

# Eligibility criteria for less-favoured areas payments in the EU countries and the position of the Czech Republic

## *Kriteria způsobilosti pro platby pro méně příznivé oblasti ve státech EU a pozice České republiky*

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**Abstract:** The delimitation of less-favoured areas (LFA) on the territorial and the farm level in the EU member states varies in many ways. The Commission emphasizes the unification of criteria on the territorial level. But the EU countries use very different criteria for the eligibility area definition and for the eligibility on farm level. This makes the comparison very difficult. The CR belongs to the countries with a lower level of differentiation of payments rates. The eligibility area is restricted to the grassland in the CR and degresivity of payments is not applied. In particular, collective farms as the owners' association play an important social role in the country of the Czech Republic and some other countries in the Central and Eastern Europe. It would be necessary to find such differentiation of payment system that would reflect these specific conditions. The holdings with different size and different form of farming as well as the effect of other subsidies to holdings should be taken into account. The support potential within the axis III of the Rural Development Program would be necessary strengthen to elimination of the adverse impact due to further lay-off of the employees in agriculture

**Key words:** less-favoured areas, LFA, eligibility criteria, eligible area, LFA payments, rural employment, Rural Development Program

**Abstrakt:** Způsoby vymezení méně příznivých oblastí (LFA) z hlediska územního i na úrovni farmy v zemích EU se liší. Komise zdůrazňuje sjednocení kritérií z hlediska vymezení území. Země EU však užívají velmi různorodá kritéria také pro specifikaci oprávněné plochy i způsobilost farmy pro platby, což ztěžuje jejich porovnání. ČR redukuje oprávněnou plochu jen na plochu travních porostů. Patří mezi země s nižší diferenciací sazeb. Zvláště kolektivní podniky jako sdružení vlastníků půdy hrají důležitou sociální roli na venkově České republiky i některých dalších zemí střední a východní Evropy. Bude nutné najít takový systém diferenciacie plateb, který bude odrážet tyto specifické podmínky. V úvahu bude nutné vzít nejen velikost podniku ale i způsob hospodaření a dopad ostatních podpor. V reakci na další uvolňování pracovníků ze zemědělských podniků bude třeba posílit podporu zaměstnanosti na venkově prostřednictvím opatření osy 3 Programu rozvoje venkova.

**Klíčová slova:** méně příznivé oblasti, LFA, kriteria způsobilosti, oprávněná plocha, platby LFA, zaměstnanost na venkově, Program rozvoje venkova

LFA payments together with the Natura 2000 are the only territorial measures of the Rural Development Program (RDP). A fundamental reform of the support to less-favoured areas (LFA) is expected in 2010 as well as the Commission is assumed to publish a LFA report and an amendment to this measure as

a part of the Council decision as soon as 2008. In view of this step, the Commission was requested to provide extensive analyses and to evaluate the delimitation criteria and the impact of the LFA support on these areas. This paper is aimed to compare the LFA policy in the Czech Republic and in other

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EU countries to help the Czech agricultural as well as professional public to better know the position of the Czech Republic amongst the EU member states in this area of interest. This paper is a follow-up to the previous analysis published by the author in the *Agricultural Economics* 2007.

The eligibility for LFA support is defined at two levels that are area eligibility and farm eligibility. The farm eligibility to support of the LFA measure then requires a location in the area classified as LFA based on the criteria defined by the relevant legislation as well as the compliance with the criteria laid down to holdings at the national or regional level with the objective to implement the goals of the LFA policy in the given country.

## MATERIAL AND METHODS

Sources of comparative analyses were the analysis provided by the Institute for European Environmental Policy (2006) and conclusions from other analyses regarding LFA, accomplished by Štolbová during the years 2006 and 2007. The comparison of financial framework of the Rural Development Programs (RDP) measures was made by the use of data from the RDP 2000–2006 of the selected EU countries, for the selected EU 10 countries data from the RDP 2004–2006 were used. The abbreviation EU 10 countries means the member states joined the EU at 2004 (Czech Republic, Cyprus, Estonia, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia). The EU 5 used in this article means the member states at the beginning of 1995 (Germany, France, Italy, the Netherlands, Belgium, Luxembourg, Denmark, Ireland, United Kingdom, Greece, Spain, Portugal, Austria, Finland and Sweden). To evaluate the role of LFA payments in the farm income, the standard FADN data of the selected EU countries was used. Results of the year 2004 only were available on the EU level. A deep study of the systems of the LFA measure application of the selected EU countries showed the profound variation of the eligibility criteria in particular on the farm level. The example of the data from the DG Agri (2006) Rural Development Report proved the negative impact on this variation on the comparison of the payments level. The crucial role is played by the criteria for eligibility of area, farm eligibility and farm size structure of the given country. The previous analysis published in the *Agricultural Economics* (Štolbová 2007) showed the specific farm size structure of Czech agricultural holdings. The Eurostat harmonized national data of the 2003 Community farm structure survey were used to analyse the differences in the number of people

employed by large and small agricultural holdings in the selected EU countries.

Due to the often essential differences in the support distribution system used for less-favoured areas, many documents and data should be challenged. The authors, who deal with the problems of the LFA measure comparisons, are Dax and Hovorka (2007) as well as Grabtree et al. (2003). The analysis of compliance and differences was elaborated to provide a basis to negotiate this measure in the Czech Republic as of 2010. The specifics of the Czech Republic were underlined which must be taken into account when the future LFA policy is formulated in our country.

## RESULTS AND DISCUSSION

### LFA scope

In view of the statistical data provided in the report which evaluates the rural development in the EU (DG-AGRI 2006), LFAs cover 55.1% of agricultural land in the EU 25. The type which occurs most frequently is “Other“ Less-Favoured Areas accounting for 35.6% of agricultural land while the mountain areas account for 15.4%, and the areas affected by specific handicaps account for 3.2% of the EU agricultural land. In the Czech Republic, 50.8% of the total agricultural land is currently defined as LFA of which the mountain areas account for 15% of agricultural land and “Other“ LFA 28.8% of agricultural land and the areas affected by specific handicaps 6.6% of agricultural land. If the total area of agricultural land in less-favoured areas is compared, the first place would go to Spain with 21 mil. hectares of agricultural land, followed by France with 13 mil. hectares of agricultural land, Germany with 8.5 mil. hectares of agricultural land and Poland with 8.3 mil. hectares of agricultural land classified in LFA. The Czech Republic with 1.8 mil. hectares of agricultural land in LFA come the eleventh with 2% of LFA participation in the European Union.

The Czech Republic is amongst the countries with a high percentage of agricultural land in the mountain areas. The highest rate of mountain areas in respect to agricultural land is reported by Austria (59%), Greece (56.4%), and Slovenia (55.2%). Poland and Germany only have 1–2% of agricultural land in the mountain areas. The countries with prevailing “Other“ LFA include the United Kingdom, Lithuania, Denmark, and Luxembourg. Nearly all LFAs are classified “Other“ in two of the large-size member states, that is Poland and Germany, as well as in Ireland, Belgium, Latvia and Estonia.

The EU countries use a whole series of indicators to determine less-favoured conditions for agriculture. Those are embodied in the general criteria set to characterize each of the LFA types as delimited in the Council Regulation no. 1257/1999 that is mountain areas, other less-favoured areas, and areas affected by specific handicaps.

### **Territorial eligibility criteria**

#### *Mountain areas*

In general, the Council Regulation No. 1257/1999 as well as the Council Regulation No. 1698/2005 define mountain areas as the areas in which the potential to use the agricultural land is limited due to difficult climatic conditions qualified by the altitude, or due to steep topography. Further, the areas to the North of 62<sup>nd</sup> parallel (latitude) in Sweden and Finland are automatically considered as mountain areas. The threshold altitude value to classify a territory as a mountain area depends on each member state and on their respective geographical position. The minimum threshold ranges between 500 m and 1 000 m above the sea level. The southern countries refer to any area at the altitude 800 or 1 000 m above sea level as mountain area, and Salzburg, Slovakia and the Czech Republic even start at 600 m and Poland at 500 m above the sea level. In general, it is valid that the minimum boundary for the altitude criterion is reduced from the South to the North in relation to the latitude of the area. The steep slope occurrence criterion at a lower altitude is separately applied by nine of the member states while it is not used by the others, including the Czech Republic. The minimum threshold ranges between 20% and 25% of steep land on most of the given territory.

A combination of the altitude criterion and the steep slope criterion is applied by 12 member states (all the countries using the definition of mountain LFA, except of Finland and Poland). A higher altitude limit is applied by the southward countries (the Southern regions of Italy and Portugal) with a certain exception of the Northern part of Portugal where the steepness of 20% is classified as mountain area at a relatively lower altitude (above 400 m) while the slope over 15% would do for most of the countries. As of 2007, the Czech Republic has combined both the criteria to apply the minimum altitude of 500 m and the steepness over 15% for most of the territory similar to Slovakia, Slovenia, France, Sweden, Austria, or Cyprus.

#### *“Other” less-favoured areas*

The countries use different combinations of the partial land use data, yields, topographical characteristics, different index or scoring systems (land quality), livestock density, income figures per farm or per employee, gross agricultural output, standard gross margin and many other indicators to delimit the LFA based on low-productivity soil determination with the consequent unsatisfactory economic results of the agriculture, low or decrease in population, or high participation of farmers. A list of indicators used to define “Other” LFA is provided in Table 1.

The variety of criteria applied is very wide and it is very difficult to find a closer similarity between the member states in view of “Other” LFA delimitation. Some of the criteria allow the international comparison (e.g. yields) while others are country specific (e.g. land quality indexes). In the context of other EU member states, the Czech Republic is amongst the countries using the agricultural land productivity level comparison based on the agricultural land yield index evaluation.

To set up the population density criterion, the countries followed the explanatory memorandum of the Commission dated 1974 with the recommendation to set the criterion at half the national average, but not exceeding 75 inhabitants per km<sup>2</sup>. For the criterion of the high rate of agricultural employment, it is obvious that the value over 15% of the economically active population set up for the founder member states in 1975 is considerably exceeding the present value. It means that the relevant changes to LFA delimitation were not implemented in the past decades despite of a significant drop in the agricultural labour force. The Czech Republic has only specified the lower limit of agricultural employment at 8% of labour force. The uncertainty of demographic criteria in terms of detachment from the real world was even criticized by the European Court of Auditors (Special Report No. 4/2003) resulting in the response of the Commission that those were revoked by the Council Regulation (EC) No. 1698/2005.

#### *Areas affected by specific handicaps*

A very large scale of data are used to delimit the areas affected by specific handicaps, that is the areas where agriculture should be maintained in order to preserve or improve the environment, to maintain the landscape, and to retain the tourist potential, and for the benefit of coastal area protection. The EU countries address the specific issues that may occur just in some areas (e.g. along the coast, in the remote

Table 1. Land quality and farm income measurement in the EU member states

Indicator	EU Member States
Permanent grassland rate (or fodder area)	Belgium, France, Italy, Greece, Luxembourg, United Kingdom, Slovakia, Germany, Austria, Finland, Sweden
Yields per acre	Belgium, Greece, France, Italy, Lithuania, Luxembourg, Hungary, Slovenia, Slovakia
Quality measurement indexes/soil fertility, soil-maps	Germany, Estonia, Cyprus, Latvia, Czech Republic, Slovakia, Poland, Slovenia, Finland, Hungary, Austria, Sweden
Plough-up	Ireland, Spain
Altitude	Belgium
Livestock density	Ireland, France, Italy, Portugal, Slovakia, United Kingdom, Luxembourg
Irrigated regions and wasted areas	Spain
Days with temperature below freezing point	Belgium
Farm income per person	Belgium, France, Ireland, Greece, Cyprus, United Kingdom
Gross Output	Hungary, Latvia
Cadastral yield	Slovenia
Payment contribution, net added value	Spain, Luxembourg
Farm size	Spain
Social tax per agricultural employee	Estonia
Income tax of area population	Latvia
Land taxes	Estonia

Source: An Evaluation of the Less Favoured Area Measure in the 25 Member States of the European Union; IEEP, 2006

regions, in the environmentally sensitive areas, etc.). Therefore, no general definition exists for those areas as well as it is difficult to compare the applied criteria. In the Czech Republic, the areas which failed to comply with the demographic criteria for classification as "Other" LFA were delimited as areas affected by specific handicaps after the accession to the EU. While there are adverse soil and climate conditions for farming, agriculture is important to maintain the landscape and to support tourism in these mostly submontane areas, therefore it was necessary to continue agriculture. The revocation of the demographic criteria for the delimitation of other LFA then means that areas affected by specific handicaps will have to be redefined in the Czech Republic.

In view of the LFA delimitation, the issue of consistent criteria amongst the member states have been discussed for several years, i.e. the interpretation of the homogeneity level. The mountain LFA delimitation criteria are generally obvious (altitude, steepness, and geographical position of the area).

In terms of the criteria assessment for "Other" LFA according to the land conditions and agricultural output, the range of criteria is fairly wide and many

criteria are very specific for each of the member states (e.g. soil quality indexes). Therefore, to consolidate the criteria in view of the delimitation of "Other" LFA will be a great challenge. In 1975 when the general criteria were formulated for the delimitation of "Other" less-favoured areas, the member states of the then European Community were quite homogeneous. To determine less-favoured natural conditions at less than 80% of the national average for the given criterion may have seemed a consolidating element. At present, however, when the EU reaches out from the Arctic Circle in the North to the subtropics in the South of Spain, Greece and Cyprus, the actual national average means entirely different conditions for the agricultural production.

#### Farm level criteria

The criteria were defined to adjust the eligibility of a holding (farm) to the LFA support to the objectives of the LFA policy as defined in Article No. 13 of the Council Regulation (EC) 1257/1999. Article No. 14 of this Regulation defines the beneficiary as farm-

ers who farm a minimum area of land to be defined and undertake to pursue their farming activity in a less-favoured area for at least five years from the first payment of a compensatory allowance, and they “apply good farming practices” in compliance with the environmental and landscape protection (as of 2007, the cross compliance is required according to Article 51 of the Council Regulation (EC) 1698/2005). The minimum farm area defined for distribution of LFA payments in the EU member states is ranged between 0.1 ha in Malta through 10 ha in England. This great difference implies different farm structures in the member states as well as different political approach to LFA by these countries. It reflects the significance of the LFA measure amongst the rural development plan measures in the given country. For example, half of the holdings in Spain and Italy are found below the threshold value of 2 or 3 hectares of the utilized agricultural farm area. In the Czech Republic, the minimum area of a holding was set at one hectare of grassland in the terms of the LFA support eligibility.

In addition to the criteria determined in the EU legislation, the majority of member states defined their own specific criteria to set the eligibility on the farm level. Some countries regulated the age of farmers (e.g. France) within the meaning of the lack of support to farmers older than 65 years. Greece also made a specific provision on the farmers’ age in favour of young farmers. Moreover, they even reflect on the farmers’ education (holder of so-called “Green Certificate”). The permanent residence of farmers is taken into account in Spain. The specific environmental criteria affect the payment rates in England. The Czech Republic is amongst the countries where holdings eligible to the LFA support are only engaged in livestock breeding (while the specified livestock density is maintained).

The EU countries also introduced different definitions for the use of agricultural land with respect to the eligibility for support. In some countries, the eligible area per holding comprises all of the farmland (e.g. Baltic countries, Poland, Slovakia) while it is the area under the explicit crops in Germany and Sweden. In many countries, the payment calculation is based on the grassland area and the agricultural land dedicated to forage production. In the Czech Republic, the LFA support is only intended for hectares of grassland.

The EU countries are left more to their own devices when choosing the farm-level criteria. The specific farm-level criteria for the LFA eligibility help to better aim the support to implement the objectives of the measure in the given country. On the other hand,

an excessive “tie-down” of holdings in one country (e.g. Czech Republic) is discriminating in terms of competition with LFA farms in the other countries. However, the inconsistent farm-level criteria amongst the EU countries will affect all the comparison of measures among the EU countries.

### **Financial framework of the LFA measure**

Similar to the actual criteria used for the delimitation of the LFA categories, the LFA payment distribution conditions also show a high level of difference among the member states depending on the individual modification of the European legislation. Member states play an important role when the LFA support is distributed. It should be set at a level sufficient to provide an efficient contribution to compensate for the existing handicaps, but at the same time, it should not provide an excessive compensation.

The total of public funds allocated to the particular measures in the Rural Development Plans are reflecting, to a certain extent, the strategy of the member states in the area of agricultural and rural support. The only obligatory measure which the support from the EU fund required in the programming period of 2000–2006 was the agro-environmental measure. Table 2 below shows the scheduled expenditure allocation to the LFA measures and other measures under the Rural Development Programs 2000 to 2006 for the specified EU countries, indicated as percentage of the total amount (or, the sum for 2004 to 2006 in the case of the EU 10 countries).

A higher share of the LFA funds than in the CR could only be found in Slovakia and Finland which, however, refers to all of the territory of the country as less favoured area. Other EU countries allocated by far lower percentage of cost to LFA even in the case of a higher (Austria, Greece, Spain) or comparable to the Czech Republic (Poland, Sweden, Ireland, Germany) LFA percentage of the agricultural land. These countries dedicated fairly high funds to, for example, environmental measures, marketing of agricultural products, training, setting up the groups of producers, alternative use of agricultural land, etc.

The total financial resources of the LFA measures allocated from the EU budget to each of member state are highly affected by the measure of the co-finance level using the national budget. For the EU 10 countries, including the Czech Republic, most of the territory is classified as the so-called Objective 1 where the RDP measures could be co-financed up to 80% using the EU resources. The highly developed and rich countries of the EU most often provide funds

Table 2. The scheduled share of expenditure allocation to the RDP 2000–2006 measures (%)

Country	LFA	Premature retirement	Agro-environmental measure	Afforestation	Other measures
Austria	28.6	0.0	54.3	0.2	16.9
Germany	11.1	0.1	26.2	1.1	61.5
France	17.2	2.3	13.9	0.7	65.9
Greece	16.4	19.7	6.9	2.8	54.2
Spain	4.8	2.8	9.5	7.0	75.9
Finland	51.0	5.7	28.9	1.0	13.4
England	31.1	0.0	35.9	7.5	25.5
Scotland	59.2	0.0	22.0	16.9	1.9
Wales	56.1	0.0	31.6	2.5	9.8
Sweden	15.8	0.0	40.8	0.0	43.5
Ireland	29.9	14.0	36.7	13.0	6.9
Poland	27.2	17.9	9.6	2.8	42.5
Hungary	10.8	2.6	40.8	10.6	35.2
Slovakia	50.5	0.0	13.3	0.8	35.5
Lithuania	24.2	21.0	10.2	4.4	39.9
Estonia	18.3	0.0	30.4	5.7	45.5
Czech Republic	44.9	1.3	49.4	3.0	1.4

Source: Rural Development Programs 2000–2006 (EU 10 countries 2004–2006)

from the national budget to cover the LFA measures, e.g. the United Kingdom at 84%, the Netherlands and Luxembourg at 75%. More than 60% of the total expenditures available for the LFA support are provided from the national budget of Finland (69%) as well as Greece (66%) followed by Austria, Germany and Sweden. Other EU 15 countries contribute about 49–60% of their national budget to the LFA co-financing, except of Portugal where the co-finance level at only 23% is approaching the group of the EU 10 countries with the co-finance level of 20%.

### LFA payment levels

The differences in the payment distribution systems as well as in the farm structure of each country are reflected in the differences of the total support both converted to eligible holding and to the eligible hectare of land. Figure 1 provides a comparison of the average payments per eligible ha (EUR per eligible ha) and the average per supported farm (EUR per supported farm) for the selected EU member states. Data of year 2004 were available.

The average support per eligible hectare ranges between EUR 16 per eligible LFA hectare in Spain to EUR 250 in Malta. The Czech Republic together with Slovenia are the only countries in the Central and Eastern Europe in which the average payment per eligible ha is reported above the EU 15 average amounting to EUR 78 per eligible ha. However, the comparison of the EU countries with respect to the amount of payment per eligible ha would be misleading since this figure is strongly affected by the actual definition of eligible area in the given country. The figure is also distorted by the level of rates reduction for the area exceeding the specified threshold of land per farm in the given country. An example may be the comparison of the LFA payments in the Czech Republic where the eligible area is restricted to grassland ha and the LFA payments in Slovakia where all of the agricultural land is deemed eligible. The rates per eligible hectare in the Czech Republic appear as a fairly high. However, if you compare the agricultural land area classified as LFA with the eligible area to which the LFA payments were actually effected, you will find out that the eligible area in the Czech Republic only accounts for less than

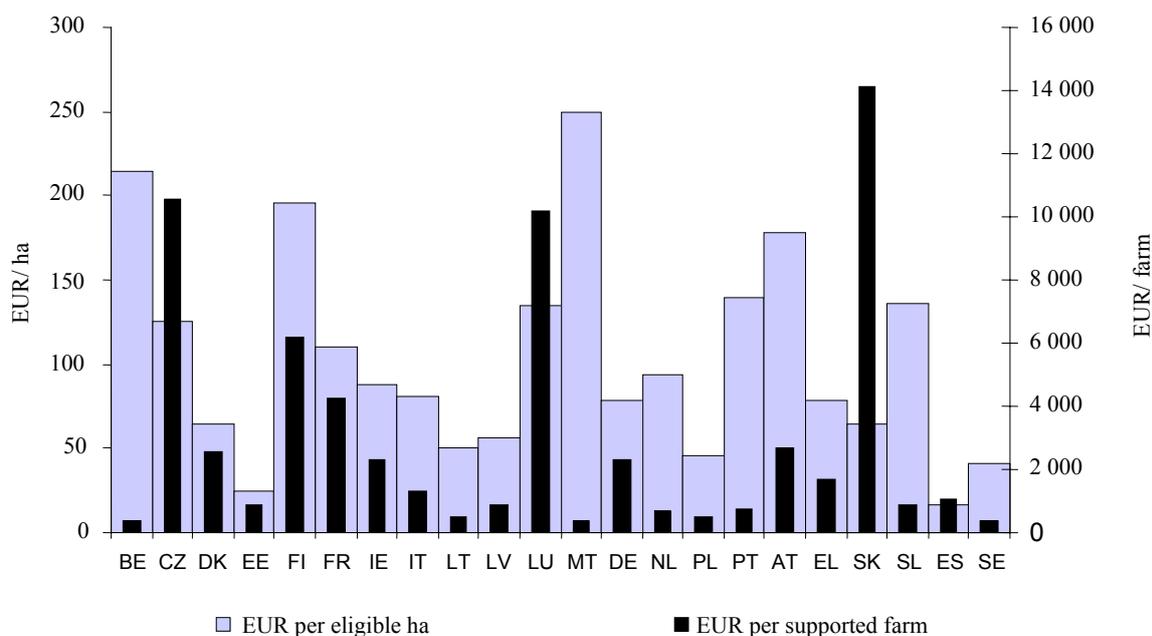


Figure 1. Comparison of the average LFA payments EUR per eligible ha and per supported farm

Source: DF AGRI – Rural Development in the European Union Statistical and Economic Information Report 2006

40% of the LFA agricultural land. The average LFA payment per eligible hectare in Slovakia is roughly half the amount in the Czech Republic. However, if you compare the agricultural land area classified as LFA with the eligible area to which the LFA payments were actually effected, you will find out that payments were provided nearly for all the LFA agricultural land in Slovakia. This fact will then show in the average payment per supported farm. The 2004 data indicates that the highest average payment per supported farm was effected in Slovakia, followed by the Czech Republic and Luxembourg. Nor is the average payment figure per supported farm helpful to compare the different countries. The differences in the average payment per farm among the countries are not only affected by the severity of the unfavoured conditions in the given country, but in particular by the different farm size structures, the size of the minimum area per holding in terms of the eligibility for support, different application of the rate modulation depending on the farm size or the specified maximum threshold of farm eligible area.

In the Czech Republic, the leading part in the agricultural land management is played by large-sized farms. The farms with the acreage exceeding 100 ha manage 88% of LFA agricultural land. Also in Slovakia, agricultural land is primarily managed by large-sized farms. On the contrary, more than half of agricultural land in Greece and Slovenia is managed by farms with the acreage less than 10 ha, and for Italy, Poland and

Lithuania, it would be more than one third of the agricultural land area (Eurostat, harmonized data of the structural survey 2003).

#### LFA payment role in the LFA farm economics

Based on the standard results of the Farm Accountancy Data Network (FADN) available for year 2004 using the FADN-RICA resources, the LFA payment share in Gross Farm Income (GFI) was compared between holdings in the mountain area and the other LFA types in the specified EU countries. Furthermore, the LFA payment share in the total current subsidies was calculated. The results are illustrated in Figure 2.

For the holdings managed in the mountain area of the Czech Republic and Slovakia as well as for LFA Lithuania, the LFA payment share in GFI is at 20%, and at more than 15% for the mountain area of Slovenia and LFA Latvia. These countries also have a high LFA payments share in the total current subsidies to holdings in those regions.

The comparison is, of course, affected by the lower produced GFI per hectare of agricultural land in the EU 10 countries, or by a lower level of subsidies to holdings in the form of direct payments. In 2004, a lower importance of the LFA subsidies was observed in Poland. In general, it may be concluded that the LFA payments are very important for the LFA holding economics in the Central and East European

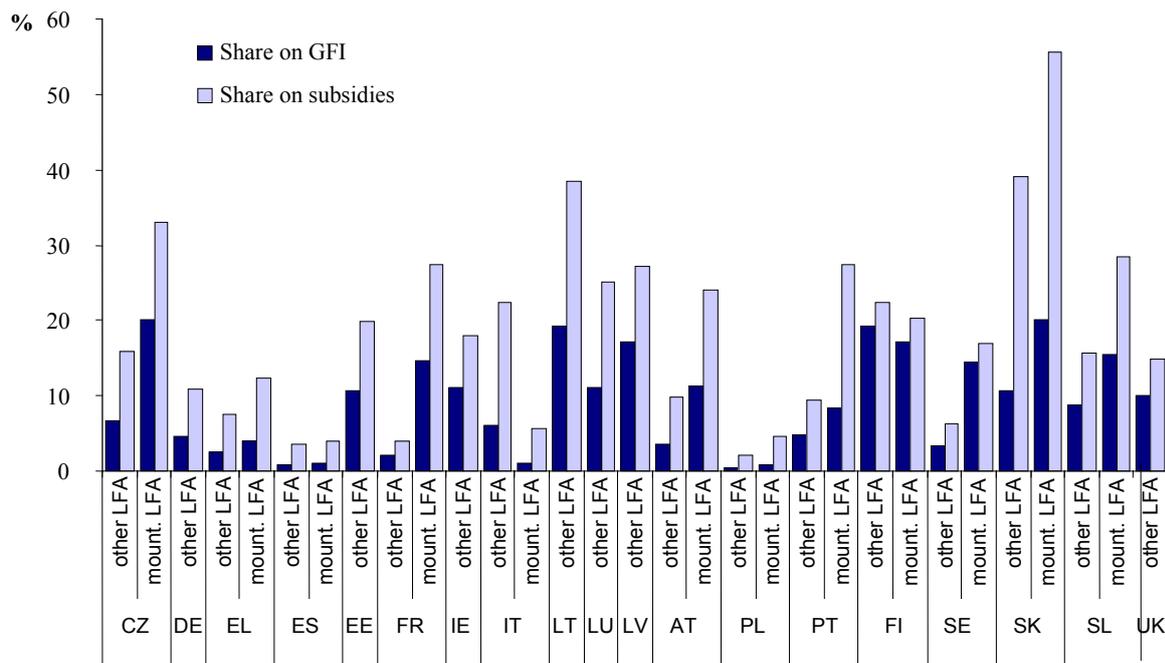


Figure 2. LFA payments share in Gross Farm Income and in current subsidies in the selected EU member states in 2004 (%)

Source: standard results of the Farm Accountancy Data Network 2004. DG Agri, RICA FADN 2006

countries, including the Czech Republic. Of the investigated EU 15 countries, the highest LFA payments share in GFI was reported in Finland, followed by the mountain areas of France and Austria. In return, a low LFA payments share in GFI and low share in the current subsidies are reported for the LFA farms in the southern EU countries, i.e. Spain, Greece, and in other than mountain areas of Italy and Portugal.

### The payments rate differences

The payment rates in the EU countries are mostly fixed within the range set down by in the Council Regulation (EC) 1257/1999, i.e. 25 to 200 EUR per hectare, however, there are countries in which some rates are set below the minimum rate stipulated in the Regulation, (even less than EUR 10 per hectare). On the other hand, a very high rate of EUR 700–800 per hectare was granted to a limited number of very small Austrian and Italian mountain farms. The specific rates are largely dependent on the methods and criteria of the LFA payment differentiation.

The differences based on the severity of the adverse natural or specific conditions are applied by all member states. England, France, Sweden, Finland, Slovakia, Poland, or the Baltic countries apply different rates depending on the defined LFA type (category, subcategory). These countries with a lower

level of payments differentiation also include the Czech Republic. On the contrary, evaluation of the Austrian LFA system carried out by Hovorka (2004) presents a very sophisticated and complex system to determine the rate of payment for the mountain farms. A detailed scoring system is used to reflect the specific situation of the holding.

Depending on the type of production, some countries support only the area dedicated to a specific crop, or a different level of rates is applied for different crops. There are, for example, increased rates for mowed grassland areas in Greece or for grassland in Germany. By contrast, trying to prevent the spreading of forest, Sweden prefers potato, cereals and grass on the arable land for some LFA.

A degressive LFA payment rates depending on the size of the eligible area per holding is common nearly in all the member states, preventing to discriminate small-sized farms. Apart from the Czech Republic, the countries which do not apply this differentiated system of rates also include Slovakia, Slovenia, Finland, Latvia, or Lithuania.

Article 37 of the Council Regulation (EC) 1698/2005 introduced the so-called “degressive or modulated payments” for all the EU countries. This requirement is formulated as follows: “Payments shall be degressive above the threshold level of area per holding, to be defined in the programme”. As of 2010, the payment rates differentiated based on the size of

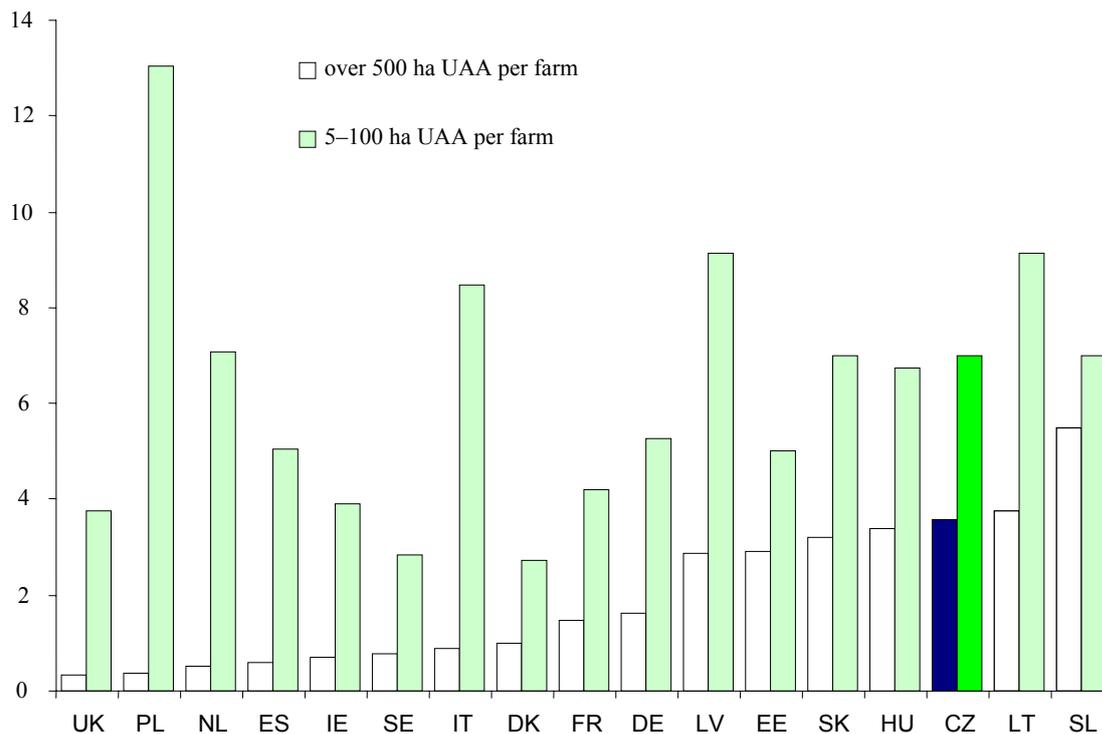


Figure 3. The average number of labour force per 100 ha of utilized agricultural area (UAA) for groups of holdings according to farm size in the selected EU member states

Source: Eurostat – Harmonized national data of the Community farm structure survey, 2003

the farm are expected to be implemented in those countries where they have not been applied so far, that is also in the Czech Republic. The modulation of payments depending on the holding size is then supposed to reflect the fact that advantages arising from the holding size will even prove in the production of public goods as is maintaining of countryside and environment.

For a number of the EU countries in the Central and Eastern Europe, the specific structure of large-sized holdings would have to be considered in case that such a differentiated payment distribution system is implemented. In particular, collective farms as the owners' associations manage the land of their members and play an important social role in the country. The members are finding jobs there even in the situation that employees are laid off by large-sized private farms. This is even documented by the comparison of the average number of labour force per 100 hectares of farm utilised agricultural area between the holding size over 500 hectares of agricultural land and the holding size at 5–100 hectares of agricultural land for the specified EU countries (Figure 3).

In the countries of the Central and Eastern Europe (except of Poland), the difference of employment regarding large or smaller-sized holdings is not as

prominent as in the EU 15 countries. It may be attributed, amongst others, to the actual persisting collective form of farming where the owners do not leave their land.

Reducing the support to large holdings which play an important role in terms of rural employment might result in the aggravation of the social situation in a number of rural areas. Many analyses and simulations of the impact on rural employment will be required to find such differentiation of the LFA payment system that would reflect the advantages of the size as well as it would fit the specific conditions of the Czech Republic and of some other countries in the Central and Eastern Europe.

## CONCLUSION

The primary objective of the LFA measure is to contribute to the landscape maintenance and preservation through the continuous use of agricultural land based on the implementation of sustainable land management systems, and specifically based on the increase of farmers' income by the contribution for the additional cost incurred due to natural handicaps of the agricultural production such that the minimum

viability of the holding is ensured. The significance of this measure becomes greater mainly in connection with the environmental and other public goods, setting up the country value and resulting from the sustainable form of farming (e.g. maintain landscape, High Nature Value farming systems, suitable land and water management etc.). In case that the support is absent, the limited production capacity of holdings will create the risk of abandonment of agricultural land with the consequent risk of losing the significant environmental values.

This risk should be taken into account both for the new delimitation of the areas eligible for support and in the process of preparing changes to the payment distribution system for holdings operating in those areas. And it is not only the problem of abandoned land. The impact on the employment in rural areas may be very serious. In any case, this measure should be better monitored.

If a greater unification is desired in the future for the application of support through the LFA payments in the EU countries, a number of problems and issues will have to be resolved. What objective should preferentially be addressed by the LFA support?

Is it above all the contribution to holding income as is often understood by the agricultural practice, or should it compensate the specific handicaps in the use of land providing stimulation of the environmental friendly use of land? In the first case, it would be advisable to provide support per every hectare of agricultural land in LFA, while in the second one, the eligible area should be limited to reflect these goals.

The payment to holdings that manage their farms in the unfavourable land and climatic conditions even allows maintaining the agricultural employment for large areas across Europe. To what extent is it necessary to take the specific situation of each country into account when the LFA measure is revised?

In comparison with the majority of the EU countries, the LFA support played an important role in the Czech Republic for the creation of profit of LFA holdings. It may be expected that their share in the total subsidies will be reduced in the future. Analogous to the EU 15 countries with similar rugged topography, a better differentiation system is advisable for the LFA support in the Czech Republic. The prerequisite will be the area-based differentiation. For the implementation

of such system, the impact on holdings with different size and different form of farming should be taken into account. Also, the effect of other subsidies to holdings and the support potential within the axis III (diversification of holdings production and rural employment support) should be assessed to eliminate the adverse impact due to further lay-off of the workers in agriculture.

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