be biophysical criteria. These biophysical criteria were discussed at length in our specific working party dealing with rural development, and there is a general understanding of their usefulness but some people consider these biophysical criteria as too Mediterranean. Let me explain. If we talk about one of them being the availability of water and linked to hydric stress periods, this is something that is extremely relevant for southern countries, for instance, for Portugal where I come from, or Greece or Cyprus or Malta. However, for other countries, like Finland where my colleague comes from, I do not imagine that this would be a very relevant criterion. At the end of the day from our point of view what needs to be done? There has to be a set of core criteria that could be used, but then, as you have rightly said, each Member State has to define an appropriate level of threshold or indication of the levels where those indicators would be used, because realistically what we are looking at is a very diverse EU, an EU that, with 27 Member States, goes from the Black Sea to the Atlantic both in Portugal and in Ireland or even the UK, and from north to south with various climates

4 March 2009

Mr Paulo Gouveia and Miss Nella Mikkola

and conditions in terms of sun and water-stressed impacts. I cannot be more specific than that and even with our member organisations we have come to a common understanding, but then everyone looks at how it should be translated in their own territory. Even for a single Member State, and I can give you the example of France, the Alsace region is significantly different from the south east of France, such as Aquitaine or even Narbonne. You probably have to come to down to a level lower than the Member State to be able to better target the situation. For this eventually a common approach in terms of the EU would be interesting because, as you know, frontiers tend to be artificial and there might be situations where on one side of the border you have an area which is considered LFA and on the other side of the border an area which is not considered LFA.

Q359 Viscount Ullswater: I notice from your paper that you have rather a good phrase, "... a flexible framework which balances the interests of harmonisation and subsidiarity should be the aim of the revision exercise".

Mr Gouveia: Yes.

Q360 Viscount Ullswater: I am not sure those two things can quite stand together but it is a good phrase.

Mr Gouveia: Let me put it this way: it would be a balancing act to get there, but we should have an objective.

Q361 Earl of Arran: In terms of these socio-economic indicators of disadvantage, whilst the Commission argues that they may become obsolete, your argument is, okay, but they could be kept under regular review. Could you say a little bit more about this regular review?

Mr Gouveia: Let me put it like this. There is a general understanding amongst our member organisations that when we talk about delimitation of LFAs, socio-economic indicators would be very interesting, not in terms of a direct approach but an indirect approach, and, of course, socio-economic indicators could, provided that Member States provide regular updated information to the Commission Services, be very useful in order to target the populations that continue to farm in these regions because we are aiming at compensation for natural handicaps which, as I said before, translate into income for farmers. These socio-economic indicators, provided that the moment in time between when you are going to apply them and the origin of the data is not that much, could be very useful for fine-tuning this delimitation. Here again, we come to the problem of the resources available to cover this specific problem, and we all know the current situation, that the rural

development policy did not have the amount of funds that the Commission initially intended. Of course, because of that other solutions were improvised, like, for instance, modulation, and shifting funds from the First to the Second Pillar to address the objectives that were clearly put forward under this new programming period, 2007-2013. Coming back to the issue, there is obviously a need for funds to cover this. Probably the funds available which are divided into national envelopes by the different Member States are not enough, but if we look at the post-2013 horizon we do not know if the existing ones will continue, increase or decrease, especially because we are taking in the process of the revision of the structure of the EU budget, but I stress again that they are very important and there is a general understanding among our members that they should be used to fine-tune and better target this support to the farming population.

Q362 Lord Brooke of Alverthorpe: I have a question on eligibility criteria. Looking at your paper, to questions 5 and 6 you have given quite an extensive response which I will not go over, but you have made it very clear indeed that you would not wish to embrace options 3 and 4, presented in the Commission's consultation paper which led me on to wonder which would be your preference between options 1 and 2.

Mr Gouveia: That is a difficult one. Let me be quite honest with you.

Q363 Lord Brooke of Alverthorpe: I suppose I could add to that, and we did go on with a further question, "What types of currently eligible farms and farming practices should be excluded from receipt of LFA payments in future?"

Mr Gouveia: Let me stick to the first part of your question. Realistically, here in Brussels, when faced with a proposal from the Commission when they say that there is an option which is status quo plus, that is something that will not fly, ever. That is not what they want, but they put it in nevertheless. Then they will come up with something which is completely revolutionary and everyone knows that that will not fly either, and that is the other end of the scale, so there will be something in between. The in-between is open for a bit of negotiation and a bit of influencing and quite a lot of lobbying, which is what we from Copa Cogeca intend to do and have tried to do. As you probably saw also in our paper on the contribution to this public consultation, we clearly said that there were two options which were feasible and two others which were not feasible but could be worked upon. Of course, to answer your question, option number 2 we considered feasible but it needs a bit of fine-tuning.

4 March 2009

Mr Paulo Gouveia and Miss Nella Mikkola

Q364 Lord Brooke of Alverthorpe: And would you accept that there may be some farms that might have to have it withdrawn?

Mr Gouveia: Again, we focus on the definition of “natural handicaps”. Provided that there are natural handicaps we believe that these natural handicaps need to be compensated for because at the end of the day, unless you compensate them, farmers in all regions of Europe will not have a level playing field between them, and that is at the end of the day what we want to achieve.

Lord Brooke of Alverthorpe: I am not sure whether there is much left for the Earl of Dundee’s question with the very precise answer there.

Q365 Earl of Dundee: That is correct, but nevertheless, on eligibility criteria, what extent of harmonisation would your member organisations probably favour?

Mr Gouveia: We have currently 77 member organisations from 27 Member States of the EU. We take decisions preferably by unanimity, but eventually with some organisations marking moderate opposition which we call the reserve on the text. Given what I stressed before, the huge variability in climatic and, to be more precise, agro-climatic conditions in Europe, this represents quite a lot and you might imagine that sometimes it is very difficult around the table—not a small table like this one, but a bigger table—to have a consensus of all our member organisations, especially on issues like this. Nevertheless, I believe that I can interpret correctly the feeling of our members when I say that they would rather have a common EU approach to these criteria that could be fine-tuned at each Member State level, or, coming a bit below, regional or local level. This is what I have tried to answer to your distinguished colleague a little while ago when I said that it is a balancing act to keep these two things together. It is extremely difficult, but this is also a little bit the trend that we are seeing currently in the Common Agricultural Policy. You have a core of measures in the Common Agricultural Policy and then you give Member States the possibility to fine-tune and better target the measures. A clear example of what I am trying to say is, in the current decision on the health check of the CAP, what was decided with Articles 68-70, where it provides the possibility for Member States to use part of their national envelope up to a certain limit to address specific problems that they might have.

Q366 Earl of Dundee: And, as you pointed out, if they take that view we might all agree with them by saying that that is pragmatic, it is a form of harmonisation, if you like, because although it may come up with very different results in different countries it is the same formula for that difference.

On a slightly different aspect, you say of your 77 farmers’ unions that that might be the received wisdom. Insofar as there is a difference, say, between France and Germany and Portugal, would you wish to comment? Would you say that in Germany the approach is like this, in France it is rather different, in Portugal not quite the same? Would you feel inclined to differentiate between one part of Europe and another where there are different groups of farmers and different farmers’ unions?

Mr Gouveia: The problem there is not so much with the farmers because I believe farmers in Portugal or in France or in Germany have pretty much the same objective and they know what they want. The problem would lie in the governments where the governments sometimes are a bit more friendly to farmers and they tend to line up with the view of farmers and sometimes in other countries not. There is another element that I would like to point out and this comes a bit from history. Some Member States have used LFA delimitation in the past to target their potential voters and constituencies.

Q367 Chairman: Surely not! I cannot believe that.

Mr Gouveia: Appalling, I know.

Q368 Earl of Dundee: I suppose, as you say, governments say one thing and farmers say and believe another, but there might be a corollary. The German organisation, for example, which you were explaining, might make it more difficult for the German government to get away with a certain approach, and equally the French method of organising farmers might be stronger or weaker in influencing its government; it is that kind of relationship I am getting at, but your central point, which is the encouraging one here, is that there is this received wisdom about all of your 77 farmers’ unions that they wish to fine-tune and they would look to the future in adopting that approach.

Mr Gouveia: Yes.

Earl of Caithness: Can you support the Commission’s proposal for the proposed new payment formula as an appropriate formula for land with natural handicaps, and, if you cannot, what formula would you use?

Lord Brooke of Alverthorpe: There is a very good answer there—“It depends”.

Q369 Earl of Caithness: That was a different question.

Mr Gouveia: Yes. The thing is, there are still many variables on the table, especially on what might happen in the current discussions. We have contributed, we have had discussions and regular contact with the Commission Services in this respect, but we have not seen yet a communication from the Commission, a clear proposal, “This is what we are

4 March 2009

Mr Paulo Gouveia and Miss Nella Mikkola

going to do”, and until then, until the moment where we see in black and white what they propose to do, I will not commit myself by saying yes, I agree or I disagree. I am sorry I cannot be more specific.

Q370 Earl of Caithness: I can see this formula working of additional costs and income foregone where you have got good land and you are doing something environmental and you are withdrawing a particular farming practice; that is quite an easy assessment, but in Finland, just as in the north of Scotland, where this land is not profitable to begin with, where is the income foregone and how do you assess that? That is what I find difficult about that formula. Perhaps your Finnish colleague will help you.

Mr Gouveia: Do you want to add something?

Ms Mikkola: I think I will leave it to you.

Q371 Chairman: Very wise!

Mr Gouveia: We start with the principle that we have a farming activity under way and that farming activity is facing handicaps. Then we look at what could be the result of a similar operation in an area that does not face natural handicaps and this is where you start. In a very practical manner this is where I would start, but then, in order to embark on this direction, you need data. Without data there is no formula, nothing. It is like an omelette. You cannot make an omelette without breaking eggs. Here again, it is the core of the issue. Again, as a farmer organisation our concern is to guarantee the possibility of an agricultural activity in these areas. I am not sure that I have answered as you wanted.

Earl of Caithness: It is your answer. I am not sure you answered.

Q372 Lord Cameron of Dillington: I have two questions. The first I think you have already answered, which was about the importance of LFA payments in the overall scheme of things. In both of your written answers you say it is pretty impossible to say, and also your answer to the Chairman earlier about where it fits and the survival of farms, so I will skip that one and move on to the question of flexibility versus stability. Again, to some extent you have answered this already but perhaps I might probe a bit further on it. Reading between the lines, it seems to me that you as Copa Cogeca, as an organisation, believe that you need a dynamic approach in dealing with LFAs so that the areas can be revised and criteria can evolve, largely perhaps to do with future climate change problems or because of issues arising in the future and the changing farming scene; yet I suspect that your members are saying, “Don’t change

it because we, the existing farmers who benefit from it, do not want to stop benefiting from it”, and I suspect that you as an organisation are taking a long-term view but your members are taking a more conservative approach. Is that correct?

Mr Gouveia: You are right in saying that our members tend to take a more conservative approach, but I would disagree if you imply that a more conservative approach is a more short-term view. In fact, areas which suffer from natural handicaps exist now, they existed in the past and they will continue to exist in the future, so this type of support needs to continue. Of course, in the discussions on climate change and how these parameters might influence the agri-climatic conditions for the farming activity which might evolve, then, of course, the delimitation of these areas might evolve, but that is one of the things that we do not object to. The key principle is that natural handicaps need to be compensated and these areas need to be identified.

Q373 Earl of Caithness: So what you are saying is that no-one should be able to fall out but you want to have the ability to increase people so they fall in, which, unless you are greatly increasing the budget, is going to make things very difficult?

Mr Gouveia: I am not necessarily saying that we should increase the areas. What I am saying is that areas that clearly suffer from natural handicaps should be in. They should be entitled to receive, period. If this means that at the end of the day we will have a reduction of areas, that is the issue, that is a fact, that is what we will do. If, on the other hand, it represents an increasing area, then realistically adequate funds should be made available to compensate for that.

Q374 Chairman: Can we move forward a little bit? You say that areas that suffer from a natural handicap ought to be compensated so that agricultural activity can continue. Put that into the dynamic context of climate change. Surely there comes a time when the natural handicap becomes so severe that it is irrational to try and maintain agricultural activity in some areas?

Mr Gouveia: It could happen.

Q375 Chairman: It is happening. I would have thought in some parts of southern Spain, with the drought problems they are having there, it is not too far away to say that you just cannot maintain agricultural activity in those areas.

Mr Gouveia: Again, you have different types of crops, different types of farming activity. Some of them are more intensive in terms of the use of water than others. At the end of the day it is a question of economics—if the market pays the cost of the

4 March 2009Mr Paulo Gouveia and Miss Nella Mikkola

operation (taking into account, of course, all the other frameworks relating to the use of water, et cetera, and there is appropriate legislation for that), if it is a viable economic operation and if it is again market driven. Again, in the words of a former Commission official, the reform that we had in 2003 was the freedom to farm, meaning providing a broad set of tools for farmers to choose their activity, and by “activity” I mean specific crop or set of crops or whatever.

Q376 Earl of Arran: In answer to the question, “To what extent are your members concerned that a re-assessment of agricultural spending as part of the EU budget review will have an impact upon the LFA scheme. . . .”, you answer, “Very concerned”. Thank you very much.

Mr Gouveia: Thank you.

Chairman: Okay, thank you very much for coming along and helping us. That was a very refreshing three-quarters of an hour.

WEDNESDAY 4 MARCH 2009

Present	Arran, E. Brooke of Alverthorpe, L. Caithness, E. Cameron of Dillington, L.	Dundee, E. Sewel, L. (Chairman) Ullswater, V.
---------	--	---

Examination of Witnesses

Witnesses: Ms CHARLINA VITCHEVA, Minister Plenipotentiary, and Ms NELI GEORGIEVA, Counsellor, Bulgaria, examined.

Q377 Chairman: Thank you very much for taking the time to come and help us with our inquiry into Less Favoured Areas. We are particularly interested to hear the perception from Bulgaria as it is a new Member State which has a particular agricultural background. We are a Sub-Committee of the House of Lords. This is an evidence-taking session. We are collecting evidence for the inquiry that we are doing and we will be producing a report on the Less Favoured Areas scheme. A note will be taken of the evidence we receive. You will get a copy of that in the next few days and you can revise it and take any slips or errors out of it. I wonder if you can begin by giving us an indication of how important Less Favoured Area payments are to Bulgarian agriculture. What proportion of agricultural land in Bulgaria is classified as a Less Favoured Area and is eligible to receive LFA payments?

Ms Vitcheva: May I first of all say that we are colleagues from the Bulgarian Permanent Representation and we are very pleased to be able to share with you any information related to LFAs. It is a real pleasure and honour. First of all maybe I have to make a few opening remarks. It is important to know that Bulgaria has just started applying LFAs, so we do not have much experience of that. We have just started with the new programming period. It is perhaps also important to know that we did not have any such payments before entering the European Union (with the exception of one pilot project for 4 municipalities). So this is a new measure for us.

Q378 Chairman: So since when have you been paying LFAs?

Ms Vitcheva: The first year was 2007, so we started with the first year of the current programming period, 2007-2013. Our experience is of one year of implementation in 2007 because for 2008 we still do not have all the data collected; it is not completed. The payments are not fully implemented. On the importance of Less Favoured Areas, you are right that we have to start with what is the share of the LFAs as designed. We have more than one third of our territory covered with mountains so that gives the mountainous and semi-mountainous areas quite a

big share. If we are talking about figures vis-à-vis the whole territory of the country, about 50 per cent of our territory can be classified under the criteria designed for LFAs, but if we consider only the utilised agricultural land then the proportion is lower. In terms of mountainous areas we have 16.5 per cent, and for other LFAs, we have over eight per cent, so it comes to, let us say, 25 per cent of the overall utilised agricultural area that we have under LFAs.

Q379 Chairman: So most of it is mountain?

Ms Vitcheva: Yes, most of it is mountain areas. The other thing that is important to know is that since we started in 2007 we have not had the burden of the past and we have not designated any LFAs on the basis of socio-economic criteria, so no such leftover from the past 2000-2006 period. We started immediately with the criteria that are very close to what are considered to be the future criteria for LFAs.

Q380 Chairman: That is very interesting.

Ms Vitcheva: We do not have the intermediate zones based on socio-economic criteria that are a big pain for the old Member States. There is no such burden on us, fortunately.

Q381 Chairman: So how are you classifying them? On what basis do you identify them?

Ms Vitcheva: The 16.5 per cent that comes from the mountain areas is clear-cut. For the other LFAs we consider the soil fertility grid area, and there we have over eight per cent of our utilised agricultural land. This is in general what we can say about the area. On the side of the financing, LFAs cover two measures from Axis 2 under rural development and maybe it is good to indicate what proportion of the overall financing we envisage under Axis 2, which is land management, agri-environment and so on. Under Axis 2 we have 27 per cent of the overall envelope for rural development and out of that about 35 per cent is designed for LFAs. That means that about ten per cent of the overall envelope for rural development will go for LFAs. I do not know how it is in other countries but we consider ten per cent is not a huge amount. I can say that in our case because we are a

4 March 2009

Ms Charlina Vitcheva and Ms Neli Georgieva

new Member of the European Union and you know that eastern Europe has a lot of problems in general with the competitiveness of the sector, so one of the reasons for having a kind of role share is that we designate a lot of our EAFRD envelope resources to Axis 1 which is for investment in agricultural holdings and processing.

Q382 Chairman: Can I take the non-mountain LFA area? The agricultural holdings that qualify for LFA payments in those areas, how important is the LFA payment to those farmers? Roughly what proportion of their income would come from LFA payments?

Ms Vitcheva: We tried to make a calculation, but it was not very conclusive. The task was given to a research institute and it based the calculations on the lower yields in these areas. They were compared to the yields in normal areas, non-LFA areas, and on the basis of the difference in yields they calculated as a percentage how much less we have in general as production. The government decided to compensate 66 per cent of the loss which results from the lower yields. The proportion from the income I cannot tell you for the moment and I will tell you why. The Farm Accountancy Data Network is a network that compiles data on the accounting data which sets income, and we used the described type of methodology, starting from the difference of yields. Therefore, it is really difficult to say at this stage, what proportion of the overall income the LFAs support represents. Something that can help is if we compare what our agricultural producers in LFAs can get from the direct payments and the LFAs, it is 50/50. In an LFA one farmer will get per hectare one farmer will get 50 per cent as LFA support and 50 per cent from direct payments. However, it is important to know that in our case the direct payments are low and progress so that means that LFA will gradually decrease their share over the years.

Q383 Chairman: So LFA at the moment represents approximately 50 per cent of the total CAP support?

Ms Vitcheva: Yes; 50 per cent.

Q384 Chairman: Finally, what sort of agricultural products are these farmers producing?

Ms Vitcheva: I do not have this data but I guess it is rather varied because in our country we have almost everything with the exception of tropical fruit. Very often we are asked whether we are a tropical country because people think we have olives. No, we do not have olives, we do not have citrus fruits, but otherwise we have everything and the LFAs are more or less very evenly spread; we do not have a strong prevalence of any sector so that is why I cannot tell you about any specific sector—maybe the pastures, but that is for the mountainous areas. For the soil fertility it is again varied, my colleague tells me.

Cereals maybe but in general almost every type of farming is covered.

Q385 Lord Brooke of Alverthorpe: Could you say to what extent the abandonment of farmland is a problem or not in Bulgaria and, if it is a problem, which are the areas which are most at risk? Can you say if you understand the factors which lead to the land use change, and, where there is change, where does it end up?

Ms Vitcheva: Abandonment is a severe problem and it is very much linked to the depopulation process in the rural areas. I will give you a few figures. In the rural areas in general, not just the LFAs, we have minus 12 per thousand natural growth of population, if we can call it growth, so the population is decreasing, and it decreases not only because births are double less than the number of deaths but because migration is negative, unfortunately, so depopulation is the biggest challenge and it leads to abandonment. Another factor for abandonment of land is our agricultural reform which took place at the end of the last century and the beginning of this century. That was the restitution of land to former owners and what happened was that many people that do not have a tradition of dealing with agriculture now have their land back and this land is often not cultivated and it kind of loses its status of utilised agricultural land.

Q386 Lord Brooke of Alverthorpe: This is denationalisation?

Ms Vitcheva: Exactly.

Q387 Lord Brooke of Alverthorpe: Moving from the state back to the private owners?

Ms Vitcheva: Yes. Which areas? LFAs, of course, because there the conditions are the most difficult for farming and, of course, LFAs suffer the most from abandonment and depopulation.

Q388 Chairman: I can quite well understand that you are going through this process of agricultural reform and giving it to former owners and a lot of people will have no interest and just sit on it, but why do they not sell and why do you not get consolidation into larger farms rather than abandonment?

Ms Vitcheva: In the first years especially the land price was very low and that hampered it very much. People were guarding their land in order to wait for higher prices because the expectation was for higher prices. Sometimes lack of clarity of ownership resulting from the reform creates legal uncertainty that does not allow for land amalgamation and consolidation. The government puts in a lot of effort, but sometimes it is very difficult for a country like ours, post-socialist, to try and introduce administrative measures to urge people to change. It is not possible in our case because it reminds the

4 March 2009

Ms Charlina Vitcheva and Ms Neli Georgieva

people of the old times when they were urged to enter the co-operatives, so it is very tricky. We even have projects, special government projects, for land consolidation. This policy gives results but it needs time.

Q389 Lord Brooke of Alverthorpe: Sometimes abandonment of farmland can lead to planting of tree estates, forestry. Is this a policy which is being pursued? Would forestry grow freely there?

Ms Vitcheva: We are trying to increase the forestry land but not at the expense of agricultural land. This measure, afforestation of agricultural land, is not popular at the moment. We are just at the start. We are beginning the rural development programme implementation now, so we still need to see how it is going to develop in the future.

Q390 Lord Brooke of Alverthorpe: It is not popular in what sense, that people do not like the visual appearance of trees growing or that people just do not want to do it?

Ms Vitcheva: This is one of the eligible measures under the rural development regulation, but in order to implement this measure you need a potential beneficiary that will be interested in doing that. We do not have people that are interested in doing that for the moment.

Q391 Viscount Ullswater: I think you have answered very clearly how much of the budget is allocated to the Less Favoured Areas. I think you said that ten per cent of the overall envelope was the money. What are you seeking in return for this investment? Is it to maintain a rural population? Is it to maintain a landscape? What are the factors which you are looking for with the investment of this money and do you reckon, the way it is targeted, the way the LFA payments are made, that you are succeeding with it?

Ms Vitcheva: Thank you for this question. We have our targets that are in the rural development programme now. They are varied. As you say, yes, we are seeking to stop the depopulation trend. We are seeking improvement and maintenance of the landscape. We would like to keep agriculture still in the LFAs because it seems to be the basic type of activity that is possible in the LFAs. Once we keep agriculture in these areas that means that the whole area will be viable, so these are the targets that we have. Our ex-ante analysis suggests that with the type of measures we envisage, including with the LFAs we will be able to achieve these targets to a certain extent, and the way the support is calculated with compensating the income foregone seems adequate to achieve these targets, but we cannot say what the exact results will be. We can only talk on the basis of the ex-ante analysis for the moment. We do not have experience. These are the targets. You very rightly

pointed out the targets that we have for this measure, and, again, we think the method of calculation is appropriate in order to achieve these targets.

Q392 Viscount Ullswater: Is that in order to boost tourism? Is that a factor that has a knock-on effect?

Ms Vitcheva: Yes. I am not quite certain what proportion of the LFAs could benefit from rural tourism but this measure is again at the start. We had it under the pre-accession instrument, SAPARD. I do not know whether you have heard about SAPARD.

Q393 Chairman: Yes.

Ms Vitcheva: So rural tourism was under the diversification types of measures, so we have a very good interest in rural areas but more in the rural areas that are not LFAs. For the LFAs it is still agriculture that remains the basis and, of course, if we can put in more and more layers of economic activity that will only be positive.

Q394 Lord Cameron of Dillington: Going on from that, I was wondering how the objectives that you have just outlined fitted in with the other agricultural payments, either in terms of Pillar 1 payments or environmental schemes. Where does the LFA fit in with that and what is the difference between the objectives of the packages?

Ms Vitcheva: In our view LFA as an instrument has a very clear objective, to compensate for the worse conditions in these areas and to keep people staying there. In our view it is a clear-cut objective. For direct payments it is a little bit different. What we consider is that LFAs are complementary to the other types of support and our basic interest is not only to complement them in a good and efficient way but also to have full consistency among the different types of support. For example, for the LFAs one of the requirement is to have the good agricultural and environmental practice fulfilled. If not, of course, they cannot be eligible. That means that in terms of keeping the environment in general, not just agri-environment, there is consistency. It is the same with direct payments and cross-compliance. We have to be very consistent and in accordance with the EU law requirements. We think it is complementary and we think it has its own role. In our case, with the mountainous areas, the projected outcome of that measure is extremely visible.

Q395 Lord Cameron of Dillington: So there is quite a strong environmental element to the Less Favoured Area payment?

Ms Vitcheva: Yes, because in terms of keeping the agricultural activity in these areas, take, for example, the ones that are related to steep slopes, the inclination over 15 per cent, if we do not have agricultural activity there, there is going to be erosion

4 March 2009

Ms Charlina Vitcheva and Ms Neli Georgieva

of these areas, so there is a clear link between keeping the landscape and the good environmental situation of the region and the LFAs support.

Q396 Chairman: Where does skiing fit into this?

Ms Vitcheva: It is in the high mountains, not on the agricultural land.

Q397 Earl of Caithness: I think you answered my question about biophysical criteria when you answered the first question, so I would like to ask a completely different question of which you have had no notice. Given that you have just started this scheme, it has been running for a year, do you support the Commission in their idea to change the LFA structure now or would you rather let the system which you have started settle down and wrap it up as part of the CAP reforms to 2013?

Ms Vitcheva: If I correctly understand the question, maybe for the old Member States it is an important question because, as I said, the old Member States have the burden of the past and they still have areas that are not going to be eligible in the next programming period most probably. In our case we also have some differences in terms of area if we consider the current way of designation and the way of designation that the Commission has as a project now. Our interest will be to keep the system as it is to the end of 2013 and then any reform that is decided for the LFAs to become part of the CAP beyond 2013. We would not like to see changes in the meantime. We are going to have in 2011, for example, maybe an agreement on LFAs. By the end of the programming period there will be only two years left. Why should we disturb the system? Of course, there is something very important here. We do not have areas under socio-economic criteria. I understand this is the basic problem for the Commission and therefore for many of the Member States. We do not have this problem, so if there is any difference of area designation it will appear as a result of different biophysical criteria, not socio-economic criteria. The difference comes from the soil fertility criteria—currently applied and newly considered. We compared the maps that we have in both cases and some areas which we thought were more LFAs disappeared and some new ones appeared that we did not consider as LFAs. So obviously, there should be some kind of refining of the criteria that are now considered for soil fertility.

Q398 Earl of Caithness: Given what you have just said, do you think there ought to be two levels of criteria, the EU level and the Bulgarian level, so that you can add in bits of land that you think are important for LFA support?

Ms Vitcheva: It is a very tricky question. On the one hand it is important to have a level playing field, so I think that any diversion of criteria or any discretion that is given to any Member State in terms of taking on board the specificity of the country is okay as long as it does not spoil the competitive environment. We cannot be against it but there should be a very good balance between harmonisation in order to achieve a good competitive environment and on the other hand taking on board the specificity of every country. It is rather tricky so we need a balance there.

Q399 Chairman: It is incredibly rational.

Ms Vitcheva: We are trying to be.

Q400 Earl of Arran: You have covered so much ground in such a short time, and you have covered some of my question already. I just want to press you on the eligibility criteria and I have three questions. First, what kinds of LFA criteria would you like to see included in the framework? Secondly, what kinds of currently eligible farms and farming practices would you like to see excluded from the procedure payments? Thirdly, what degree of harmonisation of eligibility criteria would your government support?

Ms Vitcheva: I can tell you what our eligibility criteria are for the moment, just to see where we are. The LFAs have to be registered in IACS, the Integrated Administration and Control System. This registration is obligatory in order to have the possibility of controlling the areas. Then we have this condition to fulfil, the good agricultural and environmental conditions requirement. Then—continuing for at least five years, the agricultural activity counting from the first year of receiving the LFA support. So we need to be sure that it is not just to get the support for one year and the beneficiaries abandon the area. This is in order to get the real objectives reached. Then we have something specific in our case—a lower minimum ceiling for the mountain areas of 0.5 hectares.

Q401 Chairman: That is the farm size?

Ms Vitcheva: That is for the farm size in the mountains, and for the other LFAs we have one hectare ceiling.

Q402 Chairman: So if you are below that you fall out?

Ms Vitcheva: Yes. This is what we have. What should be included? We do not think anything else could be included in these criteria at the level of experience we have now. Turning to farm practices, we do not exclude any farming practices and it is in our view a little bit dangerous to exclude farming practices. I do not know if you mean farming practices or types of usage of land, because if we talk about different types of crops or animal breeding we are at risk of getting

4 March 2009

Ms Charlina Vitcheva and Ms Neli Georgieva

into conflict with WTO rules. We should not differentiate the measure according to the usage of land, so we do not exclude any sector from the LFA support. On the degree of harmonisation, maybe I will answer the same way as I did for the previous question. It should be harmonisation up to the level of a good rationale. Anything that will square the countries under one denominator and is not representative would not serve. Harmonisation, yes, but specificity should also be taken into account, so there should be a discretion to add to the criteria.

Q403 Earl of Arran: What degree of pressure is there from your farmers to come to the table and negotiate? Are your farmers pressing the government?

Ms Vitcheva: What we see now is that the farmers are very much aware of what they are entitled to from the direct payments of Pillar 1. For rural development they remember everything from SAPARD, but this is an investment aid they have in their head rather than per hectare paid. So LFA support is still not a tool for pressure on behalf of the farmers. We do not feel it for the moment.

Q404 Chairman: Would you exclude from the eligibility criteria part-time farmers?

Ms Vitcheva: My colleague is rightly saying to me that in these areas we have basically agricultural activity.

Q405 Chairman: So it is full-time? They have not diversified yet?

Ms Vitcheva: Practically, yes but there are currently no exclusions.

Q406 Chairman: But that will happen. You will get diversification.

Ms Vitcheva: Yes, but if it happens,—and this is not related to our position; it is just a personal thinking—it seems to me that if we consider the methodology, income foregone, the LFA support should cover only agriculture income in both cases.

Q407 Viscount Ullswater: We were given a document which indicated that 75 per cent of the agricultural holdings are less than one hectare. I do not know where that particular piece of information came from but is that a problem in that a lot of the holdings are not eligible to receive LFA?

Ms Vitcheva: Seventy-five per cent are less than one hectare? Maybe the figure is a little bit out of date but, again, we still have a large number of holdings, not agricultural land. As part of agricultural land it is not that severe, but as part of the number of holdings, yes, we still have a large number less than one hectare. You have to know that for LFAs for the mountain areas where this problem is the most acute we have 0.5 hectares. We have many holdings like this, so that

is why we have this minimum ceiling reduced to 0.5 hectares.

Q408 Chairman: It seems, from what we have got here, that although you have 75 per cent of agricultural holdings less than one hectare the average farm size is 4.4 hectares.

Ms Vitcheva: Yes.

Q409 Chairman: That feels about right, does it?

Ms Vitcheva: Yes.

Q410 Chairman: It is still small, is it not?

Ms Vitcheva: Yes, it is still small. It is increasing but you have to know that we have a few very large farms and it very much varies with regard to the type of cultivation. For example, for cereals we have really large farms, but for fruit and vegetables, no.

Q411 Chairman: Wine?

Ms Vitcheva: They are medium to small, but now we have some big vineyards as well. It goes in the direction of amalgamation.

Q412 Viscount Ullswater: Would vineyards be included in LFA?

Ms Vitcheva: If they are in such areas they have to be covered.

Q413 Viscount Ullswater: So every activity is covered?

Ms Vitcheva: Every activity. We do not differentiate.

Q414 Chairman: You are driven by the soil?

Ms Vitcheva: Yes, and mountains.

Earl of Arran: Very good wine you have too, delicious.

Chairman: Thank you for that, Lord Arran.

Q415 Earl of Arran: A pleasure, Chairman!

Ms Vitcheva: Thank you for the compliment.

Q416 Earl of Dundee: On the new payment formula, what do you think about it and how is it likely to affect your own payment levels?

Ms Vitcheva: We have been asking our colleagues about a new formula and they have not come across anything really explicit. Maybe you mean the principle of the calculation based on income foregone.

Q417 Chairman: Yes, exactly.

Ms Vitcheva: We did it on this type of calculation for the period 2007-2013, so we are in this scheme more or less, so we think that we are not going to have a big change as a result of massive implementation of this formula, or rather this principle. Let us put it as “principle” because we have not seen any formula

4 March 2009

Ms Charlina Vitcheva and Ms Neli Georgieva

with parameters and so on, so we consider it a logical way of thinking. In our case we are based more or less on this type of calculation and we consider it as the legitimate one.

Q418 Earl of Dundee: So, as you say, it might not cause too much change with you, but, wearing your objective hat beyond Bulgaria, do you think the new formula will promote transparency and hence assist justification for paying anything at all, and would it probably, do you think, thereby achieve a greater degree of consistency or harmonisation in payment levels across EU Member States?

Ms Vitcheva: If we base the calculation on the income foregone, taking into consideration the huge differences in income in different Member States, I would not say that there will be a convergence, rather the opposite.

Q419 Earl of Dundee: Or even a greater degree of consistency? There might not even be that?

Ms Vitcheva: It will give transparency. We know the problems that the Court of Auditors expressly put forward with the implementation of the LFAs and that is why we are having a reform. Transparency is needed and maybe this formula or this principle will bring more transparency. In our view the risk is that we could make it very complicated in calculating and designing the whole scheme. Once it is too complicated then we breach the good balance between implementation efficiency and simplicity, transparency and accuracy. Therefore, we have to strike the right balance and not have too much administration. We need to aim at lower costs for administration. So it should be a good balance between cost efficiency of control and accuracy of methodology with regard to targets achieving.

Q420 Lord Brooke of Alverthorpe: How did you alight on this system for determining the first year of entry, that this should be the basis for your calculations? Were you given guidance from Brussels? Were you used as a guinea pig?

Ms Vitcheva: We were given guidance from the Commission, and I remember when we were discussing our rural development programme and the designation of LFAs that at that time it was already clear that the socio-economic criteria most probably were going to disappear, so that is why we based our rural development programme on excluding the socio-economic criteria. Of course, we could have kept a bigger area and then claimed. However, we decided to be consistent from the very start.

Q421 Lord Brooke of Alverthorpe: Do you know from your experience with the other new entrant countries whether they went through the same process as you did?

Ms Vitcheva: In fact, we are only two countries, Bulgaria and Romania, that started in 2007. The other new MSs joined in 2004 and have some experience from the 2000-2006 programming period.

Q422 Lord Brooke of Alverthorpe: They came earlier?

Ms Vitcheva: Yes. For the Romanian side, we do not know how they decided on the LFAs.

Q423 Lord Brooke of Alverthorpe: We should ask the Romanians then, should we?

Ms Vitcheva: Yes.

Q424 Chairman: I tell you this much: what is coming over is that you are indeed blessed by not having the burden of the past.

Ms Vitcheva: Yes, that is why I started with that.

Q425 Lord Cameron of Dillington: Turning to mapping and data collection, are you in a position to be able to provide the relevant information for the impact assessment that the Commission are looking to do for the changes?

Ms Vitcheva: Yes. We have some kind of mapping on the basis of certain parameters. What we still do not have is the climate map. We do not have this layer on the map. What we have, for example, is mountain areas. We have the slope inclination, we have soil fertility in our mapping, but we still do not have the parameter of climate as a layer on the map, so this is what we need.

Q426 Earl of Arran: Just out of interest, is there much foreign investment in farmland in Bulgaria at the moment?

Ms Vitcheva: No, I would not say so.

Q427 Earl of Arran: Is one allowed to buy land in Bulgaria?

Ms Vitcheva: To buy land?

Q428 Earl of Arran: I am not very rich. Do not worry.

Ms Vitcheva: The buyer needs to be registered under the Bulgarian law, that is the condition, but once you are a Bulgarian company you can buy land. Otherwise, we have this transitional period of seven years. It is horizontal for all new Member States.

Q429 Lord Cameron of Dillington: You mentioned climate just then. Is climate change going to be an important area for Bulgaria in the future? Will the

4 March 2009Ms Charlina Vitcheva and Ms Neli Georgieva

possibility of drought and water shortages start to feature in your criteria for LFAs?

Ms Vitcheva: I would say that it is a horizontal problem for Bulgaria. We should not stick it to certain types of area or only to LFAs. We have very severe problems with drought at the moment and it is becoming more and more acute with the years. Drought urges the absolute need to improve water management, and that is why we had a very big problem in accepting for the CAP Health Check that for the new challenges the new Member States did not get anything in addition to the rural programmes. We said it very clearly at the time.

Q430 *Earl of Caithness:* Just to come back to Lord Cameron's question on mapping, if the Commission were to lay down a tight timetable for you to complete your mapping on the climate, could you do it?

Ms Vitcheva: We have to do it and we know that our colleagues have to buy certain data from our meteorological institute. I think they will manage but in our case the climate element is not an important parameter. This is our expectation: it is not going to

change the map very much. It is not going to add a lot. The biggest stake is for the mountain areas and this mapping on the basis of altitude is done and the other for the slope and soil is done, so these are the basics.

Q431 *Lord Cameron of Dillington:* The amount of rain?

Ms Vitcheva: The rate of differences is not in our case so substantial, for example, for temperatures, and only a few areas might be additionally included, but not a lot. We hope to be able to do it.

Q432 *Chairman:* Thank you very much indeed. I think this has been one of the most refreshing sessions we have had. It has been very good.

Ms Vitcheva: Thank you.

Q433 *Chairman:* It makes such a difference from, let us say, some rather defensive arguing that we often hear in these inquiries.

Ms Vitcheva: Maybe because we are very new, we are just starting into the dispute. We are free from any historical burden.

Chairman: Thank you very much.

WEDNESDAY 4 MARCH 2009

Present	Arran, E. Brooke of Alverthorpe, L. Caithness, E. Cameron of Dillington, L.	Dundee, E. Sewel, L. (Chairman) Ullswater, V.
---------	--	---

Examination of Witnesses

Witnesses: MR JIRI SIR and MR LUKAS VISEK, Agricultural Attachés, Czech Republic, examined.

Q434 Chairman: Thank you very much for finding the time to come and help us with our inquiry.

Mr Sir: It is a pleasure for us to speak to you.

Q435 Chairman: It is particularly kind of you given that you are the Presidency at the moment, and it is helpful for us, if you do not mind, to get the perspectives that you bring as the Czech Republic but also, obviously, as the Presidency, so thank you very much. We are a Sub-Committee of the House of Lords. We are conducting an inquiry into the LFA scheme and its revision. This is an evidence-taking session and a note will be taken of the evidence you give us. That will be circulated to you in a few days' time and you can correct and amend it if any slips or mistakes have crept in. First of all it would be helpful to us if you could outline how, as the Presidency, you intend to take forward discussions on the review and where you expect to get to by the end of your period.

Mr Sir: Thank you for these interesting questions and, of course, thank you very much for sending us the questions beforehand. It was really useful. You have chosen an extremely interesting topic, the LFAs, a topic which is very technical but to a certain degree political. We had hoped that the Commission would present the proposals in 2008 but this did not materialise so now the Commission will be submitting not proposals but a communication, so it is a bit different than some time ago. Currently I can tell you that the Czech Presidency expects the presentation of the European Commission's communication on the review of the Less Favoured Areas scheme to the Agricultural Council in April. It will take place on 23 or 24 April, and consequently the working party F2, which deals with rural development issues, will commence its activities. We have planned for two or three meetings at the level of the working party and two meetings of the special committee on agriculture where discussion will take place. Of course, first the Commission will have to present the communication and then we will hold discussions among the Member States in advance of preparing the June Council meeting where we hope we will be able to submit conclusions to the Council and get some agreement. I am sure you know that it is not always possible to receive the support of all the Member States which is necessary for the Council

conclusions, so we are realistic but we have to be sufficiently ambitious so we hope for Council conclusions on this issue and we will do our best to get them. Anyway, for the working party work the aim is to explain all the criteria and technicalities and consequently to encourage the Member States to produce in the future a map of the other LFAs in their territories which would contribute to a homogeneous map of the other LFAs in EU-27. To the best of our knowledge there is general consensus on the need for a response to the European Court of Auditors' critical report of 2003. This agreement, I would say, was clear from the Member States' discussion at the Council in 2005 when rural development regulation 1698/2005 was agreed and adopted. The Member States also agreed that the new delimitation of the LFAs should be done on the basis of clear criteria which, of course, is the wish of the European Court of Auditors, so this is one of the basic parts and principles and the criteria should be verifiable with regard to natural handicaps. Of course, the opinions of the individual Member States may differ, mainly as regards the threshold values we have designated to the other LFAs, but this is for a debate which may come at a later stage, and there will be some requests for flexibility at the national level, we are quite sure. This is basically the framework of the Czech Presidency and you see that there will not be too much time for the Czech Presidency to work on this very complicated issue but in any case we want to hold an interesting and constructive debate to help push this matter ahead a bit and get some tangible results.

Q436 Chairman: I think that is very interesting, what you say about the degree of consensus and the clear criteria, but also the pressure to have some degree of flexibility at Member State level. I think it is fair to say that the evidence we have picked up so far, particularly from perhaps some of the older Member States, comes down very heavily in favour of, "Let's try to keep things as much like they are at the moment", minimum change.

Mr Sir: Frankly speaking, it would be a great thing for the Czech Republic as a Member State if things remained as they are, but we have joined the EU knowing that things may change and, unlike some

4 March 2009

Mr Jiri Sir and Mr Lukas Visek

others, we are quite an open nation, not one that would be commonly understood by others, and it may seem strange but we are open to discussion on changes to the criteria. We, of course, will try to find criteria which will not disturb terribly the Less Favoured Area farmers, that is for sure, but we cannot say, "Let's set aside the European Court of Auditors' report and let's do the business the old, usual way". As a Member State we are open in this regard.

Q437 Earl of Caithness: Do you anticipate that the ongoing review of the EU budget, which inevitably will take into account the future of the Common Agricultural Policy, would impact on Less Favoured Areas and, if so, how and to what extent?

Mr Sir: The Court of Auditors' report shows that the main reason for the revision of the LFAs is to justify the related payments. There is a focus on transparency and comparability of the criteria which are used by individual Member States for the designation of the LFAs and in those documents there is no explicit statement that the objective of the LFAs is to reduce financial resources earmarked for the Less Favoured Areas, so from this point of view it is more a technical exercise. Anyway, the delimitation of the other LFA areas is a long-term process, which indeed was initiated in 2005, so I would say there is no realistic ambition from the Czech Presidency and no ambition from the Commission communication that we complete a review of the LFA scheme under our Presidency, so it will have to go on. In any case, we see it indeed more as a technical exercise which has been prepared and decided before. We do not see a clear link with the review of the European budget so we take the European Court of Auditors' report and reasons as a basis for the change of the LFAs, not the budgetary review, I would say. It is very difficult to anticipate if there is any impact or inter-connection or relation between the two things, the LFA revision and the budget review; rather we would say that it is a technical issue which should be able to take place without the budget review. From our point of view I would say that for the Czech Presidency, which will not be dealing with the budget review anyway, we do not see anything for us as a Presidency.

Q438 Chairman: So you see them as two distinct exercises?

Mr Sir: Yes.

Q439 Lord Cameron of Dillington: What do you see as the objectives of the LFA payment scheme? What does the taxpayer get out of it and where does it fit in with the rest of farm payments, the single farm payment and the agri-environment scheme?

Mr Sir: This is a very interesting question, I have to say. You might have heard about what our minister said in the European Parliament. He said quite clearly that he wants to discuss the CAP also from the point of view of the efficient use of taxpayers' money and he declared that he would like to be able to prove to taxpayers that the money which is allocated to the CAP is well spent.

Q440 Lord Cameron of Dillington: A very sound sentiment from our perspective.

Mr Sir: Yes, so we consider the LFA payments as complementary to the agri-environment payments within the rural development scheme when it comes to the objectives of these measures. The objective of the LFA scheme is to prevent land abandonment and contribute to continuous use of agricultural land and landscape maintenance, so there are clear environmental benefits from the Less Favoured Areas payments. Of course, the main objective of the agri-environment schemes is to preserve and increase biodiversity and the LFA payments are provided as a compensation which sets differences resulting from less favourable conditions for farming activity, and the agri-environmental measures are granted on the basis of the income foregone and the variable costs which are based on a voluntary commitment, so we see the complementarity of this voluntary commitment which is a farmers' initiative more or less.

Q441 Lord Cameron of Dillington: So it is an agri-environment safety net? The agri-environment payments are positive payments for action and the LFA is to keep people on the land?

Mr Sir: Yes, in a way. We know from our studies that if we stopped paying the LFA payments there would be land abandonment in the Less Favoured Areas, so in principle it is our opinion that the LFA payments are for maintaining agricultural activity which then preserves the environment. The agri-environmental measures are something more where the farmer is adopting more stringent conditions for himself while knowing that he will be compensated for losing some part of his income and, of course, paying more on some of the costs. There are also the direct payments, and in the case of the Czech Republic we are applying the single area payment system which has been hugely efficient and hugely successful in the Czech Republic. It is called SAPS as an abbreviation and this SAPS, as well as the Less Favoured Area payments, essentially helps to sustain the farming activities in the Czech Republic. The SAPS payments are not bound to a designated area. They are a payment for all of the agricultural land in the Czech Republic. Of course, the differences between farmers are caused by different natural conditions while the SAPS payments are added to farmers' incomes in

4 March 2009

Mr Jiri Sir and Mr Lukas Visek

order to complement their income and, of course, reward them for the role farming plays in rural areas. All the three direct payments and Less Favoured Areas and agri-environmental measures, plus, of course, investments in the rural environment and other measures, create a whole set of measures which are helping the rural areas. In the discussion on the future of the CAP the Czech Presidency wants to put emphasis on the direct payment systems and the issues of direct payment, so we would not necessarily pick up the LFA or the agri-environmental measures because the CAP is too big an issue for discussion if we want to go into detail. We really want to hold an open and constructive and concrete debate on the CAP and we will continue from what the French were doing last year but we will go into detail, especially over that payment. I hope this answers some of your questions.

Q442 Viscount Ullswater: I wonder if you could briefly give us an indication of what proportion of agricultural land in the Czech Republic is designated as LFA and whether you have made any assessment as to what proportion of the farmers' income is made up by this particular payment?

Mr Sir: In the Czech Republic the situation is clear for the moment and the overall LFA areas take about 50 per cent of the utilised agricultural land in the Czech Republic. As a whole it means 1.76 million hectares of agricultural land but out of this only part is covered by the LFA payment. The reason is that in the Czech Republic the payments are attributed only to permanent grasslands and not to arable land. As a result about 800,000 hectares of agricultural land in the Czech Republic are subject to LFA payments. Concerning the proportion of farm income drawn from the LFA payments, from the Farm Accountancy Data Network we see that the proportion varies according to the farms' activities and, of course, if there is a farm with a small proportion of grassland out of its farmed land then it is usually about 15 per cent or more. Then again, on another farm where the activity structure is different it may be over 50 per cent, even 60 per cent in those very extensive ones, so this is a significant factor given the historical farm structure, and if you look at the LFA payments as part of the gross value added, they constitute approximately 14 per cent gross value added of farmers income in LFAs.

Q443 Lord Brooke of Alverthorpe: You have already explained what the Czech government sees as the rationale and the objective for the LFA payments, and you have just described the extent to which there is coverage. Do you think it is targeted sufficiently to deliver the public good which is behind the ambition in the programme or do you believe it should be spread further?

Mr Sir: From our point of view the LFA payments should not support intensive agricultural areas, so the Czech Republic would prefer to set the common framework criteria at the EU level in such a way that the LFA payments are targeted. As you can see from our application of the payments only to the grassland areas, we are going in the direction of targeting, so in a way there is room for the specification of the eligibility criteria and certain room—and I mentioned that before—should be given to the Member States. For example, livestock density and the extent of grassland and other environment-friendly farming methods can be considered as possible eligibility criteria, so, from our point of view, if we have good criteria we can have good targeting, so I do not know if I can be that explicit but I would say that yes, the LFA payments are targeted.

Q444 Lord Brooke of Alverthorpe: Do you have any land abandonment?

Mr Sir: I would not say that this is a huge problem in the Czech Republic. We have perhaps more discussions on the agricultural land which is lost due to development of housing and other things. We have a law which imposes on the owners of land the duty to take care of the land, so in any case we have not seen any serious problems with land abandonment for the time being, but I do not have any exact figures.

Q445 Lord Brooke of Alverthorpe: So it could be that it is that piece of legislation that keeps people maintaining and farming their farmland for the benefit for the environment rather than the LFA payments, could it?

Mr Sir: No, I would not put it that way. It is one of the incentives which helps people to decide what they want to do on their land. Even if the LFA payments and other things were not sufficient for farmers to take care of the land to a certain degree then, of course, there is what I would call this utmost possibility for the authorities to force people to at least cut the grass or cut the vegetation. You can never compare such a forced measure which would be imposed to a reasonable farming activity supported through the rural development programme. Please take it only as an indication that we have not seen any serious land abandonment in the Czech Republic.

Q446 Earl of Arran: Turning to the subject of criteria, and firstly designation criteria, taking into account the biophysical criteria that are currently under examination and being discussed, in your opinion do you think there should be any add-ons, any additional or alternative criteria that should be under examination as well?

Mr Sir: That is a discussion which is going on in the Czech Republic right now and I am sure in other Member States as well. First, do we share the

4 March 2009

Mr Jiri Sir and Mr Lukas Visek

common opinion that the definition of the payments should be based on additional costs and the income foregone for natural handicaps? We firmly believe that a unified approach to the calculation of the payments will lead to a certain convergence in the payment rate and it will be more objective but I would not be able to tell you exactly which would be the best criteria to apply. I have been part of the discussion on similar locations and it is very technical. The methodologies are very complicated and it is difficult even to compare the results because we have to compare the methodologies, so for the time being I cannot give you any indication but in the future I am sure it will be possible.

Q447 Earl of Arran: Nevertheless, you regard it as important, presumably?

Mr Sir: Yes, within the effort to develop objective criteria which would, I would say, quantify the natural handicaps. It would be an important part of the debate, yes.

Q448 Earl of Dundee: You have already said a word about eligibility criteria and for the receipt of LFA payments we learn of the Commission's proposed framework to contain these. Which eligibility criteria would you want to see included in that framework and what, if anything, might you wish to see left out, maybe certain kinds of farms and farming practices?

Mr Sir: This is an extremely difficult question, even in discussions in the Czech Republic. We are indeed looking at all the possible criteria which could be quantifiable and which could be regarded as objective. It could be temperature, it could be the water situation, it could be the soil conditions, so for the Czech Republic it would be all three of the basic parts in these areas. This is the basis for discussion but indeed at the current stage I am not able to identify very concrete criteria and or details. In any case, this is one of the reasons why we would prefer a framework of common criteria plus some flexibility which would enable Member States to specify the concrete criteria on the ground. This would enable everybody to find a good balance between the requirements for reasonable spending and spending which could be defended before the taxpayers, and, of course, giving the necessary flexibility, and we know that different conditions in different Member States require at least a certain level of flexibility when you apply the CAP. I am sorry not to be able to reply very definitely to your question but this is something which is just under discussion and of course we cannot presume the concrete content of the Commission communication. We know that there will be preparation of maps and the maps will be based on those criteria of temperature, soil and water and possibly other things. What is sure is that we are not in possession of all the data the Commission

required us to submit to be able to create the maps, so we will have to look for more data sources ourselves and only after we identify the data will we be able to look at it and say, "This is something we can use as the criteria". Of course, we would not be in favour of criteria based on data which we do not have.

Q449 Earl of Dundee: Quite. Thank you very much for that answer and, as you explained, no doubt flexibility here is the name of the game, but, that apart, would your government perhaps still support some degree of harmonisation of eligibility criteria?

Mr Sir: I would not want to speak on behalf of the government right now but I would say that the Czech position is exactly going in this direction, that yes, this exercise is here to be done in order to create a framework and to harmonise it in a way that is better and more objective than the current criteria which are designated purely by the Member States, so yes, harmonisation is the right word to use within the exercise, and I am quite sure my colleague will correct me if I am wrong.

Q450 Chairman: Have you picked up a tension between perhaps the newer Member States and the older Member States on this? The newer Member States may well be open to putting the emphasis on harmonisation and the older Member States put the emphasis more on flexibility.

Mr Sir: I presume you have spoken to old Member States and you have spoken to new Member States.

Q451 Chairman: We have spoken to senile Member States—not just old, senile.

Mr Sir: I mean you have spoken to both.

Q452 Chairman: Yes.

Mr Sir: So I am quite sure that you have a better picture than I about what are the different points of view. I do not think it is the Less Favoured Areas where the Member States who joined the EU in the last few years would be putting the greatest emphasis. More emphasis might be put on the direct payment scheme and that is why the Czech Republic has chosen the direct payment scheme as an important part of the debate on the future of the CAP. If you look at all the Member States you may get the impression that the old Member States want more to stick to the current situation and the new ones are more open to change, but I do not know if this is caused by the policy direction or by the fact the new Member States have had to accept many things recently and even before, so we are perhaps more open to the EU matters and although sometimes we are perceived as Euro-sceptics in the Czech Republic we are quite open to European ideas in many ways, so even a certain harmonisation of criteria should not be much of a problem for us.

4 March 2009Mr Jiri Sir and Mr Lukas Visek

Q453 Chairman: The phrase that we heard in addressing this sort of issue, and I think it is perhaps an accurate one, is that the new Member States do not suffer from the burden of the past.

Mr Sir: We have had our burdens, and we are happy to have the burdens which we have now because we think they are better than the burdens we had between 1948 and 1989. We are definitely in a better position because we value more the things which are existing in the EU than some others, but not in all cases, of course.

Ms Visek: There is another phenomenon here in the Czech Republic, which is that we already had LFAs before enlargement and we had different criteria, so in 2004 we had to change them to make them compatible with regulation 1257/1999, so we can change them again.

Mr Sir: It is just one of the changes.

Chairman: Life is all about change.

Q454 Earl of Caithness: This is exactly what I want to follow up on. When did you start paying farmers in Less Favoured Areas? Can you tell us that? On what basis did you pay them, on what basis do you pay them on now, what do you think of the Commission's proposal for the new payment formula, and will you have to change again to implement that?

Mr Sir: Here I would say it would be better to speak off the record. (There followed a discussion off the record)

Q455 Earl of Caithness: Given the changes that you have gone through, is it a sensible policy of the Commission's to ask for a reform of Less Favoured Areas now when there is going to be a review of CAP before 2013, because a lot of farmers have gone through an upheaval to get where they are now, we are going to change it and it might change again in 2013, and, given what you have said about the lack of data, the lack of potential mapping that we will come on to, is not this process going to be a lot of change in a short time?

Mr Sir: Stability for farming is important for the Czech Republic, that is quite clear, but it cannot stand in the way of changes which had been foreseen before, so the farmers should be aware that in 2005 a decision was made on changes to the LFAs. They cannot know perhaps what will be the result but they can already guess that there will be some changes to the criteria resulting in some changes to their incomes. In any case, the change should not be that

dramatic to turn over the life of farmers in the Less Favoured Areas, so in a way it might be nice to be able to group the different factions together, but in this case—and I have said it before—we consider it more a technical exercise which has been planned for a few years and it is now time to materialise the decision. We do not think there would be a clear link with not only the review of the financial perspective but also the future of the CAP because our ideas and discussions on the future of the CAP should be more about what the direct payment systems should look like in order to be simple, to be cheap, to be user-friendly, to be effective, not about how to put all the elements there. I do not know if this is the best approach but from our point of view we really opted for the debate or discussion on the future of the CAP and we just picked up the direct payments as the most important part. We would touch upon the rural development issues as well and there will be a meeting of Directors-General discussing very openly what are the problems, what are the challenges, what are the solutions for the rural development policy. If I put it at certain levels, the LFAs would be level one, the direct payments would be two or three and the future of the CAP would be five or so. In this sense the question is, if we put it all together would the change not be that terrific that the farmers would just go crazy? It is a matter of opinion and, given the situation, we think we just have to go on with the exercise, and in any case we will not try to postpone it by a single day.

Q456 Lord Brooke of Alverthorpe: So can we conclude on accepting, as you see it, that it is primarily a technical exercise? You mentioned earlier the need for mapping. How are you as a country placed in response to the needs that will arise from the technical information and the mapping? Are you geared up for it or is it going to take time and, if so, what will the timescale be like?

Mr Sir: This is a very concrete question. I am afraid I do not have answers for three questions at least, but we have to feel geared up for it first, I think, so I would say we are ready to do it. Secondly, we do not know what exactly the time frame will be but we know that we will do our best to cope with the challenges of the exercise, whatever they are.

Q457 Lord Brooke of Alverthorpe: It is not going to be done by June then, is it?

Mr Sir: Most probably not.

Chairman: That is it. Thank you very much indeed. That has been very helpful.

WEDNESDAY 4 MARCH 2009

Present	Arran, E. Brooke of Alverthorpe, L. Caithness, E. Cameron of Dillington, L.	Dundee, E. Sewel, L. (Chairman) Ullswater, V.
---------	--	---

Examination of Witness

Witness: MR OSMO RONTY, Agriculture Counsellor, Finland, examined.

Q458 Chairman: Welcome, and thank you very much for finding the time to come and help us with our inquiry into LFAs. I suppose in a way Finland must be the specialist country when it comes to maintaining agriculture in Less Favoured Areas.

Mr Ronty: I think so.

Q459 Chairman: This is an evidence-collecting session of our Sub-Committee. A note will be taken of the evidence that you give. You will get a copy of that and be able to revise it and remove any errors that have crept in. Again, thank you for coming and helping us. Perhaps you could give an outline of the importance of LFA payments in Finnish agriculture. I should imagine they are quite significant. Virtually the whole of your agricultural land is covered by LFA, is it not?

Mr Ronty: Yes.

Q460 Chairman: What categories are there? Do you have mountain areas? Perhaps you could give us an idea of the distribution of the different types of LFA categories and how important the relative contribution of LFA payments to farm incomes are to farmers. Could you help us with those?

Mr Ronty: Yes, with pleasure. Perhaps I might just say at the beginning two points. First of all, we do not have the Commission communication yet, so we do not have the Finnish government position, so what I am about to say are initial comments. I would like to start with another background issue, and I will circulate a picture which is quite illustrative of our situation. It is quite simple but it illustrates very well our situation in agriculture. The whole of Finland is north of the 60th parallel and when you follow that parallel around the globe you will find places like Greenland, Hudson Bay, Alaska, Siberia, et cetera. So, yes, we are working in very specific circumstances. Sometimes it is not so easy for people in the middle of Europe to remember that.

Q461 Chairman: They are concerned with drought.

Mr Ronty: Yes, unfortunately with drought. To answer your questions, yes, the whole of Finland is classified as LFA, but at the same time you have to remember that a little bit less than nine per cent of the

area is an agricultural area. The land is covered by forest mainly and that gives a specific taste to those who receive the LFA payment. I will come back to that later. I will show you another picture. Your question was, how is it classified? The whole country is classified as LFA. Everything north of the 62nd parallel is considered to be mountain area, the southern coast is classified under Article 20 as specific LFA and the area in between is the Article 19 area that we'll be speaking about in the Commission communication. It is the rather fragmented area with the black border on the paper I have given you. On your question about the significance of LFA support, I do not have the exact figures but, yes, it is very significant in our circumstances. If you think about the farm income, it varies between sectors and between years because in our circumstances the yields vary greatly between years and accordingly the income that the farmer gets from his product varies, but the LFA payment may be an average of somewhere close to 40 per cent of the income of the farmer¹.

Q462 Chairman: Just LFA?

Mr Ronty: Just LFA, so you can see it is very significant for keeping agriculture in Finland. It is not so important in some sectors but it is very important, for example, in these areas where the proportion is higher. However, as I have said, this varies a lot between the years, the sectors and the different parts of the country. Basically, the conclusion that we can come to from this is that in Finland we have very high production costs. Very often the production cost is higher than the market income, that is, the market income cannot cover the variable costs of production. In this situation you can see that it is very important for keeping the production there. So that we can say that the very existence of farming is dependent on these natural handicap payments.

Q463 Chairman: So it is absolutely fundamental to your agriculture?

Mr Ronty: Yes, very much so.

¹ Of farm income (total gross return minus total costs).

4 March 2009

Mr Osmo Ronty

Q464 Chairman: As that is the case, what are your general concerns about the review, just the headline ones?

Mr Ronty: I will come back to that as well later but, of course, our general concern is to keep the whole country as LFA because of our geographical position, and I will give you another map on that. And, of course, to keep a sufficient level of LFA payments.

Q465 Lord Brooke of Alverthorpe: We now come to the rationale and objectives behind the scheme and how it is viewed in Finland. We understand that Finland allocates more than 30 per cent of its rural development budget to the LFA scheme. Could you explain what the Finnish government sees as the rationale for the LFA payments? I think in part you have probably touched on that with your earlier response but what do you think the public is paying for through the scheme and at present is the support targeted precisely enough? Certainly, it is pretty widespread within Finland but could not a case be advanced that it should be targeted more, given the objectives of the scheme?

Mr Ronty: I will come back to the share of the agricultural area in our country. It is a little bit less than nine per cent. That means that the open agricultural landscape is very important for the Finns; we have so little of it. We think that the public in Finland appreciate having their own agriculture and having this agricultural production and agricultural landscape, and therefore support for agriculture and for rural areas is widely accepted in Finland. If there was a decline in this open and managed landscape it would have effects not only on agriculture, of course, but also on other industries like rural tourism. The area is not so attractive any more if the land is abandoned. You can sum up that without these natural payments farming could not be continued in a country like Finland. This is because of our short growing season and long winters. We have great variations in temperature between the different times of the year. So yes, this is the rationale. On the targeting point, yes, I think it is well enough targeted now. If there was some differentiation needed we could give a little bit more support to animal production because animal production is the first one to leave, but that is just an initial idea.

Q466 Viscount Ullswater: Because Finland is in this unique situation of being 100 per cent in an LFA what do you think is the difference between the single farm payment under Pillar 1 and the LFA under Pillar 2, and, of course, any agri-environment scheme that you might run as well? Do you see them in a way converging as just general support for agriculture with a minimum of land management criteria to support that?

Mr Ronty: The way we see it is that the objective of these natural handicap payments is to make possible continuing agricultural use of the land in the Less Favoured Areas and in that way contributing to the maintenance of viable communities and rural areas and promoting and maintaining sustainable farming systems, et cetera. The agri-environment scheme is more of a tailored measure. It has very clear environmental objectives. The other CAP instruments do not really have such landscape objectives which are important in the LFA. To sum that up, we can see that the LFA scheme is the basis for maintaining agriculture and the agricultural landscape in our circumstances. The agri-environment scheme complements it by guiding the farmer to act in an environmentally friendly way. We do not really see that these schemes could be merged. We see different meanings between the different Pillars and I do not think you can combine them. The objectives and the requirements are different in the two Pillars.

Q467 Viscount Ullswater: What about cross-compliance and the single farm payment? Is that not almost the same objective in your case as the LFA payment?

Mr Ronty: We can look at the single farm payment in many ways. One of the ways to look at it is that it has more to do with the income of the farmer. You can see some convergence, yes, but still we do not think that they are exactly the same. There is another way to look at the LFA scheme and that would be perhaps to see that the purpose of it is to even out the differences between the production areas so that the farmers can continue also in the weaker areas where the production costs are high. This would be in line with the wish of the European Council which has stated many times that the CAP must enable farming to continue in all areas of the Union, including the ones with specific difficulties. Also, I see perhaps a connection to the global food market situation and the way it will evolve in the coming years, so that would speak for maintaining our own food production as well. We can see many meanings to the system.

Q468 Earl of Arran: Because of the terrain of your country I suspect you have answered this question already, but, turning to the two forms of criteria, first, the designation criteria, taking into account the criteria that are currently under examination, in your opinion are there any additional or alternative criteria that should be taken into account?

Mr Ronty: No. In regard to the criteria that we have on the table now, the climate criteria are the most important and I would also say that they are quite sufficient, or seem to be sufficient, for us. The most important one of the criteria would be the length of

4 March 2009

Mr Osmo Ronty

the growing period. I gave you a picture earlier under the heading "JRC Length of the Growing Period". If you have a look at that you will see that, if you take the areas where the thermal growing period is the maximum 190 days, that would cover Finland quite nicely. This would be justified also because if the growing period is shorter than this it will affect agriculture in many ways. First of all, you cannot use high yielding species like maize, for example. We do not grow maize in Finland, at least not on any commercial scale. Some experiments have been done but normally they have failed. Also, you cannot use high yielding varieties of the species that you can use, so mainly we grow spring wheat, for example. The proportion of autumn wheat is very low, five per cent perhaps. If you go up in the country in this area there is no maize at all. This is about the limit where you can grow wheat. North of that it normally fails. If you go up to this other level, this would be the limit for barley and oats, so north of that everything is based on grass. You can see that the length of the growing period really has an effect on farming and if they used the 190 days limit here it would cover Finland. It would cover parts of Scotland as well, as you can see.

Q469 Chairman: This is my little bit of Scotland just there. I am just in it.

Mr Ronty: You do not see the full picture if you only take the technical length of the growing period because there are other factors which affect farming as well. The effective growing season is cut at both ends. It is shorter than it could be. In Finland normally the ground is frozen during the winter and it takes time before it melts and dries up enough for the farmers to start work in the fields, so this will shorten the period at the spring end, and at the autumn end we have quite heavy rains and you cannot go to the fields at these times. So you have to do the harvest very quickly.

Q470 Earl of Arran: So I imagine the farmers are not urging you to rush to the negotiating table. They are pretty keen to keep the status quo.

Mr Ronty: Yes, I think they would prefer to keep the status quo, except for one point that I will come to later. I was now speaking just about the climate criteria and the length of the growing period. For us, we do not need any of the other criteria as long as this one is taken into account. What we feel is that whatever the criteria, they will have to be applied in an objective way in all the Member States and in a similar manner in all the Member States. This is important for us, to try to make some genuine EU policy.

Q471 Chairman: Can I tease this out a little bit? You stick to the climate criteria. That covers the whole of Finland, so you are using biophysical criteria.

Mr Ronty: Exactly.

Q472 Chairman: But actually what those biophysical criteria do is deliver the socio-economic benefit.

Mr Ronty: I suppose you could put it that way, yes.

Q473 Chairman: And you do not need to have socio-economic criteria because you get the same result by using biophysical criteria.

Mr Ronty: Yes, I suppose you can put it that way. In the case of Finland we think the biophysical criteria are very strong.

Q474 Lord Cameron of Dillington: It may be the same answer, but turning now to the eligibility criteria, you presumably would look for a greater degree of harmonisation across Europe as well in the eligibility criteria, would you, and, if so, what sort of eligibility criteria in general, covering Sicily to Finland, would you have, and would you wish to exclude any farmers or farming practices?

Mr Ronty: Here the answer is different. We have severe doubts about this idea of having the eligibility criteria. To begin with, how do you do away with a handicap due to climate? It cannot be done. It cannot be removed by any cultivation technology. How do you lengthen the growing season?

Q475 Chairman: You want everybody in, do you not? Basically, you want everything in.

Mr Ronty: Yes.

Q476 Lord Cameron of Dillington: Is there any form of cross-compliance attached to your LFA payment at the moment?

Mr Ronty: Yes, there is a connection².

Q477 Lord Cameron of Dillington: Do you exclude people for some reason?

Mr Ronty: We do exclude some people but I do not have the exact details in my mind.

Q478 Lord Cameron of Dillington: But they have to behave very badly to be excluded?

Mr Ronty: Yes. I cannot answer directly because I do not have all the details in my mind about our system. Coming back to the eligibility criteria, as I said, we do not think the handicap can be removed so how do you pick up the ones to be excluded? Also, if you did this we would have a very strange situation. Neighbouring farmers working in the same climatic conditions would be put in different positions through the support policy, which we do not find very acceptable in the government, and I do not think the public would find it very acceptable either. Also, we

² In Finland, the respect of cross-compliance is a prerequisite for receiving any area payment funded fully or partially by the EU.

4 March 2009

Mr Osmo Ronty

fear that the administrative burden would be quite dramatic. I do not know if this would be done in at regional level, at municipal level or at farm level. There could be some eligibility conditions established by the EU, perhaps a certain minimum area, for example, or fulfilling of the cross-compliance conditions, but what comes over and above that is, we feel, up to the Member State. The Member State knows better its regional needs. We feel that the designation criteria, the biophysical criteria, should be applied at EU level in a common way. There might be this cross-compliance condition, but defining the eligibility criteria above that should be up to the Member State. So we do not support any further harmonisation of that. We also feel that it should be voluntarily managed, whether there are any further eligibility criteria or not. In Finland, if we wanted to apply some eligibility criteria on a national basis, we could perhaps think about the age of the farmer or the minimum surface area. We have not really thought about that.

Q479 Earl of Caithness: Can I move on to the payment formula? Could you tell us please what payment formula you use at the moment as to how to get to your LFA payment, and what do you think of the new proposed payment that the Commission have put forward, “additional costs and income foregone related to the handicap”?

Mr Ronty: First of all, on the calculations, we are already doing the calculations to this formula, additional costs and income foregone. The LFA payment we are paying now is based on this kind of calculation. The problem here is that in Finland the climatic conditions are so severe that if you did an objective calculation, you would end up with higher amounts than we can pay at the moment according to the regulation. So it would be in our interest to remove the limit that we have at the moment in the regulation and do a genuine objective calculation and compensate for the real handicap. Also, how do you compare when doing these kinds of calculations? In the case of Finland, the whole country is classified under LFA. We do not find it very fair to make a comparison to the Finnish average, for example, as the whole country is already suffering from the handicap compared to the other Member States. So we should develop something else to compare to other areas or maybe to the EU average, but this comparison to the national average we do not feel would be feasible in our circumstances. In the Member States where there are LFA areas and non-LFA areas this would work, but in our case not really.

Q480 Chairman: You have got no reference, have you? You have got no non-handicap referenced available?

Mr Ronty: Exactly.

Q481 Earl of Caithness: Can I tease that one out a little bit? If your production costs are more than the market price your LFA should be 100 per cent or more and, as you rightly say, the farmers would get more. Would you therefore support in Common Agricultural Policy reform that LFA payments move from Pillar 2 to Pillar 1?

Mr Ronty: I had not thought about that. I have no answer to that one.

Q482 Chairman: Have a think about it, and perhaps in the autumn you can send us a paper on it.

Mr Ronty: I am sure we will consider all the options.

Q483 Earl of Dundee: On the new implications for Less Favoured Areas, and as we learn all Member States are going to be asked to map these out, has Finland already done an exercise like this and, if so, how far do you think your new map will differ from your existing one?

Mr Ronty: I have a very simple answer to this one. Yes, we have done the mapping and we have the data. When you take the biophysical criteria, the length of the growing period, the whole country would still be classified as LFA.

Q484 Chairman: We have worked that out!

Mr Ronty: On the other criteria, we have done the mapping, but all of them are not really relevant in our case and in some cases it is a little bit difficult to get the data that you need at the municipal level, so it might be more feasible, more sensible, to work at the regional level in this case. When it comes to the length of the growing period, yes, we have done our exercises and the result is very good.

Q485 Earl of Dundee: And there is probably nothing further that you need to do. I imagine that on the weather, for example, you have a very accurate account of that, have you?

Mr Ronty: Yes.

Q486 Lord Brooke of Alverthorpe: Have you evidence of abandonment of land and farms taking place and, if so, what reasons would you put that down to? Secondly, and this is related to the maps you have provided to us, have you any evidence of climate change starting to affect your country on a worrying scale?

Mr Ronty: On abandonment of land, or, let us say, abandonment of farms, yes, we have evidence of that, especially in the northern and eastern part of the country. The reason for that is very simple. The income on the farms is not sufficient to keep the people there and keep them farming, so we come back to the meaning of the LFA payment and the

4 March 2009

Mr Osmo Ronty

other payments. As for climate change, what can you call evidence? We have had some warm winters lately, quite abnormal, I would say, but I do not know if you can call that evidence in such a short time. Yes, there will apparently be a change in the farming conditions in Finland as well with climate change and that will improve our situation to some extent.

Q487 Lord Brooke of Alverthorpe: It will lengthen your growing period.

Mr Ronty: It will lengthen our growing period, it will give us more winter rains, it will give us a little bit warmer summers. The forecast is such that the winters will be relatively warmer than the warming of the summers in the future. Of course, that will affect our farming in many ways. It will affect the water balance and it will affect our situation quite a lot when it comes to the insects and the fungi that affect farming. At the moment we have quite hard winters that clean the fields but in the future that might not be the case, so we would perhaps need to use more herbicides and insecticides.

Q488 Lord Brooke of Alverthorpe: Just going back to abandonment, is it solely failure to deliver sufficient income that is the prime cause? I have spent some time in northern Sweden where a lot of the farms are abandoned and there the children simply do not want to continue in the steps of their parents and their grandparents. They want to go to Stockholm and so on, and it is not just money.

Mr Ronty: I think it is simple. It is part of a general phenomenon in society. (There followed a discussion off the record)

Q489 Lord Cameron of Dillington: Following up on that from the other side of the equation, if you were not part of Europe and the Finnish taxpayer had to fund all the agricultural support, would they still wish to continue to support an agriculture which is fighting against the elements? Is it considered to be really important?

Mr Ronty: Yes, it is considered to be really important. We have not done a study on exactly that question but, yes, I think there is general agreement in Finnish society that we want to maintain at least basic agriculture and the basic agricultural landscape, as I said before.

Q490 Earl of Arran: On abandonment, is the land that becomes abandoned being taken up by others?

Mr Ronty: In most cases yes, in some cases no. We used to do afforestation, for example, in the most remote areas. Where it was lucrative to the farmer we tried to promote that at some time but not any more. The problem with the single farm payment is that this

is increasing the rent of land in those areas because now you can quite easily get some basic income from the land. Even if you are living in the city you can organise that, no problem. Then we have some animal producers, like dairy farmers, who need some fields nearby and they have to pay for them. I do not have any study on that but what I hear from the countryside is that this is a problem now for the active farmers that remain there. The rent of land has gone quite a bit higher. There were areas in the eastern part of Finland, where I come from, where you could get land for free. People just appreciated that somebody was farming the land, but now it is the next generation who own the land and they may be more conscious about money and now we have the new system where they can get some payment from the land with minimum requirements, so this is affecting the farms.

Q491 Chairman: There is a difference between maintaining agricultural activity in Finland and maintaining agricultural activity over its present range in Finland. If we look at the effect of climate change, in southern Spain there is a fair likelihood that there will be some areas where the cost of overcoming the handicap associated with climate change is going to be so high that you might as well give up. Is there any argument that in Finland the cost of maintaining agricultural activity in some parts of Finland is so high that you really cannot justify it?

Mr Ronty: At the moment we have been able to keep agriculture in just about all the feasible areas, but yes, I can see a difficulty if the increase in costs continues as it has done.

Q492 Earl of Dundee: You have a very impressive number in your country of farmers who are also foresters, and the farmer is all the more sustained in his business because he is a forester as well. Would you say that that number of people is increasing or is it a steady number? From year to year do there come to be more farmers who are also foresters?

Mr Ronty: I would say when it comes to farmers that that would be a steady number, just off the cuff. The problem here is that this kind of forest property is appreciated also by the siblings who leave the farm and go to the cities, so the forests are cut into smaller and smaller parts nowadays and the part remaining for the farmer is not so big any more. The relative importance of forestry in that group might be diminishing in that way. Yes, forestry is very important to Finnish farmers. It has always been a part of their income.

Chairman: Can we just go off the record at the end? (There followed a discussion off the record) Thank you very much. It was very interesting indeed.

WEDNESDAY 4 MARCH 2009

Present	Arran, E. Brooke of Alverthorpe, L. Caithness, E. Cameron of Dillington, L.	Dundee, E. Sewel, L. (Chairman) Ullswater, V.
---------	--	---

Examination of Witness

Witness: Ms MARIA ROSANDER, Agricultural Counsellor, Sweden, examined.

Q493 Chairman: Thank you very much for coming to help us with our inquiry into the LFA. Sweden is an interesting country because of its strong agricultural interest and challenging, if not totally severe, conditions.

Ms Rosander: Definitely.

Q494 Chairman: Could I explain that we are a Sub-Committee of the House of Lords EU Select Committee. We are carrying out an inquiry into the review of the LFA scheme. This is a formal evidence-collecting session and a note will be taken of what you say. As soon as we get back home a transcript will be produced and a copy sent to you and you will be able to revise it and take out any slips and errors that have crept in. Perhaps you would begin by giving us a general background of the importance of LFA in Swedish agriculture. I suppose you could start with the proportion of the agricultural land in Sweden that is designated LFA and the proportion that is eligible to receive LFA payments.

Ms Rosander: Thank you for having me here. It is very nice. It gives me a good excuse to learn more about LFA as well.

Q495 Chairman: We have all found that. I think some of our colleagues have found that too.

Ms Rosander: We have good experts in our capital so they help us out. Of the total agricultural area in Sweden 48 per cent is LFA. Of that 22 per cent is mountainous areas and 56 per cent of the total LFA is intermediate, which leaves 21 per cent for specific handicaps. I have some statistics. I will give you the sheet so that you can look at the figures.

Q496 Chairman: Lovely, thank you.

Ms Rosander: You also had a question regarding part of the income that is contained in LFAs. We do not really have any Swedish calculations on how important the LFA payments are for the single farm income. We have the Commission's calculations, the FNVA, farm net value added; I do not know if you are familiar with that. Looking at those numbers which have been calculated by the Commission and not checked by Swedish authorities, the figure for intermediate LFA payments is 34 per cent LFA under the farm net value added, compared with 18 per cent

for the UK and 37 or 38 per cent Finland, which is the only one with a higher percentage.

Q497 Chairman: We have just had your Finnish colleague here.

Ms Rosander: Yes, I met him on the way out. It is an important part of the farm income in those areas, or not a negligible one, at least.

Q498 Chairman: Why do you not have your own statistics? I would have thought you would want your own statistics just to see how important the income was.

Ms Rosander: I really do not know why we do not. We have a lot of statistics, so it cannot really be a data problem. Maybe this is confidential information, which it should not be. I am not sure; I am sorry¹.

Q499 Lord Brooke of Alverthorpe: How much of your rural development budget does Sweden allocate to the LFA scheme, and what do the Swedish public expect to obtain in return for their investment? Is support in your opinion targeted precisely enough at present to deliver the desired return from the objective that you are after?

Ms Rosander: I have a few more numbers for you. Fourteen per cent of the EAFRD budget is allocated to LFA schemes and, looking to the rural development programme, it is 21 per cent of the payments in Axis 2 in Sweden. The public expects that these payments will help to keep land in production, that land will not be abandoned and that we can continue with an open landscape and a landscape with variation. There are a lot of forests in Sweden and if we do not have support policies like this it will all grow into forests and the public expects to go out into the countryside and see open fields and pastureland and grasslands and not just forests. I guess you can say it is always possible to target more but I think we are quite satisfied. We have an animal link. You have to have animals to receive these payments in the northern part. In the northern part it

¹ After the meeting my experts explained that the recipients of LFA-payments also normally receive agri-environmental payments as well as Nordic aid. This makes it difficult to calculate the proportion of the income coming only from LFA-payments.

4 March 2009

Ms Maria Rosander

is very difficult to grow crops. It is grassland; that is the way to cultivate the land, so by having this animal breeding link we pay for having grassland production which, as we see it, contributes to the objective. It is rather targeted since we have this animal link.

Q500 Lord Brooke of Alverthorpe: Is there any evidence of abandonment taking place?

Ms Rosander: Yes, of course.

Q501 Lord Brooke of Alverthorpe: I have spent quite a lot of time in Jamtland.

Ms Rosander: That area specifically is not that badly affected, I think. It has a lot of dairy production there and that has actually increased.

Q502 Lord Brooke of Alverthorpe: I seem to have experienced a lot of families seeing their children leave and not want to continue farming but simply use their homes as summer residences.

Ms Rosander: Yes, of course, that is a problem. It is difficult to live that far away. The infrastructure is good but it still takes quite a long time to go to bigger cities or abroad. In Jamtland dairy production is okay compared to the counties around, but, of course, there are big signs of land abandonment. When I looked at the figures of how much LFA area we had at the time of our accession, which was in 1995, it was 59 per cent and now it is 48 per cent, so for me who did not know anything I was like, "Oh, that is strange, that it is such a smaller part now", but that is because—

Q503 Chairman: It has gone out of production. Should maybe be "out of production"?

Ms Rosander: Yes, and production as such has diminished more in those counties than we are producing in the southern regions which are not LFAs and then, of course, the percentage is diminishing. However, I do not think it is quicker in Sweden than in any other European country. I think it is about the same pace.

Q504 Viscount Ullswater: Could you explain to us where you see the LFA payment fitting into the other payments that are given to agriculture, particularly the single farm payment, and then any other agri-environment scheme which might be available under Pillar 2?

Ms Rosander: Of course, I got your questions ahead and I saw that one and I asked myself if it was a trick question.

Q505 Chairman: We never do that! Shame on you!

Ms Rosander: To me that also is easy. That is why I asked myself, "Is there something else that they would like me to answer on this?", because the single farm payment is an income support, keeping up the

income for producers. The agri-environmental schemes are for producing environmental benefits that society wants and the LFA is for compensating for natural handicaps, so there should not be any environmental link to the LFA. We should not be paying LFA to receive environmental benefits. It is just compensation for natural handicaps. That is how I understood the question but maybe you were looking for something else.

Q506 Viscount Ullswater: I suppose you have answered it in your earlier answers in that you see the LFA payment as being essential for keeping agriculture going in those designated areas. With the single farm payment, obviously, the amount of agricultural activity could drop because it is not tied so much to production or to farming income.

Ms Rosander: No. It will probably keep some sort of landscape open since we have cross-compliance but you would not see grazing animals when travelling in the countryside, so the LFA helps bring some sort of societal benefit.

Q507 Viscount Ullswater: It is more of a landscape protection payment, do you think? It is to maintain the landscape?

Ms Rosander: That is what it leads to but the intention with the payment is to compensate for not having enough income, which makes this whole system very confusing, but we should not get into that. We were paying historically for good production in some regions and now we are paying on the other hand for those who do not have the possibility to produce. It is a confusing system, looking at the whole agricultural policy.

Q508 Chairman: Is it possible to say that it is not an income support system?

Ms Rosander: Yes. That is not the purpose of the payment.

Q509 Chairman: It is not the purpose but that is the effect, is it not?

Ms Rosander: Yes, that is so, I guess, with all the subsidies or supports you get. It helps your income.

Chairman: A number of your colleagues, I have to say, see it foremost and almost entirely as an income support measure.

Lord Cameron of Dillington: But they do not necessarily admit it.

Q510 Chairman: They do by the time we have finished with them!

Ms Rosander: That is clear. That is what we say with the decoupled payments, with the farm payments. It is not supposed to contribute to production but, of course, it does because it is a base. It helps me, having that secure base in my production. It helps me to

4 March 2009

Ms Maria Rosander

make my business decisions in the rest of the company, so, of course, it is helping my income but it is not an income support as such. In trying to reform the whole political area, which we would like to do in Sweden, I think it is necessary to try to keep the focus on what we are supposed to achieve with this support and, I guess, the other supports, trying to keep the objectives separate and clear in order to try to reform them and see what it is that society wants and then operate to that.

Q511 Chairman: It is the benefits that society gets, is it not?

Ms Rosander: Yes. It is a very theoretical discussion but, of course, it is an income support at the same time.

Q512 Earl of Arran: Changing the subject to criteria and in particular to designation criteria, you have already got biophysical criteria which are being discussed at the moment. In your opinion, are there additional or alternative designation criteria that should be being discussed at the same time?

Ms Rosander: Now we are getting into the questions where I do not have a lot of answers to give you; I am sorry—or am I going too fast now?

Q513 Lord Brooke of Alverthorpe: Question 4.

Ms Rosander: Yes—sorry, I do have an answer to your question.

Earl of Arran: Good; I was getting worried.

Q514 Chairman: And the answer is “Maybe”!

Ms Rosander: I will answer the other ones as well. It is just that we have commissioned an assignment to the Board of Agriculture to look into these issues more, so we do not have any definite answers. As I started saying, we are positive about these biophysical criteria that the Commission is discussing with us and we think we should try using them as a basis for delimitation on natural handicap payments. The only extra criteria we have discussed are small and irregular fields, and that is linked to what I said before about the forests, that we have a lot of forests in this area which makes it difficult to have larger fields brought together, so you have a little field here and there due to the physical shape of the land, and that is what we are talking about. Our experts think that this is included in the criteria as suggested by the Commission anyway, so it is not anything that we are pushing for or suggesting should be brought in. That is what is specific to Sweden, and for Finland probably as well.

Q515 Earl of Arran: Are your farmers keen to retain the status quo or are they pushing for a change in the LFAs?

Ms Rosander: They are quite reasonable, actually, and I think they see the need for a change to make it clearer that this is a payment to compensate for natural handicaps and not for socio-economic reasons. We have other policy areas to deal with that. At the same time they know that we are probably not going to lose out that much in the total area.

Q516 Earl of Arran: So you are keen on their behalf to come to the negotiating table?

Ms Rosander: “Keen” is a very positive word. We have not had a discussion with them. I think they are reasonable in thinking that we have to look into this. I think it is possible to look out for their interests as well. I think it is other Member States which have bigger issues with their national farming associations. I do not think we will lose out that much on agricultural land in the review.

Q517 Lord Brooke of Alverthorpe: Which states do you think will have most difficulties—off the record.

Ms Rosander: Off the record. (There followed a discussion off the record)

Q518 Viscount Ullswater: You have agreed to some harmonisation of overarching criteria set at EU level.

Ms Rosander: Yes, absolutely.

Q519 Viscount Ullswater: But your definition of “small and irregular fields” you think should be left to the flexibility that a Member State might be able to include. Is that the way you look at it?

Ms Rosander: No. What my experts have told me is that they believe that this is covered by the biophysical criteria proposed by the Commission so there is no need for us to propose other criteria. The concerns for Sweden, looking to the designation criteria, are pretty much covered. Coming to the next question of the eligibility criteria, there we see the need for more national flexibility.

Q520 Lord Cameron of Dillington: Judging from your previous answer, you are probably going to say you cannot answer this one.

Ms Rosander: Yes.

Q521 Lord Cameron of Dillington: The main question, which you have already answered, is what degree of harmonisation do you think is necessary within the eligibility criteria?

Ms Rosander: Again, what my experts have told me is that we should have some sort of base or framework within the Union for all the Member States but then it is very important to give flexibility to each Member State to meet country-specific conditions, and for Sweden it is, for instance, this issue of long distances because the smaller scale of field makes transportation very long between fields for the same

4 March 2009

Ms Maria Rosander

farmer who has to transport himself quite a bit between his fields and the forests which might also be quite a way from other civilisations.

Q522 Lord Cameron of Dillington: That is one of the main ones?

Ms Rosander: Yes.

Q523 Lord Cameron of Dillington: Other countries have excluded certain types of farm and farmers and farming practices. Would you have any rules like that?

Ms Rosander: We do not know. As I said, we have commissioned the Board of Agriculture to look into this and help us come up with an answer. We have independent authorities in Sweden, and this is one of those areas where they will try to help us answer this question, so they are analysing it at the moment.

Q524 Lord Cameron of Dillington: It sort of goes back to what the taxpayer is expecting this to provide.

Ms Rosander: Exactly. In principle we do not have a problem with intensive and extensive farming but, of course, it is a political issue. It is political in both ways because at the same time one side of the population is saying that we should pay for extensive farming that might contribute to biodiversity and keep the landscape open, and then we have the other side which says that those who contribute to production should be supported because they are needed for the national food industry and so on. I guess it is a delicate political balance to keep.

Q525 Earl of Caithness: Can I take you on to the payment formula? Do you like the new payment formula proposed by the Commission of “additional costs and income foregone related to the handicap”, and, if you do, how are you going to interpret that in Sweden, and do you think it will lead to convergence payments across Member States?

Ms Rosander: Unfortunately, there again I have to refer to this assessment that the Board of Agriculture is doing, so I do not have an answer to that either. Again, though, one of the issues we have asked them to look into specifically is this long distances issue. I think they are probably counting the other way round, seeing if we can receive the same type of payment as we do today if the future payment is similar to today’s payment with the changed payment formula. I cannot really answer until we have that report from the Board of Agriculture.

Q526 Earl of Caithness: When do you expect that?

Ms Rosander: We expect that at the end of the year.

Q527 Earl of Caithness: Given that that is likely at the end of the year and all the other data that is needed, is the Commission’s proposed timescale for

all of this realistic, or do you think the reform of the LFA should be incorporated into a wider reform of CAP?

Ms Rosander: As I have understood it, the plan from the Commission is not to deal with this until the next financial perspective. We are now trying to find the data and have the Member States deliver the data and the mapping, but the political debate on the future of the LFA definition will be done in 2012 or 2013, so I do not think we have to have this discussion now.

Q528 Chairman: How important an issue is this going to be for your own Presidency?

Ms Rosander: Up until just a few weeks ago we did not think it would be important at all, but now we understand that the Commission might be a bit late in delivering this communication on the LFAs, so it might be something that we will have to deal with during our Presidency.

Q529 Chairman: In that the Czechs are going to have their presidential conclusions on this.

Ms Rosander: Yes, if they have time. It is going to be tight if this comes at the end of May and then they have the conclusions in June because it is politically sensitive with Member States saying that they will not touch it until 2012, so now we have to start re-thinking our planning and see how we will deal with this. We will deal with it, of course, because we think it is important that we find a new solution for this, but at this stage I am not even sure it is going to be any legal proposals or whether it is just going to be some sort of encouragement for Member States to deliver data.

Q530 Chairman: The interesting thing is that when we started looking at this we thought it was going to be a very limited technical exercise, and the more we have delved into it the more it has become absolutely apparent that there are very strong political dimensions that divide Member States.

Ms Rosander: Very strong, and, as you say, when you start looking at this it is a question of delivering data, of course; that is what Member States do, and then suddenly your Member State is saying, “No, we are not going to give you any data”, and then you see how political something is.

Q531 Chairman: I can tell you this: the Commission have an answer to Member States which say, “We are not going to deliver data”.

Ms Rosander: From the present perspective it is difficult, starting to talk about conclusions like the Czechs are. If they do not have time we will inherit this dossier and we will start thinking about conclusions. Do we want to have the Presidency conclusions? It concerns us for Council conclusions. Is it a defeat for the Presidency if we do not reach

4 March 2009Ms Maria Rosander

conclusions? It is a very tricky internal discussion we have to have on how to deal with this in the Council.

Q532 Chairman: At the moment do you see the basis for a degree of consensus across the Member States?

Ms Rosander: No. Just looking at delivering data, which is on the table now, there is no consensus on that. I think it is going to be difficult to find support from all Member States saying that a new definition of the LFA is important and we should all be committed to delivering the information and the data, so I do not know. We are not clear how we will deal with it.

Q533 Earl of Dundee: On the new implications for Less Favoured Areas, as we learned, all Member States are invited to map these out. Has Sweden

already done an exercise like this and, if so, how far do you think your new map will be any different from your existing one?

Ms Rosander: We have concluded the mapping exercise and it shows that almost all LFA areas today will be included, as will new areas when we use these biophysical criteria.

Q534 Earl of Dundee: So you are up to date? You have done the exercise?

Ms Rosander: We have done the exercise and we have the data, but, of course, we now understand that not all Member States have the same data sources as we do.

Chairman: Okay; I think that is it. Thank you very much indeed. Best wishes for your Presidency.

WEDNESDAY 11 MARCH 2009

Present	Arran, E of Brooke of Alverthorpe, L Brookeborough, V Caithness, E of Cameron of Dillington, L	Dundee, E of Jones of Whitchurch, B Livsey of Talgarth, L Palmer, L Ullswater, V (Chairman)
---------	--	---

Memorandum by the Scottish Government

BACKGROUND

1. About three-quarters of the total land area in the UK is classed as agricultural, amounting to some 18.5 million hectares, of which approximately one-third lies in Scotland. However, the capability of Scottish farming is severely limited by climate, topography and soils, with the result that only about 11% of farmland is cropped. Scottish agriculture is therefore dominated by grassland, but even this is of low quality with about three-quarters (almost four million hectares) being categorised as rough grazing.
2. These permanent disadvantages are officially recognised to the extent that around 85% of Scottish agricultural land (and 64% of agricultural holdings) has Less Favoured Area status. Of this, 98% is classified as Severely Disadvantaged with the balance being classed as Disadvantaged. This contrasts with England where only 17% of the total farmed area is classified LFA.
3. Less Favoured Area support also needs to be considered in the context of the other support schemes available to Scottish farmers and crofters in LFA areas. At present, farmers and crofters receive support through a number of different measures, many of which are available throughout rural Scotland. These include Single Farm Payments, payments under the Scottish Beef Calf Scheme, payments under the Crofting Counties Agricultural Grants Scheme, as well as under other parts of the Scotland Rural Development Programme, such as Land Management Options.

EVIDENCE

4. The following evidence is provided:
 - LFA support is critically important for Scotland.
 - Scotland's current LFASS has a lifetime of 2007–09.
 - The Scottish Government has recently completed a consultation exercise on the Less Favoured Area Support Scheme (LFASS), to inform decisions on design of LFASS 2010–13.
 - The Scottish Government will publish analysis of the consultation responses, and the responses.
 - The good fit between the Macaulay Land Capability for Agriculture (LCA) and the EU LFASS designation.
 - The Scotland Rural Development Programme context.
 - Specific responses to some of the issues set out in the House of Lords European Committee call for evidence.

IMPORTANCE OF LFA SUPPORT

5.1 The wider economic contribution of LFA agriculture is reflected in the share of Scottish livestock output and in the close linkages with upstream and downstream industries. 58% of the total beef output and 76% of total sheep output is provided by LFA farms, emphasising the dependence of the Scottish livestock sector on cattle and sheep in the LFAs.

5.2 Livestock numbers in Scottish LFAs decreased over the period 1998–2007. Total beef cattle numbers fell by nearly 9%, total sheep numbers by 24%, and agricultural employees in the LFA by 14% with the greatest decline being in full time employees. However, the number of part-time employees increased over the same period with minor increases in seasonal and casual labour. On all LFA farm types, the net farm income fell to

extremely low levels in years 2000 and 2001 (extending to 2002 for LFA sheep farms). In general, the net farm income for all LFA farm types improved in 2002–03 and remained relatively stable before falling back in the last couple of years. The most substantial drop has been in sheep farms where net farm income is now back to extremely low levels.

CURRENT LFASS 2007–09

6.1 Relevant provisions on payment and designation of LFAs in the current Rural Development Regulation (Council Regulation (EC) No 1257/1999) will remain in force until the end of 2009. As a result, an LFASS interim scheme for the period 2007–09 was developed and included as an integral component of the Scotland Rural Development Programme (SRDP). The scheme operates on:

- Historic based payments.
- Payments are tied to the land/business and payable to the occupier.
- Payments are made only to those actively farming the land.
- Applicants are required to respect cross-compliance, maintaining the land in Good Agricultural and Environmental Condition (GAEC).

6.2 Scottish Government officials have continued to monitor the impact of the current interim scheme and consider changes from 2010 onwards, and have worked closely with a LFA Stakeholder Group to carry out a review of the LFASS interim scheme.

LFASS POST-2010 CONSULTATION EXERCISE

7. The Scottish Government recently completed a consultation exercise on LFASS to inform decisions on the design of LFASS 2010–13. The consultation ended on 19 December 2008. We expect that an announcement will be made on the nature of the 2010–13 Scheme around spring 2009 in order that proposals for LFASS 2010–13 can be included in the SRDP Programme Modification which is due to be sent to the European Commission in mid 2009. A link to our LFASS consultation is attached below.

<http://www.scotland.gov.uk/Publications/2008/09/17083528/0>

MACAULAY LAND CAPABILITY FOR AGRICULTURE (LCA)

8. For IACS registered land, there is a close correlation between the current LFA designation and the Macaulay Land Capability for Agriculture (LCA). Nearly all LCA Class 1, 2 and 3.1 land is non-LFA, with virtually all Class 4, 5, 6 and 7 land lying within the LFA boundary. Class 3.2 land occurs within both LFA and non-LFA designation: 41.8% of class 3.2 land is LFA and 56.8% is non-LFA. It would appear, therefore, that the Macaulay LCA classification offers a potentially robust method of designating future LFA land in Scotland.

THE SCOTLAND RURAL DEVELOPMENT PROGRAMME 2007–13

9.1 LFASS is part of the Scotland Rural Development Programme, one of eight delivery mechanisms in the Programme. SRDP is covered by the EU Rural Development Regulation (EC 1698/2005) which stipulates that the Programme be made up of four Axes and a number of Measures covering specific activities within each axis.

- Axis 1 Improving competitiveness of the agricultural and forestry sectors.
- Axis 2 Improvement of the environment and countryside.
- Axis 3 The quality of life in rural areas and diversification of the rural economy.
- Axis 4 “LEADER” community based support delivered through Local Action Groups.

Implementation in Scotland

9.2 Scotland has chosen an innovative method to implement the SRDP through a number of support schemes or “delivery mechanisms”. Some of the delivery mechanisms, such as Rural Priorities apply across Axes. In addition to LFASS, the other delivery mechanisms for the SRDP are:

- Rural Priorities (RPs).
- Land Managers Options (LMOs).

- Food Processing Marketing and Co-operation Grants.
- Crofting Counties Agricultural Grants Scheme (CCAGS).
- Skills Development Grants.
- LEADER.
- Forestry Challenge Funds.

9.3 The SRDP forms part of the following support structure for rural development funding in Scotland (sometimes referred to as tiers):

- Single Farm Payment.
- Simple easy to access, non-competitive support eg LMOs.
- Targeted, competitive support eg RPs.

Budget

9.4 The total budget of the SRDP is £1.6 billion over seven years 2007–13, of which approximately 68% is Scottish Government funding, 17% is from Voluntary Modulation and 15% is from the European Agricultural Fund for Rural Development.

ISSUES SET OUT IN THE CALL FOR EVIDENCE FROM THE HOUSE OF LORDS

The strengths and weaknesses of the LFA scheme so far

10.1 LFAs are the dominant land category in Scotland, where they cover 85% of agricultural land. Over 12,500 farms and crofts currently receive LFASS payments, which with other elements of support, help to maintain their financial viability. Active management of this land is necessary for the delivery of the key outcomes expected from the Scotland Rural Development Programme, including in particular the environment and countryside objectives of Axis 2 as well as improved business viability (Axis 1) and thriving rural communities (Axis 3).

10.2 The Scotland Rural Development Programme states that the objective of the LFASS are “to compensate land managers in LFAs for the particular disadvantages that they face, and thereby sustain farming and crofting in these areas and the associated economic, social and environmental benefits that are dependent on continued active land management in these areas. It is only through sustaining farming and crofting activity and by retaining land managers in less favoured areas, that there can be effective uptake of agri-environment measures and delivery of environmental benefits associated with active management of land for agricultural production. LFASS has a key role in this respect by maintaining the basic underpinning agricultural and crofting capability that can promote environmental enhancement, including through agri-environmental schemes under the SRDP”.

10.3 Initial consideration of responses to the Scottish Government consultation on LFASS 2010–13 suggests that there is still considerable support for the approach that has been taken in Scotland.

Whether it is appropriate to set common, EU-wide biophysical criteria for delimiting LFA areas, as suggested by the Commission in its consultation paper

10.4 Scottish Government believes that although the concept is sound, with the aim of providing consistency and transparency, its practical implementation is difficult on a pan European scale.

10.5 More locally based biophysical criteria are needed, with their definition being carried out at national or regional level, by locally informed specialist input. This in turn would allow appropriate targeting of support.

10.6 We are concerned that sufficiently consistent data on an EU wide basis may not be available. In Scotland we are fortunate in having the Land Capability for Agriculture Classification (LCA) the land classes of which have been shown to have a close relationship with the current LFA boundary.

Whether the common biophysical criteria set out by the Commission in its consultation paper are appropriate and effective in identifying disadvantaged areas. Are there any omissions, whether in the form of further biophysical indicators or other indicators?

10.7 Scottish Government believes that there are problems with climatic criteria, measures of soil wetness, soil properties and mapping resolution. Any additional mapping by member states requires to have advance notification of what boundaries are being mapped. We concur with the evidence presented to the Committee by the Macaulay Institute which sets out the reasons that the biophysical criteria set by the Joint Research Centre (JRC) report by Van Orshoven *et al* (2008) do not adequately represent natural disadvantage in cool, wet, maritime climates.

What degree of harmonisation of eligibility conditions (for determining access to LFA payments), if any, is needed

10.8 The Scottish Government believes that the setting of detailed local eligibility conditions should not be carried out at European level. We want to ensure that we are allowed to target support to those farmers and crofters who are agriculturally active to allow the continued use of agricultural land and the maintenance of the countryside.

10.9 The Scottish Government supports the UK position set out in its response in June 2008, that it is essential to retain Member States' existing flexibility to determine their own eligibility conditions within the LFA, including the flexibility to focus LFA support on those areas or production systems defined as important.

10.10 We also consider it to be important to retain regional flexibility to designate land at land parcel or sub holding size.

What the basic rules and criteria for eligibility for LFA aid should be, if the scheme is to meet its new objectives

10.11 Given LFA support falls under Axis 2 of the RDR its objectives should have a strong environmental element. Thus basic rules and criteria for eligibility for LFA aid should include delivery of specific environmental benefits and not the mere presence of handicaps on a farm.

How practicable is the new payment formula (based on additional costs and income foregone related to the handicap in the area concerned)? Is it likely to help reduce wide discrepancies in payment levels across Member States?

10.12 The Scottish Government believes that the Regulations themselves set the fundamentals. Adding to the administrative burden should not be one of the outputs of the review.

10.13 It is practicable to apply the payment formula (based on income foregone and additional costs related to handicap in an area concerned) in the calculation of payment rates for the Less Favoured Areas Scheme. However, without having a common reference for assessing handicap across the EU, the discrepancies in payment levels across Member States will remain. If Member States assess handicap relative to a reference area in their country, it is likely that land facing the same handicaps will attract different payment levels because the reference point against which income foregone and additional costs are calculated is different.

10.14 Additionally, the level of payment will be determined by how much each Member State allocates to its LFASS budget. The income foregone and additional costs formula is likely to give an upper limit for LFA payment rates and the actual payment is likely to depend on how much Member States will budget for LFA support. As long as Member States have different budgets, it is likely that there will be some discrepancies in the level of payment for land facing similar handicaps.

THE FUTURE

5. As we are currently considering the responses to our consultation paper, we are not at present in a position to set out any more detailed views.

6 February 2009

Examination of Witnesses

Witnesses: MR DAVID BARNES, Deputy Director, Agriculture and Rural Development Division, Scottish Executive and MR WILLIE TOWERS, Soil Scientist with the Soils Group at the Macaulay Institute, Aberdeen, examined.

Q535 Chairman: Good morning Mr Barnes. I think you are pretty familiar with most of the faces round this table but certainly welcome and to Mr Towers as well. As you know, we are nearing the end of our inquiry into the Less Favoured Areas scheme. Just to explain that this will be a formal evidence gathering session; a note of it will be taken and a transcript will be provided for you in a few days' time so that you can go through it and make certain that any figures or anything you might have supplied are indeed the ones you would wish to put into the report. This session is also webcast, so I am afraid it is on the record all the time, although we have little evidence that anybody actually sees or listens to it. Thank you very much indeed for coming. Is there anything you would like to say to start with or shall we go into the questions?

Mr Barnes: There are a couple of things I wanted to say by way of introduction. Perhaps I should introduce our team to begin with. I have had some dealings with the Committee in a previous incarnation. My name is David Barnes. I met the Committee before in my previous job working at the UK Government Office in Brussels. Since September I am now Deputy Director at the Scottish Government responsible for agriculture and rural development policy. My colleague Willie Towers is from the Macaulay Institute and he is giving the Scottish Government technical advice on LFA issues, in particular on the redesignation. By way of introduction I just wanted to say two very short things. The first was to thank the Committee for this opportunity to come to give evidence. LFA is a very important issue for Scotland and therefore we think your work on the subject is on an important issue and we are very grateful to have this opportunity to talk in a bit more detail. Secondly, I just wanted to reiterate, as we said in our written evidence, where Scotland is in the policy cycle on LFA policy. Our current LFA support scheme expires at the end of 2009. This was deliberately designed in the expectation of new rules from 1 January 2010, which it is now clear will not come into force. It was designed that way for that reason. We therefore have to do something to have a new scheme from the beginning of 2010. We carried out a public consultation at the very end of last year and we are still deliberating on the decisions to be taken as a result of that. I wanted perhaps pre-emptively to apologise to the Committee. I am very happy to talk about the direction of travel of policy in Scotland but if there are aspects which relate to specific decisions about the detail of the future scheme, it may be that I have to say that at this stage Ministers have not yet taken decisions on that. The timescale we expect for

that is that it may be May before we publish our decisions. The reason for that is that we want to tie in our deliberations on LFA with some wider work that we are doing on our rural development programme.

Q536 Chairman: Thank you very much for that. Perhaps I could start the questions. Could you begin by outlining for us what you see as the rationale for LFA payments? What is the public supposed to be paying for through this scheme? What types of disadvantages should farmers be compensated for? Do you expect them to deliver economic and social as well as environmental benefits in return?

Mr Barnes: In order to be completely accurate I am going to quote the rationale for LFA support in Scotland as it is set out in our Rural Development Programme and therefore approved by the European Commission which certainly does talk about economic and social aspects as well as environmental. The formal rationale says "The objective of this measure" LFA support "is to compensate land managers in LFAs for the particular disadvantages that they face and thereby sustain farming and crofting in these areas and the associated economic, social and environmental benefits that are dependent on continued active land management in these areas. It is only through sustaining farming and crofting activity and by retaining land managers in Less Favoured Areas that there can be effective uptake of agri-environment measures and delivery of environmental benefits associated with active management of land for agricultural production". So LFA support for us has an underpinning role. It sits, perhaps I could say, between the single farm payment and more targeted agri-environment measures. We have a happy coincidence that the active farming we are wishing to support through the measure delivers environmental benefits through grazed habitats, which create habitats for birds and so on, which also create the landscape which is of great value for tourism in Scotland. The same activity also creates the social and economic benefits which we are looking for. It is underpinning support to keep active farming present in Scotland's LFA without which it would be impossible to deliver the environmental, social and economic benefits.

Q537 Lord Brooke of Alverthorpe: Thank you for the very helpful evidence which you submitted to us. May I stay on the same subject and maybe then refer specifically to your paragraph 10.1 where you start to set out reviews on the strengths and weaknesses of the LFA scheme so far? You talk about it providing, as you see it, underpinning support in Scotland. Where

11 March 2009

Mr David Barnes and Mr Willie Towers

do you see it really differentiating from what you have just described as the scheme above and the scheme below?

Mr Barnes: I guess we would say that the philosophy is about a level of geographic scale and a level of targeting of the outcomes that we are seeking to achieve and therefore the activities that are needed to deliver them. The single farm payment has a geographical coverage which is countrywide and a set of outcomes associated with it which are pretty generic. They are the basic continuing existence of farming plus the rather broad-brush benefits which the cross-compliance rules are aimed to deliver. LFA support sits on top of that, is more targeted geographically in that it is limited to the LFA of course though, in Scotland's case, that does mean 85 per cent of the land area.

Q538 Lord Brooke of Alverthorpe: The handicaps.

Mr Barnes: Yes. It is more targeted in terms of the benefits it is looking to achieve because it is specifically saying that these are areas in which extensive, grazed livestock systems are the norm and they are delivering a number of things. They are delivering particular habitats which are of value for Scotland and more widely for wildlife. I am told that 50 per cent of Europe's bird species are present at one time or another in the year in Scotland. So we have important habitats, we have landscapes and 72 per cent of tourists coming to Scotland said that the landscape is a factor in their decision to come. Increasingly we are aware of soil carbon in Scotland's LFA. Scotland has more than half of the UK's soil carbon and therefore the issue of increasing carbon sequestration and, conversely, avoiding carbon release is increasingly rising up our agenda. These are a slightly more targeted set of outcomes but still relatively broad and on a broad geographic area. We then have two tiers above that. The next tier up is known in the Scotland Rural Development Programme as Land Managers' Options and this is a means of delivering agri-environment support which requires the farmer to say "Okay. The geographic level of my individual holding means I can undertake these activities which will deliver these specific outcomes the Scottish Government are looking for" which might be a particular kind of grazing management. This is not unique to the Less Favoured Areas so it might be in an arable setting, sowing a wild bird mixture, over-wintering and so on. That is the next layer up and there is a further layer above, which I would call the very specific. In our rural development programme it is known as Rural Priorities and this is a competitive scheme. The farmer has to put together a specific project. For instance, if a farmer has a Site of Special Scientific Interest on his holding then this would be the mechanism through which he would reach agreement

with the authorities that would say "In the public interest we would like you to manage this valuable site in this particular way and we will compensate you for that through payments". That is where a LFA scheme fits in as the second, coming from the bottom, of four levels of geographic scale and targeting.

Q539 Lord Brooke of Alverthorpe: So you would say it should be including specific environmental benefits as well and not just the physical handicaps.

Mr Barnes: Yes indeed; yes. One area on which there was a strong consensus in the views coming through our consultation exercise was that simply being the land manager of a piece of land which is disadvantaged should not qualify one for payments. The justification for spending public money is that the management of that land delivers public benefits, habitats, landscape and so on. In the Scottish situation those benefits will not be delivered unless the land is actively farmed, which in our setting means grazed. Therefore when we talk about specific environmental benefits, what we were meaning was that if you do not manage the land, you are not delivering the benefits and you should not get support. If you are actively farming the land, grazing the land, then you are delivering the outcomes we are looking for and you therefore deserve public support. I can see that it could be that our written evidence might have inadvertently been a little misleading. By using the word "specific" I can see that that might have implied slightly more targeted.

Q540 Lord Brooke of Alverthorpe: I was going to refer you on then to your paragraph 5.2 where you talk about the declining numbers of sheep which are being farmed and the beef which are being farmed and the logic of what you are arguing is that in those instances they should no longer be eligible for payments.

Mr Barnes: This is an issue which we are looking at very actively and it is very easy to state what should happen in an extreme case. We are finding it quite a challenge to work out the way forward on less extreme cases. The extreme case would be where land is completely abandoned and no longer farmed. That means that the habitat will change and in that circumstance we would clearly say Less Favoured Areas support should not be given. However, we may be slightly straying on to what I was planning to say under some of the later questions. What we think we are seeing in Scotland is an extensification of production, a generalised reduction in stocking density, more so than a complete abandonment. It is easy to say, on a holding which in living memory has always carried 2,000 ewes, that if that goes from 2,000 ewes to zero, that land is no longer being actively farmed and therefore support should not be given. However, if the stocking goes down from 2,000 ewes

11 March 2009

Mr David Barnes and Mr Willie Towers

to say 600, it is quite a fine judgment as to whether that represents effectively abandonment of part or all of the farm or whether it represents a sensible consolidation of the business. Certainly farmers say to us that in the 1990s, with headage payments under the Common Agricultural Policy, there was an incentive to keep as much stock as they could; as long as it could walk they kept it and got paid for it and that was a rational response to the policy environment of the time. However, they tell us, in doing that they probably got to a point where the flocks were so big they could not manage them as well as they might. By cutting back numbers, they can do a better job and their lambing percentages can go up. It might be that a drop in breeding flock size does not transmit into a corresponding drop or at least not as big a drop in kilos of lamb produced. If in addition the kilos of lambs that are produced are of better quality, they better meet the market spec, then it could be that the farm income has gone up despite the breeding flock size going down. So there are some complex things at work there. It is a big challenge for us and I hope I have demonstrated that if we do not know what the magic answer is and we are having to continue to work on it, it is because of some of those complexities.

Q541 Lord Palmer: May I ask a quick supplementary to which I should know the answer as I live on the outskirts of the Lammamuir Hills? What happens, for example, to somebody who is getting an LFA payment and suddenly puts up a huge wind farm?

Mr Barnes: That is a good question.

Q542 Lord Palmer: Can you let us know?

Mr Barnes: I will. I will look into it. I presume that part of the land which is still farmed will still qualify for LFA support but I am happy to look into that and revert to you.

Q543 Lord Livsey of Talgarth: You talked about the reduction of ewes on farms and extensification of grazing. How much is this a reflection of the farm structure in the Highlands, say, and the Borders where there are not many people?

Mr Barnes: Sorry?

Q544 Lord Livsey of Talgarth: Disregarding the crofter issue, the impression I gain, having lived in Scotland twice, is that in terms of numbers of people in the farming community the population is not very dense and there seem to me to be very few people engaged in farming in certain parts of Scotland, which means the farms are larger, et cetera.

Mr Barnes: Yes, Scottish farming has what one might call polarised; certainly in the uplands it has a polarised structure. We have a very important

crofting sector with, for the UK, very small holdings indeed, quite often on a scale where farming is not the sole activity of the crofter. It is quite standard practice for the crofter to be working in other ways, contributing to the community through those other activities. At the other end of the scale, we have some very large holdings indeed; tens of thousands of hectares with stocking densities which are extremely low, reflecting the very low quality of the land. Yes, we do have an unusual and rather polarised set of farm structures. I suppose that means that the farmers in question will react in different ways to the similar challenges that they face, by which challenges I mean the increasing competition on the market, potentially reducing public support over time as Europe reduces the CAP budget. It may be that for a crofter the sensible response is to review the balance between farming and non-farming activity. It may be that for a large specialist sheep-holding the answer is to look at economies of scale, growth in scale, or alternative business opportunities such as wind farming. Scotland has a high proportion of Europe's potential wind energy. Yes, it may be that the response is that at the different ends of the farm structure similar challenges are faced but the business response might be a different one.

Chairman: Perhaps we should tackle abandonment head on.

Q545 Viscount Brookeborough: What sort of detailed evidence can you point to that would indicate that the LFA payments actually prevent some abandonment in disadvantaged areas? Accepting that we are really in the first generation of those farmers which have been affected by it and their willingness to continue farming is very much because it is the life they have always known and as that generation either dies off or ceases to farm, do you think that the LFA payments will encourage inheritance if you like?

Mr Barnes: Certainly I have mentioned some of the factors that we think we are seeing. It is a complex area. One must not forget the global background to this. Sheep production, almost everywhere it exists in the world, is seeing reductions in stock numbers. Global competition is high and that naturally makes it quite difficult to isolate the impact of a particular instrument from the other factors which are in play. We have strong evidence that livestock numbers are going down; whether it is the Scottish Government's own census figures or reports from, for instance, the Scottish Agricultural College or the Royal Society of Edinburgh; we have consistent and strong advice that stock numbers are coming down.

Q546 Viscount Brookeborough: And still continuing to go down.

11 March 2009

Mr David Barnes and Mr Willie Towers

Mr Barnes: Yes, as of the last census continuing to go down. If one looks at the long-term trend, stock numbers now are roughly where they were before the headage payments. In other words, there was a fairly stable long-term position, there was an increase in stock numbers because of the factors I mentioned earlier, the headage payments. With decoupling, it was always likely to be the case that numbers would come down because the incentive to keep maximum number of stock was removed and so to some extent that decline was to be expected. Sheep numbers in particular are roughly where they were pre-decoupling, but it would be a brave person who made a prediction about whether we have simply been seeing a correction after the headage payment period and now we are back at long-term equilibrium or whether because of the wider factors we would see a continued decline, certainly the Scottish Government's approach is to assume that we need to take action for hill farming.

Q547 Viscount Brookeborough: But we are seeing an increase in price.

Mr Barnes: We are seeing an increase in price and that brings in the kind of profitability versus volume numbers which I was talking about. I should say also that the picture is slightly different as between suckler cows and sheep in Scotland. There has been a reduction in suckler cow numbers as well but the rate of change has been less marked than in the sheep sector. I mentioned the anecdotal evidence that we have and certainly, when talking to individual farmers we are told of instances of entire flocks being dispersed; only as we sat in the corridor, my colleague Willie gave me another example. On the one hand that would suggest that abandonment is taking place. However, if we look at the number of applications we had for LFA support in Scotland, they actually went up in 2008 compared with 2007. We had just under 12,500 applications in 2007; we had nearly 14,000 in 2008. That may be partly as a result of some red-tape-reducing measures we have taken in Scotland to try to make it easier for those who are eligible for the payments to access them. Again it is difficult to isolate one factor from another. Certainly that tends to suggest that the anecdotal evidence about abandonment is not being fully borne out in the statistics. That might mean, for instance, that the farmers who say to me that the neighbouring land to their holding has been abandoned and it causes them problems because their hefted flock now disperses more widely than it used to so gathering is more difficult than it used to be, that what is perceived as complete abandonment by the neighbours is actually just a real significant reduction in stocking rate but not complete abandonment of the land. When we are talking about land quality whose carrying capacity sometimes has to be expressed in terms of head of

livestock per tens of hectares, the animals are already pretty thin on the ground, so to go from very thin indeed to even thinner can be quite difficult to detect. So we do have some lack of clarity. Certainly we will continue to look at the evidence and try to improve the statistics. For instance in the latest census data we aim to look at the number of holdings with sheep to see whether that has gone down. What we can say and again we are slightly straying on to later issues about farm incomes is that without LFA support payments there would have been a greater decline in that activity. There is a requirement in our LFA support that the land has to be actively farmed and therefore that does create an incentive. There is a consensus view, at least within Scotland, that in the absence of LFA support the downward trend would have been steeper.

Q548 Viscount Brookeborough: If you do come across abandonment and therefore you are saving payments, will you have the ability to redistribute that to the people who are on the margins of giving up and therefore help persuade them or will that money simply disappear?

Mr Barnes: It certainly will not disappear.

Q549 Viscount Brookeborough: Go back to Europe.

Mr Barnes: No; no indeed. There have been European support schemes which have said they will fix an estimated payment rate based on the size of the budget and the number of people they expect to apply. They will then see how many people actually apply and they will adjust the payment rate up or down in order to make sure we fully spend out the budget, no more, no less.

Q550 Viscount Brookeborough: So you could have a higher LFA payment than I do in Northern Ireland.

Mr Barnes: That system has applied to some schemes. But that is not the system we are applying to LFA support in Scotland. What we have done is fix the payment rates; they are differentiated according to land quality, indicators of fragility and so on. We have had a fairly stable population of applicants and through that we can predict with a reasonably high degree of certainty that expenditure is going to be in the region of £61 million per year. That is the budget which sits in our Rural Development Programme for the LFA support. If there were to be more applicants than expected, we could end up spending more than £61 million. That would simply mean that less money was available for other parts of our Rural Development Programme. Conversely, if we were to see a decline in applications, then we would be underspending our budget and indeed in 2007 the outturn was under £60 million compared with an expected budget of £61 million. If that were to be the case, we would then have a choice to make. Would we

11 March 2009

Mr David Barnes and Mr Willie Towers

want to increase payment rates in order to rise back up to the full budget of £61 million or would we want to deploy the money released in that way elsewhere in the Rural Development Programme? In 2007 there was a slight underspend; in 2008, with the increase in numbers which I have already mentioned, we do not think we are heading for any underspend. For the time being that appears to be a hypothetical point but that is what would happen in the circumstances.

Q551 Viscount Brookeborough: Do you have a graph running for longer than two years on the number of applications?

Mr Barnes: I do not have the numbers with me but I am happy to write. It has been fairly stable. We tend to talk of approximately 13,000 LFA holdings in Scotland but I am happy to write with the precise numbers.

Baroness Jones of Whitchurch: Do you have any statistics on what land has been abandoned? I realise that it is a complex thing to measure but there must be some way of saying you know now that has gone to bracken, there is no livestock there at all grazing. Do you have any idea what the proportion is?

Q552 Chairman: Or forestry perhaps as an alternative.

Mr Barnes: We would distinguish between forestry and land abandonment because one is a productive, indeed desired, change of land use and the other is perhaps a withdrawal. We are talking about parts of the country where it has traditionally been the norm for agricultural activity not to be universally present. If I might reflect a bit on my personal experience, moving from a UK and England-based career to now arriving to work in Scotland, I really have found the situation to be very different indeed. The assumption that one might take in England, for instance, that if there is land which can be farmed it will be farmed, does not hold in Scotland because the quality of some of the land really is so poor indeed that whether it is farmed or not is not a given. We do not have good data because we have this contradiction. We have anecdotal suggestions that land abandonment is happening but we have Single Farm Payment and LFA support applications holding up. What we suspect we may be seeing is transfer of entitlements. Single Farm Payment is bigger than LFA support; it is over £400 million for Scotland as a whole and it is over £200 million for the Less Favoured Areas in Scotland. Under our historic model it is legitimate for a farmer to take on a new piece of land elsewhere in the Less Favoured Area, transfer his Single Farm Payment entitlement. If he chooses a piece of land which is of lower quality, the level of farming activity which might be required would be lower and it is said to us by some that this means that farmer can continue to receive the same level of payments for

doing “less”. Similarly, provided the new land is in the Less Favoured Area then LFA support would be payable as well. It may be that what is being perceived as abandonment is transfer of entitlements from one place to another. Where we think we are seeing that is where one would expect it, in the most disadvantaged, least productive parts of the country, in other words the furthest north and west parts of Scotland. However, it is unclear for those reasons. We may get some slightly better data from early 2010. The reason I say that is that we are about to introduce a change into the rules of our LFA support for 2009. Until now there has been an assumption that an entire farm will be either farmed or not farmed and therefore the applicant has been required to confirm that yes, he is indeed farming the holding and therefore he is delivering the grazing which gives the desired outcomes, environmental and other and therefore he qualifies for support. It was an all or nothing question for the entire holding which, for many years, has worked perfectly well because that is how farming practices went. What we are going to do from the 2009 LFA support onwards is ask that question, not at the level of the holding but at the level of the individual field. Anecdotally we are hearing suggestions that farmers are pulling back. If they have a holding which has a certain amount of improved grassland, in-bye land and a large amount of rough grazing, it is being suggested that farmers are withdrawing from the more distant parts of the holding, reducing their stock numbers and running a smaller flock that can be run on a sub-area of the entire holding. If this is the case, and the evidence is only anecdotal, and if this means there are ungrazed areas, then those ungrazed areas are not meeting our criteria for support and we wish to stop supporting them or invite the farmer to return to grazing them in order to deliver the outcomes we are prepared to pay for. From this year onwards we shall be asking farmers parcel by parcel to confirm that they are indeed actively farming the land to deliver the outcomes that justify payment.

Chairman: We are at the risk of getting slightly sidetracked by the particular LFASS when we should be concentrating a little bit more on the European review of the scheme, so I would ask members of the Committee perhaps to keep their questions and supplementaries more to the European scheme.

Q553 Earl of Arran: Turning to the subject of designation criteria, on the one hand you are saying that more locally based biophysical criteria are needed for the designation of intermediate LFAs. On the other hand, the Commission is probably going to propose a harmonised set of common biophysical criteria. Are you any closer to resolving the issues with the Commission such as cool, wet and maritime climates? How is your negotiation of that going?

11 March 2009

Mr David Barnes and Mr Willie Towers

Mr Barnes: I am going to hand over to my colleague Willie, who not only is the technical expert on the detail but who has been involved in our discussions with the Commission.

Mr Towers: The initial criteria were very much biased towards continental Europe, particularly Mediterranean Europe where the climatic factors were heat stress and moisture stress which I am sure you all know is not really an issue in large parts of Scotland and Northern Ireland as well. I and technical colleagues from England, Wales and Northern Ireland and the Republic of Ireland have been road-testing these criteria, through negotiation and both formal and informal lobbying with the JRC, the research arm of the Commission. We are on the way to persuading them that an extra criterion to look at climatic wetness rather than climatic dryness should be included in the final communication from the Commission. I should say that by road-testing the criteria in Scotland, much of the current LFA would remain LFA but in that part which does not there are some real anomalies which really have to be addressed. I should say that the Earl of Caithness has one of the areas where these anomalies do occur, where land side by side would become either LFA or non-LFA. We are making good progress in negotiating a more sensible outcome for Scotland in terms of the EU biophysical criteria. It is good to see both the technical experts and the Commission being flexible to our arguments, just producing good evidence really.

Q554 Baroness Jones of Whitchurch: On the issue of socio-economic factors, you indicated earlier that you still saw a role for those in the payment system. How do you think that is going to work now? The Commission are not putting so much emphasis on socio-economic indicators. How would you best see those being captured and paid in the future?

Mr Barnes: If we go back to the EU legislation on which we have to work, the basis for LFA support is the existence of natural handicaps. So that has to be our guiding principle. Poor land quality is undoubtedly a natural handicap, a natural disadvantage and nobody would argue with that. The issues people talk about as socio-economic issues are not necessarily a uniform group of issues when one compares it with that issue of natural handicap. What I mean by that is, for instance, remoteness, these are general issues, not specific to Scotland. I can see that one might argue remoteness is a natural condition and therefore it might count as a natural handicap, whereas I can see that some people might argue that low population density is a social, a human characteristic and not a natural handicap. The kind of issues which often get lumped together as socio-economic will not necessarily all fall in the same sense when judged against the requirement in the

legislation to work on the basis of natural handicap. As it happens, for Scotland there is an enormous overlap between the land quality and other indicators such as remoteness and low population density. So to some extent it is a moot point for Scotland. We have designated our LFA on the basis essentially of land quality. The designation pre-dated the Macaulay Institute's land classification but has since been broadly vindicated by that classification. Broadly speaking, the lowest quality, as one goes down the gradient of land quality, also tends towards the most remote and the lowest population density parts of Scotland. Broadly speaking, there is no conflict for us between socio-economic and land quality. Certainly we value the social and the economic benefits. Having said that broadly speaking there is a coincidence, that does not mean it is the case throughout Scotland. Caithness is again an example, Orkney is another example, where the land quality is certainly poor, undoubtedly it is less favoured and should be in the LFA but it is land which is of less poor quality than most other land in Scotland of a similar level of remoteness, if I might put it that way. Therefore, what Scotland will be looking for from the new system is one which gives us sufficient flexibility to be able to deal with those cases, Orkney and Caithness as examples but not necessarily limited to them, to deal with them in a way which is appropriate, which is fair, which recognises their land quality and their remoteness but is fair to them and is fair to the rest of Scotland's LFA as well. If we secure that outcome then I am not sure that we have a firm position on whether this should be done through the designation or through the calculation of the payments. Certainly our existing designation was done essentially on land quality and our presumption going forward is that is what we will be dealing with. For us this is not purely an environmental scheme; there are social and economic benefits which we are looking to achieve as well.

Q555 Earl of Caithness: Just a supplementary on designation. Is there a concern either for the Scottish Government or the farmers and crofters to move from having one LFA system at the moment to possibly submitting claims or applications for claims under articles 18, 19 and 20 rather than just 19 as I think is true at the moment?

Mr Barnes: Yes, there is certainly an issue. Currently Scotland's entire LFA is designated under the intermediate classification. We do have areas which could qualify to be classified as the mountain LFA status or the other, what is often called the island LFA status. There are some stakeholders who may have thought that there would be pots of money available, if Scotland changed to use the different classifications, which we could exploit and we are not currently exploiting. That is not the case. Were it to

11 March 2009

Mr David Barnes and Mr Willie Towers

be the case I am sure Scottish Ministers would be very keen to consider whether to change designations and exploit those resources, but it is not the case. Nor is it the case that the fact that maximum payment rates are higher in the other two designations would make a difference in the Scottish situation because our decision on payment rates is based on a limiting factor of the money available to us not the maximum limits in the legislation. For those reasons it is an issue which comes up when I talk with stakeholders, but the way I put it to stakeholders is that at the present time we see no benefit from using the other classifications even though we could, but since there is no benefit we see no reason to change. If there were to be benefit in the future, then of course we would reconsider and one of the potential benefits might be that, depending on how the negotiation Willie referred to finally pans out, if there were to be parts of Scotland which we firmly believe deserve to be in the LFA, but if those areas fell out of the intermediate LFA at the end of this negotiation and if we could bring them back into the LFA by utilising, for instance, the mountain classification, then we absolutely would look at that because we would be moving then from a current position of no benefit, changing to a position where perhaps there is benefit from changing. In a future situation, if there were potential benefit, we would certainly look at the issue.

Q556 Chairman: Or correcting a detriment if Orkney, which you mentioned, was difficult under article 19, but could be moved to the islands one in order to retain it within the scheme.

Mr Barnes: Indeed although, and one cannot predict the future, if the future were to be similar to the present the limiting factor is our budget resources rather than the legislation. It might or might not be a fruitful avenue for the future.

Q557 Earl of Dundee: On the Commission's eligibility criteria framework you mentioned that you want to keep room for manoeuvre. How general would you like this framework to be so you can then remain sufficiently flexible?

Mr Barnes: Our bottom line is that we want to support active farming and I have already set out that the rationale for that is that it is active farming that delivers the grazing, that delivers the benefits for which public spending is justified. We are very happy with a set of criteria which say that if you farm you qualify for support, if you are not farming you do not. The reason we are keen on flexibility is simply that we have such contrasting situations in Scotland. To take again a couple of specific examples, we have a farming system in Orkney as I have described. For its geographic location Orkney has some relatively good land, land classification four, so clearly poor land in LFA but it has some classification four land

in addition to some very poor classification six, poor rough grazing land and therefore it has a farming system which fits in with that scenario. If one looks at the Western Isles, they are completely different. All the land is essentially in class six and therefore the farming system that has developed there is designed to cope with that geographic situation. If one begins to try to set detailed criteria to cover a variety of farming systems, the risk is that inadvertently one does things that one does not mean to. That is why we are in favour of flexibility. I should say that I think we think that in Scotland we are doing a reasonably good job so far. I know one of the reasons the Commission is having to look so hard at LFA policy is that there have been strong criticisms in the past, including from the European Court of Auditors, suggestions that in some parts of Europe the spirit of the LFA support system has not been adhered to by some authorities. We think in Scotland we have been pretty straight with the system. We have designated the area based essentially on land quality. We have set up a system that we believe delivers the right level of payments in relation to the right kind of activity, subject of course to the consultation I have just mentioned. In effect we are saying we have a system which can always be looked at, can always be improved, but fundamentally it is not broken and therefore, if the Commission does think there are some parts of Europe that it needs to focus on and tighten up on, rein in a bit, we would like to think that Scotland would not be in the Commission's firing line because we have tended to act in a scientifically robust and justified way up to now.

Q558 Earl of Dundee: Following that, perhaps you would take the view that Scotland's contribution within the European Union, Scotland's contribution within the United Kingdom to other Member States is to demonstrate how a form of constructive and pragmatic flexibility can work.

Mr Barnes: On behalf of the Scottish Government I am flattered, in fact on behalf of the Scottish Government and Scottish researchers I am flattered. I can only agree with that suggestion. I do think that we have some fantastic scientific expertise in Scotland, in particular on the land use side. This is reflected by the degree to which authorities in other parts of the United Kingdom draw on Scottish technical expertise. So if we can in our modest way contribute to the better development of European policy, then we would be extremely happy to do so.

Q559 Earl of Dundee: At the same time do you see any risks which Scotland might live to regret from adopting too much flexibility?

Mr Barnes: It is true that flexibility is a double-edged sword. Let me give an example and I certainly would not wish to suggest we know what the answer is. Let

11 March 2009

Mr David Barnes and Mr Willie Towers

me give an example to illustrate this. We have carried out a consultation exercise, we are deliberating about what to do next and one of the things we are looking at is the way in which our rules require farmers to be actively producing in order to justify the payments. We do not have stocking density limits in our system. We have a system which says if the number of stock on a farm comes down dramatically, then the computer tells the local officer to go and inspect that farm. The local officer inspects and is asked to make a judgment about whether the land is actively being farmed or not and he is invited to make that judgment not on the basis of a fixed stocking density written in a table, but on the basis of his professional judgment, traditional practices on that farm, what the neighbours are doing and so on. That gives a high degree of flexibility but it puts quite a lot of pressure on the local staff who are having to make those professional judgments. Therefore, we wanted to look at that system and try to take a view on whether it should be changed. In my discussions with the National Farmers' Union Scotland, I asked them whether it would be easier for everybody, the farmers, the authorities, the local officers carrying out the inspections, if we were to fix quantified minimum stocking densities in order that everybody knows where they stand. Above the line would be active farming; below the line would be not active farming. I said clearly one could not set a single figure for the whole of Scotland; that would be meaningless because of the variation in ground quality. At what level could one do it? Would one carve up Scotland into regions, would one have to go down as far as parishes? The answer I got from farmers, from practitioners was that even within a parish the variation in land quality is so great that a minimum stocking density for a parish would be meaningless and indeed even within a holding, bearing in mind some of these holdings can be tens of thousands of hectares, even within an individual holding to say that this is a stocking density for the whole of this holding, above this is farmed, below this is not farmed, does not fit in with the farming reality in Scotland. We are saying that we need flexibility to deal with situations like that, but I am certainly not sitting here today saying we know the answer, we have worked it out and this is what to do. It is precisely the kind of issue that we are wrestling with as we decide on the basis of our consultation exercise how to go forward, looking for a compromise between something that is clear for both authorities and farmers, effective on the ground, but also simply administratively possible. It is not easy.

Q560 Earl of Caithness: Given two statements you have made, firstly that the pot of money is limited and that LFA is geared towards extensive grazed habitats as the norm_I think is what you said_is there a case

for excluding certain types of farming practices? Do you envisage in the proposals the Commission are likely to put forward or have put forward in their consultation paper that certain parts of Scotland which currently get LFA status will not get it?

Mr Barnes: If I may answer the second part of the question first, the way in which LFA has been designated in Scotland to date is really rather detailed. We do not simply have a single boundary. I suspect you probably know a lot of this already but for the benefit of the Committee, we do not simply have a single boundary and everything within the boundary is Less Favoured Area and everything outside is not. We have gone down to the level of individual fields, individual land parcels. Within the general boundary of Less Favoured Area in Scotland, if there are fields where the land quality is such that, for instance, that land could support arable production, serious lowland-type arable production, or indeed dairy production, then we have designated those as non-LFA. We have spots within the general LFA boundary which are designated non-LFA because the land quality is too good. Similarly the other way round in the non-LFA area, if we have little pockets of land which are of sufficiently poor quality that we believe they should be classified as less favoured, then we have classified them as less favoured. We have spots in both directions: spots of non-LFA within the LFA and spots of LFA within the non-LFA. It follows, having done the exercise to that level of detail, that we think we have done it right and therefore we would hope that the outcome of the redesignation is broadly speaking an unchanged pattern of land designation in Scotland. We shall have to see how the negotiation pans out. There are not significant areas in Scotland which we think are wrongly designated and that we are looking to move in one direction or the other. In terms of farming practices, we already have rules about excluding dairying. We already have rules on arable. The only, not change but tightening we are looking for there is this link with activity. For us, simply having some land in the LFA is not enough to justify the payments; we are looking for active farming. I do not know whether this meets your definition of a farming practice but for us a farming practice which consisted of not farming the land is what we want to exclude from the system.

Q561 Earl of Caithness: I was more concerned at the other end with the land which is currently LFA around the Moray Firth and Buchan lowlands, but you have got it down to that detail.

Mr Barnes: We even have holdings which are split. Because it has been done at individual parcel level, we have holdings which have some land in the LFA and some not. It would be an arrogant person who sat and said we have it all absolutely right, there is no

11 March 2009

Mr David Barnes and Mr Willie Towers

case for anything to change. But to a very, very large degree we do think we have got it right. We have put a lot of time and effort into doing it and trying to be very objective and scientific about it. It would be foolish to rule out any change, but we do not anticipate large change.

Mr Towers: Some of the farms on the Moray Firth are very, very sandy with very close structured soils so there are serious constraints, despite the fact the climate is nice.

Q562 Lord Cameron of Dillington It is good for growing carrots on.

Mr Towers: That is true; as a cash crop but it does limit your flexibility.

Q563 Lord Livsey of Talgarth: You have partly answered this question. What proportion of an average LFA farm income does the LFASS payment make up? How does this compare with the proportion of income that is drawn from the Single Farm Payment and from other income sources? I assume you conduct what is widely known as a farm management survey of farm incomes in Scotland. Does this vary on an individual farm basis or is it a common fact?

Mr Barnes: I have already mentioned the orders of magnitude of Less Favoured Area support and Single Farm Payment in the Less Favoured Area_£61 million approximately for LFASS and about, depending on the exchange rate, £220 million plus for the Single Farm Payment for the Less Favoured Area's share of Scotland's Single Farm Payment. Already you can see that Single Farm Payment is three to four times as big as Less Favoured Area support. At the individual farm level I have some figures here; if the Committee would like more detail I am happy to write with that. If one looks at the total gross income of the farm, income from the market plus support payments, for specialist beef holdings in the LFA Less Favoured Area support is about seven per cent of the total income. For specialist sheep units it is a bit higher; it is about 12 per cent and for mixed cattle and sheep units obviously it is in between the two, it is about 8.5 per cent. For Single Farm Payment, the pattern is a little bit different because under our historic model beef producers tend to get a relatively high Single Farm Payment level and therefore Single Farm Payment as a proportion of the gross income is about 30 per cent for the specialist beef units in the LFA and only 27 per cent for the specialist sheep units and again, logically enough, for the cattle and sheep units it is in between the two; it is about 28 per cent. So Single Farm Payment is bigger than Less Favoured Area support. If you add the two of them together, you are getting to the region of 40 per cent of the gross income of the farm that is coming from those support payments. That is gross

income without any account taken of production costs. When one does bring costs into the equation, the simplest way to sum up the position is to say that if it were not for Less Favoured Area support and Single Farm Payments, then the average Less Favoured Area holding in Scotland would have a negative income. There are differences between the average and the top third and there may be some in the top third who are breaking even without support. But the generality is that these are holdings which are reliant on that support in order to keep them in the black.

Lord Livsey of Talgarth: Thank you. You have just answered my supplementary question.

Q564 Lord Cameron of Dillington: In the final paragraph of your submission you quite rightly state that because it is Pillar 2 Member States apply different funding to LFA payments. Spain for instance has huge areas, a low proportion of LFA payments applied; Scotland with a large LFA area applies rather a larger amount. Does this matter? Does this distort the internal market? Is there a subtle hint that you want to see LFA payments go to Pillar 1 in this statement?

Mr Barnes: There might have been a different subtle hint in our evidence. We think it does matter but the issue we think it relates to is not where LFA payments should sit, Pillar 1 versus Pillar 2. We think the issue is about how Europe decides on the allocation of Rural Development Budgets between the Member States. I am sure the Committee is familiar with the rather messy basis on which the Rural Development Budget is carved up in Europe, essentially based on an historic reference period but affected by rather ad hoc changes which were made in 2005 in the endgame of the budget negotiations. Whatever the reason, whatever the background, the outcome is that the United Kingdom and therefore Scotland do very badly out of the European Rural Development Budget. It is an issue for Less Favoured Area support, but for us it is an issue for the entire Rural Development Programme that it cannot be right that the amount of resource available to different Member States is so arbitrarily decided. We certainly hear continuously from colleagues from Northern Ireland about the comparison they see between the resources available through their Rural Development Programme versus those which are available to farmers just over the border in the Republic of Ireland. Yes, we think it matters, but it matters not just for Less Favoured Area support, it matters more widely for the Rural Development Budget. It would be very welcome to us if there were any prospect of seeing this situation redressed before 2013, before the next budget period begins. Certainly we take every opportunity, as I believe do the United Kingdom Government, to make it known that we are

11 March 2009

Mr David Barnes and Mr Willie Towers

dissatisfied with this situation. If it is not possible to make any progress in this budget period, certainly we would be looking for a better, more objective and fairer system of allocating the budgets in the next EU budget period, 2014-2020.

Lord Brooke of Alverthorpe: May I just make a declaration of interest for the sake of any confusion? I work with Accenture PLC which delivers the Single Farm Payment System. I do not have any dealings with what they do with it, but for the sake of any confusion I declare the interest.

Q565 Chairman: Finally, I wonder whether you could explain to us whether you feel that any cross-compliance which is required for the payment of a Single Farm Payment is any more onerous for those receiving LFA, the special scheme in Scotland. One or two witnesses have pointed out that this could be the situation and as you have explained the Single Farm Payment on an historic basis is often lower in the LFA areas is there a conflict there?

Mr Barnes: We do not have any evidence, whether it is through our consultation exercise or whether it is through less formal contact with our stakeholders. I have certainly not heard suggestions from Scottish upland farmers that they find cross-compliance disproportionately difficult to comply with when taken in relation to the size of the payment. It is not an issue which has been actively raised with us. Of course the good agricultural and environmental conditions element of cross-compliance is not identical in different parts of the United Kingdom or in different Member States. I do not know whether that might explain; if there were to be differences in the evidence from witnesses from different parts of the UK for instance perhaps that might be an explanation for that. Having said that, we certainly do plan to look at the Single Farm Payment and the model we apply in Scotland. The historic model was chosen when the Single Farm Payment was introduced but the CAP health check gives those of us who are on the historic model an opportunity to revisit that and certainly we are looking to do that. Later this year we are planning to engage with stakeholders, maybe hold a formal public consultation exercise to look at the future of the Single Farm Payment in Scotland and whether to move away from the historic model. If one were to move from the historic model, it is a pure matter of arithmetic that for the moment the Single Farm

Payment is concentrated in the most productive parts of the country. That is logical; that was the basis on which the historic model was calculated. Therefore, as a pure matter of arithmetic, one could say that a move away from the historic towards a flatter rate system in Scotland would inevitably represent a redistribution of support towards the least productive, less-favoured area part of Scotland. Let me emphasise that I am not putting that forward as a policy position of the Scottish Government because we have not yet begun to engage with stakeholders and begun to make up our minds. But were one to change from the historic model, as a pure matter of arithmetic the direction of the redistribution would inevitably be in that direction.

Q566 Chairman: Thank you very much indeed for the very clear evidence that you have given us and the very good answers you have given to all our questions and to our supplementaries. Because Scotland is so much covered by LFAs it has been of great interest to us to hear how the scheme has been running in Scotland and obviously there are things to be learned from your evidence. Thank you very much indeed to both of you for coming down and sparing the time to give us such good evidence.

Mr Barnes: Thank you. I have noted two issues on which I promised I would come back: the wind farm point and the long-term numbers of LFA claimants. I will write to the Committee with those details.¹

Earl of Caithness: May I add one thing to that? In your evidence paragraph 5.1 you give statistics of 58 per cent and 76 per cent. Could you put a date on those and what a comparison would have been ten years earlier please?

Lord Livsey of Talgarth: It is a privilege to have somebody from the Macaulay Institute here today. I wondered whether we could get something in writing as to how far you have got in trying to negotiate on a European basis a more objective system of assessment of LFAs based on soil classification. It seems to me that could be a key to an overall European change perhaps.

Q567 Chairman: If there is anything you feel you could add to it we would greatly welcome it.

Mr Towers: I will bring you up to date with where we are with the Commission on that.

Chairman: Thank you very much.

¹ Annex

Supplementary Memorandum by the Scottish Government

Annex

1. WIND FARMS

LFASS need not be affected by the erection of a wind farm if grazing continued to be carried out as normal around the turbines. Only the base of the structures and any fenced off areas would be discounted.

2. LFASS PAYMENTS

The Committee asked for a longer time series of figures for LFASS payments. LFASS started in 2001. The 2001 year included 'safety net' payments for the change from Hill Livestock Compensatory Allowances. The following gives the figures since then. The number of payments made in any year is less than the number of applications received, because each year a certain number of applications prove to be ineligible. The information is given by scheme year; payments for the 2008 scheme began in January 2009.

<i>Scheme year</i>	<i>Number of Payments made</i>	<i>EC-funded (£)</i>	<i>Nationally-funded (£)</i>	<i>Total (£)</i>
2002	13817	8,129,646.84	55,620,950.43	63,750,415.27
2003	13487	10,074,565.42	52,755,854.25	62,830,419.67
2004	13060	10,322,710.07	50,375,343.41	60,698,053.48
2005	12848	10,261,104.58	50,664,713.54	60,925,818.12
2006	13118	15,992,557.77	44,350,028.93	60,342,586.70
2006	13043	0.00	39,498,336.13	39,498,336.13
supplementary payment				
2007	12197	15,940,459.96	43,263,817.64	59,204,277.60
2008 (as at 20 March, full-year figures not yet available)	12345*	14,357,300.13*	43,085,866.80*	57,443,166.93*

*The 2008 figures are still to be finalised, with payments still currently being made.

3. PARAGRAPH 5.1 WRITTEN EVIDENCE

The figures in paragraph 5.1 of our written evidence were based on the constructed Scottish Social Accounting Matrix for 2001, and therefore, represent the economic snapshot for that year is the latest data that is available. Unfortunately, we are not aware of any previous studies that have attempted to disaggregate Scottish agriculture output in this way.

4. Biophysical criteria

In late 2007, the EU proposed eight biophysical criteria that could be used as LFA designation criteria. These were:

- Temperature (length of growing period)
- Heat stress (days above a threshold temperature)
- Soil water balance (soil moisture availability)
- Soil drainage (poorly drained soils)
- Soil texture (clayey or sandy soils)
- Soil rooting depth
- Soil stoniness (in top 30cm)
- Slope (> 8%)

These criteria were tested by technical experts in England, Scotland, Wales and Northern Ireland and some concerns on their appropriateness for UK conditions were passed to the Commission.

In a Scottish context, the criteria that caused most concern were temperature, soil water balance and slope.

- Length of growing period is not the best method for cool but equable climates that Scotland possesses. Accumulated temperature over a specified period is a better measure of the energy available for plant growth.
- The soil moisture balance only recognises soil moisture deficit, not surplus which is a major issue in Scotland.
- The slope criterion is much too lenient.

A number of formal and informal exchanges of information with the Commission, including a visit to the Joint Research Centre in Italy have led to some changes in these criteria. These include the raising of the slope threshold to 15% and the inclusion of accumulated temperature as an alternative to the length of growing period. We understand that the Commission has accepted our arguments for the inclusion of a criterion that assesses moisture surplus ('Field Capacity Days') but we await confirmation and further details in a formal Communication from the Commission.

24 March 2009

WEDNESDAY 18 MARCH 2009

Present	Arran, E Brooke of Alverthorpe, L Brookeborough, V Caithness, E of Cameron of Dillington, L Dundee, E	Jones of Whitchurch, B Livsey of Talgarth, L Palmer, L Sewel, L (Chairman) Sharp of Guildford, B Ullswater, V
---------	--	--

Memorandum by the Department for Environment, Food and Rural Affairs

STRENGTHS AND WEAKNESSES

Question 1: *The strengths and weaknesses of the LFA scheme thus far*

As set out in our response to the European Commission's consultation on this issue, the UK's primary objective for agricultural support is to reward farmers for delivering public benefits that would not otherwise be provided by the market, rather than paying them simply for economic disadvantage.

The Less Favoured Area measure is often perceived as providing compensatory payments, similar to Pillar 1 support payments. As an Axis 2 measure, it should be targeted at maintaining and promoting sustainable farming systems that deliver environmental and landscape benefits that would not otherwise be provided by the market alone. The measure also needs to be applied with greater consistency and transparency across the EU, whilst retaining its existing simplicity to administer.

BIOPHYSICAL CRITERIA

Question 2: *Whether it is appropriate to set common, EU-wide biophysical criteria for delimiting LFA areas, as suggested by the Commission in its consultation paper*

As an Axis 2 measure, the use of biophysical criteria is necessary to ensure that the LFA measure is focused on delivering environmental and landscape benefits. Socio-economic disadvantage can be addressed through other rural development measures.

We support a consistent, transparent EU framework for identifying LFA land (and providing LFA support), to ensure an even playing field for all farmers. However, the EU is not a uniform environment, and there needs to be sufficient flexibility to take into account more localised, regional differences in natural disadvantage. For example, the cool, wet, maritime climate of the British Isles has different impacts on agricultural production than some of those experienced in the warm, dry continental climate. Relying on one methodology to capture all genuinely disadvantaged land across the EU may exclude some areas of genuine disadvantage, or alternatively, lead to overly benign thresholds to ensure that all disadvantaged land is captured (ie the lowest common denominator) which would also capture non-disadvantaged land.

We would therefore be concerned about any methodology that did not provide sufficiently for national and regional differences to be incorporated to the delimitation process, providing it was within a wider EU framework. However, refinement at the national and regional level (a) must not add additional layers of complexity or proxy criteria that simply build in further inaccuracy, and (b) should be subject to careful scrutiny by the Commission or an independent assessor to avoid a loss of consistency across the EU.

In the UK, one possible way could be the application of our existing land classification systems¹. These provide an accurate and well-established tool for identifying varying degrees of agricultural disadvantage in the UK.

We look forward to receiving further detail from the Commission on their proposals for allowing Member States to further refine their LFA designation, taking into account more localised factors. At this stage however, we have significant reservations about the use of economic indicators relating to agricultural

¹ The Agricultural Land Classification system for England and Wales, the Agricultural Classification System for Northern Ireland and Scotland's Land Capability for Agriculture Classification system.

productivity and output as a proxy for identifying natural disadvantage. There are major issues with data availability for these secondary criteria. Furthermore, factors such as productivity, output and yield are not stable—they fluctuate in the short term (eg due to market effects) and evolve in the longer term (eg due to technological advances). These movements are independent of natural handicap considerations. From a purely administrative perspective, any production-based data would need regular updating to remain valid, leading to regular changes to the LFA designation.

Finally, the EU legislation specifies a further step for delimiting land as LFA. It requires that, as well as being subject to natural disadvantage, LFA is also only delimited where “*maintaining extensive farming activity is important for the management of the land*”. This is a critical requirement necessary to focus LFA designation on those areas important for environmental and landscape objectives. We would like to see further consideration of how this step might be considered through the EU review, which has not yet addressed this aspect. We accept that there are limitations in using High Nature Value farming areas as a basis for LFA delimitation: the concept has not been developed in a way that allows it to be mapped; and it does not include the full range of values often provided in such areas, such as landscape, resource protection, climate change mitigation and historic environment. However, there may be other mechanisms for mapping high value areas which could be explored, based on national and international designated sites such as National Parks, AONBs, SSSIs, Natura2000 sites, SPAs, Ramsar sites.

Question 3: Whether the common biophysical criteria set out by the Commission in its consultation paper are appropriate and effective in identifying disadvantaged areas. Are there any omissions, whether in the form of further biophysical indicators or other indicators?

The original criteria set out in the Commission’s consultation paper did not accurately identify those areas suffering genuine natural disadvantage in the UK. They would have led to an extremely large increase in the UK’s LFA (mostly in England); and included anomalies whereby significant areas of productive land were included, and excluded other land clearly suffering natural handicaps. Indicators between various factors and between criteria needed further consideration.

Following representations to the Commission by the UK (and the Republic of Ireland), the Commission subsequently published a revised set of bio-physical criteria, cut-offs and recommended mapping methods in October 2008. These go a long way to addressing the UK’s concerns about the criteria identifying significant areas where the agricultural handicap has been overcome. The most significant revision was that soil wetness characteristics could be assessed in their drained, rather than undrained state. Testing of the revised criteria and cut-offs has not yet been completed.

There is still concern that there has been insufficient acknowledgement of the maritime climate that predominates over the UK. The inter-relationship between (cool) temperatures and high, frequent rainfall and its effect on spring growth, summer harvesting and soil trafficability has not been fully recognised.

The Commission has recently informed us verbally that they are prepared to accept field capacity days² as a rainfall/temperature primary criterion. We have not received written confirmation of this or what cut-off is proposed, but this has the potential to include areas of present, legitimate LFA that were not being identified under the Commission’s previous proposals, and to exclude areas of productive land.

As set out above, we would still wish to see a system of secondary physical criteria selected and applied on a regional basis to address the inevitable anomalies that are likely to come to light using a standardised, pan-European system. Either our existing national land classification/capability systems or the flexibility to use combinations of the primary biophysical criteria and/or different thresholds could fulfil this role.

The UK Government has stressed to the Commission the importance of retaining regional flexibility to designate LFA at land parcel or (sub) holding size level should we wish to do so, rather than restricting it to a higher administrative level or ward. It would be inconsistent with the LFA objectives to have productive land included within the LFA designation, or disadvantaged land excluded, simply because of a restriction on designating below a certain level (eg administrative ward). This could create winners and losers out of farmers, depending on current ward boundaries.

² Field capacity days are effectively the number of days in which the soil cannot hold any more water, and which therefore limits growth. It is a form of surrogate for high rainfall. In the UK, field capacity is typically reached in October/November, through to March/April.

ELIGIBILITY CONDITIONS

Question 4: *What degree of harmonisation of eligibility conditions (for determining access to LFA payments), if any, is needed*

Question 5: *What the basic rules and criteria for eligibility for LFA aid should be, if the scheme is to meet its new objectives*

As set out above, the UK Government believes there should be greater consistency and transparency in implementation of the LFA measure across the EU, so that it is more closely aligned to its objectives and those of Axis 2. The measure needs to ensure that:

- (a) LFA support is paid where extensive land management is necessary to deliver environmental benefits—ie not merely for the presence of natural handicaps.
- (b) It is not paid for land management activities where productivity is unaffected by the disadvantage (eg where the conditions suit a particular crop), or where that disadvantage has been overcome (eg through intensive irrigation). This includes intensive farming.

However, as with the delimitation criteria, it would be extremely difficult to set appropriate and targeted eligibility conditions to achieve this at EU level, and without adding significantly more complexity to the LFA measure. Although this issue has not been explored in any depth in the EU review at this stage, we would expect the first step to include consideration of a framework setting out how Member States and regions can achieve points (a) and (b) through eligibility conditions, rather than moving directly to setting specific rules at EU level. This should be accompanied by consideration of how the Commission will effectively monitor Member State implementation.

Such an approach would retain Member States' existing flexibility to determine their own eligibility conditions within the LFA (nationally and regionally), providing they are justified in terms of wider Axis 2 and LFA measure objectives—ie to deliver environmental benefits rather than social payments. This includes the flexibility to focus LFA support on those areas or production systems defined as important within the LFA, rather than paying all farmers in the LFA. As the LFA measure is voluntary and works alongside a variety of other measures to deliver rural development objectives, MS need to be able to develop rules that reflect their wider rural development context, not just focusing on LFA schemes in isolation.

Within the UK, we seek the flexibility to focus LFA support on those areas or production systems defined as important to delivering environmental objectives.

PAYMENT CALCULATION

Question 6: *How practicable is the new payment formula (based on additional costs and income foregone related to the handicap in the area concerned)? Is it likely to help reduce wide discrepancies in payment levels across Member States?*

Implementation of this formula for calculating the amount of LFA support, and the requirement for it to be independently verified by an expert (as set out in the EU regulations) will make an important contribution to the consistency and efficiency of the measure. Further work will be needed in developing guidance for assessing natural disadvantage across the EU, for example, to ensure consistent reference points are adopted for the comparison with non-disadvantaged areas³.

However, this approach does not recognise all factors relating to disadvantage, which the market may have already compensated the farmer for. In particular, it does not adjust for the lower land and rental costs payable in the LFA compared to non-disadvantaged areas.

It is essential for Member States and regions to retain the flexibility to determine what proportion of this is payable—that is, the formula will provide an upper limit (within a maximum ceiling, like the agri-environment measure) rather than determining the amount payable. This includes flexibility to pay small or zero payments in some areas. As a voluntary measure that works alongside a variety of other measures to deliver rural development objectives, Member States need to be able to determine their budget allocation for each scheme in the wider context—not focusing on their LFA scheme in isolation. The test should be whether the desired outcomes are being delivered, rather than creating a rigid approach to payments.

³ It could be difficult to determine additional costs when comparing different livestock sectors in the LFA vs. non-LFA, eg dairy in non-LFA vs. suckler cows/sheep in the LFA. The same argument applies to income foregone.

IMPACT OF THE REVIEW

Question 7: *To what extent would common biophysical criteria and amended eligibility criteria address the deficiencies of the LFA scheme as identified by the Court of Auditors in 2003, and in particular:*

- *guarantee equitable treatment of beneficiaries*
- *facilitate monitoring, control and audit of the measure*
- *facilitate evaluation of the impact and effectiveness of the measure*

The biophysical criteria will contribute towards more equitable treatment of beneficiaries by removing the more subjective and variable socio-economic criteria. As this is also influenced by eligibility criteria and payment rates, further consideration would be useful on how the Commission will monitor national and regional implementation, to ensure that LFA schemes meet the objectives of the measure. The existing EU monitoring and evaluation measures (through the Rural Development Programme) could also be re-focused more towards the maintenance of extensive farming where it is important for the management of the land.

FUTURE DEVELOPMENT OF THE LFA SCHEME

Question 8: *What is the role of the LFA scheme in the context of the current Rural Development Regulation, and the reformed, post-Health Check CAP. What should the LFA scheme deliver in the short term (pre-2013) that other policy instruments affecting farm viability, environmental protection and agricultural land use cannot deliver?*

Question 9: *The future evolution of the scheme, post-2013, within the context of the EU budget review, the EU's cohesion policy and further reform of the Common Agricultural Policy*

The UK is clear that farmers should be rewarded by the market for their outputs and by the taxpayer for delivering public benefits that would not otherwise be provided by the market, rather than paying them for economic disadvantage. The UK is taking forward work on the future of CAP, including how payments under a reshaped Pillar 2 of the CAP should be focused on delivering environmental benefits to society. The role of individual measures within that should not be taken in isolation.

February 2009

Examination of Witnesses

Witnesses: HUW IRRANCA-DAVIES, a Member of the House of Commons, Minister for the Natural and Marine Environment, Wildlife and Rural Affairs, MR DAN OSGOOD, Deputy Director, Environmental Land Management, and MISS MARIAN JENNER, Head of Uplands and Commons Policy, examined.

Q568 Chairman: Thank you very much for coming. As for the formal bit, this is an evidence taking session, the usual note will be taken, you will get a copy of it, please correct it, and also it is being webcast, so there is a minute possibility that somebody might be listening somewhere. How is your thinking on the review of the LFA scheme developing in general? Give us a quick tour d'horizon.

Huw Irranca-Davies: Can I first of all thank you for the opportunity at what is a fairly early stage within this process to outline some of our thoughts, and also to flag up as well that this is a developing field for us. We have some pretty clear thoughts on this, but there are some areas that need some fine-tuning as well, so it is a good opportunity in the early stage. Can I just lay out why this is crucially important? I have two hats here: one as a UK minister, representing all of the UK area, including the liaison with our devolved counterparts and representing their interests, and

how they apply LFA, and how they seek to apply it in future. The other one is as, of course, the minister with the responsibility for England's farms and upland areas and so on. Now they do overlap, but there are some quite different nuances there. As a UK minister, first of all, we have a responsibility as a UK minister, playing a responsible role in the EU, to make sure that any measure like this achieves the objectives, and I know you will tease this out in a moment. So we do see this review as an opportunity to make sure that farmers across the EU are playing on a level field, where the measure is used, also LFA is very important for the devolved administrations. In Northern Ireland, they use it for the Less Favoured Areas Compensatory Allowance Scheme; in Scotland, the Less Favoured Areas Support Scheme; and in Wales, the Tir Mynydd scheme, the mountain ground scheme. It is lovely to have the opportunity to say a bit of Welsh in the Committee there, but I am conscious that when I say Welsh in the Commons, I

18 March 2009

Huw Irranca-Davies MP, Mr Dan Osgood and Miss Marian Jenner

have to translate immediately. But as English minister, you will be aware that recently, the Secretary of State announced the introduction of the new strand of environmental stewardship in the uplands, the Uplands ELS, the Uplands Entry Level Stewardship, and I have to say this was done in discussion with CLA, NFU and others, and a lot of work was put into that and it was quite warmly received. So we take a slightly different approach, which I know you will tease out in a moment. So we have the responsibility to our devolved colleagues, vitally important, and as an England minister as well. Although the Uplands ELS will not be delivered under the EU LFA measure, it is important to point that out, so even though we need to get this right, it is not directly tied into our Uplands ELS. The Uplands ELS will still provide additional and specific support directly targeted at our most severely disadvantaged LFA farmers. So there is a read across, even though we do not use the measure in the same way as our devolved colleagues. We are also going to continue to use the LFA measure through to 2014 for transitional payments in England to those on the classic or historic agri-environment schemes. So LFA is still vitally important, regardless of what we do with the Uplands ELS. Just to come back to where I started from, it is worth noting that we are at the early points within the stages of the review, the Commission have not yet published their proposals, which are expected to concentrate on designation criteria. We expect that these negotiations may continue for some time, for a number of reasons: the political sensitivity around LFA support, right across the EU; the potential impact of future political changes, including co-decision. So in some areas our thinking is still developing, but I am very, very pleased to stress the importance of this to myself as an England minister, to our devolved counterparts, and to the UK as an entity, to make sure that whatever measure is brought through here at this point has to be right, and ensure a level playing field for all our farmers. I hope that helps, Lord Sewel, in setting out some of the broad context.

Q569 Chairman: That is very helpful. Absolutely crystal clear, if I may say so, Minister.

Huw Irranca-Davies: Thank you. I hope the rest will be as well.

Q570 Chairman: The interesting thing is quite honestly that in the evidence we have been taking, the evidence that your department has given us; when we went to talk to the Commission, the evidence the Commission gave us; and a couple of the NGOs, there was very much this emphasis that the LFA scheme should be seen absolutely centrally as a means of delivering environmental benefits through the maintenance of agricultural activity in the areas.

But they were the only three voices we heard who argued like that. Virtually everybody else that we took evidence from adopted the line that it was basically a socio-economic support, and the maintenance of agriculture that was threatened because it was economically unsustainable in these areas, sustain it, and the emphasis very much on keeping the economic activity going, and not so much the environmental benefit. Basically, the message we got was, you know, it is our money, we want it, do precious little to reform it. Does that come as a surprise to you?

Huw Irranca-Davies: Not entirely, but I would say we are in full accordance with those views that were expressed to you, that this should be not simply a measure that is based on areas of disadvantage, you know, when I express my own interests in this, having a farming family who farm traditionally in the uplands, but it should not be simply on areas of landscape disadvantage, quality of soil and so on, it also has to do with the benefits that are derived from this. We have a measure immediately in front of us that we need to work on and get it right, but it does chime in very much with that point, Lord Sewel, of seeing this as very much a pillar 2 measure, not pillar 1, not getting it confused with issues around socio-economic factors. There are other avenues in which that can be delivered, can be explored perhaps, but not in this particular one, which is we see very much whilst the measure is in front of us as an entity on its own now and we need to make it right in that direction of travel. It also falls right against the overall context of what we have clearly stated we want to do with CAP reform as well, which is to see the public goods, the environmental benefits and others, delivered from this sort of payment. The critical thing, I think, to point out here is whilst I am not surprised that there were divergent views expressed to you on this issue, it is already set out in EU regulations that LFA support needs to go beyond the mere presence of a disadvantage, it is an Axis 2 rural development measure, and pillar 2, so we are very fixed on that, and certainly our discussions with our European colleagues and with the Commission would continue to articulate strongly that this does need to be not simply disadvantage, but needs actually to be what other benefits are delivered through this as well.

Q571 Chairman: Is that a perspective that is coming from other Member States? Do they share that perspective?

Huw Irranca-Davies: Yes, we are not alone in this. We are certainly not alone in this, but there is set against the backdrop of the overall CAP reform, as you know, different views on the way we should take that forward. I think we have come a long way with CAP reform, the CAP health check signalled the right

18 March 2009

Huw Irranca-Davies MP, Mr Dan Osgood and Miss Marian Jenner

direction, but I think we still need to keep on pushing. It is going in the right direction, we just need to keep on articulating that there are reasons; one to, in the overall scheme of things, find the right ways to actually free farmers up to get on with farming, to do what they do, but also where there are public benefits that can be accrued from pillar 2 measures, to go in that direction so that the support is there for the wider public good, environmental goods and so on, not simply support because you farm on an upland area.

Q572 Chairman: And that emphasis on environmental benefit, are you getting that sort of view from the farming unions?

Huw Irranca-Davies: Yes, I think so. The response to the Uplands ELS was interesting, which was, I think, a very good example of very close engagement with the most relevant stakeholders, including, I have to say, green NGOs as well, but we came to a point where the clear and explicit drive of the UK Government towards rewarding farmers in disadvantaged areas, in these upland areas, for the additional benefits that we actually get from them farming in those areas, that should be the basis of what we did. Actually the response to the Uplands ELS I think showed to me that there is now a recognition amongst the NFU, the CLA and others that that is indeed the right way to go. I am absolutely adamant, and I will say this here as I have said it directly to the NFU, as I have said it to green NGOs and so on, that farmers ultimately are the best stewards of our countryside. They have done it for years. I do not think we are into a whole mindset change here, but what we do need to do is just keep on pushing at this. I suspect this is something of an open door now, that there is a realisation that they are not only farmers, it is food production, it is food security, it is all of those things, but also it is to do with stewardship of this country that we all love and we want to pass on to our children.

Chairman: Perhaps single farm payments have helped in that direction as well.

Q573 Viscount Brookeborough: Good morning. How do the objectives of the LFA scheme as you see them contrast with or complement those of other CAP instruments, such as the single farm payment and other agri-environment schemes?

Huw Irranca-Davies: I think this goes to the core of it and what we were just discussing, because certainly, we need to go back to first principles here, to consider what sort of outcomes we are trying to achieve with farmers and land managers in future, and what the appropriate mix of mechanisms is. In terms of the current situation, what we are looking at, we are concerned about the potential for overlap between LFA and SPS payments to LFA farmers, and I am

talking here right across the EU. I will make it absolutely clear once again that LFA support should not be for subsidising disadvantage by compensating farmers for not earning as much as non-disadvantaged area farmers. This would in effect make LFA what it should not be, it would make it a pillar 1 measure. So we have to be crystal clear on that. It is not only unintended, it is not consistent with our view of our reform of CAP as well. But having said that, our agri-environment and LFA have complementary objectives. They should and can work together. I mentioned what we were doing with the Uplands ELS, which is a very good example. We do not in England use the LFA designation in the same way that other countries do to say LFA equals payments directly there. What we have chosen to do is target very specifically those most severely disadvantaged areas, and that works, and it has been well received in that way. But they complement each other, I think what we need to avoid is the overlap with pillar 1 and pillar 2, and that is where the nub of this early stage of discussion is, to make sure that as this evolves in the European Parliament and the Commission, we get to a point where there is clear delineation. Regardless of what we do in wider CAP reform, this measure needs to be quite clear in what it is trying to do.

Q574 Viscount Brookeborough: In order to keep the countryside in the state that it is currently, in LFA and such areas, there has to be a meaningful income to those people who are there, and for the future generations who indeed might expect more than the current ones.

Huw Irranca-Davies: Indeed, I entirely agree with that, I entirely accept it. When we talk about environmental aspects, the uplands we know are critical to us, not only in terms of biodiversity, but also in terms of the climate change benefits, et cetera, et cetera, regardless of open access to common land, moorland and so on, the recreational benefits, the health benefits. All of those aspects we know are critical. There are some very fine scientific decisions to be taken, which our thoughts are still evolving on, on how many sheep you should have on a certain hectare and so on to actually make sure you are delivering those benefits, and so on, but ultimately, you are right, we need to find a way to sustain what some may view as a traditional way of life in these areas, but actually, in terms of our wider global public objectives of environment, climate change, biodiversity, are actually very modern 21st century objectives. So it just may be that if we can get it right on this measure, and our longer term CAP reform, then we will find, as we have done with Uplands ELS, ways to reward what is being delivered for us, not only in food production and food security, but also stewardship. At one time, I think stewardship was

18 March 2009

Huw Irranca-Davies MP, Mr Dan Osgood and Miss Marian Jenner

something of a dirty word in a sense; not all, but some farmers would say, we do not want to be paid to be stewards, but actually, they are. You know, my family who have done it, people that you know in Brecon and Radnor, which I know well, they have always been the best stewards. We need to find a way to recognise that in the way the payments are made.

Q575 Viscount Brookeborough: But you have to leave them with some ambition in their lives, with a sense they can improve their lot, rather than just having it and being a custodian.

Huw Irranca-Davies: I agree, but there are certainly farmers out there who will acknowledge, in these disadvantaged and severely disadvantaged areas, that they are never going to become millionaires. I was interested reading some extracts from papers recently where the Uplands ELS was being discussed, and I think it was a farmer in Exmoor or Dartmoor was saying, "Look, it is tough, it really is tough, it has always been tough, but I tell you what, I would not do anything else, and as long as I have a future, then I am not expecting to be able to retire at the age of 50 and disappear with my family, in fact I do not want to do it", but it is important that we give hope. One of the interesting things at the moment is we have our rural advocate, the CRC, Stuart Burgess, currently undertaking an analysis of upland hill farming, specifically to look at what is happening on the ground, but we do know at the moment that there is not, for example, a big concern over the demand for upland farming. The demand for people to take over upland farms is still there. People still want to get involved. There are changing fluctuations in the marketplace at the moment; sheep prices, for example, over the last couple of years, thank goodness, have come on compared to what they were a few years ago. But you are right in what you say, if we are serious about delivering these public benefits that I have talked about, as well as what we do with other payments, single farm payments and so on, we also need to reward the environmental aspects that we get and make sure that people want to continue living and working the land.

Q576 Baroness Sharp of Guildford: You indicate that you wish to fine-tune the LFA designation resulting from the EU-wide biophysical criteria, in order to apply it on a regional basis. If the Commission were to meet all your concerns about the primary criteria, about accepting things like field capacity days and so forth, why would a second layer of criteria be necessary?

Huw Irranca-Davies: Right, it is an issue once again for us in England, Wales, Scotland and Northern Ireland, but also across the EU. We need to make sure that this is, as I said, a level playing field. We want to make sure that the appropriate land is recognised

within this, so we do think there is a need for this fine-tuning of secondary physical criteria. Now the reason for this is we estimate at the moment, if I purely relate it to England, under the current proposals, and we think where we currently designate LFAs -- and bear in mind we come down, based on our land classification system, literally to a field level, not all our European counterparts have the ability to do that, but we can, we have good land mapping, so we think we are pretty accurate, we have got it right. But the current proposals, and they are vague at the moment, we estimate could mean an increase of 50-75 per cent of land in England. So I am arguing as an England minister, I do not think that is appropriate, I think actually we need to find a way in England to fine-tune it. Because what you do not want is simply a spread for the sake of spread. The same argument applies in our European partner nations, that they apply it there. Let me give you a specific example, by the way, in terms of England. One of the things that we are hoping that will be included within these criteria is the specific maritime climate that we have here in England and Wales, and throughout the isles. We have times of the year when the water content in the soil means that in fact many areas are completely unworkable. In some areas, it could be from October right through to April. Now that also applies in some parts of Europe, but not in the way that it does right across the range in this country. But there is another aspect, summer rainfall. Now when we look at fine-tuning summer rainfall, which is a specific thing within this country, we experience in the UK restricted production during the summer as well. The Commission sees this as a comparatively localised issue, we might well agree on this, but in that case, that is where the fine-tuning does come in, the ability of all member nations to say, well, we do not actually want this to be a broad brush thing. If the LFA has value, it has value because it is specifically targeted right down to the local as well in recognising local and regional characteristics.

Q577 Baroness Sharp of Guildford: Would that not be picked up by field capacity days though?

Huw Irranca-Davies: The field capacity days would pick up the issue over the winter, but it would not pick up, and I only use one example, the issue of our heavy rainfall in the summer months. Another country will have different aspects that they should be applying as well, to their particular characteristics. So if the field capacity days are included, that will go some way on this, but it will not cover everything. So we think that there is fine-tuning to be done beyond that, and we would like to see the flexibility, but it has to be a flexibility that is used to rein back, not to scale up.

18 March 2009

Huw Irranca-Davies MP, Mr Dan Osgood and Miss Marian Jenner

Q578 Baroness Sharp of Guildford: Are you confident that other Member States will see it in the same way?

Huw Irranca-Davies: Yes.

Q579 Chairman: Are you confident that Scotland will see it in the same way?

Huw Irranca-Davies: Yes, we are arguing the fine-tuning should only be for reduction, not for increase, so that is what we are arguing. If we get the EU-wide methodology correct, what the fine-tuning would allow is for states to say actually, quite sensibly, we do not—let us take a member nation that does not do what we do in England, that does use the LFA designation to actually pay directly; is it in their interests to have an inaccurate map of what is LFA land? I would argue no. It is in their interests to get it right, because what they want to do is actually provide that funding to the right farmers in the right area where there is severe disadvantage, but also where the environmental benefits and public benefits are being delivered. They do not want it suddenly spreading out across whole regions, because ultimately, what benefit is there in that? But we need to get the control right, we need to get the monitoring right and so on. But yes, reduction only with the fine-tuning, not increase.

Q580 Chairman: There are certainly cases of representatives of Member States that we have talked to who had it completely round the other way: increase the area as much as possible, which would enable us to sort of shift money to farmers that we want to crudely buy off.

Huw Irranca-Davies: That is exactly the risk, and that is why we are quite firm and we will continue to argue that there is a strong case for fine-tuning, but the fine-tuning has to be more accurate, to target it more effectively, not to be more widespread and scattergun in the approach. The whole basis of LFA, as we explored right at the beginning, is that it is to reward those wider benefits that come from farming in disadvantaged areas, not to tackle issues around socio-economic factors. Those can come elsewhere, it may be under a different axis, under different pillars. There might be a reason for doing that, but it is not this measure.

Q581 Lord Livsey of Talgarth: Can I ask one short question: have you taken a lateral view about this? All the evidence is with global warming that there is more evaporation going on in the Atlantic, for example, the last two summers being a classic example of that. It is likely to increase. Has that been actually thought about?

Huw Irranca-Davies: We have discussed with officials, if we bed this down effectively, if we get the outcome that we want, which is an accurate measure,

a clear measure, what happens in terms of climate change, what happens in change of production? Let me give a clear example here. You could argue that severely disadvantaged areas in parts of the Mediterranean are those areas that are used for growing of grapes, except that the very type of production, the growing of grapes, responds well to those what for other forms of agriculture would be deemed unfavourable. What happens in climate change if we find that areas that initially are mapped out to say, well, these are LFA, but within three, four, five years, then that changes? Well, there is the opportunity within this to revisit it on a period of seven years within the rural development programme. I would say at that stage we would be well into as well the bigger picture of reform of the Common Agricultural Policy as well, but certainly there is the opportunity to revisit that. I think the fine-tuning, in addition to the broad criteria EU-wide that we were talking about, may also give the opportunity to recognise that sort of thing, not to change it each year, I have to say, but to bolt down for the foreseeable future where individual countries see that that challenge is going to come, with a changing challenge on a disadvantaged area.

Q582 Chairman: Is not the European danger that in some areas, LFA and LFA scheme will be used to try and maintain agriculture in an area where basically, because of climate change, we have to accept that agriculture cannot be maintained?

Huw Irranca-Davies: That is why, and I am sure we will tease this out this morning, even though it is early days, we have some concerns over some of the stages being identified at the moment which do talk about what we would consider socio-economic factors; for example, as well as looking at disadvantaged areas, talking in respect of that plot of land, constraints on yield, yield capacity coming off that, if it is below a certain amount and so on. Well actually, we are into the socio-economics there, and there are other areas that we can look to deal with that, outside of this. I think you are right in what you are pushing at, and it is interesting, the theme that we are developing here this morning is one that we are very fixed on, is that this has to be one that does not take into account socio-economic—when we get the big headline criteria fixed, those criteria should not allow either myself as an England minister or devolved colleagues or whatever to say, well, we can tweak this simply to subsidise disadvantage in an area. That is not what this measure is about. So we do need to bolt down those headline criteria as well as the fine-tuning that comes after. If the headline criteria are wrong, it would allow the ability of a Member State to say, well, we can interpret this to not only look at disadvantaged land but also our farmers here are

18 March 2009

Huw Irranca-Davies MP, Mr Dan Osgood and Miss Marian Jenner

having a bit of a bad time, so we are going to direct some funding towards it.

Q583 Lord Brooke of Alverthorpe: Good morning, Minister. Can I stay on this theme, and I reiterate the point made by our Chairman, that when we were in Brussels, the majority view that was coming through to us was: what we have got, we hold. In many respects, if you are seeking, as you said, beginning to achieve a level playing field, I think there will be some obstacles encountered in the course. You talk about us doing some fine-tuning in the UK within parameters, but is there not the distinct possibility that each authority, each state will seek to use the fine-tuning process to replicate its existing LFA designations, and is there really any new way in which the Commission is going to be able to maintain control over this in the future?

Huw Irranca-Davies: I think there will be, but your concerns are very valid. I would say that probably the UK delegation on this is slightly ahead of the curve in our thinking, this is why even at this early point we are able to articulate quite clearly the way we see it going. Now we have discussed this review with several key Member States, French, Germans, the Czechs, who are in the Presidency this year, but it is worth pointing out, and you may well have picked this up in your visit as well, that actually a large number of Member States have yet to give it their full consideration. They have not really focused on it, they have not adopted a position on it. We are slightly ahead of the curve, which gives us some advantage in being able to get in there early and discuss this both with the Commission but also with other Member States.

Q584 Lord Brooke of Alverthorpe: Is it true to say that those who already have a considerable advantage have given some thought to it?

Huw Irranca-Davies: Yes, and I think as this rolls along, it will become clear to them that whilst we would argue that there are significant advantages in clarifying the purpose and the principles behind this measure, and then applying it correctly, in the way that we have described, that indeed, individual Ministers in other countries will want rightly to make sure that they are protecting their own agricultural concerns and their food production and so on. I think our discussion with them will be along the lines of, to be absolutely clear, this measure is specific to pillar 2, so there may be other ways in which, through axis 3 measures, where you could actually look at socio-economic factors, that you could choose, if you so decided, in your country, to find a way to actually support your farmers in other direct socio-economic ways, but this is not the one. So your concerns are absolutely valid. We are aware of them. We are aware that not every member nation will be as clear as us at

this point, but we are certainly quite keen and are engaging with them now to present why our argument we think is absolutely right, absolutely valid, and is currently enshrined within the EU documents relating to this measure. But just to flesh that out a little bit, you are right in saying, I expressed my concern over how, even though it is at an early stage, there is potential within this as it develops in one way or other to bolt in some socio-economic factors. Our position on that is to work with the Commission to resist that, and go along the first principles that I laid out on this, because it is this measure in front of us, but what we would not want this measure to do is to kybosh our wider discussions, our longer-term discussions, on CAP reform.

Q585 Earl of Dundee: You point out that extensive farming is in itself well suited to promote the aims of good landscaping and environmental planning. That leads you to call for a third stage in designating LFAs. This would be, I think in your view, the identification of such areas of extensive farming activity. How then do you think that third step as proposed would then work?

Huw Irranca-Davies: You have actually summed it up very, very well indeed. We do think that there is a third step, and this third step is critical. The first step, identifying the areas of disadvantage, could be through the use of designation criteria. Secondly, narrowing that down to areas only of high environmental value, where those values are maintained or delivered by extensive farming; this is in effect then the LFA. The third step then becomes using eligibility rules to limit payments to extensive LFA farmers only. Now our concern at the moment is that the Commission's proposals could miss out the middle step, so the mere presence of disadvantage becomes enough to pay LFA support to extensive farmers. Simply disadvantaged, extensive farmers, bang, leaving out the issue of the high environmental value, the goods that they deliver. Now we would argue that actually, that is a key step to delivering what this measure is set out to do. If I can suggest, one of the most obvious ways to include this step would be by using EU and national designations, so where we have SSSIs, AONBs, I am very fond of AONBs, having been born in one, national park designations; so you can further narrow down the land identified by the EU methodology. We are currently discussing this with the Commission and other Member States, but we think that could be a way forward.

Q586 Earl of Dundee: But if such areas of extensive farming activity were to be brought in in this way as you propose, why do you think that their inclusion would necessarily be more effective at the designation stage rather than through eligibility criteria?

18 March 2009

Huw Irranca-Davies MP, Mr Dan Osgood and Miss Marian Jenner

Huw Irranca-Davies: I was saying we are at a fairly early stage with this, we could actually do both or either.

Q587 Earl of Dundee: Which would you do? Would you do both, or one or the other?

Huw Irranca-Davies: We are fairly relaxed, this is an area where we are at a very early stage. We could either do it through eligibility conditions or designation. I do not have a strong preference at the moment for one or the other, but I do have a strong preference to say we need it in there.

Q588 Viscount Ullswater: Could I just clear up one thing, if there is going to be this further step for delimitation, which is maintaining extensive farming activity in LFAs, and I am just trying to get the consistency for the European approach, we heard from Finland that 100 per cent of their agriculture is within LFA, so that means extensive, intensive, as much as they can be intensive, maybe even growing things under plastic, I do not know. So all their land, all their farming, they say, is a struggle. As the Chairman would say, why do you farm at all? I am not putting words in his mouth. So I am just wondering, if you are going at it from a European perspective, Finland has to have a voice in this, has it not? All their land is LFA, due to biophysical criteria.

Huw Irranca-Davies: Yes, it does, but I think we need to rule out intensive farming, for the reason I mentioned before, and this includes—in England, we could imaginatively apply LFA to, let us say, the Fens. Historically, problems with drainage, waterlogging, and so on and so forth, but actually, in areas like the Fens, we have overcome those problems by our engineering solutions on drainage. Now that means for me, as an England minister, and I know my devolved counterparts, and the same applies by the way to, if you like, the grape production on those barren but very good for grape production slopes, where it has been overcome, whether it is through technical innovations, whether it is through cloches or land drainage or whatever, and it is intensively farmed, our argument is very strong, that should not be within Less Favoured Area status, we have overcome those problems. What we should be focusing on are those areas where the very nature of it means that there is an extensive style of farming that delivers public benefits. There are other mechanisms that may well be there to look at the issues on socio-economic activity and other forms of support, but this one is very, very different. So I think you are right in saying Finland and other countries will have strong views on this, and they need to be taken into account as this is fleshed out. It is right that they should be, and if I was the minister there, I would be arguing that quite strongly. I just think it is important that going back to the first principle of what this

measure was originally set out to do, and as we come to this opportunity to look at how it has worked, and how it should be taken forward, we do go back to first principles as to what this is supposed to do, and it is not to support or reward intensive farming.

Q589 Viscount Brookeborough: Could I just ask you very quickly, you brought up drainage as being something that, of course, is a great help; I live in Ireland, and unless climate change means that it stops raining there, which is unlikely, we are going to continue to have the problem. But where we have drained, we have to continuously redo it, and it would depend actually on when you looked at it, because the type of soils and the amount of rain, the drains literally clog up with this sort of iron substance. Therefore if you came immediately after draining, you would say, “Right, you have improved it, you are no longer less favoured”, but we have to continuously re-invest in that, because it goes very, very quickly back to what it was. Are you going to hit us for this?

Huw Irranca-Davies: The difference between an area where you can, with engineering or technical innovations, overcome those, albeit with constant maintenance and investment and so on, is different from an area of extensive farming where the disadvantage is not only material but enduring, and where you could not put a substitute. No doubt I will be challenged by somebody now who says they are doing it, but it would be hard to conceive, on the uplands of Exmoor, growing Chateau Exmoor up there and so on; the very nature of the ground, the nature of the soil, the stoniness, et cetera, et cetera, means that it has so many disadvantages going against it, things that cannot be engineered out of the way. Whereas in other areas we can do that. So I think it does come back to this basis of how do we see this LFA mechanism working, where do we see it applying? Is it something that is very much targeted at those areas where there are insurmountable obstacles, but actually we need to sustain the working farmers on there, because they not only deliver food production but also wider environmental benefits; or do we spread it wider, and the danger with that comes into the points that were previously made, you could interpret that in a very, very flexible way across Member States in a way that would take it away from its pillar 2 focus of rewarding environmental goods within disadvantaged areas.

Chairman: Let me just check with Lord Arran that he is okay with what you said about Exmoor.

Q590 Earl of Arran: The sun never shines on Exmoor.

Huw Irranca-Davies: We look across at you from the Brecon Beacons, we are in common territory with the clouds on top.

18 March 2009

Huw Irranca-Davies MP, Mr Dan Osgood and Miss Marian Jenner

Q591 Lord Palmer: Minister, you have stressed the importance of being able to designate LFA at land parcel level rather than at ward level. What is the view of other Member States, do they share this concern, and how receptive do you think really the Commission is going to be?

Huw Irranca-Davies: Sorry, I am just conferring for a moment, because I know exactly where we are. I think the difficulty with this, you have rightly identified, we have a long history of very accurate extensive land mapping, our land designation criteria are very clear, very well worked out. That is not universally the case throughout other states. But what we are saying is the proposal to actually go down to parish level, which is the broad proposal that is on the table at the moment, albeit early stages, would actually be a retrograde step for us. We have farmers that straddle two or three parishes, and they may have a parcel of land that is disadvantaged in one part but is not in the other one. If we actually go to a parish level, then it will look slightly odd that we are going back against our best science, our best mapping, and all the innovations and inroads that we have made in recent years. So I think we acknowledge there will not be the capacity universally across other Member States to deliver this, but we can, so as a result what we want is the flexibility to do this. I think our farmers, I have to say, recognise how good and accurate we are at this, they are used to it.

Q592 Lord Palmer: You have used the expression level playing field several times; does it not make a slight mockery of the fact that other countries, and we have heard this from other witnesses, have very, very incomplete and indeed perhaps no maps at all?

Huw Irranca-Davies: I think certainly as this whole area evolves, and I will use that phrase again, we are slightly ahead of the curve here in this country in our approach to the science of land mapping, and there is an issue, I think, of how we, as time goes by, spread that expertise. There is no reason why that accuracy could not be applied elsewhere as time goes by. It is not a question of forcing other people's hands, I have to say, but certainly we have a fair degree of expertise in this. From my perspective as a UK minister, knowing that this approach could not be rolled out everywhere at this moment, but we would advocate it is a very good approach, I just want to make sure that in the UK, we have the ability to do this. I would say our soundings from the Commission at the moment are they see that being perfectly acceptable, that we are not going to have to go backwards, if you like, to a parish level, we will do it on our landscape mapping that we currently have. But I do take your point, I would love to be in a position to say that this sort of standard of mapping was evident right across Member States, but we know even with accession countries as well, there are different levels of

competence, there are different stages towards this process, but I think the direction of travel from everybody is going that way. It is going to have to be. It is going to have to be as we try and deliver more accurately the benefits we want of measures like this, the environmental benefits. We need to know what land we are working with, what the restrictions are, what the benefits are out of different land types. So everybody is moving in this direction, it is just at slightly different speeds.

Q593 Lord Livsey of Talgarth: We have covered quite a lot of ground in my question actually. You indicate that you favour the development of an EU framework that would guide Member States' choice of eligibility criteria without prescribing those criteria. Can you elaborate on what you have in mind? We had some evidence last week from the Macaulay Institute, they are actually working quite hard on these matters. Clearly our LFA areas originally were as a result of land classification very clear. Are efforts really being made, not just to talk about this, but to actually persuade some of the more progressive EU countries that perhaps they should be doing that next year?

Huw Irranca-Davies: Yes is the direct answer to that last question, and certainly we share the Commission's concerns and the IEEP's concerns about the quite wide variety in eligibility conditions. That is why we are quite intent that we need to get those—I am not always in favour of top down, but we do need to get those top level eligibility criteria decided right across the EU, rather than take this evolutionary bottom up one, because we do have the situation at the moment where some LFA schemes contain rules, for example, relating to residence of the applicant, or whether farming is the main source of income, or if they are full-time or part-time. Now these are about income support, not environmental delivery, so we are having those discussions with quite a few of the countries, the main partners within this at the moment. We do support a strong EU-wide framework for these LFA rules; and having set that framework, to then allow for what we describe as these localised differences to be taken into account. So an element of flexibility, but it has to be within a clear framework, and that framework underpinned by first principles about what this measure is about. Now this is consistent with what the Commission is trying to do, and a framework in fact sets out the issues that then national and regional rules can address, but it limits them then back to the framework. So we are having those discussions, it is still early days, but we are certainly hopeful that we can bolt down the things on the framework at the EU level, because that is going to be critical, so what has perhaps evolved is the variation based not on what

18 March 2009

Huw Irranca-Davies MP, Mr Dan Osgood and Miss Marian Jenner

this measure was intended to do, but localised socio-economic or income support factors.

Q594 Earl of Arran: Minister, we have already hovered very closely above this question, but as you are well aware, the Commission does have anxiety and concern that some eligibility criteria are either irrelevant or incompatible with the WTO rules. Would you support the introduction of a framework that undoubtedly explicitly excludes the use of such criteria?

Huw Irranca-Davies: Yes, we would, as long as the framework was right. We would support that. The LFA measures, as we look at it now, should ideally provide this framework for setting the rules regionally relevant to its objectives. They need to be WTO compliant; they need to be, I have to say, simple to administer as well. My double hat in here is the minister within DEFRA for better regulation, bearing in mind the huge propensity we have, of all Whitehall departments, for regulation, so they need to be simpler to administer. They need to be simple for farmers to understand as well, and also achieve this consistency of implementation right across the EU, but as long as we get that framework right, then yes, we would be supportive of the approach that explicitly excludes the use of some criteria.

Q595 Earl of Arran: You do have undoubtedly some worry about simplicity, as opposed to complexity?

Huw Irranca-Davies: The framework needs to be very, very clear in what it sets out, so that anything that flows from that, in terms of eligibility criteria, can be brought back to these parameters. The acid test, and I know the Commission is seized by this, is getting those top level criteria within the framework absolutely right. This is actually where a lot of the discussion has gone today, it is how to bring different Member States together to agree what we are trying to get out of this.

Q596 Chairman: When we were with the Commission, they were suggesting that they could offer three economic indicators, and leave it to Member States to select which of the three they could use in deciding eligibility. Do you have concerns about that?

Huw Irranca-Davies: I am looking to my expert advisers here at the moment.

Q597 Chairman: It is not in the list of questions, it has just come up—

Huw Irranca-Davies: It is University Challenge, I am conferring. No, I do not think we have actually got to that—

Q598 Chairman: Are you still a student?

Huw Irranca-Davies: Well, curiously, I may be actually undertaking an NVQ soon. But I will come back to that.

Q599 Chairman: Tell us more.

Huw Irranca-Davies: It is part of the government's drive in terms of apprenticeships, for ministers as well.

Q600 Chairman: Apprentice ministers? Most of them do not last long enough to fulfil the time requirement.

Huw Irranca-Davies: At one time, I taught right up to postgraduate level, but I also taught NVQs, so I am a big subscriber to basic skills. Anyway, sorry, we are off on a tangent. This is an area where we have not got into the detail yet at all. I was just looking to my advisers to see whether this is surfacing at the moment. We are not at that stage of detail yet.

Chairman: Yes, it is something to keep your eye on, I would have thought, because it could be worrying.

Q601 Earl of Caithness: Minister, can I change the subject to monitoring? You were right in saying that the framework has to be absolutely clear, but that if you are going to allow all the flexibility that you want, there is going to have to be some fairly detailed monitoring. How do you see this actually happening in practice, and is it going to affect how the Commission works at the moment and how you work at the moment?

Huw Irranca-Davies: Yes, we would agree with both the Commission and the IEEP I have mentioned; it is not only the variability in terms of how this is applied, and if we learn from the past, then we need to make sure that it is applied right, and then it is monitored effectively. So we would certainly see a role for requiring the Commission or some independently verified scrutiny elsewhere of Member States' designations, of the rules, and the payment rates. Now I am not talking about adding on a wholly complexity of bureaucracy, but I think it is right that an appropriate level of monitoring and control is in place to ensure that it is being applied correctly, because we are learning from what has gone on in the past. It is to make sure that they are consistent with the principles of the measure, with the overarching framework, and we are continuing to work with the Commission on this, as this review progresses.

Q602 Earl of Caithness: Two questions to follow up from that. If you are going to allow all the flexibility that you want, are we not going to have a revised Court of Auditors' report in 20 years' time highlighting exactly the same concerns as their last one, and how much more bureaucracy is this going to mean for the farmer in your monitoring? Are you not

18 March 2009

Huw Irranca-Davies MP, Mr Dan Osgood and Miss Marian Jenner

just creating a whole lot more work for the farmer when at the moment the LFA is a very simple scheme for them to operate?

Huw Irranca-Davies: As you know, we already have the existing framework for monitoring and evaluation, the EU common monitoring evaluation framework for all of these RD measures. I suspect what we are looking at is not re-inventing a whole new bureaucracy, but actually, based on the experience we now have of how this has worked, fine-tuning to make sure that if we do what we are suggesting, which is to get the framework right, to get the eligibility criteria right, to get an element of local flexibility but within the framework we have talked about, we do then need to make sure that the existing mechanisms are effectively monitoring it on the ground. I think we are being quite clear and quite frank in how we see this measure being applied, and the benefits we see that could come out of this measure, but in order to do it, we do need to look at past experience, and that does mean effective monitoring. It will not necessarily be me, but I do not want some successor to appear in front of this Committee or elsewhere in five or ten years' time and say, "Well, we are back where we are again". We have the opportunity here to do it and do it well and do it right and achieve all the benefits we know we can get out of this measure. To do it, as Viscount Ullswater said, we need to work with our European partners, the European Member States, but then we need to agree to apply it effectively in the rules that are there. That is a challenge, I know, but we are up for it.

Q603 Viscount Ullswater: Minister, if I could ask you to look to the future, in your memo, you explain that you are taking forward work on the future of the CAP, and argue that the role of individual measures, obviously the LFA scheme being one, within that should not be taken in isolation. I think what we have been discussing today is this review is rather a technical one of the framework of the LFA land, and you have said that you are in early stages of negotiation, and that negotiation may take some time, and there is only a limited time in the LFA scheme before it will be replaced in 2013. Do you think perhaps this is a case for rolling this LFA review into the broader review of the CAP, and of course parallel the forthcoming budget review, so that although you can do the technical bit, the sort of money side will be taken up with the review of the whole CAP, in 2013 on?

Huw Irranca-Davies: This might seem a slightly odd answer, but I do not necessarily want to roll this forward into the wider review. We are very clear on where we are going to go with the wider review. But neither do I want, as you rightly say, the very technical administrative discussion on this to set a direction on the wider review of CAP. So whilst this

is in front of us, there is a necessity, for the reasons I set out at the beginning, for myself and for our devolved colleagues to actually bolt this down and get it right now. It is essentially a technical measure. I guess the dangers with rolling this forward into a wider discussion is we would not want something like this to start setting directions for what we see as a fundamental strategic overarching and quite radical review of CAP. I do not think it would, but we would not want it to even have the opportunity to compromise that review of where we are with the CAP budget. So for those reasons, I think I am quite set as a minister with having this in front of us, getting on with this, as an entity in itself, but not actually rolling it forward. I can see that some people may say, well, it is an advantage, this fits into an overall direction; the only danger with that is it is immediately in front of us, I think we need clarity on this, there is a reason to have clarity, both for myself and devolved partners, but also the member nations, and I would not want this to be kicked into a longer discussion that would pre-empt what are going to be quite tough discussions on CAP reform and budgets.

Q604 Baroness Jones of Whitchurch: Minister, do you think there is a danger that we are going to place too much emphasis on the role of payments, however they are quantified, in terms of delivering the environmental obligations that we increasingly face? We had some research here a couple of weeks ago from a research institute that said that there was no real correlation between the payments that people received and their willingness to stay on the land and carry on farming, that there were all sorts of other factors which you can imagine which came into effect as well. I just wondered if the government has other things in mind. We are facing now the fact that anecdotally, everybody is saying older people are still on the land but the next generation do not want to stay on the land, that is not just about payments or profitability and subsidy, there are other factors at play there. I just wondered, in the rounder picture, if there were other things the government felt they needed to do to make sure that the uplands are still farmed, that people stay on the land, and so on.

Huw Irranca-Davies: Yes, there are, and I think it comes back to what we have been saying already. We do recognise the different streams of rural and agricultural payments that come forward, some for cross-compliance, some under pillar 1, but also, I think, the absolutely right direction of travel that we need to be looking at of rewarding farmers for what we get out as a society from them farming on the land, and recognising that in some cases, if farmers were to actually walk away from that, then it would compromise what we are doing on climate change. The challenges that I have, that we have as a government, we have as a country, and

18 March 2009

Huw Irranca-Davies MP, Mr Dan Osgood and Miss Marian Jenner

internationally are on biodiversity. So I think it is right that the support mechanisms are there, but it is right that we have a frank dialogue with farmers, with landowners, about the changes in those support mechanisms, that it is not harking back to the old CAP, the days of artificially constructed butter mountains and so on and so forth, this is much more innovative, much more clever, and does recognise that society gains from having the land farmed in particular ways and in particular areas. When I travel through across those big estates on the Brecon Beacons, much of which is common land, but much of which is farmed, farmed in terms of livestock being on there, the highest point in South Wales. We know that there would be a material difference to not only the landscape, but the environmental quality of that landscape, if we were to simply withdraw any support for farmers in that area, and to allow them to walk away. You know, it could be catastrophic. So I understand what you are saying. I would be interested to see, if you could share it with us, the report on the survey you have had, I would be interested to look at that, but this is why I think it is more important than ever that we have commissioned Stuart Burgess, the Rural Advocate, to actually go and look specifically at issues around upland farming, for example, to look at what is happening. I know it is anecdotal, and I know when I stand at farmers' markets and chat with people, they will say with a smile to me, "It is going better now than it has for a while, we are okay", but they will also say, "But I tell you what, when I pack it in, my son is not going to take it over, he has gone off to university, he is doing something else". That is why we do need to look at this, the longevity of it, but as I would say, the point I made before, one of the interesting things, unless Stuart Burgess' report tells us something different, at the moment, we are not seeing any lack of demand for when an upland hill farm comes on, there is always more than one person there willing to buy it, and they are people who are wanting to farm the land.

Lord Cameron of Dillington: My question is about the growing convergence between single farm payments and the LFA support, and the trouble with being the last question is, as you are probably aware, you have really already answered it. I quote to you what you said earlier, you said we need to avoid the overlap between pillar 1 and pillar 2, and you also said this measure is specific to pillar 2. But the trouble is, if you and the Commission say this payment is not for subsidising disadvantage, which again is a quote from what you said earlier, it means that there is a great deal of similarity between LFA payments -- you are paying area payments with cross-compliance, and it is not for social disadvantage, it is because you want to keep the environment in these LFAs, and, of course, with a single farm payment, you pay less in

LFAs, but then you reconstitute it with the Less Favoured Areas payment support. I suppose my question is: it has not gone unnoticed, this similarity with other Member States, we noticed in our evidence, and reading between the lines of their evidence, there is obviously quite a lot of enthusiasm for putting these pillar 2 payments into pillar 1, for obvious reasons, because then the co-financing does not apply. Spain, for instance, to take an example, has huge areas of land that could be designated as LFAs, but they make sure their eligibility criteria is such that they actually only pay a very small proportion of it. The moment it went into pillar 1, they would. So there is a great danger here, you are arguing to actually make these payments area payments with cost compliance, what is the difference between single farm payments and discounts?

Q605 Viscount Ullswater: We will award you an NVQ after that.

Huw Irranca-Davies: You said that everybody had asked the questions and you were repeating; this is a whole new area! We know that the bulk of CAP is currently spent through direct payments to farmers, it is something around the area of €33 billion in 2007, but these do not actually have clear justification as to what the benefit of the spending is. They do not have clear objectives. We would argue that very often, across the EU, they deliver pretty poor value for money. We have been absolutely clear and consistent that what we want to do is actually phase out pillar 1, and there are a number of reasons for this. This would include direct payments in the long term, not overnight like that, but in our reform of the CAP; to phase out direct payments, phase out what we would in the old language have termed market support measures, and to do this by 2015/2020, something like that, so we can see it come in. We have been articulating this for quite some time. Now why? Because we have already had the discussion about some forms of payments rewarding environmental goods, but what we also want to do, and I know this is a moot argument with farmers and landowners, but the argument is strongly that if we move away from the old style CAP of some curiously badly targeted interventions of money without any real justification, we should surely be saying, and I am looking to my left here at Lord Livsey, the example of Welsh lamb, and there are plenty of others, a brand, an entity, a quality product that has competed, has collectively got together, has gone out there in the market, and has argued the case for it on cost and quality and so on, and is now enormous. Now why do I use that as an example? Because really what we would see is if you can get rid of some of the artificiality around some of the stuff in the industry, actually free farmers up to farm, actually free farmers up to do what they are good at, and I know this from my own family's

18 March 2009

Huw Irranca-Davies MP, Mr Dan Osgood and Miss Marian Jenner

background, when we were selling high quality cheese up in Neal's Yard in Covent Garden and so on, free not only to be good farmers, but also collectively or individually to be good businessmen, to respond to what the market is wanting, to drive their products upstream. I am not shy about this, because we know that in this country, we can give them the opportunity to do it, but at the moment we have market interventions through CAP that distort across the whole of the EU our ability to actually compete freely, to allow farmers to get on with freedom, to farm and to get out there and package, produce, market their high quality products. That is why we are absolutely committed and clear on this aspiration. We know that there will be other views across Member States, but certainly moving from pillar 1 to other forms of funding under pillar 2 or elsewhere that are clearly targeted for those additional benefits that we get from farmers, but not to do with market interventions and market support. A lot of farmers would say to me, "Minister, get off our backs, times have changed, we want the freedom to get on with this", I think that is the direction of travel that we are trying to do within the UK government at the moment, and we know that this will be challenging, we know that this will cause some people concern, but we do think it is the right way, allow farmers to get on and farm, allow farmers to do what they are very best at, allow them to get the best quality product on the market, but also where farmers face significant disadvantage in areas, and also have these characteristics of extensive farming, and also deliver environmental benefits that otherwise would be lost without them, then put the funding in there to actually support that activity, because they are doing things for the public good.

Lord Cameron of Dillington: I accept all that, but you have not really answered the question. You might be shooting yourself in the foot by claiming that LFAs must have cross-compliance, and therefore be similar to pillar 1 payments, but that is obviously a political debate you have to have.

Chairman: But basically it is music to our ears, is it not?

Lord Cameron of Dillington: Yes, we accept all that.

Lord Livsey of Talgarth: Could I just respond, as I was addressed by the Minister, I am just going to respond, as you addressed it to me, yes, the marketing of Welsh lamb has been incredibly successful, but it has not prevented a 20 per cent drop in the number of ewes in the last five years, and that is because historically it has not been a profitable situation, and now we are hitting the buffers on food security and things like that, and there is no younger generation to actually continue the process.

Chairman: I am tempted to ask if you can give us the number of Welsh ewes we need to have.

Lord Livsey of Talgarth: Perhaps there is a formula—if I were a lecturer, I should say "discuss".

Lord Cameron of Dillington: The reduction of 20 per cent is the best thing to happen to Welsh lamb, because it means you have quality lamb rather than quantity.

Q606 Baroness Sharp of Guildford: Nevertheless, you do hit the whole issue of the relative disadvantage of different areas. We are talking about giving sort of some support on the socio-economic side, which I thought was coming from pillar 1, and if we are going to phase that out, then we are not going to be providing that. Now you equally argue that we want to sustain them as working farmers because they are not only farm but they also deliver environmental benefits. I would argue that those are joint benefits, those are joint products, and if they are joint products, it is very difficult not to provide something on the socio-economic side. You may want to separate the two of them, but if they are joint products, you still have to look at them, because they come jointly.

Huw Irranca-Davies: I do understand what you say, and actually, within agri-environmental schemes, there are elements of cross-compliance.

Q607 Baroness Sharp of Guildford: But if you are going to move away from pillar 1 completely?

Huw Irranca-Davies: That is what we are trying to move away from, is the idea that you purely direct funding at farmers for socio-economic means, under this sort of measure, on its own. If farmers however are delivering wider public goods—because they correlate, very often those wider public goods are delivered in those very areas that we are talking about, the disadvantaged areas are particularly—

Baroness Sharp of Guildford: We have been talking about how very necessary it is to separate out the socio-economic from the agri-environment, but I think it is difficult to do so.

Q608 Chairman: The point is surely that if you pay people, it has an economic impact, it is basically as simple as that, but it is not just an arid conceptual difference, it is an important difference, because if you said that socio-economics were an eligibility factor, then you would pay people to do anything. That is the difference.

Huw Irranca-Davies: Indeed. You are right, it is the difference between the rationale of supporting those wider public goods, environmental goods, or income support. I would point out, however, the discussion today has quite rightly focused on this one measure. Within the overall rural development programme, it can cover all, environmental, competitiveness, et cetera, et cetera. Within that, individual measures like this need to be properly targeted, so we can measure their effectiveness. The problem I think with the broad brush approach is very much coming back to

18 March 2009

Huw Irranca-Davies MP, Mr Dan Osgood and Miss Marian Jenner

the discussion we had earlier, if you apply a broad brush approach, it can be interpreted very, very differently on the ground, in terms of what farmers, what parcels of land, what places it can be applied to. Our argument is quite clear, this measure should be very accurately targeted, and should not be being given to those farmers, whether it is in England or Wales or in Italy or Poland, where they have actually overcome those disadvantages, where they are not delivering wider public goods. This is one measure in a big parcel of things that we do for the rural economy.

Q609 Lord Brooke of Alverthorpe: I should declare an interest, Minister, I am a strategic adviser with Accenture plc. I do not know if in your busy life you had the chance of reading Simon Jenkins' article in the Sunday Times on beauty, it is worth having a look at, because it was particularly about the landscape and public good and what people want and people need in the longer term, and it struck me as I was reading that about the review that we are undertaking, I thought LFA scheme, we have had this title now since, what is it, 1975, when the scheme first came in. Is it really an LFA scheme, what does that convey? Does it give the public value for money and benefit from a title like that, or convince them that we are trying to do the right thing? I am not advocating in the short-term that you try to change it, but I just ask whether you have thought about that, and whether in fact some thought is given to schemes generally which are available for assisting farmers and the public good and the benefit we get from the landscape, that these ought to be thought about and changed in the longer term to convey a different image entirely to what we are trying to do and where we are going?

Huw Irranca-Davies: Yes, we have, we are, and I think it does tie into that -- I say it is longer term, but it is imminent, it is on us now, the actual reform of the Common Agricultural Policy. I think you are right in saying that there is an issue here perhaps that it has been perceived as an area of specialism that is particular to the farming and the rural economy. My argument would be actually that CAP reform is not just about farming and the rural economy, it is actually about all of us, wider society, very much in

line with what we have been talking about this measure today, but we can look at other examples. We are coming to the realisation that the land management that we do in the UK, and throughout the European Union, is critical to our quality of life, our well-being as a nation, we all value these areas as well, we are on to a slightly wider discussion, but also of measurable benefit to my biodiversity targets as a Minister and to Ed Milliband Secretary of State's targets in terms of climate change. We need to be able to effectively expand this discussion to make it relevant to all members of the public, not simply those who are concerned with either rural or farming issues, it is a far bigger issue than that. Perhaps one of the understandable shortcomings of the Common Agricultural Policy as it evolved over the years is that it became a discussion that was very limited to those people who saw they had a direct interest in the funding, and so on and so forth.

Q610 Lord Brooke of Alverthorpe: Or those who said they were against it.

Huw Irranca-Davies: Yes, or those who were against it. It has a wider societal impact, a wider international impact. I will be shortly going out on a visit to farms where there are environmental schemes being run, not by the way in disadvantaged areas, in intensely farmed areas, but I am going out not only with the RSPB but also with the NFU to see work that they have jointly been doing, to try and tackle issues around biodiversity and so on. This is a much wider thing. We are coming to the understanding now that we cannot divorce farming from the major issues, and Hilary Benn, the Secretary of State, said this in his speech on 5 February, the critical issues more than ever now are food production and food security, but equally there is a bigger gain here as well. Those things need to tie in with how farming actually delivers and does deliver and has delivered and needs to do even more in terms of the environmental benefits.

Q611 Chairman: Thank you very much. I think that just about brings the formal evidence taking session to an end, and we wish you what we wish the Commission, the best of luck.

Huw Irranca-Davies: Thank you very much.

Written Evidence

Memorandum by The Country Land and Business Association

COUNTRY, LAND AND BUSINESS ASSOCIATION (CLA)

The CLA represents the interests of 35,000 land managers and rural businesses who between them own and manage 50% of all the rural land in England and Wales. Our members both live and work within LFA areas and operate a wide range of businesses including both land based businesses eg agricultural, horticultural, forestry/woodland and other businesses which can only be found in rural areas eg rural tourism, equestrian, fell walking etc. The redesignation of LFAs is therefore extremely important to us.

SUMMARY

- The CLA are extremely concerned that strong policy adjustments will be necessary within the English and Welsh upland areas if we are not to witness a severe depopulation of the hills of both livestock and farmers with the knowledge and skills to manage these vital areas in order to deliver environmental goods and agricultural products. Redefined LFAs are certainly part of the solution, but these must be based on sound scientific evidence and ensure sufficient flexibility for Member States to direct funding to those areas that need it. We do not believe the suggested biophysical criteria can achieve this.
- The LFA measure has contributed to maintaining viable rural communities. With changes in policy mechanisms the LFA measure is now less effective than it was previously and has no transparency since member states have so much flexibility in deciding how to use it. However LFA payments are vital to those agricultural businesses within LFAs and it is these businesses which already deliver or have the potential to deliver the environmental outputs that society desires.
- The CLA suggest that it would be possible and highly desirable to develop criteria which relate to the second part of Article 50, 3(a) that would focus on the positive side of the concept of LFAs namely the extensive farming systems which are a vital part of the management of these semi-natural habitats and landscapes, and thus to the environmental and landscape characteristics we wish to maintain. Thus if we were to start from the landscape character and specifically the fact that they arise because of grazing management systems then we may have another way of arriving at an appropriate definition of Less Favoured Area.
- The CLA believe that income forgone in farming is not a sufficient mechanism to keep people farming in LFAs, as this does not adequately reward farmers for their time or delivery of public goods. Looking at either these earnings in nearby towns or alternatively looking at the monetary value of the public environmental and cultural landscape services would be a more fruitful line which the Commission should be investigating.
- The CLA consider that there is scope for the creation of new private markets for the delivery of environmental goods and services in the LFAs and believe the Commission should encourage market mechanisms to create a sustainable agricultural system in LFAs which would complement the support payments available. We are thinking here especially of water and carbon management services.
- The CLA view is that there is little point in redefining the LFA areas and measures any further within the current perspective until there is a more comprehensive agreement on the basis for support payments.

CLA CONCERNS REGARDING LFAS

1.1 The CLA are extremely concerned that the current deep recession in the upland grazing areas (as evidenced by the recent farm income figures released by Defra¹), may be entrenched and thus strong policy adjustments will be necessary if we are not to witness a severe depopulation of the hills of both livestock and farmers with the knowledge and skills to manage these vital areas. Redefined LFAs are certainly part of the

¹ Provisional Estimates of Farm Incomes. Published by Defra and the Office of National Statistics and Farm Accounts in England 2007/08. [2008]. Defra. Available from: <http://statistics.defra.gov.uk/esg/publications/fab/default.asp>

solution, but these must be based on sound scientific evidence and ensure sufficient flexibility for Member States to direct funding to those areas that need it.

1.2 As a result of decoupling payments through the Common Agricultural Policy (CAP) reform, many farmers have now removed stock from the high upland areas in the UK. This has relieved pressure of over grazing from some areas, but has gone so far that environmental benefits of grazing animals are already being lost in other areas. For those continuing to farm in these areas the loss of neighbouring farmers and livestock has added increasing pressure to struggling businesses. For example the loss of “hefted” flock’s mean the remaining flocks are spreading over a greater area leading to greater time needed to shepherd them for no extra income. Similarly the loss of neighbouring businesses can increase the costs of inputs due to companies transferring the costs of delivering to one farmer rather than several to their customers.

1.3 The University of Exeter² has reported England’s Hill Farms Farm Corporate Income (FCI) operates at a deficit of between £4,721–£20,648 (ie a negative income) when the unpaid family labour of operating a hill farm is accounted for. This figure is likely to worsen as farms within the Severely Disadvantaged Areas of the LFA receive a net reduction in their Single Payment Scheme (SPS) payments up until 2013. LFA payments are a critical element in the income base of many UK upland farm businesses.

1.4 In summary the threats to farming within LFAs include: the loss of rural community services and infrastructure thus causing the loss of successors to the farming system, increased costs set against low returns for livestock products, lack of markets for produce (it costs more to shear sheep than is achieved through the wool price), increasingly complex and costly legislation to comply with (for example electronic identification), and the likelihood of shouldering more costs of animal disease.

1.5 In order to address these issues there is a need to encourage sustainable rural communities with local infrastructure in place to support those living within these areas. There is a need to develop profitable markets for farming systems within LFAs. The CLA does not necessarily mean that commodity products from these areas should be supported as this would be trade distorting, rather we wish the Commission and the UK government to consider developing or supporting markets for more of the “public goods and services provided by upland land management systems”. For example 70% of the drinking water in England is filtered through LFAs and it would be beneficial to reward farming practices that reduce the need for water treatment by water companies.

Question 1: *The strengths and weaknesses of the LFA scheme thus far*

2.1 The core objective of the LFA measure was “to ensure continued agricultural land use and thereby to contribute to the maintenance of a viable rural community.”³ The rationale behind this objective was that viable rural communities were at threat without a viable agricultural industry since agriculture is the dominant land use in LFAs.

2.2 Since the LFA objective was set the agricultural industry and associated rural communities have significantly changed. Agricultural holdings across Europe have amalgamated and increased in size whilst technological advancements have reduced agricultural workers. Some of the trends in the UK agricultural industry can be attributable to the reduction in prices received for agricultural products such as store cattle, lamb, wool etc whilst the costs of agricultural inputs have been increasing.

2.3 The effects of the LFA measure cannot easily be viewed on their own. For example when the CAP payments were linked to agricultural output such as headage payments, overgrazing with some associated environmental damage was widespread across Europe including LFAs. However now that these payments are no longer linked to outputs, the LFA is noticing a greater problem in undergrazing and depopulation. This cannot be accredited solely to the LFA payments but to the wider policy decisions that have been implemented, together with market developments.

2.4 In summary the LFA measure has certainly contributed to maintaining viable rural communities to some degree. With changes in policy mechanisms the LFA measure is now less effective than it was previously and has no transparency since member states have so much flexibility in deciding how to use it. Few countries use the LFA mechanism solely to address environmental concerns since the objective of the scheme has only recently been revised and there is potential for much overlap with the agri-environment mechanism. We

² Hill Farming Systems in South West England: Economic Viability and the Delivery of Public Goods. June 2008. University of Exeter. Available from: <http://sogaer.exeter.ac.uk/geography/people/staff/m—turner/other%20files/Ex%20Hill%20Report.pdf>

³ An evaluation of the Less Favoured Area Measure in the 25 Member States of the European Union. Europa. [2006]. Available from: <http://ec.europa.eu/agriculture/eval/reports/lfa/>

suggest that LFA payments are vital to those agricultural businesses within them and it is these businesses which already deliver or have the potential to deliver the environmental outputs that society desires. It is essential that these businesses with their associated expertise are not lost whilst there is an interminable debate about how best to use the LFA mechanism in future.

2.5 It is abundantly clear that revenues from agricultural markets alone cannot sustain farming in the marginal, remote and mostly upland areas we have designated as Less Favoured. These farms already have access to the Single Payment Scheme and the classic environmental schemes. Even with these payments included income levels are extremely low. Adding value to products to try and market local distinctiveness, and economic diversification into rural tourism or any other suitable activities have been encouraged over many years under numerous schemes. Still incomes are low. But society is not prepared to accept that the solution is therefore to accept a gradual depopulation, reduction in management leading to abandonment from management. Why not? Partly for reasons of loss of communities and partly because of loss of management. The presumption is that the unmanaged hills reverting quickly to impenetrable scrub and bracken and eventually to low grade scrubby woodland would result in loss of access, loss in landscape amenity and loss in biodiversity. If these assertions are accepted then the logic of Less Favoured supports, or more accurately the totality of the LFA supports and all the other supports, is to pay for these non-market community and environmental services. The rate that has to be paid is the rate which maintains the desired level of management.

Question 2: Is it appropriate to set common, EU-wide biophysical criteria for delimiting LFA areas, as suggested by the Commission in its consultation paper?

3.1 No. The European Union (EU) land mass is vast and contains a tremendous variety in physical and climatic conditions. Whilst one set of criteria would enable greater transparency for the Commission to assess that the LFA designation were being applied effectively, the actual biophysical criteria could cause LFA payments to be re-distributed to areas previously considered “agriculturally productive”.

3.2 If we consider England as an example, the CLA attended a workshop run by Defra in February 2008 where the effects of the biophysical criteria on England were discussed. We were shown that if only one of the biophysical criteria listed in the Commission’s consultation paper were to be applied to England then the LFA area could increase by 100%. Similarly if a combination of these factors were to be applied then England would have an extra 7,476,600 ha of LFA land which would cover almost the whole of England’s landmass including vast areas of arable land in the East of England which would be considered “agriculturally productive”. Interestingly if the same criteria were applied to the devolved administrations of Scotland and Wales the area of LFA largely remains unchanged.

3.3 Whilst the Commission has suggested that a second step could be adopted by Member States to delimit LFA areas based on production criteria, the CLA has severe concerns about the effectiveness of this approach. Farm productivity can be affected by a number of external factors including market effects, climatic factors in an individual year (likely to be further affected by climate change), production costs, to name but a few. These external influences on agricultural businesses in the LFA’s could remove the transparency of the second step or cause productive areas of land to be classified as LFA’s. The CLA is extremely concerned about the development of the delimiting criteria based on agricultural productivity.

3.4 In addition member states have varying levels of information relating to the biophysical criteria suggested by the Commission. For example England has extensive data relating to the biophysical criteria which has been collected and analysed for decades. However other member states including both new and existing members of the EU do not have such data and the costs involved with collating it could be considerably higher than the payments to be made under the LFA support system.

Question 3: Are the common biophysical criteria set out by the Commission in its consultation paper appropriate and effective in identifying disadvantaged areas? Are there any omissions, whether in the form of further biophysical indicators or other indicators?

4.1 No. The biophysical criteria largely focus on the areas of Europe that have a continental climate of cold winters and warm dry summers rather than for example the UK’s cool wet maritime climate. The “one size fits all” approach will mean countries with different handicaps will either find their areas of LFA significantly increasing or perhaps more worryingly severely decreasing with support lost to those areas that need it most.

4.2 The CLA believe that it would be possible and highly desirable to develop criteria which relate to the second part of Article 50, 3(a) that would focus on the positive side of the concept of LFAs namely the extensive farming systems which are a vital part of the management of these semi-natural habitats and landscapes, and thus to the environmental and landscape characteristics we wish to maintain. Thus if we were to start from the landscape character and specifically the fact that they arise because of grazing management systems then we may have another way of arriving at an appropriate definition of Less Favoured Area.

4.3 The CLA knows there would be potential problems with this approach, particularly that it leads towards linking LFA definition, and hence LFA payments, to particular farming systems, if not farming products, and might be thought as leading to a recoupling of supports to agricultural outputs. We have two responses to this.

4.4 First we would expect the definition to be based on landscape character or a land use designation (eg permanent grass, or grazing area) which are or could be practiced there. In these ways there is no direct relation to specific grazing animal species or outputs.

4.5 Second, it is not of our choosing that the areas have unfortunately been negatively labelled in terms of agricultural production potential. Less favoured means less suitable for agricultural production, and land “suffering” from permanent natural handicap means handicapped for agricultural production. The confusion is that these areas are tremendously favoured in landscape terms, and if appropriately managed by reasonably remunerative agriculture, for biodiversity and for resource protection too.

4.6 It is deeply unfortunate that for years now the EU has chosen to focus on what this land is not very good for (agricultural production) rather than on what it is admirably suited for—cultural landscape. If this is accepted as a much more positive and rational way of thinking about this land then we should not be scared to define it in terms of the environmental high value rather than the agricultural poor value.

Question 4: What degree of harmonisation of eligibility conditions (for determining access to LFA payments), if any, is needed

5.1 At present a high proportion of LFA payments are based on socio-economic criteria particularly concentrating on stopping rural depopulation in some areas, however these payments are becoming increasingly ineffective as has been seen with the loss of traditional crofters in Scotland and the loss of hefted flocks in the Yorkshire Dales. Payments across Europe range from €25-150/ha and whilst payment rates should be flexible based on the market value of what is being produced, farmers in neighbouring areas can be receiving vastly different payments for the delivery of the same product and a degree of standardisation is needed.

5.2 The Commission wishes LFA payments to “have a stronger focus on land management that should contribute, through continued use of agricultural land, to maintaining the countryside and to maintaining and promoting sustainable farming systems” with the LFA measure specifically designed to “...deliver public goods, such as valuable landscapes, biodiversity, soil conservation and fire prevention in areas where farming is difficult”.

5.3 From 2010–11 LFA payments in England will no longer be based on socio-economic payments but instead will reward farmers for the delivery of environmental goods under the Uplands Entry Level Stewardship Scheme. In order to claim these payments farmers will need to complete a basic environmental audit of their holding and agree to manage the land under government prescriptions for five years and will receive payments based on income foregone which are comparable to those payments previously received as a socio-economic payment but will require a lot more effort. Interestingly the payments are loosely linked to headage since farmers must agree to a minimum (although not a maximum) stocking level in order to deliver the various environmental goods.

5.4 Whilst the CLA welcomes that farmers in England are to be rewarded for the delivery of environmental goods, we do not believe this can be adequately achieved through the currently defined income foregone calculations since these simply consider the estimated cost of the delivery of the good and do not sufficiently take into account the wider picture of the cost to society of delivering the environmental good if the farmer were not doing this. We fully recognise that these payment criteria are based on EU and WTO Green Box regulations and therefore not easily changed; this does not deter us from pointing out the problem. Rural communities in LFAs are under pressure from decreasing support payments (decreasing at a higher rate to their lowland/non-LFA counterparts), a loss of rural infrastructure and increased costs of maintaining extensive livestock systems particularly when traditional practices such as hefting are lost and increasingly income foregone payments are not sufficient to warrant the farmers time.

Question 5: What should the basic rules and criteria for eligibility for LFA aid be, if the scheme is to meet its new objectives?

6.1 It is deeply unfortunate that the EU chooses to focus on what the land in the LFA is not very good for (agricultural production) rather than on what it is admirably suited for—cultural landscape. If this is accepted as a much more positive and rational way of thinking about this land then we should not be scared to define it in terms of the environmental high value rather than the agricultural poor value.

6.2 The CLA believe that the Commission should consider the redesignation of LFAs in a new way concentrating on the second part of Article 50, 3(a), namely focusing on the positive extensive farming systems of the LFAs which are vital to the management of these semi-natural habitats and landscapes. Please see paragraphs 4.2–4.6 for more information.

Question 6: How practicable is the new payment formula (based on additional costs and income foregone related to the handicap in the area concerned)? Is it likely to help reduce wide discrepancies in payment levels across Member States?

7.1 The CLA believe that income forgone in farming is not a sufficient mechanism to keep people farming in LFAs, as this does not adequately reward farmers for their time or delivery of public goods. By definition we are dealing with the unproductive areas which do not produce very much agricultural income therefore there is little to forgo. The point is that people who could devote their lives to upland landscape management through farming are increasingly voting with their feet and moving to more comfortable and financially rewarding employment in towns. Their opportunity costs are these alternative earnings.⁴ Looking at either these earnings in nearby towns or alternatively looking at the monetary value of the public environmental and cultural landscape services would be a more fruitful line which the Commission should be investigating.

7.2 The CLA also believe that there is scope for the creation of new private markets for the delivery of environmental goods and services in the LFA's and believe the Commission should encourage market mechanisms to create a sustainable agricultural system in LFA's which would complement the support payments available. We are thinking here especially of water and carbon management services.

Question 7: To what extent would common biophysical criteria and amended eligibility criteria address the deficiencies of the LFA scheme as identified by the Court of Auditors in 2003, and in particular:

- *guarantee equitable treatment of beneficiaries*
- *facilitate monitoring, control and audit of the measure*
- *facilitate evaluation of the impact and effectiveness of the measure*

8.1 The CLA believe that whilst common biophysical criteria would offer greater transparency and ease of monitoring of the designation of LFA areas, this cannot be achieved by developing a single set of indicators for a land mass as great as that of the EU. Similarly we are concerned about the second step of delimiting the biophysical criteria using agricultural production figures rather than concentrating on the delivery of environmental goods and services as outlined as the new objectives for LFA areas, as this would be a step backwards.

8.2 The CLA believes that the Commission should focus on the positive elements of the LFAs namely the environmental outputs from these areas and the vital systems that deliver them for example the extensive grazing systems. Please see paragraphs 4.2–4.6 above for more information.

8.3 By concentrating on environmental outputs from these areas namely landscape, historic environment, biodiversity, resource protection and mitigating/adapting to climate change, the Commission could develop a clear set of monitoring and evaluation tools.

8.4 Under the present scheme proposed the Commission will have no method to evaluate the effectiveness of the measure on sustainable agriculture delivering environmental goods since they have not built in a method to either determine such outputs or deliver them.

⁴ Readers may recall that the definition of opportunity cost of engaging in one activity, eg upland land management, is what the factors (labour) could earn in the best alternative activity.

Question 8: What is the role of the LFA scheme in the context of the current Rural Development Regulation, and the reformed, post-Health Check CAP? What should the LFA scheme deliver in the short term (pre-2013) that other policy instruments affecting farm viability, environmental protection and agricultural land use cannot deliver?

9.1 At present the LFA scheme has a range of different responsibilities and objectives to achieve across Europe due to the varied methods that LFAs have been designated. Whilst there is potential for a certain amount of overlap between the various measures, the LFA should seek to maintain or achieve sustainable agriculture within its boundaries, ensuring land managers are encouraged to maintain the land.

9.2 Up until 2013 or whenever the new designation takes effect it will be essential for the existing LFA schemes to ensure that land managers are being kept in these areas to deliver the environmental goods and services that the Commission seeks to see delivered post 2013. The biggest threat facing these areas across Europe is depopulation since LFAs are difficult to manage due to their very nature and mostly involve unprofitable livestock systems. Already in the UK there is a trend developing whereby the more difficult areas of land are being abandoned.

Question 9: The future evolution of the scheme, post-2013, within the context of the EU budget review, the EU's cohesion policy and further reform of the Common Agricultural Policy

10.1 We recognise that our proposals above to reverse the focus of LFA definitions and measures to be pursued in these areas from less favoured for agriculture to more favoured for landscape and environment, are unlikely to be capable of being implemented until the broader reform of the CAP post 2013. For this reform we expect a wide ranging debate about the purpose and distribution of the whole support system, of which LFA support should be one element.

10.2 In conclusion the CLA view is that there is little point in redefining the LFA areas and measures any further within the current perspective. We have only just settled in the Single Payment system and modified it in the Health Check. The Stewardship schemes are only just in their first period and are anyway undergoing modifications. Upland Entry Level Stewardship is not launched until 2010. It is therefore pointless to tinker further with the LFA boundaries and measures until there is a more comprehensive agreement on the basis for support payments especially for our treasured remote, marginal and upland areas, otherwise known as LFAs.

January 2009

Memorandum by The European Forum on Nature Conservation and Pastoralism

EFNCP welcomes very much the decision of the Committee to allow adequate opportunity for reflection on the reform of LFA support, which we believe to be central to the future of sustainable farming in marginal areas, including HNV farming systems. We are grateful for the opportunity to give our opinion.

SUMMARY OF OUR RECOMMENDATIONS

1. LFA is central to the achievement of the EAFRD Axis 2 objectives, so the LFA reform must result in a robust and easily defensible set of rules which can play a strengthened role in the CAP over future programming periods.
2. LFA payments should aim to support farming that is a) handicapped by natural conditions and b) operates within these physical handicaps in such a way that ecological values are conserved ("sustainable land management").
3. Criteria for setting the boundary of the LFA should be transparent and rigorously enforced, but should not be tightly drawn. Effective targeting of LFA payments is best achieved through farm-level eligibility criteria.
4. Criteria for farm eligibility and for setting payment levels should be drawn tightly. They should be set at Member State level but conform to a set of common EU guidelines, and be clearly related to Axis 2 objectives. Criteria which are unrelated to Axis 2 objectives, such as a requirement to be a full-time farmer or being below the age of retirement, should be disallowed.
5. Farms which are not disadvantaged, or have been able from market returns or CAP support to overcome the natural disadvantage of an area through intensification, should not receive payments, whether or not they fall within the LFA boundary. In many cases, the intensified farms within LFAs have been heavily subsidised by the EU taxpayer to be better able to respond to the market, and in doing so to move away from providing

public goods in the strict sense⁵. Examples are farmers using irrigation (other than certain very localised traditional systems, particularly flooded meadows), polytunnels or whose farms are dominated by agriculturally improved grassland.

6. Eligibility rules and the requirements which applicants must fulfil should be clearly separated in the logic of schemes. For example, an eligibility rule might be that a certain percentage of a livestock farm's forage area should be under semi-natural vegetation. To ensure sustainable land management, a maximum stocking density limit might be applied as a requirement.

7. Sustainable land management should not be interpreted merely as compliance with GAEC and SMR. The LFA have particular fragile environments and the conservation of these environments depends on the continuation not of farming in general, but of specific types of farming, generally characterised by a low intensity of input use and land exploitation. The LFA cover vast areas and funds are limited, so eligibility criteria and payment scales should aim to target most support on the types of farming that are best placed to deliver the environmental priorities defined for a given LFA.

8. Payment levels must be closely aligned to the requirements and to the cost of meeting these requirements in the specific natural conditions in which the farm operates. For example, an LFA scheme requiring farmers to maintain a minimum grazing density of 0.15 LU/ha should have payments calculated only on the basis of the direct costs of maintaining that required density of livestock, whatever the actual stocking density on the claimant farms. Schemes which in the past have not followed this rule have ended up paying significantly higher payments to less disadvantaged than to more disadvantaged farms.

9. All payments within a particular scheme should aim as far as reasonably possible to compensate additional costs and income foregone to the same extent and in the same proportion in all areas; Member States should be required to demonstrate this in RDPs.

10. A high proportion of semi-natural vegetation⁶ in the total forage area of a farm (including all seasonal, short-term and common grazing land) is an indicator that a farm is disadvantaged and also that the farming is highly relevant for environmental goals. For livestock farms, the proportion of semi-natural forage should be a criterion for both eligibility and the setting of payment levels. This is the best way to link the LFA measure to the delivery of the HNV farmland objectives of Axis 2.

11. Many Member States have a semi-natural grassland inventory, which some have incorporated into their LPIS/IACS systems. Others have cadaster-based systems which can be adapted to give information which better identifies semi-natural vegetation. As part of their preparation for the new LFA measure (and to facilitate their monitoring of the HNV indicators in their RDPs), all Member States should ensure that their LPIS/IACS system is able to identify all semi-natural farmed vegetation used by farmers (including grazing land off the UAA).

12. As for all CAP support, the basic requirements of the LFA scheme should be the minimum specified in GAEC. Some aspects of GAEC are not adapted sufficiently to the realities of farming, particularly in the LFA, and do not ensure sustainable land management in their current form. For example, farmers should be required to demonstrate that their use of land and water complies with legal requirements. Currently, farmers using land and water illegally are able to receive CAP payments. This is a significant concern in some LFAs in Southern Europe.

13. In order to address the GAEC issues concerning "Minimum level of maintenance: Ensure a minimum level of maintenance and avoid the deterioration of habitats" (Annex IV of Regulation 1782/2003), Member States should not limit their standards to "preventing the encroachment of unwanted vegetation". It is important to include standards that define "Minimum livestock stocking rates or/and appropriate regimes" (as stated in 1782/2003), in terms of the active management (grazing and/or mowing in the case of semi-natural vegetation) that is required to avoid deterioration of the habitat in question. A requirement merely to "prevent unwanted vegetation" is not sufficient to ensure the continuation of the range of environmental values associated with an active farming system. However, the necessary tightening in cross-compliance criteria must be matched by improved targeting and more tailored payment calculations in LFA schemes and better use of Pillar 1 support.

14. The interaction of the LFA measure with agri-environment measures and also with SFP and Article 69 measures should be made explicit in the RDPs, with a clear justification of the costs and benefits being paid for through each measure.

⁵ Public goods are services which people cannot be prevented from using (non-excludable) and/or ones whose use by one person does not diminish the value of the resource for another (non-competitive). Thus, though public goods may in theory be valued by society, and though they certainly represent a service for society, the market mechanism cannot provide an incentive for their provision. Thus goods and services desired by the public include both Public Goods and private goods. A beautiful landscape is a public good; a fine artisan cheese is not, but the maintenance of the cheese-making tradition in the absence of a market might be.

⁶ Specifically semi-natural vegetation (including grazed scrub or woodland), as distinct from permanent pasture or grassland in general.

15. Remoteness from markets and key services should be included in the set of natural factors recognised as leading to disadvantage. Remoteness is clearly a natural and physical factor beyond the control of the farmer and is as important in defining marginality as the other factors proposed by JRC.

16. We do not support an approach which involves attempting to map and delineate HNV farmland areas, either as a suitable tool for targeting support at HNV farmland, or as a substitute for LFA boundaries. The HNV farming concept is not best applied through delineation of areas, but rather through farm-level criteria. Furthermore, the concept tends to be interpreted purely in relation to biodiversity values, whereas sustainable land management in the LFA is concerned with a wider range of environmental issues (eg soil conservation, fire prevention). Therefore we do not support Option 4 of the consultation document.

17. With the caveats referred to above and explained in more detail below, EFNCP supports Option 3 as the most likely to deliver the aims of the LFA reform, by ensuring the application of robust eligibility criteria focused on sustainable land management, within a common EU framework.

OUR VISION FOR THE LFA MEASURE

The LFA measure more important than ever

18. Where technology and the availability of capital permit it, Europe's farmers have responded to market signals and intensified their production to maximise their net incomes, leading to massive declines in many formerly common species and habitats across much of the continent, and putting increasing and unsustainable stress on basic natural resources, such as soil and water.

19. For both agronomic and economic reasons, many farmers in marginal areas such as Europe's mountains, drylands and marshlands were unable to respond in this way. Unintensified farms in these Less Favoured Areas became further marginalised economically and socially. Because these farms did not intensify, large areas of semi-natural vegetation managed in an extensive manner, as well as other low-intensity farming systems involving arable and permanent crops, have survived as a public good into the 21st century.

20. The factors which limited the extent of agricultural "improvement" in the LFA now pose an ever-increasing threat to these same areas, as general economic development and the success of rural and regional policies increase the number and range of economic opportunities outside agriculture. Decoupling of CAP support only serves to further highlight the disadvantage under which these farmers operate, as many would be far better off if they could cease production while receiving current support payments.

21. It is also apparent that in many LFAs, a proportion of farmers have been able to intensify production, often with the aid of subsidies and grants delivered through the CAP. Examples of intensive farming systems now found within LFAs include large areas of intensive olive plantations, vineyards and other permanent crops, arable cropping including irrigated tobacco and maize, and agriculturally improved grassland.

22. Particularly in southern Europe, the fragile environments existing within LFAs (vulnerable soils, scarce water resources) have suffered from these processes of agricultural intensification. Farms that represent a clearly unsustainable use of land and water are in receipt of LFA payments under the current scheme. This situation should be remedied by applying eligibility criteria and requirements that exclude over-intensive farming systems from LFA support, and also by changes to GAEC, particularly concerning illegal use of water.

23. Disadvantaged areas illustrate the inherent tensions within the CAP between the drive towards efficiency and a world market orientation and the provision of adequate reward for the provision of public goods. Whereas in less disadvantaged regions these issues can be separated, with the farm business selling produce profitably on the one hand and receiving support for provision of specific services on the other, in the LFA the two questions cannot be conveniently decoupled. Indeed, to do so is likely to ensure the failure of the policy.

24. Resolving these tensions sets a challenge for both the EU as whole and for Member States in their individual Rural Development Programmes. At present the CAP has only two mechanisms for supporting existing but uneconomic basic land management—Single Farm Payment and Less Favoured Area. Of these the latter has the clearest potential to link payment levels to disadvantage and the continued provision public goods, while maintaining public confidence in the long term. We believe therefore that the future of this measure is central to the continued delivery of public goods and to the legitimacy of the CAP in the mind of the taxpayers.

Sustainable land management is central

25. EFNCP welcomes the increased clarity of focus of Axis 2 of EU Rural Development policy and fully support the shift in the rationale of the disadvantaged area payments away from a variety of objectives to that of contributing to sustainable land use.

26. One of the challenges facing LFA policy is how to ensure that such a long-standing measure, one so firmly embedded in the bureaucratic traditions of both the EU and Member States, is able fully to make the transition to what in some countries is a totally new function for the measure. It is a reasonable expectation that scheme proposals which have a substantially new rationale should be accompanied by a full and comprehensive justification and explanation; the Commission should insist on this to avoid in effect an automatic rollover of the status quo.

27. A particular and basic failing of the current scheme is that the objectives of national implementation models are not clear. Now that a new and more focused EU objective has been defined (sustainable land management), it is essential that future national and regional RDPs spell out clearly how this objective is interpreted for their LFA. Programmes should be required to:

- analyse the main environmental concerns in these areas, including sustainable use of soil and water, and the conservation of biodiversity;
- define priorities for achieving sustainable land management with reference to the above themes;
- specify which types of farming and farming practices are best placed to deliver this goal, with reference to the specific sustainability themes;
- and explain how their proposed eligibility criteria, requirements and payment formula will ensure that support is targeted on these specific farming types and practices.

Natural disadvantage felt at the level of the business

28. LFA policy should aim to target all naturally disadvantaged farms, but only those farms. The level at which natural disadvantage makes its economic impact felt most keenly, and the one at which the level of support should be determined, is that of the farming business.

29. Being within an area which contains many other disadvantaged farms adds little to the individual farm's disadvantage. Conversely, being the only disadvantaged farm in an area does little to lessen that disadvantage (quite the opposite, in fact). Thus, while an area approach is implicit in the scheme, it should not be the main level at which eligibility criteria are set and payment calculations carried out.

30. On the other hand, the relationship of disadvantage to the proportion of disadvantaged land is not linear, so disadvantage is not something to be measured primarily at the field scale. While a farm with 10% of difficult or unproductive land is more disadvantaged than one with only 5% of such land, in neither case does the disadvantage significantly affect the business options open to the farmer. However, farm businesses with more than 30–40% of handicapped land find that it dominates not only their management options, but the profitability of the choices which are available to them. We would think that any mechanism which assessed disadvantage at a field-by-field level thus also misses a key aspect of real marginal farms.

31. The appropriate level of assessment is therefore that of the farming business. At the same time, efficient and effective targeting of the scheme is best achieved at the farm level, not through attempting a tight delineation of the LFA boundaries. The latter approach is likely to exclude a number of genuinely disadvantaged farms, while still including a number of not disadvantaged farms which ultimately will have to be excluded through eligibility criteria.

Setting criteria for the definition of the area

32. To obtain LFA funding, farms have to be within the eligible area and to fulfil certain eligibility criteria. We believe that in the past too much stress has been placed on delimiting the former and not enough on defining the latter. Ideally we would like to see a scheme which adequately compensates for the cost effects of natural disadvantage on minimal, baseline, agricultural activity wherever it is located (in much the way in which Article 69 can target certain systems).

33. We recognise that the Court of Auditors' criticism is being understood as a call for smaller LFAs. We would make a plea for it to be understood as a call for better targeting of the scheme at disadvantaged farms. Within that context, there is still a need for the Commission to monitor the criteria used for area definition.

Distance is a natural disadvantage

34. EFNCP believes that while the abolition of the social criteria for LFA delimitation may cause technical problems for Member States during the period of transition, there is no reason in principle not to welcome the exclusive focus on physical factors proposed by the Court of Auditors.

35. This being said, we strongly urge the Commission to reconsider its view that distance (remoteness) is not a physical or natural disadvantage. Some of the costs of distance can be overcome by social policy, though they seldom are—subsidies to avoid higher fuel prices are an example. However, those costs which are the result of the increased travel times, for instance, cannot all be addressed in this way. Working Time Directive and road safety restrictions on drivers' time for the haulage of goods, and restrictions under the transport of farm animals codes all add considerably to real costs and should be permissible in payment calculations. They are a major factor adding to the disadvantage of farms in remote areas.

Criteria for eligibility should relate only to Axis 2 objectives

36. We believe that any eligibility criteria should relate exclusively to the objectives of Axis 2, as set out in the Strategic Guidelines. All farmers within the delimited area who contribute to them should be eligible—exclusions for reasons of age or of part-time farmers are no longer justified a priority.

Identifying genuine disadvantage at farm level

37. Farms should not receive LFA payments just for being situated in a disadvantaged area—they must contribute to Axis 2 objectives. That means focussing support on those which have not been able to overcome that natural disadvantage and move into intensified production methods which deliver few public goods. What this means will vary from region to region. In Mediterranean areas where the disadvantage is due to drought, it will rule out support to those farms using irrigation (with the exception of certain very specific traditional systems for flood-irrigation of meadows).

38. In livestock systems, farms that are able to carry high stocking densities would be excluded (it is essential that calculation of stocking densities takes account of all off-farm grazing, not only the UAA of the farm holding). The livestock systems which provide the majority of Axis 2 public goods are characterised by a high proportion of semi-natural forage in their farmed area. LFA payments should be targeted at them, and payments should reflect both the carrying capacity of the semi-natural vegetation and the proportion of that vegetation in their IACS area (including common, short-term and seasonal grazing).

LFA equals HNV farmland?

39. The HNV farmland approach is explicitly not about designating areas. We consider the LFA measure, complemented by Agri-environment schemes and an expanded use of Article 69, to be the best way of targeting basic support to the vast majority of HNV farmland in the EU.

40. Besides, existing attempts to map HNV farmland (eg by EEA/JRC) are known to be imperfect, and data simply are not available at present to produce reliable maps of HNV farmland.

41. The Forum therefore believes that the best way to achieve a fit between the LFA measure and the delivery of the HNV farmland element of Axis 2 is firstly through the criteria for excluding intensive farmers. In the case of livestock farms, the proportion of the forage area consisting of semi-natural vegetation should be central criterion. Equally critical is the formula for calculating payments, which should ensure that the most disadvantaged farms that also comply with criteria for sustainable land management receive sufficient support from the CAP to maintain their activity.

42. The LFA contains both Type 1 and Type 2 HNV farmland. We believe that the appropriate vehicle for locating and targeting both these types is IACS and the Land Parcel Identification System which underlies it. Member States should agree to a deadline by which all LPIS/IACS systems in the EU should be able to identify farmed semi-natural vegetation.

LFA must support active farming

43. The Forum believes that the “minimum maintenance” aspects of GAEC should be framed in terms of active management. The extra costs of bringing active management back to an area which loses it are such that GAEC should not permit a passive “can be brought back into use” approach, based solely on the requirement to prevent encroachment of unwanted vegetation.

44. Whereas the link between the level of payments and the costs of GAEC is poor for SFP, in the LFA this logical connection is central. Additional costs and income foregone can only be defined in relation to a particular activity. It is essential to define that activity and to require it as a condition of payment.

Setting payment levels

45. One source of embarrassment in the present set of LFA schemes is that while some Member States have a rigorous and transparent set of criteria for setting payment levels, others have a set of payments which can only be described as perverse, where disadvantage seems to be more or less inversely related to the amount of support given. Scotland is a clear case in point.

46. LFA payments should be aligned to the costs and income foregone of a defined minimum standard and that standard should be set in GAEC. LFA should not pay for occasional clearance of invasive vegetation, but for meeting positive management requirements defined under GAEC. One example is the maintenance of a minimum grazing pressure on semi-natural vegetation.

Fit with other instruments

47. The LFA measure is the only RDP instrument that can pay for the costs of carrying out the minimum amount of activity demanded by GAEC. “Broad and shallow” agri-environment measures are not permitted to perform this function.

48. The official justification for Single Farm Payment is also to meet GAEC standards not required of non-EU competitors, but neither the historic nor the regionalised models are sufficiently flexible and well-targeted to support fully the delivery of GAEC in marginal areas, despite their importance for stated EU objectives. While LFA payments should be sensitive to changes in the distribution of Pillar 1 support, the potential for precision and focus which they offer makes them invaluable in any truly integrated policy framework.

49. Article 69 payments potentially overlap with LFA, but if the latter is limited to achieving GAEC standards (eg a minimum livestock stocking density per hectare of forage), the former could then be used to target particular systems (eg encouraging grazing by cattle rather than sheep in NW Europe; or sheep rather than cattle in southern Europe; special support for shepherded systems would be especially beneficial to sustainable land management in southern Europe).

50. LFA could legitimately be used to pay for going beyond GAEC, for example, where maximum stocking density limits need to be applied to ensure sustainable land management. However, at present we are not aware of any Member State where the scheme properly pays for the additional costs of disadvantage for all marginal farmers, even at the level of GAEC. Paying for the additional costs of higher levels of activity for less marginal farmers while the most disadvantaged are put in a loss-making position is, we believe, completely inappropriate.

Importance of supporting a minimum level of management, especially grazing of semi-natural vegetation

51. Semi-natural vegetation under farming use (generally grazing, but also mowing of semi-natural hay-meadows) is the basis for much of Europe’s biodiversity. The continuing decline of such activity is one of the reasons for biodiversity decline, as semi-natural land is abandoned or converted to other uses (eg afforestation, agricultural intensification). It also leads to a loss of valued open landscapes and to increased fire risks (a concern for several reasons, including contribution to climate change, soil degradation and biodiversity loss), especially in southern Europe.

52. The continuation of a minimum level of farming activity on all remaining semi-natural vegetation therefore should be a basic environmental objective of the CAP payments system, and of the LFA scheme in particular (the largest areas of such land are found within the LFA where they reflect the natural limitations to intensification).

53. This environmental objective is central to the concept of sustainable land management in many LFAs, yet current CAP rules and definitions give rise to a situation in which support payments are not linked to this objective, and in fact work against it in various ways. These are summarised below.

54. It is important to distinguish semi-natural vegetation from Permanent Pasture as defined under CAP Regulation 796/2004. On the one hand, the latter includes grassland that is ploughed and reseeded every five years, and so is under more intensive use and generally is of less biodiversity value than strictly semi-natural vegetation. On the other hand, grazing land consisting of heaths, scrub or woodland is excluded from the Permanent Pasture definition, which refers only to “herbaceous forage”, thus excluding non-herbaceous types.

55. These non-herbaceous types of semi-natural forage are precisely the types found on the most disadvantaged land and most prone to abandonment, resulting in the loss of critical biodiversity values and in increased fire risks. Such grazing land is excluded from the Permanent Pasture category in many Member States, and as a result is excluded from the GAEC requirement to “protect Permanent Pasture”, and from Member States’ reporting on their commitment to prevent a significant reduction in the area of Permanent Pasture.

56. In some Member States, grazing land with bushes and/or trees is excluded entirely from LPIS on the grounds that it is not “agricultural land”, and as a result it is not eligible for CAP payments. This is in spite of Article 8.1 of 796/2004 which states that “A parcel that contains trees shall be considered an agricultural parcel for the purposes of the area-related aid schemes provided that agricultural activities referred to in Article 51 of Regulation (EC) No 1782/2003 or, where applicable, the production envisaged can be carried out in a similar way as on parcels without trees in the same area.”

57. The GAEC requirement to prevent “unwanted vegetation” also can act as a barrier to the payment of support on marginal semi-natural land, as land with a certain proportion of shrubs or trees may be considered to not comply with the GAEC requirements. Farmers may be obliged to clear shrubby vegetation in order to comply with GAEC, whereas a mosaic of grassland with scrub and trees generally is of especially high biodiversity value.

58. These barriers to the payment of support on semi-natural grazing land need to be addressed, as they work against the “sustainable land management” objectives of the LFA scheme. EFNCP proposals are as follows:

- Payments that support a minimum grazing level on semi-natural vegetation contribute to basic environmental objectives without significant distortion of production and markets, and therefore are WTO Green Box Compatible. An LFA payment scheme that fails to support this objective (as occurs with existing CAP rules) is failing to ensure a key element of sustainable land management in the LFAs.
- There should be a presumption that all semi-natural land under grazing by domestic livestock is eligible for CAP payments (LFA and Pillar 1), regardless of whether the forage is purely herbaceous, and including vegetation that is shrubby or includes a proportion of shrubs/trees. This could be made clear in Article 8.1 of Regulation 796/2004. Exclusions could be applied by Member States on specific sites, parcels or habitat types where grazing is not desirable for clearly defined reasons.
- The GAEC provisions on protection of Permanent Pasture should be extended to cover all types of semi-natural forage vegetation, by making it clear in the definition of permanent pasture (Article 2 of Regulation 796/2004) that all types are included.
- In order to address the GAEC issues concerning “Minimum level of maintenance: Ensure a minimum level of maintenance and avoid the deterioration of habitats” (Annex IV of Regulation 1782/2003), Member States should not limit their standards to “preventing the encroachment of unwanted vegetation”. It is important to include standards that define “Minimum livestock stocking rates or/and appropriate regimes”, in terms of the active management (grazing and/or mowing) that is required to avoid deterioration of the semi-natural habitat in question.

January 2009

The European Forum on Nature Conservation and Pastoralism is a EU-level NGO which aims to highlight the positive relationship between certain types of low-intensity agricultural systems and nature conservation (High Nature Value or HNV farmland). The environmental and socio-cultural public goods produced by European agriculture are delivered primarily by this low-intensity, economically marginal agriculture.

HNV farming systems are marginal in the market but are not out of the market. The fundamental issue for policy is to allocate production between low-input and high-input farming systems while keeping the former's low-input characteristics.

The Forum believes strongly that if farming in HNV areas is to become and remain socio-economically sustainable, and to continue to provide the current benefits for nature, it requires greater consideration in the design and delivery of EU agricultural and rural development policies. Its needs should be a major consideration in the design of the CAP as a whole.

Memorandum by the Loch Lomond & The Trossachs National Park Authority

INTRODUCTION

Loch Lomond & the Trossachs National Park Authority welcomes the opportunity to respond to this Call for Evidence.

Loch Lomond & The Trossachs National Park was established in 2001. The National Park is a Category V Park under the International Union for Conservation of Nature classification for Protected Areas. A Category V Protected Area is “managed mainly for landscape conservation and recreation. It is an area of land, with coast and sea as appropriate, where the interaction of people and nature over time has produced an area of distinct character with significant aesthetic, ecological and/or cultural value, and often with high biological diversity. Safeguarding the integrity of this traditional interaction is vital to the protection, maintenance and evolution of such an area”.

Management of the land is crucial to the landscape, biodiversity, tourism, recreation, communities and cultural value of the National Park. European and national policies and incentives have a direct influence on our ability to achieve our four aims which are:

- To conserve and enhance the natural and cultural heritage of the area.
- To promote sustainable use of the natural resources of the area.
- To promote understanding and enjoyment (including enjoyment in the form of recreation) of the special qualities of the area by the public.
- To promote sustainable economic and social development of the area’s communities.

The following officer response to Questions 8 and 9 of the Call for Evidence are given within this context.

8. What is the role of the LFA scheme in the context of the current Rural Development Regulation, and the reformed, post-Health Check CAP? What should the LFA scheme deliver in the short term (pre-2013) that other policy instruments affecting farm viability, environmental protection and agricultural land use cannot deliver?

1. Loch Lomond & The Trossachs National Park is designated as such because it is such a special area of the United Kingdom, but at present, the Common Agricultural Policy (CAP) does not best facilitate delivery of our National Park aims or our international obligations. Changes to the CAP are needed in the medium term (ie post-2013 (see response to Question 9 below)) to ensure that public benefit outcomes become more central to the system.

2. In the short-term (ie pre-2013) however, due to the currently precarious state of agriculture within Less Favoured Areas, particularly hill sheep farming which is the dominant farm type in our National Park, we recommend that there are no radical reforms that will result in significant redistribution of funding or significant additional requirements of farmers. To do so would put at risk the short-term survival of many businesses, which in turn would threaten supply of the public goods that are already being provided by these businesses.

3. However, in the run-up to 2013, we recommend that the United Kingdom Government define, quantify and evaluate the public benefits delivered by agriculture, so that from 2014 all payments may be made on this basis.

9. What should be the future evolution of the scheme, post-2013, within the context of the EU budget review, the EU’s cohesion policy and further reform of the Common Agricultural Policy?

4. Fundamentally, we do not consider that the current system of agricultural and rural development support through either Pillar 1 or Pillar 2 of the Common Agricultural Policy (CAP) is structured to best facilitate delivery of our four aims as above.

5. We believe that all such public support should be directly linked to the provision of public benefits. A localised approach to delivery, placing the emphasis on local circumstances rather than central processes, would provide higher levels of more targeted support for land management systems, particularly in remote and upland areas, that are delivering public goods—we have summarised this approach as follows:

- i. A base payment to land managers based on the intrinsic public benefit outcomes delivered by active land management.

In this context, public benefits may be environmental, social and/or economic, including the provision, conservation and/or enhancement of biodiversity, landscapes, cultural heritage, public access, soil and water management, climate mitigation, local food supply and national food and timber security, vibrant rural communities, renewable energy, etc. These benefits should be defined, quantified and evaluated, taking into account their value to society.

- ii. A “top-up” payment for units in remote or upland areas, based on specified outcomes for those systems.

Retaining an element of the current basis of support, namely income foregone and costs incurred, would serve to reflect the additional cost to producers of farming in these remote and upland areas.

- iii. Further payments available for delivering outcomes that enhance the environment, rural communities or the rural economy, based on local circumstances rather than central payment rates.

6. Explicitly, we do not believe that any support payments should be directly linked to numbers of livestock or to livestock-related agricultural activity. If livestock-rearing is considered to deliver public benefits, these should be identified (eg biodiversity, landscapes, vibrant rural communities, local food supply and national food security), quantified and evaluated and payment made to the farmer based on the value to society of these outcomes as suggested above. We should also be clear that farm businesses must be viable and public support should be for additional public benefit.

30 January 2009

Memorandum by the Macaulay Land Use Research Institute

1. The Macaulay Land Use Research Institute is an international centre for research, consultancy and training on the environmental and social consequences of rural land uses. We have been working with the Scottish Government to assess the potential impact that the proposed EU-wide biophysical criteria may have on LFA delimitation both in Scotland and more generally across the UK. On the basis of this work, we offer the following evidence relating specifically to issues 2 and 3 (in *italics* below) identified in the “Call for Evidence” dated 15 December 2008.

Issue 2. *Whether it is appropriate to set common, EU-wide biophysical criteria for delimiting LFA areas, as suggested by the Commission in its consultation paper*

2. The adoption of EU-wide biophysical criteria for delimiting LFA areas should, at least in principle, provide consistency and transparency. This would appear to be the main basis for the EU’s proposed approach to delimiting area with “natural disadvantages”.

3. One of the main issues with this EU-wide approach is that it depends fundamentally upon all of the EU member states having adequate data and/or maps relating to soils, topography and climate on which to base the delimitation of “natural disadvantage”. This is not the case. Some member states are comparatively well mapped and have classification systems that enable natural disadvantage to be objectively and consistently assessed. Such systems include, for example, the Land Capability for Agriculture Classification (LCA) in Scotland whose land classes has been shown to have a close relationship with the current LFA boundary. However, other member states do not have either the environmental data or the land classification systems in place to support such an objective assessment of “natural disadvantage”. This raises major concerns about the potential for inconsistencies and the likelihood that differences in LFA designation will still occur between member states. Under these circumstances and ironically, the situation may arise where member states with good quality and high spatial resolution environmental data may be unfairly disadvantaged.

Issue 3. *Whether the common biophysical criteria set out by the Commission in its consultation paper are appropriate and effective in identifying disadvantaged areas. Are there any omissions, whether in the form of further biophysical indicators or other indicators?*

4. The biophysical criteria as set in the Joint Research Centre (JRC) report by Van Orshoven et al (2008) do not adequately represent natural disadvantage in all the EU member states. Their suggested climatic criteria do not cater for the cool, wet equable maritime climate prevalent in NW Europe, the UK and Ireland. This particularly applies in Scotland, which accounts for most of the UK's current LFA area. Such areas have a long growing season and experience neither heat stress nor high soil moisture deficits. As a result, using the proposed JRC climatic criteria, Scotland has little internal climatic differentiation with only the highest mountain tops meeting LFA status because of their short growing season. The proposed JRC climatic criteria are much more appropriate for continental (length of growing season and soil-water balance) or Mediterranean conditions (heat stress and soil-water balance) than for maritime climatic conditions.

5. The key omission from the JRC criteria is some measure of climatic wetness and the impact that it has on land management. The Soil Water Balance criterion (Van Orshoven *et al* 2008) currently assesses only moisture deficit whereas over much of the UK and Ireland, and Scotland in particular, it is moisture excess that is a limitation at key times of the year. The JRC soil drainage criterion does not adequately capture this limitation.

6. Since the production of the JRC report, there have been discussions between the technical experts from different parts of the UK and the JRC and the latter appear to be persuaded of the inadequacy of the current criteria in addressing wetness. There is a proposal (not yet confirmed to our knowledge) to include Field Capacity Days. This measure indicates the wetness of the climate, and the period of time that the soil is at field capacity, as an additional biophysical criterion. Although still to be tested, this proposal is likely to provide a better basis for LFA delineation in the UK and Ireland than the current Soil Water Balance criterion.

REFERENCE

Common bio-physical criteria to define natural constraints for agriculture in Europe Eds: Jos Van Orshoven, Jean-Michel Terres, Ase Eliasson. Joint Research Centre Scientific and Technical Report EUR 23412 EN—2008

29 January 2009

Memorandum by Natural England

EXECUTIVE SUMMARY

Natural England has considered the issues relating to the review of the EU Less Favoured Area support scheme. We have concluded that:

- The Less Favoured Areas (LFAs) are inconsistent with Natural England's long term vision on CAP reform. Natural England believes that in the longer term, alternative mechanisms, less reliant on annual payments, need to be developed to safeguard the natural environment.
- There is some overlap between the scope of Pillar 2 LFAs and agri-environment and certain Pillar 1 mechanisms. This overlap should be considered in the next round of CAP reform with a view to rationalising or integrating those measures.
- The payment rules associated with the "Natural Handicap" measures could be useful in the future. The use of those rules for future rationalised or integrated measures, supporting agri-environment, should be considered in the next round of CAP reform.
- The development of Uplands Entry Level Scheme, as a replacement for the Hill Farm allowance, represents a more effective use of public funds. Natural England's support for Uplands Entry Level Scheme is consistent with our policy for CAP reform.

INTRODUCTION

1. Natural England is a statutory body created in 2006 under the Natural Environment and Rural Communities Act. Natural England's purpose, as outlined in the Act, is to ensure that the natural environment is conserved, enhanced and managed for the benefit of present and future generations, thereby contributing to sustainable development.

2. Natural England administers Environmental Stewardship. We support the Government's decision to replace the Hill Farm Allowance⁷ (HFA) with an Uplands Entry Level Scheme (UELS), as part of Environmental Stewardship, delivered through the agri-environment measure of the Rural Development Regulation from 2010. Natural England has contributed to the development of UELS and will be responsible for its delivery.

3. Natural England is engaged in the European Commission's review of LFAs. In responding to last years European consultation: "Review of the 'Less Favoured Area' Scheme" we were conscious of the fact that the LFA designation will have no real purpose in England beyond 2014, this together with our support for the development of UELS, led us to conclude that our input to the Commission review should focus on the benefits to be gained from UELS and long term policy goals for the CAP. We adopt the same approach for this review.

THE PAST: STRENGTHS AND WEAKNESSES OF THE LFA SCHEME

4. Natural England believes that the main failing of LFA schemes, such as England's HFA, was that they did not secure public goods on a landscape scale in an effective and transparent fashion. Public funds should be used for delivering public benefits and in doing so should offer reasonable rewards for land management businesses. In our view the use of the LFA schemes as an income support measure, to compensate for natural handicaps to agricultural production, no longer sits comfortably within a decoupled CAP.

5. Farmed land is important for the range of ecosystem services it provides, including healthy food, clean water, diverse landscapes and wildlife, flood soil and carbon management, and access, education and recreation. Farming systems in the LFAs can provide many of these services, but the land managers involved do not necessarily derive a benefit from this and so they are not incentivised to ensure the land delivers the appropriate volume or quality of ecosystem services. There is "Market Failure". We believe that the solution to this is for the CAP to reward farmers directly for their provision of public benefits in areas of market failure. A focus on unconditional aid to farmers in areas with handicaps risks dis-incentivising the delivery of other goods, including ecosystems services.

6. This thinking led Natural England to the conclusion that the aims and objectives associated with LFA's could best be delivered through the agri-environment measure. Natural England believes that the phasing out of the LFA measure in England and introducing an UELS under the agri-environment is the approach most likely to meet needs. Consequently we support the Governments decision to replace the HFA with UELS.

7. This means that the HFA, paid to mainly beef and sheep farmers in the Severely Disadvantaged Area and amounting to £23.7 million in 2009, will be replaced by UELS and HLS to the value of £31 million pa. The Defra Impact Assessment estimates that UELS will deliver additional environmental benefits of £116.3 million (2010–15), compared with an HFA approach. These agri-environment monies will be available to all farmers in the Severely Disadvantaged Area that are able to deliver public goods related to: resource protection, including water quality and soil erosion; the condition of upland habitats and biodiversity; the character of the upland landscape and the historic environment; the conservation of genetic resources and; climate change mitigation and adaptation.

8. The introduction of UELS will lead to a degree of redistribution of funding among upland farmers compared to the HFA. This is primarily due to four factors: the absence of a payment cap under UELS; the commons supplement; possible barriers to tenant farmers due to the five year length of an agreement and; the extension of funding to all farmers.

9. UELS will have slightly greater administrative burden for both farmers and Natural England in comparison with HFA. This needs to be considered against the expected delivery of greater environmental outcomes. The Defra Impact Assessment for UELS identifies costs of £33.4 million (2010–15) and assesses the value of additional environmental benefits at £161.3 million. Natural England believes the additional costs of UELS are justified by the additional environmental benefits.

10. Natural England, through its upland project, has been working to map the ecosystem services provided by the uplands. To date we have developed "maps" for the ecosystem services of: climate regulation by carbon storage and sequestration; water supply and quality and; recreation in the uplands. These maps are at Annex 1. UELS recognises the significance of the uplands to deliver a wide range of public benefits, including those services.

11. Natural England has concluded that UELS delivers on many of the shortcomings of the HFA and represents the most effective use of public funds.

⁷ The Hill Farm Allowance is the means to deliver the Less Favoured Area budget.

THE CURRENT REVIEW: COMMON BIOPHYSICAL CRITERIA

12. Natural England has concluded that there is merit in common biophysical criteria and the Commission's proposal to link "LFA" support to high nature value farming. However, there are issues which would need to be addressed and our view is that appropriate support can most effectively be delivered through the agri-environment measure.

13. In England, LFA support to date has focussed on the uplands. The use of common criteria such as high nature value farming could provide scope to support high nature value in the lowlands as well as the uplands. However, high nature value farming does not only occur in areas which would be identified as facing "natural handicap". Natural England believes support for high nature value farming should be available where ever it occurs.

14. Considering the uplands, certain plant communities which are the product of farming systems are not of high nature value but they are an important part of the landscape, for example, acid grasslands. A focus on high nature value farming could exclude those areas from support.

15. Delineating areas of high nature value on a map would also seem to preclude areas which, through management change, could become high nature value. The United Kingdom has made a considerable investment in improving the nature value of farmland through agri-environment, these investments need to be considered.

16. Natural England has concluded that the development of UELS, as a replacement for the HFA represents the most effective use of public funds to deliver environmental objectives in LFA areas.

THE CURRENT REVIEW: ELIGIBILITY CONDITIONS

17. Given that the LFA measure will not have a role in England from 2014 we have not considered the issue of eligibility criteria.

THE CURRENT REVIEW: PAYMENT CALCULATION

18. Natural England sees some merit in a payment formula which is based on "additional costs and income foregone related to handicap for agricultural production in the area concerned". We have already stated that we believe that phasing out the use of the LFA measure in England and introducing UELS under the agri-environment measure is the best approach. However, this solution does not fully address all the issues we identify. One problem is that under agri-environment payment rules, "additional costs and income foregone resulting from the commitment made", it is difficult to adequately incentivise the production of public benefits where farming is inherently unprofitable and there is consequently no farming income to forego.

19. Natural England believes that different approaches to payment rates are needed and rules should take account of fixed costs, management costs, returns on capital and entrepreneurial risks at the whole business level. A payment formula based on the LFA formula could prove useful where it is difficult to incentivise the production of public benefits where farming is inherently unprofitable. We suggest that the broadening of payment rules, to allow for an element of compensation for natural handicap should be considered as part of a wider consideration of rationalising or integrating a number of CAP measures: Pillar 2 LFAs, Agri-environment, forestry and, certain Pillar 1 mechanisms, in a future round of CAP reform. This could also provide a means to support innovative forms of environmental land management.

THE IMPACT OF THE REVIEW

20. The LFA review will have little impact in England. UELS will replace the HFA from 2010. On 18 December 2008, The Secretary of State for Environment, Food and Rural Affairs outlined details of UELS. The Scheme is to be delivered through the agri-environment measure of the Rural Development Regulation and not the LFA measure. Transitional payments will be provided for farmers with land still in the pre-Environmental Stewardship schemes from 2011, providing they received the HFA in 2010 on that land. This means that the LFA measure will not have a role in England from 2014. Natural England supports this development.

21. Under Council Regulation 1698/2005, England would still need to delimitate the LFA area.

22. Natural England has concluded that the review offers an opportunity to suggest further issues for a future round of CAP reform.

THE FUTURE DEVELOPMENT OF THE LFA SCHEME

23. Natural England recognises that LFA schemes are widely supported across Europe and that radical change to the LFA model will be difficult to achieve in the short term. However, we believe that it is an unnecessary measure as there some overlap between the scope of Pillar 2 LFAs, agri-environment, forestry and, certain Pillar 1 mechanisms. We have also identified possible merit in the payment rules for overcoming handicap (paragraph 21), to address an issue with agri-environment payment rules.

24. Natural England believes that overlap between measures, and the different payment rules applying to measures, should be considered in a future round of CAP reform with a view to rationalising or integrating those measures.

3 February 2009

Memorandum by the Scottish Environment Protection Agency (SEPA)

1. The strengths and weaknesses of the LFA Scheme

The Less Favoured Area scheme has delivered support to farmers in disadvantaged areas which has helped to support income levels in these areas, which the market and other direct payments could not support.

Despite this support the current scheme is now clearly not working in terms of retaining livestock on the most disadvantaged areas in Scotland as figures published by a range of organisations including the Scottish Agricultural College (SAC), National Farmers Union Scotland (NFUS) and the Committee of Enquiry on Crofting (CEC) have demonstrated. For example the SAC Outlook for 2009 showed that the national sheep flock in Scotland had declined by 22% from 1997 to 2007 with the decline accelerating post 2005 particularly in the Highlands and Islands.

The scheme did have the ability to influence stocking rates and grazing mix when this was linked to direct livestock payments, for example the introduction of the “cattle top up” in Scotland had a positive effect in some areas on adjusting the livestock balance between cattle and sheep. The loss of direct payments though has diluted its ability to influence stocking numbers quite so directly.

Payments under the scheme have not always favoured the most disadvantaged areas, but it is clear that LFA payments are vital to all recipients. Without direct support livestock farmers in Scotland’s uplands and hills could not continue with current levels of production. This creates the difficulty that any redistribution of LFA support would have potentially serious impacts on those in marginal areas who could lose out under new tighter criteria, leading to sectoral difficulties in these areas, without necessarily reversing the decline in the most disadvantaged areas.

A strength of the LFA schemes have been that they have been relatively simple schemes for administrators and farmers to understand and traditionally have provided payments at a time of year when cash flows have been under most pressure particularly for upland livestock producers.

Long term support and development for LFAs would be part of continuing integrated policy effort for these areas and affected communities. The Scottish Government’s approach to integrated effort around the SRDP and SEARS initiative is fundamental to this and SEPA continues to work with SEARS partners to deliver a range of supportive actions by this means.

2. Whether it is appropriate to set common, EU wide biophysical criteria for delimiting LFA areas, as suggested by the Commission in its consultation paper

Setting common EU wide physical criteria may in theory be appropriate if this creates a structure within which the economic disadvantage of farming in less favoured areas within Europe can be recognised whatever the bio-physical disadvantage encountered. However, if overall Pillar 2 rural development funding is insufficient to allow fully funded targeted measures to address socioeconomic disadvantage then the new EU wide criteria could increase the economic and social gap between the disadvantaged areas and other areas, unless other non rural support is identified to fill the gap.

From a Scottish perspective, the EU common biophysical criteria are seen by many as a less relevant approach than the long-standing method of classifying agricultural land in Scotland which is the Land Capability for Agriculture (LCA) classification. LCA addresses the particular biophysical properties of Scottish soil, climate, relief and vegetation.

It could, however, be argued that if there is a continuing move away from an agricultural support system based on production based payments then even a system of LEA payments based on the capability for agricultural production would not fit with future EU policy.

The Commission identified an option to use High Nature Value (HNV) farming systems to define areas eligible for Less Favoured Support. There are obvious environmental attractions in this approach, and indeed in Scotland the map of HNV corresponds quite closely with the Less Favoured Areas. However there are significant areas where LFA support is crucial to the economies of farms and local economies, and which would be excluded under such a designation. Support for HNV farming may be more appropriately directed through targeted agri-environment support through Pillar 2 rural development schemes which would allow targeting of national and regional priorities such as enhanced biodiversity, Water Framework Directive and Climate Change.

3. Whether the common biophysical criteria set out by the Commission in its consultation paper are appropriate and effective in identifying disadvantaged areas. Are there any omissions, whether in the form of further biophysical indicators or other indicators?

It appears that the EU criteria suggested are more suited to Mediterranean conditions and do not, for example, fully reflect the physical disadvantages found in Scotland and other northern maritime climates where high rainfall and soil conditions make access to land for machinery and livestock difficult, leading to compaction and poaching issues thereby limiting production.

4. What degree of harmonisation of eligibility conditions (for determining access to LFA payments), if any, is needed

The current situation which has evolved through member states using varying criteria to define Less Favoured Areas and eligibility of applicants has naturally led to some disparity among beneficiaries. The Commission wishes to tackle these disparities and harmonising both delimiting criteria and eligibility conditions would reduce these inconsistencies. On the other hand there are widely different scenarios between and within member states which may justify differing eligibility conditions. While basic eligibility rules could be harmonised (for example, LFA support should be eligible to all farmers who farm within a determined LEA and who meet cross compliance requirements), there should be room for some flexibility to allow particular priorities and local conditions to be recognised within national schemes for example, appropriate stocking densities could vary considerably and setting maximums and minimums may not be appropriate at a European level.

5. What the basic rules and criteria for eligibility for LFA aid should be, if the scheme is to meet its new objectives

LFA aid should continue to be open to land managers who are engaged in agricultural activity and who farm within the Less Favoured Area.

Less Favoured Area schemes should be designed to ensure that appropriate land management is carried out. This should be determined by the environmental benefits produced and ensuring that stocking rates and stock mixes are appropriate for the location. Incentives should be provided to encourage best management practices and going beyond regulatory requirements and cross compliance, particularly those relating to protection and enhancement of water quality and minimisation of greenhouse gas emissions from soils.

6. How practicable is the new payment formula (based on additional costs and income foregone related to the handicap in the area concerned)? Is it likely to help reduce wide discrepancies in payment levels across Member States?

Basing payments on income forgone alone is not going to be sufficient to keep people farming in LFA areas, or to maintain environmental benefits or public goods. It is clear that farming in these areas is not economically viable without considerable support. As well as payments to reflect the additional costs and income foregone of farming in these disadvantaged areas, incentives are required to deliver the public good benefits which can be provided over and above basic cross compliance requirements.

Sustainable agricultural businesses are crucial to delivery of the public goods which we seek in terms of clean water, enhanced biodiversity, protected landscapes and measures to mitigate and address climate change.

It is clear that the future of LEA support is inextricably linked to the future of Single Farm Payment support and to that of Pillar 2 Rural Development support. See Answer to Q8.

7. *To what extent would common biophysical criteria and amended eligibility criteria address the deficiencies of the LFA scheme as identified by the Court of Auditors in 2003, and in particular:*

- *guarantee equitable treatment of beneficiaries*
- *facilitate monitoring, control and audit of the measure*
- *facilitate evaluation of the impact and effectiveness of the measure*

SEPA is pleased to note that in keeping with the Commission's commitment to better regulation, it proposes that an analysis is carried out of the economic, social and environmental aspects of the problems linked to the LEA scheme and of the impact, the advantages and disadvantages of the various options.

8. *What is the role of the LFA scheme in the context of the current Rural Development Regulation, and the reformed, post-Health Check CAP. What should the LFA scheme deliver in the short term (pre-2013) that other policy instruments affecting farm viability, environmental protection and agricultural land use cannot deliver?*

We have already stated that the LEA schemes ultimately should be closely linked to the Single Farm Payment and to the wider Rural Development Regulation (RDR) schemes. The model of a base payment with Tier 2 and Tier 3 top ups offers possibilities for integrating Less Favoured Area payments within such a structure.

Single Farm Payments provide a base area payment which is available to all land managers, either based on their historical activity or on a straight area basis depending on the regime adopted in member states. In neither case are payments targeted at either geographical areas, particular farming systems, or aimed at encouraging particular public goods other than requiring a basic level of cross compliance. Less Favoured Area payments on the other hand are in effect a tier 2 scheme available to all eligible land managers who meet the required criteria. They do not currently require the complexity of applying for the most targeted Tier 3 schemes. This makes them more accessible and potentially they could be amended to achieve greater environmental benefit without reducing uptake or substantially increasing administrative complexity.

9. *The future evolution of the scheme, post-2013, within the context of the EU budget review, the EU's cohesion policy and further reform of the Common Agricultural Policy*

We need to consider development of a new system which includes a focus on the "new challenges" ie climate change, renewable energy, water management and protecting biodiversity and which reflect the roles of sustainable farming in the less favoured areas in contributing to these challenges.

In the longer term there is a need to develop a scheme in Scotland which is focused on the delivery of the public goods associated with hill and upland livestock farming.

Cross compliance and Good Agricultural and Environmental Condition (GAEC) has a role to play in ensuring environmental benefits from LFA payments. However, rather than simply using cross compliance and GAEC as a "stick" to maintain environmental protection, we also need to continue to provide incentives to encourage LEA recipients to achieve improved environmental performance and to provide additional public goods whether through improved access provision, flood management, biodiversity and landscape.

A system encompassing a basic LEA area payment based on disadvantage and subject to cross compliance with top ups available for demonstrating delivery of public goods, allows choice for producers and also provides a system whereby environmental and other public goods can be bought by the taxpayer.

The provision and availability of integrated agricultural and environmental advice is also a crucial factor in achieving ongoing environmental benefit. Farmers need to be clear on what the public wishes in return for its ongoing support; they also need advice on how these public benefits can be provided within a sustainable farming enterprise.

However, in the longer term, the integration of Pillar 1 payments with LEA payments and the other Pillar 2 schemes could be improved, by building on the Scottish 3 Tier Rural Development Contract principle of base area payments, enhanced Menu Scheme top ups and targeted Tier 3 public goods and rural investment measures.

The UK, and Scotland in particular, is at the bottom of the league table of European Pillar 2 Rural Development funds. In Scotland a large proportion of this money currently goes towards Less Favoured Area Support. If this situation continues post 2013 it severely limits the options to adequately fund the public benefits which Scotland's land managers could potentially deliver in terms of enhancing biodiversity, protecting and enhancing water quality and tackling and mitigating climate change.

20 January 2009

Memorandum by Scottish Natural Heritage

INTRODUCTION

1. The productive capacity of the land of large parts of Scotland is very limited, and farming is severely constrained by the weather. The Less Favoured Area (LFA) takes in c. 85% of agricultural land of Scotland, which is designated under Article 19 of the 1999 Rural Development Regulation (Article 50(3) (a) of EC 1698/2005). 12,500 farms and crofts receive payments from the LFA Support Scheme (LFASS), accounting for more than 10% of annual spending under the CAP in Scotland.

2. Across much of the LFA sheep farming predominates. On the better land and in more sheltered situations (most farms have some of this) there can be cattle—characteristically managed as suckler herds, producing animals that are exported to farms in more favourable areas for finishing (store cattle). The relatively extensive farming characteristic of many parts of upland Scotland helps to maintain natural features and attractive landscapes, and farmers play an important part in managing these features. Many farms in the LFA include a sizeable area of rough grazing on land with natural or near-natural vegetation. Other factors, such as transport and fuel costs, remoteness from commerce, public services and markets, suppliers and processing, add to the problems of poor soils and a harsh climate.

3. In recent years numbers of both cattle and sheep in Scotland have declined significantly⁸. The overall decline in cattle between 1997 and 2008 was around 11%, but the output of store cattle, which is probably a more accurate indicator of extensive production in hill and upland areas, fell from 40,000 in 2003 to 23,000 in 2007. More recently, the number of sheep and lambs has declined steeply—from more than 9.5 million in 1997–99 to fewer than 7.1 million in 2008. In hill and upland areas the decline has been even more severe; between 2001 and 2006 the number of breeding ewes in the Highlands and Islands declined at more than twice the national rate.

4. Mixed livestock farming creates variety in the landscape and variety in the wildlife habitats associated with it. Cattle, managed appropriately, can be a beneficial influence on certain kinds of upland vegetation—for example by controlling the spread of bracken and coarse grasses. Sheep farming alone, on the other hand, is frequently associated with over-grazing, which has been a serious problem in Scotland, damaging wildlife habitats and leading to erosion of peat soils.

5. The reduction in sheep is likely to be beneficial from an environmental point of view, in many places reducing pressure on vegetation from grazing, and permitting the regeneration of trees and shrubs. But the scale of the decline now evident raises concerns about the future of agriculture in remote and handicapped areas of Scotland, and the effect that would have on landscapes and wildlife.

1. *The strengths and the weaknesses of the LFA scheme thus far*

6. There are many threats to farming systems in areas with natural handicaps—an ageing population, the loss of a farming infrastructure, high feed prices, energy and transport costs, animal diseases, and—not least—changing expectations about standards of living in rural areas. Many of these the LFA mechanism cannot directly address. There is good evidence, however, that LFA payments have helped to maintain less intensive and economically marginal farming in areas where it is a positive influence on the environment, the natural heritage and tourism⁹. LFASS has contributed to the viability of farm businesses by stabilising incomes and in doing so has benefited the wider rural economy. But until relatively recently it has also encouraged farmers to keep livestock in numbers which, even from an economic point of view, were in many cases probably excessive. This was especially true of sheep.

⁸ *Farming's Retreat from the Hills*, SAC (2008) at <http://www.sac.ac.uk/mainrep/pdfs/retreatreport.pdf>. And *Trends in Agriculture and Supporting Infrastructure with the HIE area 2001–2006* Report for the Highlands and Islands Enterprise by Bob Yill and Peter Cook (March 2007).

⁹ *Scottish Rural Development Programme (SRDP) Mid-term Evaluation, Final Report*, Pidea Consulting (December 2003); *Less Favoured Area Support Scheme in Scotland: Review of the Evidence and Appraisal of options for the Scheme post 2010*, The Macaulay Institute, University of Edinburgh and Institute for European Environmental Policy. (December 2006).

7. In supporting incomes, LFA payments help to keep some of the farmers involved in agri-environmental schemes farming, to some extent at least subsidising the environmental goods and services produced by these schemes. Payments from agri-environment schemes, which are based only on costs and income foregone, would in many cases be insufficient to support the extensive and often economically marginal farming systems that produce these goods and services.

8. Although it can be argued that LFA payments have helped to maintain environmentally sensitive farming, they have not been well-targeted for this purpose, since they also support farming that is relatively intensive and does little to maintain the countryside. The view that the Scottish LFA scheme (LFASS) could be better targeted is borne out by two recent evaluations.¹⁰ We believe there is a need to re-shape LFA support to achieve clearer environmental outcomes, compensating for environmental handicaps only where farming gives rise to a demonstrable public benefit.

9. In the Scottish Rural Development Programme for 2007–13, a specific environmental component of the Scottish LFA scheme has been lost. In the previous scheme an environmental top-up to the basic payment was paid to livestock farmers who undertook to keep a given proportion of cattle. Expenditure on this measure was approximately £20 million p.a. Although it was a relatively blunt environmental instrument (partly intended to maintain the supply of beef), it was an incentive for maintaining the mixture of sheep and cattle that is an important source of variety in the Scottish countryside.

2. Whether it is appropriate to set common, EU-wide biophysical criteria for delimiting LFA areas, as suggested by the Commission in its consultation paper

10. We agree with the Commission's view that there should be a common, EU-wide biophysical framework to delimit LFA areas under Article 19¹¹. Excluding socio-economic indicators should make for more transparency and consistency. It is important nevertheless to recognise that environmental factors are closely linked to social and economic ones. In Scotland remoteness (isolation), puts farming in parts of the LFA at a significant disadvantage, particularly but not only the islands. Some aspects of remoteness are biophysical, but there are others to do with communication and access to services. It appears that Article 20 (Areas affected by specific handicaps¹²) provides some scope to take account of factors such as isolation in situations where farming needs to be continued in order to "conserve or improve the environment, maintain the countryside and the area's tourist potential or protect the coastline". The criteria for "specific handicaps" need to be clarified.

11. The difficulties the Commission has encountered in setting common criteria and thresholds for delimiting LFAs (see Question 3, below) raise doubts that it will achieve any real uniformity of approach. It might be more appropriate, in view of the variation in climate and soils across the EU, to specify the criteria in broad terms, but to leave the precise indicator (and the threshold) to member states.

3. Whether the common biophysical criteria set out by the Commission in its consultation paper are appropriate and effective in identifying disadvantaged areas

12. The main types of physical or environmental hardship affecting farming in Scotland arise because of the climate (cool temperatures, a short growing season and high rainfall) and the soil (poor in nutrients, often naturally waterlogged and susceptible to peat erosion). Article 19 of Regulation 1257/1999 appears to permit the designation of an LFA based on these handicaps.

13. Table 1 of the Commission's consultation paper lists largely the same criteria as those circulated informally in 2007. These, with the proposed thresholds, were tested by the Macaulay Institute (on behalf of the Scottish Government) for their relevance to Scotland. Of the eight original criteria, using the threshold proposed, three had no effect at all and three had very limited effect (delimiting very small areas of the country). Only "drainage" and "slope" took in a significant area (74% and 59% respectively).

14. The criteria themselves could be made more relevant to Scotland by taking more account of temperature and rainfall. Growing seasons are short, but the summer temperature is also low compared with continental regions at the same latitude. The amount of rainfall and the number of wet days are so high over large parts of the LFA as to be a severe constraint on agricultural activity; this is not adequately captured by the proposed criteria.

¹⁰ *Scottish Rural Development Programme (SRDP) Mid-term Evaluation, Final Report*, *ibid*; *Less Favoured Area Support Scheme in Scotland: Review of the Evidence and Appraisal of options for the Scheme post 2010*, *ibid*.

¹¹ Article 50(3) (a) of EC Regulation 1698/2005.

¹² Article 50(3)(b) under EC Regulation No 1698/2005.

15. Throughout much of the Scottish LFA, there are deep organic (peat) soils. Apart from being acidic and poorly draining, these are extremely poor in nutrients and prone to erosion by rainfall and grazing animals. The Commission's criterion of soil acidity (chemical properties) was not tested in the Scottish study, but is likely to be helpful from a Scottish point of view.

16. We would like to see the scope to target High Nature Value (HNV) farming within the overall system of LFA payments. This could be achieved in the following way. The LFA would be delimited on the basis of environmental handicap, determined by "bio-physical" criteria and excluding any areas where the type of farming is more or less intensive. Qualifying (extensive) farms in this wider area would receive a basic compensatory payment, with the proviso that they should undertake a basic level of management to maintain the amenity or the environmental characteristics of the farm. Within this area, a higher tier of payments could be available to HNV farms, either on the basis of the detailed map of HNV farmland which SNH is currently developing in consultation with the Scottish Government, or determined farm by farm, using criteria (eligibility rules) based on the three categories of HNV farmland. These payments would carry a requirement to maintain the HNV status of the holding, and the payment should reflect the cost of this.

17. We comment on the need to take account of remoteness in the previous answer. Note that while it is possible to map HNV farming reasonably accurately for Scotland (because data are available), it may not yet be for all other member states.

4. *What degree of harmonisation of eligibility conditions (for determining access to LFA payments), if any, is needed?*

18. It is important that any eligibility conditions are consistent with this objective: "to contribute, through continued use of agricultural land, to maintain the countryside, as well as to maintaining and promoting sustainable farming"¹³. As with the biophysical criteria, however, we are not confident that it is possible (or desirable) to achieve total uniformity across Europe, because of the variety of farming systems and circumstances.

19. While the LFA is *per se* a means of targeting income support geographically, it provides scope to differentiate levels of payment within the area, and to attach eligibility conditions to any additional payments. These provide a mechanism for targeting payments that is not constrained by the limitations of mapping. Mapping almost always involves some generalisation, and because of this tends to be contentious as the basis of a payment scheme. If it is necessary, as we believe it is, to differentiate levels of hardship within the LFA (for instance based on soil characteristics) or to target High Nature Value Farming (see Question 3), it may be more effective (and precise) to use eligibility conditions than draw further lines on maps.

5. *What the basic rules and criteria for eligibility for LFA aid should be, if the scheme is to meet its new objectives?*

20. Under the previous Rural Development Regulation (1257/1999) payments were subject to conditions of good (environmental) farming practice, which the Court of Auditors found difficult to verify¹⁴. The scope of Good Agricultural and Environmental Condition (GAEC) that replaced it still involves difficulties of verification¹⁵, but it is more detailed and, as such, is potentially more sensitive to regional differences and the carrying capacity of different habitats and sites.

21. The overriding requirement in our view is that recipients should maintain relatively extensive systems of production. It is important, nevertheless, to connect LFA payments much more directly to the purchase of public goods. LFA payments should only be made where there is not only a level of "biophysical" hardship, but where there is at least the potential for farming to generate a social or environmental public benefit. It should be possible to achieve this by defining the area and using eligibility criteria. But we believe the rules should go further than this, to apply specific conditions that will ensure that payments contribute to the objective of maintaining the character of the rural landscape and the environmental fabric of the countryside. These requirements would be relatively basic and less demanding than any agri-environmental measures, so that the purpose of the scheme remains distinct. In Scotland they might include a maximum stocking density, managing a minimum area of grass for hay, cultivating a forage crop, removing animals from sensitive areas (particularly in winter), a proportion of the holding to be managed as permanent pasture or as rough grazing. Payment could be varied depending on how many conditions were met.

¹³ Paragraph 33 of the Preamble to Council Regulation (EC) No 1698/2005.

¹⁴ Paragraphs 45 and 81 of ECA Special Report 4/2003.

¹⁵ See paragraph 85 of ECA Special Report No 8/2008.

22. Under the current interim scheme in Scotland a requirement has been introduced requiring beneficiaries to be “actively farming”. We support this.

6. *How practicable is the new payment formula?*

23. It is not sufficiently clear in the European regulations how member states should calculate costs and income foregone in relation to LFA payments (these are the basis of all payments under the Rural Development Regulation). It would greatly assist in achieving a uniform approach by member states if the Commission could issue guidance on what it considers the eligible costs to be, and what the reference point should be for income foregone. Income foregone presents particular problems in Scotland because of the disparity in farm sizes and the productive capacity of the land between parts of the LFA and the more favourable areas.

24. The method of calculating payments that the Scottish Government proposes, based on gross margins for land capability classes (from the Macaulay Land Capability for Agriculture maps), appears to fit with the requirements of the regulation and appears to be broadly satisfactory from an environmental point of view. It may differ significantly from approaches used by other member states, however, particularly those that lack similar data relating to land capability. It also has the drawback that it does not allow the effect of handicaps to be calculated at the farm level (eg, to take account of farms in the same land class that may have different amounts of better quality land available). While the formula is practical at an average level, therefore, there will always be some under- or over-payment.

7. *To what extent would common biophysical criteria and amended eligibility criteria address the deficiencies of the LFA scheme as identified by the Court of Auditors? ...*

25. We have nothing to add on these points to our answers to Questions 3–6.

8. *What is the role of the LFA scheme in the context of the current Rural Development Regulation and the reformed, post-Health Check CAP? ...*

26. It is important to recognise the influence of other parts of the CAP on some of the issues the LFA measure addresses, such as targeting aid, support for extensive farming and reducing the risk of land abandonment. National Envelopes allow income support to be targeted to particular farm types, and moving to an area basis for the Single Farm Payment (presently based on a purely historical model in Scotland) could achieve a significant re-distribution of Pillar 1 in favour of extensive farmers in the Scottish hills and uplands. The potential role of the LFA needs to be considered in the context of these other possibilities.

27. For the low-intensity livestock farming that is capable of delivering environmental benefits to survive in the harsher and remoter parts of Scotland, we believe the following types of targeted financial support are necessary.

- a) Support for maintaining a proportion of cattle. We refer in Question 1 to the incentive that was part of the Scottish LFA scheme up to 2006, and we propose that a similar (differently weighted) incentive should be reintroduced in Scotland, using a National Envelope rather than an LFA measure (because it involves payments that are unlikely to be seen as completely de-coupled).
- b) A compensatory (income) payment for farming in areas affected by physical/environmental handicaps, on offshore islands, and perhaps in other remote locations. This should be graded according to the severity of the disadvantage.
- c) A payment to farms within the above areas that meet more demanding criteria of “High Nature Value”.

b) and c) would be LFA payments. For any of these payments we believe it would be appropriate to set a higher standard of environmental management than compliance with Good Agricultural and Environmental Condition. They should only be payable to farms which meet criteria of extensive production.

28. As long as payments for agri-environmental measures under the Rural Development Regulation continue to be based only on costs and income foregone, there is likely to be a need for additional income support for the economically marginal farming systems that are capable of delivering the required environmental outcomes.

9. *The future evolution of the scheme, post-2013, within the context of the EU budget review, the EU's cohesion policy and further reform of the CAP*

29. In relation to both the CAP and cohesion policy funding, we believe there should be a stronger emphasis on payment in return for public benefits ("public goods"), with the benefits clearly defined and measurable.

30. Reforms of the CAP since 2000 have blurred some of its former distinctions. The Single Farm Payment is now subject to environmental conditions and there are provisions for targeting it—either in the form of an area based payment, or (to a more limited extent) through a National Envelope. In this context the LFA as a separate income support measure begins to appear superfluous.

31. We believe it would be helpful ultimately to move away from the Pillar 1/Pillar 2 model for the CAP, and to restrict income support to situations where it is the only means of ensuring the continuing provision of environmental or social public goods. One possible model that we would support for a future CAP would distinguish between programmes for capital expenditure and revenue expenditure. The former would include all payments designed to invest in environmental assets or achieve the transition to a more diversified economy; and the latter, any income support judged necessary together with any payment for ongoing activity required to deliver environmental "public goods" (such as the management of landscapes and wildlife habitats, or services such as carbon sequestration or flood control). The revenue element would take account of the need to compensate for any natural handicap, replacing a separate LFA payment.

29 January 2009

Memorandum by The Scottish Rural Property and Business Association (SRPBA)

INTRODUCTION

1. The Scottish Rural Property and Business Association (SRPBA) is the leading representative body for rural property owners and land-based businesses in Scotland. Our members comprise individuals and businesses that operate in rural Scotland. The SRPBA represents our members' interests right across the economic spectrum, covering issues from ownership and management of land, agriculture, forestry and country sports through to rural housing, rural services, business diversification and renewable energy. The SRPBA represents many farmers and land managers who operate within LFA areas; as such, this consultation is of particular interest to us.

2. Upland grazing areas are suffering significant financial difficulties in Scotland and the rest of the UK as reported in SAC report on Farming's Retreat from the Hills¹⁶ and the RSE Inquiry into the Future of Scotland's Hills and Islands¹⁷. From Defra 2007 agricultural statistics it is possible to calculate that we have lost over 20% of the UK sheep population since 1996, the majority of which were farmed in LFA areas. This loss largely relates to the decoupling of CAP payment which made it no longer viable for many farmers to keep hill livestock. Although the SRPBA believes that a correction in the artificially high stocking numbers was required, we believe that we have now gone beyond the point of correction. Once an industry has suffered a decline of this sort, it is costly to build up again.

3. The decline in upland farming has already resulted in the loss of skills and knowledge in rural areas accumulated within the agricultural communities over generations. Alongside this is the loss of upstream and downstream industries eg hauliers, auction marts, feed suppliers, etc as well as the local shops, garages and schools. The decline in upland farming also has a significant knock-on effect to biodiversity and habitat management which is reliant on a farmed landscape.

4. We strongly believe that basing payments on income forgone, as proposed by the EC, is not sufficient to keep people farming in LFA areas, or to maintain public goods; environmental and other. We believe that understanding the true monetary value of public goods, eg stone walls, clean drinking water, biodiversity must be costed if we are to achieve the true price of the provision of goods. The SRPBA believes that the provision of socio-economic, environmental management and public goods outcomes should all be considered within the redefined LFA. These factors are interdependent. If we cannot sustain a viable farming community to manage the land, we will not be able to achieve environmental management or other public good benefits. If the public truly values the goods provided by LFA areas, then they should be paid for through public money. LFA payments are critically important if we are to retain a farmed landscape which brings biodiversity, cultural, environmental and social benefits. To prevent further abandonment of the upland landscape and loss of associated public good, we must fully cost these goods.

¹⁶ <http://www.sac.ac.uk/mainrep/pdfs/retreatreport.pdf>

¹⁷ <http://www.rse.org.uk/enquiries/hill—and—island—areas/index.htm>

Question 1 *The strengths and the weaknesses of the LFA scheme thus far*

5. The original objectives of the LFA measure as outlined in the Council Regulation (EC) 1257/1999 were to ensure “continued agricultural land use” which would contribute to the “maintenance of a viable rural community”. Two further objectives related to “maintaining the countryside” and “to maintaining and promoting sustainable farming systems which take account of environmental protection requirements”¹⁸.

6. It is likely that the combination of the Single Farm Payment (SFP) and LFA payments have successfully contributed “to (the) maintenance of a viable rural community” by encouraging “continued agricultural land use” in areas of natural handicap. Although it has brought environmental benefits, the coupled payment system did, in places, encourage overgrazing. Another strength of the scheme has been its low levels of bureaucracy which has meant that more money has gone to those managing the LFA land. We are concerned that this will not be the case in the future if the proposed common biophysical measures are implemented.

7. We recognise that the issue of transparency is a weakness as well as ensuring equity in the administration of the LFA scheme across Europe. However, these payments do bring, and have the potential to bring, enhanced environmental and other benefits. Our concern is that problems associated with the recent acceleration in the decline of the uplands livestock system (as outlined in Paragraph 2–4) will be heightened if uncertainty surrounds the future of LFA. This will be further heightened by the removal of the social objectives relating to the payments.

8. Also, of considerable concern is the loss of the direct link between LFASS and livestock-related activity that had existed under the previous scheme. This has resulted in a decline in livestock numbers. The previous scheme rewarded the environmental and socio-economic benefit of maintaining cattle in LFAs, and encouraged beef production, by making £20 million of LFASS payments as cattle “top-ups”¹⁹. Now that the production link has come to an end, we are concerned about the loss of environmental and other benefits.

Question 2 *Whether it is appropriate to set common, EU wide biophysical criteria for delimiting LFA areas, as suggested by the Commission in its consultation paper*

9. The SRPBA believes that proposals for the common biophysical criteria and the options for implementing these criteria as outlined in the EC Review of the Less Favoured Areas Scheme Consultation²⁰ are not appropriate and do not meet the needs of Scotland’s nor the UK’s less favoured areas.

10. From a Scottish perspective, the EC common biophysical criteria is a less useful and relevant approach than the long-standing method of classifying agricultural land in Scotland which is the Land Capability for Agriculture classification. This addresses the particular biophysical properties of Scottish soil, climate, relief and vegetation. We believe that the EC criteria are more suited to Mediterranean conditions than Northern European ones. We also believe that the slope criteria is too lenient and the EC criteria does not cover soil climate interactions and their influence on workability, the suitability of the soil to take traffic and poaching risk which are features of Scottish LFAs.

11. We are also concerned about the timing of the implementation of the common biophysical criteria. The criteria is not workable as it stands and 1 January 2010 is a very limited timeframe for any implementation. Although much of the data required for the implementation of common biophysical criteria in Scotland is in existence, many other Member States will not have this data. This will take a large amount of time to collect and analyse which may mean that some Member States may have to implement the criteria before others. This may put them at a disadvantage.

12. We would also question whether a common biophysical criteria could ever achieve the desired outputs from the LFAs. An outcome focused approach based around the desired delivery of public goods maintained by extensive farming activities may be a more helpful approach than focusing on physical criteria. The SRPBA strongly believes that it is important to get the principles correct in relation to how we define LFAs—this must be considered within the wider CAP post 2014 discussion rather than rushing through costly measures which are likely to damage our existing LFASS structure. We would encourage the UK representatives to urge the EC to take time over this issue and not to be held to the 2010 deadline.

¹⁸ <http://ec.europa.eu/agriculture/eval/reports/lfa/sum—en.pdf>

¹⁹ This value relates to the Scottish cattle top up figures

²⁰ <http://ec.europa.eu/agriculture/consultations/lfa/consultationdoc—en.pdf>

Question 3 Whether the common biophysical criteria set out by the Commission in its consultation paper are appropriate and effective in identifying disadvantaged areas. Are there any omissions, whether in the form of further biophysical indicators or other indicators?

13. If we were to adopt the EU common biophysical criteria in Scotland, 90% of the current LFA would remain. However, 350,000ha of previously non-LFA land would come into LFA. We do not believe this correctly identifies disadvantaged areas and we believe this would make a mockery of the scheme.

14. The EC Options for implementing the criteria are also problematic. Although the SRPBA believes option 1-Status Quo + is the most workable of the Options presented, we do however recognise that this Option poses difficulties with transparency and controllability of the aid scheme across Europe. However, we believe that this option is the most appropriate to encourage the “preservation of sustainable farming activities in areas affected by natural handicaps” which is a criteria of the scheme. It is also likely to impose a lower administrative cost on Member States.

15. Although Options 2 (Common Criteria) and Option 3 (Eligibility Rule) afford greater levels of transparency and controllability, the administrative burden and cost of implementation is high for both of these options, especially for countries with less developed datasets. We believe that the development of one EU criteria would be impossible owing to the diverse landscape, habitats and public goods provided across Europe. We do not believe that the Option 4—High Nature Value is a viable option as it stands as its focus is too narrow.

Question 4 What degree of harmonisation of eligibility conditions (for determining access to LFA payments), if any is needed?

16. The SRPBA understands that the rules regarding the calculation of the LFA Payment will change and that from 1 January 2010 the payment per hectare should be fixed on the basis of farmers’ additional costs and income foregone related to the handicap for agricultural production in the area concerned.

17. The SRPBA believes that income forgone is not a sufficient mechanism to keep people farming in LFAs, as this does not adequately reward farmers for their time or delivery of public goods. A monetary evaluation of the value of public goods is vital and we firmly believe that the Commission should be investigating this.

Question 5 What the basic rules and criteria for eligibility for LFA aid should be, if the scheme is to meet its new objectives

18. Regarding setting the direction for future payments, the SRPBA, as part of the European Landowners’ Organisation, believes that the CAP Reform priorities should be focused on Environmental and Food Security. CAP payments should compensate managers appropriately for maintaining the land to secure the environmental benefits that the public wish to pay for. Payments should be high enough, ie higher than costs and income forgone, to pay for the delivery of the public benefits. Rates are clearly not high enough to maintain a farming system which can deliver the necessary public benefits as we have observed a significant reduction in hill livestock farms. Therefore when setting the hectare rates this must be taken into account and also considered in the wider context of the CAP Reforms. Discussions relating to the establishment of LFASS payment rates should be undertaken alongside the CAP Health Check/CAP Reform discussions to ensure that moves towards area based payments do not over compensate farmers in some areas of Scotland.

Question 6 How practicable is the new payment formula (based on additional costs and income foregone related to handicap in the area concerned)? Is it likely to help reduce wide discrepancies in payment levels across Member States?

19. Please see paragraph 18.

Question 7 To what extent would common biophysical criteria and amended eligibility criteria address the deficiencies of the LFA scheme as identified by the Court of Auditors

20. Please see paragraph 9–15.

Question 8 What is the role of the LFA scheme in the context of the current Rural Development Regulation, and the reformed, post-Health Check CAP. What should the LFA scheme deliver in the short term (pre-2013) that other policy instruments affecting farm viability, environmental protection and agricultural land use cannot deliver?

21. The SPRBA has outlined their concerns relating to the continuation of hill livestock in paragraph 2–4. The current economic conditions are likely to further increase pressures on those farming in marginal areas. We would wish to retain what is left of the hill livestock farming systems in these marginal areas, if this is not maintained the wider associated social and economic benefits will not be realised. We believe that any adjustment to the LFA payment should take consideration of this problem.

Question 9 The future evolution of the scheme, post-2013 within the context of the EU budget review, the EU's cohesion policy and the further reform of the Common Agricultural Policy

22. There is a need to consider the long term approach to funding and the long term role of the SFP and LFA payments. If the SFP is to be abolished, then the LFA funding needs to address the shortfall by ensuring larger LFA payments are made to retain the public goods brought about through LFA management. This issue needs to be considered alongside the CAP Health Check and the future of CAP to achieve a clear and focused vision for the future of our uplands.

23. We believe that CAP will require a larger budget in the future to support the environmental challenges such as flooding, climate change, habitat loss and water management. It will also need to address food security issues which will become increasingly challenging as the global population continues to rise. LFASS will have a role to pay post 2013 in delivering public goods and this must be costed appropriately.

30 January 2009

Memorandum by the Tenant Farmers Association

1. INTRODUCTION

1.1 The Tenant Farmers Association (TFA) welcomes the opportunity to provide written evidence to their Lordships as part of their inquiry into the planned review of the EU Less Favoured Area (LFA) support scheme.

1.2 The TFA was established in 1981 as an Association to represent the interests of tenant farmers in England and Wales. As such, the Association's focus is on those aspects of policy and practice which fall uniquely on the let sector in agriculture. However, there are, inevitably times when it is important for the TFA to have a view on wider issues as they impact upon tenant farmers and others within the industry. Management of our uplands is one such issue particularly as much of the upland area of England and Wales is managed by tenant farmers.

1.3 Although the sub-committee is considering LFA support within the EU context, this evidence is presented from the TFA's experience in England and Wales.

2. THE IMPORTANCE OF UPLAND AGRICULTURE

2.1 The hill areas of England and Wales are important national assets from a number of perspectives. By their very nature they are physically, socially and economically remote. Agriculture continues to be, and should continue to be, the mainstay of economic and environmental management for these areas despite the severe natural handicaps encountered by farmers who operate in hill areas.

2.2 They are extremely important in the wider agricultural industry as they represent the beginning of the livestock production chain. It is the crop of lambs and calves from our breeding flocks and herds in hill areas that are finished further down the hill on lowland units before entering livestock markets and abattoirs on their way to supermarket shelves. This system of integrated production has operated in the UK for centuries and the impact of the loss of breeding flocks and herds in hill areas experienced over should not be underestimated in terms of the impact on the wider economy, rural social structures and the rural environment.

2.3 Farming in hill areas provides the most reliable and coherent basis upon which the management of our most beautiful and yet fragile landscapes and ecology will be achieved. The knowledge contained within the farming community in hill areas is invaluable and must be the primary source for new policy development. It is not overstating the case to say that the skills of livestock and moor management are bred into hill people and just as the sheep are hefted so are the people. Without the hill community in the uplands making money

from ruminant production, the landscape will change out of all recognition in a short period of time. Once it has gone it will be nearly impossible to get back.

2.4 Indeed, this loss is already occurring. In the Northern Yorkshire Dales after Foot and Mouth Disease, bracken was beginning to creep up the hillsides in the absence of cows. Today, eight years on, bracken is encroaching at a faster rate as hill cows disappear at a faster rate. Another example are the Malvern Hills which in Elgar's day had moorland, were covered in sheep and ground nesting birds and cattle grazed on the town greens. They are now more of an unsightly, stockless, bracken and nettle scrubland due to the lack of stock available to graze there.

2.5 Given the harsh and fragile conditions experienced by farmers in the hills, land management is both costly and difficult. Without public support many of these farms would find it impossible to break even. The TFA believes that funding through the EU scheme needs to continue and be enhanced in order to sustain the sensitive management of the land and features associated with it (heather moorland, hedgerows, stone walls and vernacular buildings).

3. THE IMPACT OF POLICY CHANGE

3.1 Hill areas have been badly affected by a number of major shifts in policy and in reward structures over the past 10 years. The TFA would argue that the most significant of these negative impacts was the introduction of the Single Payment Scheme in 2005. It provided a specific, major blow to farming in the Severely Disadvantaged Areas (SDA) and had wider ramifications through the ending of payments on breeding livestock rendering those enterprises relying upon breeding stock in difficulty and now in decline. The Suckler Cow Premium and Ewe Premium (and their LFA supplements) provided an essential base line level of support to cattle and sheep breeders in hill areas. The rationale for removing them was that the breeder should look to the market place for his return. However, the reality of the situation is that no extra return has been gleaned from the market place following the removal of the breeding premiums which has led to the contraction of cattle and sheep numbers in the hills which has in turn led to inevitable implications for the natural environment including the incursion of bracken and other evidences of under grazing. The TFA's view is that renewed consideration should be given to how upland livestock production should be supported for the food, environmental and social benefits it brings.

3.2 The move from hill livestock compensatory allowances (HLCA) to hill farm allowance (HFA) also caused major disruption as it moved payments from land occupiers to land owners either directly or indirectly through rents. The Government now wishes to push this further by introducing an uplands element to the Entry Level Stewardship Scheme (UELS). Aside from some general difficulties with the scheme as proposed by DEFRA, this will add a further problems specific to the tenanted sector.

3.3 Firstly, since the UELS will require participants to sign up for a five-year term, there will be many tenants either on short term agreements for less than five years, or on longer agreements which now have less than five years to run, who will not be able to access the scheme without their landlord's consent. In a significant number of cases, landlord's consent will not be not easy to obtain. The TFA is gravely concerned that these individuals will be disenfranchised from the new scheme and will therefore experience a significant drop in their income in comparison to what they were able to achieve under HFA or HLCA.

3.4 In response to this, the TFA has proposed the establishment of a statutory appeals process to which a tenant with a short-term agreement, whose landlord refuses consent for entry into UELS, could go to argue that the landlord's refusal was unreasonable. In the event the appeals panel agreed, it would allow the tenant entry and bind the agreement to the land for the requisite period of the scheme. We would see this operating only as a last resort and landlords acting reasonably should have nothing to fear.

3.5 Secondly, given that a base requirement for the scheme will be participation within the general Entry Level Scheme (ELS), we are also concerned about those situations where the ELS agreement has been taken out by someone other than the farm tenant. For example, many landlords in upland areas have applied for and been accepted into ELS.

3.6 It is the TFA's view that landlords should not be able to access agri-environment schemes where they have let the land to an agricultural tenant. In such circumstances the agricultural tenant should be the only eligible participant in such schemes and any arrangements that need to be put in place with the landlord can be achieved between the landlord and tenant concerned, for example by adjusting the level of rent paid. However, this would be a long-term solution. In the interim, we would propose that landlords with agricultural tenants should not be permitted entry into UELS even where they have ELS agreements themselves. However, tenants whose landlords have entered ELS should be eligible to join UELS as it is the status of the land that is the

important factor. Whilst this may create some administrative difficulty we believe this to be necessary to ensure that a significant minority of tenants are not disenfranchised from the new scheme.

3.7 The proposed UELS has many drawbacks which will impact negatively upon its ability to meet its stated objectives. Along side the problems for the tenanted sector noted above, at its core, it fails to address the real need of finding a mechanism which will sustain ruminant grazing in upland areas for the wide range of benefits that such management brings.

3.8 The Government has in the past argued that the future success of upland agriculture lies ultimately within the industry's own hands. The Association disagrees fundamentally with this often used sound-bite. Not only are there layers of Government regulation at both local and national level impacting upon hill areas, we have the dominance of supermarkets, international trade rules and subsidies in other countries. The TFA would argue that rather than resting entirely in its own hands, the success of the sector lies in the hands of many individuals and organisations including the Government.

3.9 The TFA believes that we need a fundamental review of the decision which led to the abandonment of payments in relation to breeding livestock leading to the development of a new scheme for the long-term which will deliver an integrated upland environmental land management reward package with stock rearing at its core.

4. PUBLIC BENEFITS

4.1 The Government often speaks of its wish to continue supporting activities in hill areas which produce "public benefits". Such benefits are often loosely defined but in many instances the phrase is used interchangeably with "environmental benefits". The TFA does not believe that public benefits can be defined on the basis of "environmental benefit" alone. Public benefits need to be viewed in a much wider context to include economic impacts, landscape impacts, social impacts, ecological and environmental impacts, recreational impacts and, of course, food security. The TFA believes that if public benefits are properly considered on this wider basis then there continues to be a strong justification for supporting agriculture in hill areas to an even greater extent than occurs currently.

5. REVIEW OF THE LFA BOUNDARY

5.1 The TFA does not believe that there is any justification for reducing the size of the official LFA in England and Wales and any review of the LFA at a European level must take into consideration not just landscape issues but climate and socio-economic elements as well.

6. CONCLUSION

6.1 Agricultural systems in the uplands are complex and fragile. Continuing state support for these systems will be a vital component of sustainability into the long run. However, changes over the past 10 or so years have caused destabilisation in upland areas of England and Wales which has led to changing farm structures and inevitable impacts on the environment, the wider economy and the social fabric of the rural areas supported by farms in the uplands. There needs to be a fundamental review of support to the uplands culminating in the development of a new scheme which will deliver a long-term, integrated upland environmental land management reward package with stock rearing at its core.

2 February 2009

Memorandum by the Welsh Assembly Government

STRENGTHS AND WEAKNESSES

Question 1: The strengths and weaknesses of the LFA scheme thus far

LFA designation in Wales first took place in 1975, based on criteria set by the Commission—depopulation, poor agricultural production conditions, low incomes and workforce dependent on agriculture. Designation applies to 80% of the agricultural area of Wales comprising 57% Severely Disadvantaged Area (SDA) and 23% Disadvantaged Area (DA). Consequently LFA support in Wales has been a fundamentally important part of agricultural policy in Wales for decades. The current support scheme, Tir Mynydd, is an area based payment scheme based on income foregone and additional costs of farming in the LFA. 2009 payment rates equate to

£28.50 per hectare in the SDA and £24 in the DA within an overall budget of £25.3 million. Payments are made to approximately 11,000 applicants annually which is the majority of the commercial farmers in Wales.

The rates reflect the pressures on securing viable incomes from farming in the more marginal land areas of Wales due to topography, climate and soil conditions. It is also relevant that payment maintains farm-based livestock production—the mainstay of Welsh agriculture—to avoid land abandonment and adverse environmental impact if no such animals were present.

The scheme contributes to the Rural Development Plan objective of enhancing the environment and countryside through support for land management.

Tir Mynydd maintains active farming which provides a base on which agri-environment schemes can be developed to deliver environmental benefits and ecosystem services, including the new challenge agenda of biodiversity, water, climate change and bioenergy. Without Tir Mynydd and the likelihood of progressive land abandonment, environment benefits would not be realised.

It has been the position in Wales for centuries that the rural areas have relied on agriculture as a key industry to support socio-economic, environmental and cultural cohesion. Farming creates upstream and downstream employment opportunities which reduce outward migration. Tir Mynydd assists towards maintaining the agricultural industry.

BIOPHYSICAL CRITERIA

Question 2: Whether it is appropriate to set common, EU-wide biophysical criteria for delimiting LFA areas, as suggested by the Commission in its consultation paper

Previous pan EU reviews and evaluations of LFA designation and support schemes have identified significant inconsistencies in terms of the basis for designation; scheme eligibility criteria; payment rates; and outcomes. The introduction of a consistent framework for designation, based on biophysical criteria for delimitation is a valid approach to introduce greater consistency and avoids socio-economic influences. However, the expanse of the EU and great variety of terrain, land type and biophysical constraints requires sufficient regional flexibility to take into account differences in natural disadvantage. The original Joint Research Centre proposals did not make adequate provision for the cool, wet, maritime climate in Wales and the UK. For example the main soil property affecting potential Welsh LFA is Soil Wetness Class. The other soil properties proposed by JRC are of marginal significance re LFA distribution in Wales (ie heavy textured / sandy topsoils, very shallow soils and very stony soils). The latest proposals do cater adequately for the biophysical constraints to farming in Wales and provide a fairer basis for redesignation.

Question 3: Whether the common biophysical criteria set out by the Commission in its consultation paper are appropriate and effective in identifying disadvantaged areas. Are there any omissions, whether in the form of further biophysical indicators or other indicators?

Owing to the degree of severity of natural constraints to farming in Wales the original criteria set out in the Commission's consultation paper resulted in a designated area not too dissimilar to the current LFA in terms of extent, shape and boundary, which offered reassurance that the original designation based on the Agricultural Land Classification was a robust methodology, scientifically based and as appropriate now as it was in the 1970s when the original designation took place. However other parts of the UK suffering natural disadvantage were not accurately identified through this methodology. The revised set of biophysical criteria, detailed in the latest proposals, include measurement of field capacity days which represents a significant improvement for the UK as a whole. For Wales, the revision has meant little change to the "within LFA" soils but has reduced the "outside LFA" soils area, especially in N Wales and avoids areas like Deeside and the Vale of Clwyd potentially coming into LFA. Testing of the revised criteria and cut-offs has not yet been completed.

Mapping of LFA is further complicated by proposals to base the mapping on utilizable agricultural area and/or administrative wards. Threshold areas have yet to be decided and 50% or 66% have been suggested. For example a ward with dominant LFA criteria, ie exceeds the threshold, would be mapped entirely as LFA. The threshold level is important and we will be anxious to avoid LFA islands and remapping which could result with ward based mapping when boundaries change. Regional flexibility would be our preference regarding land parcel mapping.

ELIGIBILITY CONDITIONS

Question 4: What degree of harmonisation of eligibility conditions (for determining access to LFA payments), if any, is needed

Early stage Commission proposals on common eligibility conditions caused us significant concern. Applying pan EU requirements would necessitate benign eligibility criteria to cater for the wide variety of farming systems and conditions across LFAs in the 27 Member States. There are reportedly some 150 different eligibility criteria in place across Europe. This situation is probably unnecessarily complex and there is a need to ensure that criteria are non-discriminatory while respecting the objectives of the measure. Some rationalisation is necessary but must be balanced with the need for regional differences and discretion. The current criteria in Wales are considered appropriate in this respect and our preference is to retain regional flexibility within the Member State to determine eligibility conditions that are appropriate to farming within the Welsh LFA. Current eligibility criteria for the Tir Mynydd scheme support extensive farming while safeguarding the environment and include minimum stocking rates and a need to continue to farm livestock, which in turn manages hill and upland grassland in favourable condition to maintain biodiversity. The environment is maintained as a consequence of the farming activity and it is important to retain the ability to influence that activity through perhaps exclusion of certain more intensive sectors.

Question 5: What the basic rules and criteria for eligibility for LFA aid should be, if the scheme is to meet its new objectives

The basic rules should ensure the objective of continued use of agricultural land to maintain the countryside as well as to maintain and promote sustainable farming systems. In the Welsh context the avoidance of land abandonment and therefore the requirement to maintain livestock farming will continue to be important. Equally livestock farming may not be important or could even be damaging in other EU LFA and therefore pan EU criteria need to be objective and benign. A commitment to and continuity of farming would have EU wide relevance. Best practice is encouraged through the requirement to adhere to cross compliance/GAEC standards.

PAYMENT CALCULATION

Question 6: How practicable is the new payment formula (based on additional costs and income foregone related to the handicap in the area concerned)? Is it likely to help reduce wide discrepancies in payment levels across Member States?

In Wales the application of the formula has resulted in a fair basis to payments. Annually we assess the differential between farm output, costs and income between non-LFA and LFA farms and also between the SDA and the DA. The Farm Business Survey data provides consistent reference information on which the differential can be calculated. Most recently we adjusted the differential between the SDA and DA to reflect rising costs in the DA alongside cost reduction in the SDA. Upper and lower limits are unhelpful in this process as the degree of disadvantage can change significantly from one year to the next and the limits can render the system too inflexible. The risks of over/under compensation would be reduced if the methodology was more clearly defined alongside the independent verification process.

IMPACT OF THE REVIEW

Question 7: To what extent would common biophysical criteria and amended eligibility criteria address the deficiencies of the LFA scheme as identified by the Court of Auditors in 2003, and in particular:

- *guarantee equitable treatment of beneficiaries*
- *facilitate monitoring, control and audit of the measure*
- *facilitate evaluation of the impact and effectiveness of the measure*

Common biophysical criteria will introduce improved consistency into LFA delimitation but inevitably continues to include a spectrum of disadvantage to cater for the variation in conditions and circumstances across 27 Member States. Pan EU eligibility criteria will have to be benign to be fair and sufficiently flexible to address environmental needs and widely different farming systems. Member States and regions must have

significant control over eligibility criteria to meet regional farming and countryside needs. Common biophysical criteria should facilitate improved monitoring, control and audit although this will be compromised somewhat by the need for regional flexibility regarding eligibility criteria. All criteria should be appraised in relation to ease of monitoring and evaluation. The environmental impact of the measure will continue to be difficult to evaluate in the absence of a robust baseline and due to the interaction of LFA support with other agri-environment schemes.

FUTURE DEVELOPMENT OF THE LFA SCHEME

Question 8: What is the role of the LFA scheme in the context of the current Rural Development Regulation, and the reformed, post-Health Check CAP. What should the LFA scheme deliver in the short term (pre-2013) that other policy instruments affecting farm viability, environmental protection and agricultural land use cannot deliver?

The Tir Mynydd scheme has maintained an environmental baseline through contributing towards the viability of livestock farming in the Welsh LFA. Single Payment and agri-environment payments generally represent the most significant proportion of farm incomes in the LFA. However 60% of Tir Mynydd recipients are not engaged in agri-environment schemes and have little incentive to maintain the landscape beyond the requirements of cross compliance. At the present time reduced support would translate into reduced incomes and the risk of land abandonment and environmental degradation which would be difficult if not impossible to reinstate and probably very costly to achieve.

Question 9: The future evolution of the scheme, post-2013, within the context of the EU budget review, the EU's cohesion policy and further reform of the Common Agricultural Policy

In Wales the Tir Mynydd support scheme for LFA land managers is firmly embedded in Axis 2 and underpins higher tier agri-environment schemes. Approximately 40% of beneficiaries of LFA payments in Wales are also participating in these schemes (24% in the entry level Tir Cynnal and 16% in the higher tier Tir Gofal scheme). Approximately 80% of the RDP 2007–13 budget is dedicated to Axis 2 and the entire basis of support, including LFA support, is currently being reviewed. The new provision will build on the Commission's New Challenge agenda including climate change mitigation, renewable energies, water management and biodiversity. It is too early to say how LFA priorities and support will be accommodated in the future support provision.

March 2009