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## **The influence of agricultural policy on the structure of mountain farms in Austria <sup>1</sup>**

### **Abstract**

The agricultural structure in Austria is characterised by the high proportion of small and medium-sized farms and the high proportion of less-favoured areas (LFA). The LFA cover 81% of the total Austrian land area. Most is classified as mountain area (70%). In recent decades there has been an ongoing process of structural change in agriculture. Since 1995 (accession to the EU) the number of farms has decreased by 20%, but the number of farms with less than 20 ha UAA decreased by 27%. However, these farms still make up 75% of all farms in Austria, and only 1.7% of all farms have more than 100 ha UAA (the average size in Austria is 18 ha UAA). Since 1995 the number of part-time farms has decreased by 32%. Over the same period the number of mountain farms decreased by 18%, which is less than for non-mountain farms (- 22%). Agricultural policy in Austria aims (among other things) to preserve multifunctional agriculture and family farming, to maintain the cultural landscape and to give targeted support to mountain farms.

In pursuing these aims Austria has gained considerable experience with mountain farming subsidies, regional programmes specific to the mountain area and an agri-environmental programme over recent decades. Under the 2000 – 2006 Rural Development Programme (RDP) some alterations to the support scheme have been undertaken and support levels of the LFA payments have been improved considerably for small mountain farms.

This paper addresses key questions regarding the impact of the former but also the recent agricultural policy on the agricultural structure (size of farms, an environmentally friendly type of farming) in Austria. This will be done by describing, analysing and evaluating the RDP, subsidy data, FADN data and surveys of the structure of agricultural holdings in Austria. The paper will discuss the extent to which the 2000 – 2006 Rural Development Programme, particularly the LFA payments (compensatory allowances scheme) and the agri-environmental payments, have contributed to achieving the aims of agricultural policy, in

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particular to maintaining the agricultural structure of family farming in mountain areas and an environmentally friendly type of farming. The limits on policy in its ability to influence the ongoing structural changes will also be discussed.

**Keywords:** mountain farming, agricultural policy influence, compensatory-allowance schemes, agri-environmental payments

## 1. Introduction

Cultural landscapes are important elements of social identity and contribute to political cohesion. They represent important rural development assets, which are part of a region's capital stock (OECD, 1998). The agricultural structure in Austria is characterised by the high proportion of small and medium-sized farms and the high proportion of less-favoured areas (LFA). The LFA cover 81% of the total Austrian land area. Most is classified as mountain area (70%) with a small part classified as other types of less-favoured area. Mountain farming has the key role in safeguarding the sensitive eco-system and thereby the multifunctional landscape and the general living and working space. In recent decades there has been an ongoing process of structural change in agriculture. Since 1995 (accession to the EU) the number of farms has decreased by 20%, but the number of farms with less than 20 ha UAA decreased by 27%. However, these farms still make up 75% of all farms in Austria, and only 1.7% of all farms have more than 100 ha UAA (the average size in Austria is 18 ha UAA). Since 1995 the number of part-time farms has decreased by 32% (Statistik Austria 2005). Over the same period the number of mountain farms decreased by 18%, which is less than for non-mountain farms (- 22%). But in the course of agricultural change – with a greater segmentation in future – a further reduction in the number of farms and the associated agri-ecological and regional economic problems must be expected (Groier 2004, p. 42).

Agricultural policy in Austria aims (among other things) to preserve multifunctional agriculture and family farming, to maintain the cultural landscape and to give targeted support to mountain farms. The mountain area is still a high-quality environment and environmentally friendly agriculture and forestry extends over most of the mountain area.

In pursuing the aims of agricultural policy, Austria has gained considerable experience with mountain farming subsidies, regional programmes specific to the mountain area and an agri-environmental programme over recent decades. Before accession to the EU in 1995, the Mountain Farmers' Special Programme in particular was of great importance for mountain

farms (Dax/Hovorka 2004; Hovorka 1998; OECD 1998). After accession to the EU, the EU agri-structural policy measures Objectives 5a and 5b) had to be adopted including the support scheme for LFAs. Under the 2000 – 2006 Rural Development Programme, major alterations to the support scheme have been undertaken and support levels have been improved considerably for LFA farmers, and particularly for mountain farmers (Hovorka 2003).

This paper addresses key questions regarding the impact of the former but also the recent agricultural policy on the agricultural structure (size of farms, an environmentally friendly type of farming) in Austria. The paper will discuss the extent to which the 2000 – 2006 Rural Development Programme, particularly the LFA payments (compensatory allowances scheme) and the agri-environmental payments, have contributed to achieving the aims of agricultural policy, in particular to maintaining the agricultural structure of family farming in mountain areas and an environmentally friendly type of farming. The limits on policy in its ability to influence the ongoing structural changes will also be discussed.

## **2. Methodology**

The differentiation of the support level according to the degree of farming difficulty (measured by categories of mountain farms) is of greater importance to agricultural enterprises in Austria than the classification of a farm as being within a less favoured area, a mountainous area or other less-favoured area or small area. For this analysis, farms are therefore grouped in clusters according to the most important groups of recipients (four mountain-farm degrees of difficulty, a basis category and average mountain farm). The support data were analysed on the basis of these clusters for the period 1995 – 2000 and 2001 – 2004. The same system was also applied for the income data. The results have been summarised, presented and evaluated. For some questions the farm groups (clusters) have also been separately summarised, analysed and presented according to other factors, such as farm size.

The essential data sources for the period after accession to the EU were the support records (annual periods) of the compensatory allowances, additional INVEKOS records, national accounting results (according to FADN), Green Reports and agricultural structure records.

For the EU compensatory allowances under Agenda 2000, Austria chose the possibility of a one-year transition period, which means that in essence in the 2000 support year the definitions of the 1995-1999 support period were applied. For this paper, therefore, the new compensatory allowance (from 2001) was investigated. The emphasis of the analysis was on 2004 (most recent data) taking 2000 as the comparative basis (reference year).

### **3. Agriculture and environment in mountain areas**

The general dynamic of business and employment in the alpine area is similar to that in the “non-alpine area”: the number of people employed in agriculture and forestry is falling, industry and manufacturing still account for a large proportion of total employment, and the shift of jobs towards the tertiary economy is quite marked. Tourism is a core element of the service sector in the mountain area. Population growth and economic development in the last 20 years have led both to an increase in the importance of the alpine area and to a sharpening of disparities within it (Schindegger et al., 1997). The mountain area accounts for nearly 90% of overnight tourist stays and the economic activities associated with them in Austria. Agriculture plays a key role in maintaining multifunctional landscapes in mountainous areas.

A study commissioned by the DG Regio – with an in-depth analysis of the mountain areas of the European Union (25 members) and Bulgaria, Romania, Norway and Switzerland – shows that 49,8 % of Austria’s population live in mountain municipalities (Nordregio 2004, p. 30; Dax/Hovorka 2004, p. 10). This proportion of the national population living in mountain areas is one of the highest world-wide and underpins Austria’s concern for enhancing the full potential of all economic sectors in these regions.

The structure of agricultural holdings is characterised by a high percentage of part-time farms whose operators are regular commuters. There is a growing demand for eco-friendly agriculture and different types of rural tourism. Natural hazards, particularly in the mountain regions, and remoteness impose high infrastructure costs if the vitality and economic base of rural regions is to be maintained under these conditions. Some of the eastern border regions and the Alpine side-valleys are significantly remote and have limited opportunities for diversification.

Mountain farming in Austria is now characterised almost exclusively by grassland production, within which cattle farming is the most important. Agriculture plays an important role in maintaining multifunctional landscapes in mountainous areas, since 52% of all agricultural and forestry holdings are situated there. Mountain holdings account for 64% of dairy cows, 64% of all cattle, and 79% of the sheep (Statistik Austria, 2001). In 2004, 71% of all dairy farms with milk quotas in Austria were mountain farms, which delivered 65% of the total milk. But the share of mountain farms with high or extreme disadvantages of farming delivered only 9% of the milk, which means that mountain farms with low and middle disadvantages are the main milk producers in Austria (BMLFUW 2005, p. 205). Mountain farms are also of great importance for forest protection and the management of alpine pasture areas, which are extremely sensitive eco-systems.

The naturally unfavourable situation of mountain farming enterprises is primarily due to steep gradients, a short growing season, extreme weather conditions and an absence of alternative production possibilities. Poor transport conditions and an inadequate and expensive infrastructure are widespread. For mountain farms, income from agriculture is far below of the agricultural income of farms in favoured areas.

Austrian farm holdings are characterised by a small-scale structure, which is operated primarily by family labour: the average size of mountain farms is only 14 ha UAA (of which 11 ha is grassland), and 11 ha forest. Mountain farm holdings with cows have an average stocking rate of 9 units (of which 7 units are dairy cows) and less than 7% of these holdings keep more than 20 cows (Statistik Austria, 2001). Agriculture is the main economic activity only for 44% of mountain farms. According to the LFA payment statistics (2004), 48% of all mountain farms have less than 10 ha UAA (without alpine pastures) and only 1.2% have 50 ha UAA or more (BMLFUW 2005, p. 194).

Austria's LFAs still have a high-quality environment characterised by relatively low pollution and a largely intact farmed landscape. This results in generally good conditions for environmentally friendly agriculture and forestry and these preserve the cultural landscape. Such multifunctional agriculture and forestry still extends over most of the rural areas. It is important for tourism, which plays a major role in the Austrian economy. The LFAs support scheme has made an important contribution to this positive situation. The number of mountain farms with LFA payment decreased only by 11% between 1996 and 2004, which is less than for non-mountain farms (- 22%), according to the statistical census 1995 and 2003 (Statistik Austria 2005).

#### **4. Definition and demarcation of LFAs and classification of mountain farms in Austria**

##### **4.1 Definition and demarcation of LFAs in Austria**

Demarcation of mountain areas in the agricultural context has a long history. In 1954 a Ministry of Finance regulation defined the mountain areas in Austria as "mountain farming municipalities". In the 1980s other LFAs were also defined and demarcated. In 1995, on accession to the EU, the LFAs in Austria were re-defined and demarcated in accordance with EU criteria (mountain areas, other less-favoured areas and areas affected by specific handicaps). This was carried out at the level of municipalities or parts of municipalities.

The criteria established for Austria by the EU Commission for the demarcation of mountain areas<sup>2</sup> were (mountain areas according to article 23 of Council regulation (EC) Nr. 950/97 and article 18 of Council regulation (EC) No. 1257/1999):

- an altitude of at least 700m above sea-level or
- a mean gradient (slope) of at least 20 per cent or
- a combination of at least 500m above sea-level and a mean gradient (slope) of at least 15 per cent.

The Austrian mountain area forms part of two of Europe's mountain massifs, the Alps and the Bohemian massif. According to the EU classification of the less favoured areas (LFA), the LFA area covers 81% of the total Austrian land area, and 71% of the UAA. Most is classified as mountain area with a small part classified as other less-favoured area. The mountain area comprises 70% of Austrian territory and 58% of the UAA (BMLFUW 2000, p.183; Hovorka 2004, p.120).

#### **4.2 Mountain farm classification system**

Farming difficulties in the mountain area are not equal. Taking this into consideration, Austria already has a long experience in assessing the degree of difficulty faced by mountain farms. From the beginning, the Austrian system used a classification of site-specific farming difficulties experienced through the specific situation of each individual mountain farm.

Since the early 1970s a differentiated classification system (of 4 groups) has been the basis for defining support levels for mountain farms. The main criteria for the classification were the climatic conditions and the "internal transport situation", i.e. the proportion of agricultural area of the holding that had a gradient of at least 25% (or at least 50% for farms with highest difficulties (category 4)). The additional criteria, "external transport situation" (no access to the farm for trucks) and "low agricultural hectarage", could result in a shift to the next category of difficulty. The four categories of difficulty were characterised as follows (Hovorka 2004, p. 26) :

- category 1: minor difficulty (less than 40% of difficult area)
- category 2: medium difficulty (between 40% and 80% of difficult area)
- category 3: major difficulty (80% or more of difficult area)
- category 4: extreme difficulty (category 3 and 40% or more of extreme difficult area)

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<sup>2</sup> The criteria for the other LFAs are not shown in this paper (see the criteria in e.g. BMLFUW 2000).

This system was the basis for the LFA payments until 2001 and has, of course, implications for the perspectives of land use, the farming system and also the rural development as a whole. This differentiation of mountain farms described above operated until 2001.

The change to a more differentiated payment structure was planned during the 1990s and a revised classification system (Tamme et al., 2002), has been applied since 2001. This "mountain farmer registry point system" addresses the positive externalities of mountain farming more clearly. A detailed system of attributing points up to a (theoretical) maximum of 570 points is used. The elements used in the calculation are grouped into three categories: "farm situation (internal)", "farm situation (external)" and "soil and climate". Of these, the internal situation, indicating the proportion of the agricultural area with production difficulties, receives the highest weight. Points for each of the indicators are aggregated. The points are not dependent on farm size but on production difficulty. In addition, the system allows for annual changes through linkages that account for the actual land use of mountain farms. Although detailed information is provided to farmers on the system and their individual classification, the calculation is complex and cumbersome. For statistical purposes the mountain farms are again classified in four groups (categories) of disadvantages according to the "mountain farmer registry point system". Group one is that with the lowest disadvantages (up to 90 points), group four is that with the highest disadvantages (271 points and more per farm). The four groups of difficulty are characterised as follows (Hovorka 2004, p. 117):

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

In 2003, according to the agricultural census, there were 74 394 mountain farms. As a proportion of all farms with UAA, mountain farms make up 42% (BMLFUW 2005, p. 192). This system does not correspond directly with the previous system and it is much more advanced. It is the basis for the differentiation of the compensatory allowance system and is also used for some other specific measures, particularly for one measure of the agri-environment scheme, which enhances the preservation of cultural landscapes in mountain areas.

## 5. Austrian mountain policy before EU-accession

The specific challenges of development in mountain areas are reflected through a set of policies in various fields of activity. Although all sectors would be of relevance, the priority was laid on farming, forestry and regional development, the most influential sectors in mountain areas (Dax and Hovorka 2004, p. 128).

### 5.1 Mountain Farmers' Special Programme (1972 – 1990)

Since the beginning of the 1970s, support for mountain farming has been improved through a specific support programme for mountain farming. As a national concern the "Mountain Farmers' Special Programme" has not just focused on site-specific farming difficulties but has also attached importance to the social situation of farm households and their insertion in the rural economy, aimed at the preservation of mountain landscapes, and has taken account of the necessity of developing concepts oriented at multifunctional aspects in mountain farming and land use. Alongside this concept, the programme has combined the following groups of measures (total amount of €1.132 million at current prices):

- direct payments for mountain farmers (46,2 % of total amount);
- improvement of infrastructure facilities in the mountain area (30.3 % of total amount);
- regional agricultural aid; in particular investment aid (15.2 % of total amount);
- forestry measures (6.2 % of total amount);
- agricultural-terrain improvement and other measures (2.0 % of total amount).

These measures reflect the initial consideration of conceiving of agricultural support as part of mountain-specific policies. Hence, it has not just taken the preservation of mountain farming into account, but – at least in the beginning – made considerable efforts to raise the farm-related infrastructures and alleviate the situation of peripheral locations. At the core, the objective of safeguarding the development of "cultural landscapes" as a primary base for other uses and an asset for local development has received higher priority over this period (Hovorka, 1998; OECD 1998). Nevertheless, the sectoral approach has remained decisive, but with the increased acceptance of mountain farming support by the majority of the Austrian population, it has contributed to reinforcing the view that close cooperation between sectors is needed.



Over time the priorities of the programme have shifted, and direct payments, in particular the mountain farmers' allowance (see below), has become the predominant measure. This trend also continued in the 1990s, when the programme's title and philosophy was abandoned. Its core measure – direct payments to mountain farmers, targeted on the preservation of farm management – has even been intensified since then. This mountain-specific programme has been integrated into the EU agri-structural policy after accession to the EU (Objective 5a and 5b) and later on into the horizontal Rural Development Programme (2000 – 2006) which covers the total area of Austria.

## **5.2 Mountain farmers' allowance (1972 – 1994)**

The federal government's mountain farmers' allowance was introduced in 1972 on the basis of the Mountain Farmers' Special Programme as a new form of direct aid to mountain farms, funded from the national budget. Since then, the total amount of aid has been significantly increased and its circle of recipients has been extended. Until 1990, mountain farmers' allowance was a basic premium exclusively dependent on the level of difficulty (category of difficulty) and the income situation of the farm. The greater the difficulty of farming and the lower the agricultural and non-agricultural income of the couple managing the farm, the higher was the subsidy amount. The mountain farmers' allowance therefore strongly favoured small full-time farms with a high degree of farming difficulty, and it incorporated a strong social element.

From 1991, in addition to the basic premium an acreage allowance was paid per hectare. In 1994 the acreage allowance was paid for a maximum of 10 hectares. It was graduated according to the level of difficulty (category of difficulty) and independent of income.

In 1994, 85 806 mountain farms received a total of €84.888m in mountain farmers' allowance (62.6% basic premium and 37.4% acreage allowance). The average subsidy per farms was €989 (Hovorka 2001, p. 44). In accordance with the objectives, mountain farms in category 4 received the highest subsidy (on average €2 013). This amount was more than double the total average, and more than four times the average for category 1 farms (€496).

The aim of the mountain farmers' allowance was to support the maintenance of the settlement and sustainable and prudent farming under the unfavourable location conditions with particularly severe working difficulties in the mountain area. A further objective was formulated as improving the income of mountain farms facing particularly high costs and low income, and to give due recognition to their public-interest functions (OECD 1998, p. 30; Hovorka 1998, p. 53).

The mountain farmers' allowance is a story of success. In 1994, averaged over all mountain farms, the mountain farmers' allowance made up 18% of the income from agriculture and forestry. For mountain farms with extreme difficulties (category 4) this payment was even 43% of the income.

In the framework of the Mountain Farmers' Special Programme it has made a positive contribution to the relatively modest reduction of mountain farms in Austria in the period between 1980 and 1995 (- 1.4 % per year), in particular for mountain farms with major and extreme production difficulties (- 0.8% per year). The reduction of non-mountain farms was 0.9 % per year in the same period (Dax 1998, p. 14). Also in the same period, the reduction of the utilised agricultural area of mountain farms (- 0.5 % per year) was close to that of non-mountain farms (- 0.3 % per year).

### **5.3 Spatially integrated policies in mountain areas**

Besides mountain farming, the development of mountain areas has had to seek complementary measures in other sectoral policies, particularly enhancing the local/regional development of these peripheral areas. In 1979 the Federal Chancellery introduced the Mountain Area Special Initiative as a pilot scheme for most remote mountain areas (Hovorka 1998). The objective of this initiative – the “Initiative for Endogenous Regional Development” – was to support co-operative business projects in all sectors. Although the support grants provided were rather small in total compared to other industrial renewal schemes, it can be considered to have had a rather stimulating incentive on regional policy in Austria's mountain areas. One core measure to enhance this “bottom-up” approach was the provision of training through regional consultants, especially in the starting phases of initiatives. In the process, the emphasis shifted further to regional innovation and know-how transfer.

Due to Austria's federal structure, it is important that the lower administrative levels, in particular the provinces (Länder), have shared this strategy and also developed aid programmes to support regional development initiatives for economic development in mountain areas. These programmes and additional initiatives of local authorities have complemented the federal development schemes in most peripheral mountain regions (Dax and Hovorka 2004, p. 133).

## **6. Austrian mountain policy in the framework of EU policies**

### **6.1 Mountain-relevant Structural-Fund initiatives and agri-structural policies (Objective 5a and 5b)**

The adoption of EU policy brought about drastic alterations for regional policy. Many of the Structural Funds' objective areas, and also the Leader and Interreg Community initiatives have predominantly been applied in many mountain regions. One can estimate that about two thirds of these programmes were relevant to the mountain areas. For the mountain areas, the concept of sustainability has also gained importance as environmental performance has become a key issue. This also reflects the view that rural amenities in mountain areas are basic assets for regional development.

Since the moment it joined the EU, Austria has drawn on its experience with similar bottom-up initiatives for local development to support the starting up of a wide range of Leader initiatives. In the Leader II programme (1995-1999) 32 Local Action Groups (LAGs) covering more than 400 municipalities and a population of about 765,000 inhabitants (10% of the Austrian population) in an area of 20,149 km<sup>2</sup> participated. Now, in the current Leader+ programme, the opportunity to extend the eligible area to all the "rural" parts of the country has been seized and the area of the 56 LAGs selected for the programme period (2000-2006) extends to 47,000 sq. km (56% of the total area of Austria) with a population of 2.175m (27% of the Austrian population). More than three quarters of Leader regions are situated predominantly in the mountain areas and most of the others adjacent to them (Dax/Hovorka 2004, p. 135).

Social, regional and socio-political aspects were taken into greater consideration in agrarian structural policy in Austria before EU accession than they are in EU policy. Although the adaptations through the application of the European Union's regulation therefore meant a significant shift away from its previous system, the experience in designing structural measures aimed at the multiple tasks of (mountain) agriculture particularly helped to apply agri-environmental measures and other structural instruments. Currently, the ratio of the "second pillar" of Common Agricultural Policy (CAP) in Austria far exceeds market regulation measures. Even if some of the effect is due to the small-scale structure of Austrian agriculture and its weak market integration, the political priority of applying the set of measures available and also adapting them to the needs of mountain farming is decisive for this situation.

For mountain farms the two most important measures within the agrarian structural policy after EU accession have been the agri-environmental programme (ÖPUL) and the LFA compensatory allowances.

## **6.2 LFA compensatory allowances (1995 – 2000)**

In the EU accession negotiations, Austria endeavoured to reach agreement on maintaining the previous system of support for mountain farming, which strongly favoured small farms with serious farming difficulties. The EU was not prepared to open up the system of compensatory allowances at that time. But Austria succeeded in reaching an agreement with regard to a National Grant for a transitional period of 10 years, which covers the loss for farmers who would have suffered reduction in their specific direct payments as a result of the shift to the compensatory-allowance system. It was precisely the small farms facing a high degree of difficulty that would have been the losers from the adoption of the system of EU compensatory allowances (LFA payments) which were made on headage basis with an upper ceiling of 1.4 livestock units per ha utilised agricultural area. In 1995, 80 % of category 4 mountain farms received this national grant (2000: 70 %).

The payment for non-mountain farms was €72.6 per headage (livestock unit) and for category 1 mountain farms it was €94.5. This increased to €175.3 for category 4 mountain farms. There was a graduation of payments per unit implemented depending on size of farms (number of LU or number of UAA) and on difficulty category (stronger graduation for farms with fewer natural farming difficulties). The upper ceiling for the payment was 90 LU per farm. Non-mountain farms in less-favoured areas and mountain farms with low farming difficulties were the main beneficiaries of the EU system in comparison to the former system, because the new rules favoured them (for instance: no consideration of income) and the budgetary funds for the payments were increased by about €72m on accession to the EU.

The number of LFA payment farms and the total payment decreased slightly in the period 1995 – 1999, but the average payment per farm remained nearly the same. The main reason for the reduction in farm numbers in the year 2000 (- 5.2%) was the end of the first commitment period (1995 – 1999) for LFA farms. The proportion of farms receiving the National Grant (as additional or exclusive payment) was 33.7% of the average in this period, but with a decreasing tendency. As a proportion of the total amount, the national grant also fell slightly to 9.7% in the year 2000.

Table 1: **Compensatory allowances and National Grant (1995 – 2000)**

year	Number of farms	Share of NG-farms in %	Total amount in 1000 €	NG amount of total amount in %	Payment per farm in €
1995	125 827	35.8	211 090	12.5	1 678
1996	124 234	33.8	205 878	11.1	1 657
1997	124 922	34.2	207 777	10.5	1 663
1998	124 246	33.3	206 811	10.2	1 665
1999	123 086	33.1	205 503	10.0	1 670
2000	116 735	31.8	200 448	9.7	1 717
Ø 95-00	123 175	33.7	206 251	10.7	1 674

Source: Hovorka 2002, p. 12

Note: NG-farms are farms receiving National Grant (additional to Compensatory allowances or exclusively National Grant)

There was no change in the LFA scheme for farms between 1995 and 2000 and therefore the figures continued from year to year more or less unchanged. The figures analysed and evaluated are therefore those of the last year of the former LFA scheme (2000) (Hovorka 2002 and 2004).

In 2000, 77 519 mountain farms received a LFA payment (66.4% of all LFA farms) and received 84.8 % of the total amount. The figures show that the average payment per farm increases in relation to the increase of natural farming difficulties. This is very much in accordance with the objectives and rules of the LFA payment in Austria. Category 1 mountain farms received an average of €1 729, but category 4 mountain farms received €3 185 on average. The proportion of farms receiving National Grant was 10.5 % in category 1, but 70.2% in category 4. The proportion of the amount of national grant increased from 1.5% (category 1) to 28.4% (category 4). Most of the non-mountain farms receiving National Grant did so because the farm was situated outside the LFA area (Hovorka 2002, p. 13).

Table 2: **Compensatory allowances and National Grant per category of difficulty (2000)**

Category of mountain farm	Number of farms	Total amount in 1000 €	Payment per farm	NG-farms in %	NG as a proportion of total amount in %
Basic category	39.216	30.521	778	40.7	16.4
Category 1	23.718	41.020	1.729	10.5	1.5
Category 2	20.823	43.248	2.077	15.3	2.4
Category 3	26.848	66.133	2.463	41.6	10.9
Category 4	6.130	19.527	3.185	70.2	28.4
All mountain farms	77.519	169.927	2.192	27.3	8.5
All farms	116.735	200.448	1.717	31.8	9.7

Source: Hovorka 2002, p. 13

Note: NG-farms are farms receiving National Grant (additional to Compensatory allowances or exclusively National Grant). The basic category is non mountain farms with LFA payments

In 2000, the agricultural farm income (figures without compensatory allowances but all other subsidies) of mountain farms was on average 88.3 % of the agricultural income all farms (mountain and non-mountain farms) and 80.3% of non-mountain farms. The income for mountain farms with extreme difficulties (category 4) was far below the average (46.5% of the average income for non-mountain farms; 57.9% of the average for mountain farms). For these mountain farms, two subsidies – the LFA payment and the agri-environmental payments (ÖPUL) – together make up 72.0 % of the income from agriculture. All other public support payments (market payments and others) add only 14.6 % to the income of these mountain farms. But CA and ÖPUL also made up 44.1% of the average agricultural income for mountain farms as a whole. . These figures show clearly the importance of compensatory allowances and ÖPUL in the period 1995 – 2000.

Table 3: **Agricultural income situation and public support measures per farm category in 2000**

Category of mountain farm	Farm income (without CA) in €	CA as % of farm income	ÖPUL as % of farm income	Sum of CA and ÖPUL as % of farm income	Total public support as % of farm income
Non-mountain farms	19 997	2.8	23.9	26.7	61.5
Category 1	17 479	11.3	26.3	37.5	65.6
Category 2	17 140	14.9	27.3	42.2	63.2
Category 3	14 744	18.7	31.3	50.0	71.9
Category 4	9 304	33.8	38.2	72.0	86.6
All mountain farms	16 065	15.5	28.6	44.1	67.7
All farms	18 186	8.4	26.0	34.3	64.2

Source: Hovorka 2004, p. 74; LBG 2001; own calculations

Note: Non-mountain farms are all non-mountain farms (i.e. farms with or without LFA payments)

Analysing the data set for smaller farms (up to 10 ha UAA) it can be shown that 50.1% of all mountain farms and even 84.6% of all mountain farms receiving National Grant belong to this category. Of the category 4 mountain farms, even 74.6% have only 10 ha UAA or less. Of all categories of mountain farms that are receiving National Grant, 80% are farms with 10 ha UAA or less. The payment per farm for farms up to 10 ha UAA averages 57.1% of the average payment for all farms (for mountain farms: 58.2%). These figures show the importance of CA and particular of NG for small farms.

Table 4: **Compensatory allowances and National Grant per category of difficulty for farms up to 10 ha UAA (2000)**

Category of mountain farm	Number of farms	Payment per farm in €	Share of all farms with CA and NG in %	Share of all NG-farms in %	Share of total NG amount in %
Basic category	21 428	446	54.6	70.2	68.4
Category 1	9 590	686	40.4	93.2	84.9
Category 2	10 014	948	48.1	95.1	93.1
Category 3	14 662	1 507	54.6	80.3	82.9
Category 4	4 576	2 494	74.6	83.1	82.4
All mountain farms	38 842	1 276	50.1	84.6	83.5
All farms	60 270	981	51.6	78.4	79.6

Source: BMLFUW, dep. II7; own calculation

A comparison of the year 2000 with the year 1996 (first year after EU accession with the same data structure) shows a 6% fall in the number of farms receiving LFA payments over a 5 year period of (mountain farms: 5.9%). The decrease was slightly lower (3.5%) for category 4 mountain farms . The decrease in the number of smaller LFA farms (up to 10 ha UAA) in the same period was 8.8 % and therefore slightly sharper (mountain farms: 8.1%). Again, category 4 mountain farms faced the smallest decrease (3.0%).

## 7. Rural Development Plan (RDP) for Austria

Due to its low population density Austria is a rurally structured country. According to the OECD classification, about 77% of the population live in rural areas, which make up approximately 91% of Austrian territory. But also in predominantly rural areas, the proportion of people working in agriculture has declined sharply. Between 1981 and 2001 it dropped from 18% to 9% (BMLFUW 2003, p. 1).

Austria has a single Rural Development Plan (RDP) covering the federal territory of the Republic of Austria excluding the measures co-financed by the EAGGF, Guidance Section in the Objective 1 area (the province of Burgenland). Measures relating to less-favoured areas, agri-environmental measures and forestry measures under Article 31 of 1257/1999 are financed under this programme for the entire territory of Austria. According to the indicative financial plan, the total public cost (EU, Federal Government, Federal Provinces) is about €6.9bn for the period from 2000 to 2006, including an EU contribution of €3.2bn from the EAGGF, Guarantee Section (BMLFUW 2003, p. 21).

The RDP has three objectives:

- compensation for special services by farmers;
- preservation of assets with regard to the maintenance of holdings; and
- improving competitiveness.

Compensation for services is intended where special services have to be provided which the revenue from agricultural and forestry production cannot cover. This concerns the LFAs, agri-environment, and services linked to the protective and ecological function of woodland. The budget for the measures relating to LFAs (compensatory allowances) is approximately 26% of total RDP costs (BMLFUW 2003, p.62).



Table 5: **Rural development programme for Austria (total of € 6.9bn between 2000 and 2006)**

Priority axes	Financial weight in %
I. Modernising agriculture	5.5
II. Vocational training	0.7
III. Less-favoured areas and areas with environmental restrictions	25.9
IV. Agri-environmental measures	61.2
V: Processing and marketing	1.5
VI. Forestry	2.1
VII. Adaptation and development of rural areas (rural development; art. 33)	2.8

Source: BMLFUW 2003, p. 21; own calculations

## 8. LFA compensatory allowances since 2001

### 8.1 Structure of compensatory allowances since 2001

The dominant objective for LFA policy is to maintain an agricultural and forestry sector based on environmental principles and small family farms. The aim is sustainable resource management e.g. preservation of soil, water and air, maintenance of the agricultural and recreational landscape, and protection from natural hazards.

Between 1995 and 2000, LFA payments were made on a headage basis with an upper ceiling of 1.4 livestock units per ha utilised agricultural area. Since 2001 (after the implementation of the new LFA compensatory allowances within the RDP for Austria) the EU-co-funded compensatory allowance has been paid on a hectare basis and consists of Area Aid 1 (paid per hectare, maximum 6 ha per farm) and Area Aid 2 (paid per hectare, with progressive reduction from 60 up to 100 ha). Aid intensity is calculated on the basis of land area (up to 100 ha), land type (forage or other land), type of holding (with/without livestock) and the extent of the handicaps to which the farm is subject (mountain farmer registry point system).

The new compensatory allowances take the following factors into account:

- Persistent natural handicaps.
- Predominantly small and medium-sized farms as a result of the topography.
- Preferential assistance for farms with fodder-based livestock systems.
- Minimum land area of 2 ha UAA; commitment period minimum of 5 years; adoption of code of good agricultural practice (GAP).

- Application of Article 15(3) of 1257/1999 (flexibility of maximum payment).

Table 6 gives an example of the calculation of the compensatory allowances for a mountain farm with livestock, 10 ha forage and 100 mountain farmer register points (BHK-points). This mountain farm received €2 378.38 in 2004 (but it is the same amount every year since 2001).

**Table 6: Example of Compensatory allowances (farm with livestock, 10 ha forage, 100 mountain farmer registry points – BHK-points)**

	Area Aid 1 in €	Area Aid 2 in €	Total amount in €
Mathematical formula	$[181.68 + (8.72 \times \text{amount of BHK-points})]/\text{ha} \times \text{ha}$	$[94.47 + (0.38 \times \text{amount of BHK-points})] \times \text{ha}$	Area aid 1 + Area aid 2
Example	$[181.68 + (8.72 \times 100)]/10 \times 10 = \text{€}1,053.68$	$[94.47 + (0.38 \times 100)] \times 10 \text{ ha} = \text{€}1,324.70$	$1,053.68 + 1,324.70 = \text{€}2,378.38$

Source: Hovorka 2003; BMLFUW 2001

Note: Area Aid 1 is granted only for the first 6 ha UAA of the eligible holding. Area Aid 2 is granted for all ha UAA on the holding up to a maximum 100 ha, but graduated from 60 ha. The mathematical formula is slightly more complicated if the farm has forage land and other land.

The amount of support (payment rates) per hectare rises rapidly with rising BHK points, in particular for Area Aid 1. Table 7 gives examples of the amount of support per hectare payable on different types of farm with livestock (using mountain farm registry points). Farms in the basic category (farms without BHK-points) receive €30.28 Area Aid 1 (up to 6 ha) and €94.47 Area Aid 2 (up to 100 ha, but graduated from 60 ha). Mountain farms with 300 BHK-points get 15 times more Area Aid 1 payment per hectare (up to 6 ha) and 2.2 times more Area Aid 2 payment per hectare.

**Table 7: Examples of Compensatory allowances for farms with livestock and with different mountain farm register points**

Category of mountain farm	Area Aid 1 (max. 6 ha) in € per ha	Area Aid 2 in € per ha
Basic category	30.28	94.47
100 BHK-points	175.61	132.47
200 BHK-points	320.95	170.47
300 BHK-points	466.28	208.47

Source: Hovorka 2003

Note: Area Aid 1 is granted only for the first 6 ha UAA of the eligible holding. Area Aid 2 is granted for all ha UAA on the holding up to a maximum 100 ha, but graduated from 60 ha. Farms without livestock receive less support and the level of support is also lower for land other than forage land.

Some mountain holdings receive over €200 per ha in area aid (see Table 7). These higher amounts have to be seen in the context of article 15 (1) of 1257/1999 as aiming to compensate existing handicaps without overcompensation.

Additionally a National Grant is paid for farms that would receive lower subsidies than before accession to the EU (part of the treaty of accession, for a transition period of ten years until 2004). This “maintenance regulation” was primarily to the benefit of small mountain farms with a high degree of disadvantages and a low income. Since implementation of the RDP in 2001, this National Grant has lost much of its importance.

## **8.2 Analysis of LFA compensatory allowances**

Already in its national Memorandum on Mountain Agriculture and Forestry (1996) Austria had previously requested the Commission to allow changes in the EU regulation that would allow a substantial increase in support for mountain farms with the most severe handicaps. After the Agenda 2000 reform this became possible within the RDP. The new LFA compensatory allowances brought a marked increase of the EU co-financed compensatory allowances per year (in 2001: plus €92.7 million; 51% increase). At the same time the National Grant decreased from €19.4 million to €6.4 million. Total LFA payments therefore increased from €200.5 million in 2000 to €280.2 million in 2001. The total LFA budget was increased to give higher support to the smaller mountain farms, in particular to mountain farms with the most severe farming handicaps. A further reason was to ensure that there were no farms, (or only a minimum number of farms) where there was a fall in the receipts from compensatory allowance payments after the change in the system (payment on hectare basis instead of a headage basis; installing the new mountain-farm-register points system). This was designed to make the new scheme acceptable to farmers.

The number of LFA payment farms and the total amount of payment decreased between 2001 and 2004 by 3.0%, but the average payment per farm increased slightly in the same time period. The share of farms with the national grant (additional or exclusive payment) decreased from 16.6% to 15.0%, which was not even half as many as in 2000. Also the proportion of the National Grant decreased from 9.7% in 2000 to 1.9% of total payment in the year 2004.

Table 8: **Number of farms and amount of compensatory allowances between 2000 and 2004**

year	Number of farms	Share of NG-farms in %	Total amount in 1000 €	Share of NG amount of total amount in %	Payment per farm in €
2000	116 735	31.8	200 448	9.7	1 717
2001	116 954	16.6	280 160	2.3	2 395
2002	115 605	16.0	280 665	2.2	2 428
2003	114 501	15.4	280 235	2.0	2 447
2004	113 228	15.0	280 306	1.9	2 476

Source: Hovorka 2003; BMLFUW, dep. II7; own calculation

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

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

In all, 113 228 farms received LFA payment of €280.3 million (compensatory allowances and national grant), an average of €2 476 per farm. Most of the farms receiving National Grant were non-mountain farms (79%) of which more than half received this payment because the farm was situated outside of the LFA area. The EU co-funded compensatory allowances received 105 048 farms. The payment for the CA only was €274.9m an average of €2,616 per farm.

Mountain farms made up 65% of all LFA farms (69% of the CA-supported farms) and 87% of the total support sum (88% of the CA payment). For mountain farms the average support sum rises sharply with increasing level of difficulty (category 1: €2,271 category 4: €5,222 ). In comparison to the previous system, the support differences between the different levels of difficulty have become significantly greater. This is primarily a result of the introduction of the Area Aid 1, which constitutes a high proportion of the support for mountain farms with high degrees of difficulty.

The Area Aid 1 (basic allowance) made up 31% of the total support sum. 15 % of all LFA farms received National Grant (7.8% of them in addition to the compensatory allowances), and thus not even half as many as in 2000. This is primarily ascribable to the introduction of the Area Aid 1. On average, 74% of the CA supported farms were stock keepers, which received 93% of the CA support sum. The compensatory allowance (CA) was an average of €178 per ha. The distribution, however, was between €85 in the basic category and €388 in level of difficulty 4 (category 4). Consequently, the most important support data have been briefly presented in the following table.

**Table 9: The compensatory allowances and National Grant disaggregated into categories of disadvantage (according to BHK-points) in 2004**

Category of mountain farm	Number of farms	Total amount in 1000 €	Payment per farm	Proportion of area aid 1 of CA in %	Proportion of NG farms in %	CA per ha in €
Basic category	39 679	35 634	898	7.3	33.7	84.5
Category 1	22 790	51 759	2 271	22.7	3.5	140.5
Category 2	30 278	97 535	3 221	30.7	5.4	191.2
Category 3	13 342	58 096	4 354	40.0	5.5	283.2
Category 4	7 139	37 282	5 222	47.0	6.0	387.8
All mountain farms	73 549	244 672	3 327	33.7	4.9	207.3
All farms	113 228	280 306	2 476	30.7	15.0	177.5

Source: BMLFUW, dep. II7; own calculation

Note: NG-farms are farms receiving National Grant (additional to Compensatory allowances or exclusively National Grant)

Analysing the data set for smaller farms (up to 10 ha UAA) in 2004 it can be shown that 48.4% of all mountain farms and even 89.1% of all mountain farms receiving a National Grant belong to this category of farms. Of the category 4 mountain farms, even 70.9 % have only 10 ha UAA or less. Of all mountain farms receiving National Grant, 85% are farms of 10 ha UAA or less. The payment per farm for farms up to 10 ha UAA averages 62.7% of the average for all farms (for mountain farms: 66.2%). These figures show the importance of CA and particular of NG for small farms.

Table 10: **The compensatory allowances and National Grant disaggregated into categories of disadvantage (according to BHK-points) for farms up to 10 ha UAA (2004)**

Category of mountain farm	Number of farms	of	Payment per farm in €	Share of all farms in %	Share of all NG-farms in %	Proportion of area aid 1 of CA in %
Basic category	21 144		463	53.3	69.4	14.5
Category 1	9 782		1 127	42.9	88.2	38.2
Category 2	13 231		1 797	43.7	86.0	48.1
Category 3	7 502		2 995	56.2	93.9	53.1
Category 4	5 061		4 156	70.9	94.6	56.4
All mountain farms	35 576		2 201	48.4	89.1	50.4
All farms	56 720		1 553	50.1	73.6	47.3

Source: BMLFUW, dep. II7; own calculation

Note: UAA does not include alpine pastures.

On the other hand only 902 mountain farms (1.2 % of all mountain farms) had more than 50 ha UAA (without alpine pastures). Their LFA payment averaged €7,695 and none of them received National Grant. Of the non-mountain farms, 12% had more than 50 ha UAA (without alpine pastures) and their LFA payment averaged €2,078.

### 8.3 The impact of LFA compensatory allowances on farm income

There are great income differences (without taking compensatory allowances into account) between mountain farms and non-mountain farms – although this income includes public support and also income from farm tourism and other sources of farm pluriactivities. The income of mountain farms averaged 78.0 % of the agricultural income of all farms (mountain and non mountain farms) and 64.0% of non-mountain farms. The income of mountain farms with extreme difficulties (category 4) was much below the average (34.5% of non mountain farms; 53.9% of mountain farms average).

The compensatory allowance is especially important for mountain farms. LFA payments as a proportion of agricultural income are 25.7% for all mountain farms (average). LFA payments become more important as the production difficulty increases: with category 4 farms the LFA support is 52.1% of agricultural income. For these mountain farms two subsidies, the LFA payment and the agri-environmental payments (ÖPUL) together make up 98.2 % of the income from agriculture. All other public support payments (market payments and others) add only 23.4 % to the income of these mountain farms (therefore statistically the subsidies

are higher than the agricultural income). But CA and ÖPUL also made up 62.3% of the agricultural income in the average for all mountain farms.

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

Table 11: **Agricultural income situation and public support measures per farm category in 2004**

Category of mountain farm	Farm income (without CA) in €	CA as % of farm income	ÖPUL as % of farm income	Sum of CA and ÖPUL as % of farm income	Total public support as % of farm income
Non mountain farms	20.465	3.1	30.8	33.9	71.7
Category 1	14.868	17,2	33,0	50,2	84,9
Category 2	13.532	23,3	37,2	60,5	90,1
Category 3	12.415	33,4	37,0	70,4	95,3
Category 4	7.064	52,1	46,1	98,2	121,6
All mountain farms	13.101	25,7	36,6	62,3	92,1
All farms	16.805	13,3	33,4	46,7	80,9

Source: Hovorka 2004, p. 74; LBG 2005; own calculations

Note: CA = compensatory allowances is defined as LFA payment from EU reg. 1257(99), including the National Support scheme following the EU-accession treaty. Public support is regarded as income; it includes all support measures from public sources (EU, federal state, Länder (provinces) and municipalities). All calculations on the basis of national FADN figures.

Support payments dominate the income from agriculture and forestry for all farm types throughout Austria. In 2004 the national average contribution was 80.9% and is higher for mountain farms at 92.1%. Currently, payments under the “second pillar” of the CAP far exceed those under market measures. Even if some of the effect is due to the small-scale structure of Austrian agriculture and its weak market integration, the political priority to apply the set of measures available and also adapt them to the needs of mountain farming has been decisive in this respect (CJC consulting 2003 p. 12). The proportion of support payments on income has increased significantly since 2000 (all farms: from 65.2% to 80.9%; mountain farms: from 67.7% to 92.1%).

## **8.4 Impacts of LFA compensatory allowances on land use and environment**

Since 2000 the Invekos data have shown small decline in the agricultural land use in Austria, but UAA in LFA has not declined in the same period (2000 – 2004). This is due to some extent to the compensatory allowances, which include landscape preservation as one of their main objectives. In 2004 the LFA farms with cattle had an average of 1.1 livestock units (LU) per hectare grassland (forage area), and mountain farms had an average of 1.0 (LU) per ha. With increasing farming disadvantages, the livestock units per hectare grassland is decreasing. These figures have remained nearly unchanged over recent years.

## **9. The Austrian agri-environmental programme ÖPUL**

### **9.1 Most important measures of the ÖPUL**

Since Austria's accession to the EU the Austrian agri-environmental programme ÖPUL has been one of the most important subsidy measures for the Austrian agriculture. Besides the compensatory allowance, which is specifically targeted at LFAs, support from the agri-environmental programme is extremely important in mountain areas. In 2004, compensatory allowances and the agri-environment programme (ÖPUL) together accounted for 62% of the agricultural income of mountain farms (see above).

The agri-environmental programme, ÖPUL, for which an integral, horizontal approach was chosen, has the greatest implications for mountain farms, because their management systems correspond most closely to environmentally sound farming. Mountain farmers receive about 45% of these funds whereas they account for only 36% of the farms of Austria.

In 2004, altogether 134,114 farms took part in the agri-environment programme (32 measures were applied). The payment in 2004 was €643.01 million, the payment per farm was on average of €4,787 (BMLFUW 2005, p. 261). This comprehensive programme covers 78.3% of all farms with UAA and 88.8% of total UAA in Austria (without alpine pastures).

In 2004, of the 32 measures applied, the seven most important as regards expenditure were allocated 75% of the total. The greatest amount was spent on the basic premium measure (€101m€) in which 119 231 farms took part.



Table 12: **The Austrian agri-environmental programme – most important measures by amount of payment in 2004**

measure	Amount in million €	Proportion of total amount in %	Number of farms	Number of ha UUA
Basic premium	101.00	15.7	119 231	1 998 292
Greening of arable land in autumn and winter	97.85	15.2	57 846	1 088 371
Organic farming	90.62	14.1	18 292	309 325
Renunciation of the use of yield-increasing inputs on grassland	68.86	10.7	48 328	446 890
Reduction of the use of yield-increasing inputs on arable land	61.68	9.6	37 575	497 108
Keeping the cultivated landscape on sloping sites open	40.98	6.4	53 063	202 820
Alpine pasturage and herding	23.55	3.7	8 161	450 745

Source: Hovorka 2003, p. 46

Note: UAA = utilised agricultural area. In UAA the alpine pastures are not included (except Alpine pasturage and herding).

## 9.2 Organic farming

One of the most demanding environmental elements of this scheme is related to organic farming. In 2002, 81% of organic farms supported were mountain farms and the proportion of organic farming is higher on farms facing a higher level of production difficulty. In category 1 13% were organic farms and 15% was organically managed farm land, but in category 4 these figures were 25% and 33% (see table 6).

Table 13: **Proportion of LFA farms managed as organic farms in 2002**

Category of mountain farm	Number of farms	UAA in ha	Organic farms as % of LFA farms	Organic UAA as % of LFA area
Basic category	2 254	49 244	5.6	7.6
Category 1	3 042	48 705	13.1	14.7
Category 2	6 057	99 203	19.5	23.1
Category 3	3 512	47 037	26.0	32.4
Category 4	1 797	19 200	24.9	32.7
All mountain farms	14 408	214 144	19.2	22.2
LFA farms total	16 662	263 388	14.4	16.3

Source: BMLFUW 2005, p. 248 f.; own calculations

Note: UAA = utilised agricultural area. In UAA the alpine pastures are not included.

An evaluation of the data for the years 2003 and 2004 shows a slight increase (2002 - 2004: plus 463 farms) in mountain farms managed as organic farms (Groier 2005, p. 48; BMLFUW 2005, p. 194).

## **10. Conclusions**

This paper has addressed key questions regarding the impact of the former but also the recent agricultural policy on the agricultural structure (size of farms, an environmentally friendly type of farming) in Austria. It focused on the extent to which the LFA payments (compensatory allowances scheme) and the agri-environmental payments have contributed to achieving the aims of agricultural policy, in particular to maintaining the agricultural structure of family farming in mountain areas and an environmentally friendly type of farming.

Socio-economic processes in mountain areas require the discussion of the long-term provision of public environmental amenities to facilitate sustainable regional development (Dax/Hovorka 2003, p. 218). Long experience with LFA payments in Austria has demonstrated their positive impact on the continuation of land use in LFAs (and particularly in mountain areas). They have also prevented marginalisation in most of the mountain regions. Austria had already started to give a direct payment to mountain farms in the early 1970s (mountain farmers' allowance). The compensatory allowances (including National Grant) was already a core instrument of support for the LFAs after EU accession (in the programme period from 1995 to 2000), in particular for the mountain areas and mountain farms. The new LFA support system (since 2001) within the Rural Development Programme (RDP) brought some major improvements.

Within the RDP (under regulation 1257/99), compensatory allowances are no longer made per head of livestock (headage) but instead on an area basis; payments are differentiated to reflect the severity of the natural handicap, particular environmental problems and the production structure; and payments can only be made where farmers are complying with Good Farming Practice requirements (GFP) defined by each member state in their Rural Development Plan. The new system of compensatory allowances (since 2001) brought a massive increase in the EU co-funded support sum, to €92.7 million (+51%). This increase in the level of support was achieved through the additional part-instrument of Area Aid 1 (payments up to 6 ha UAA).

In Austria the farming conditions and difficulties are not only dependent on the type of less-favoured area – mountainous area, other less-favoured area, small area – but also to a large extent on the varying farming difficulty of the mountain farms. The level of support per farm of

the new compensation allowances from 2001 is very heavily dependent on the level of farming difficulty of the farm (measured according to the number of mountain farm registry points). The mountain farm registry points are thus an essential measure for the level of support, regardless of which type of less-favoured area a farm is situated in.

As a whole, the support differences reflect the different degrees of difficulty of farming and the contribution to the maintenance and formation of the cultural landscape and the maintenance of settlement and provision of other public services much better than the previous CA system did. The key changes were in the implementation of area aid 1 as important part of the compensatory allowances and the new, more precise calculation of individual farm production difficulties using the revised classification system for mountain farms (mountain farmer register point system). Support levels have been improved for LFA farmers under the RDP, and particularly for mountain farmers. The increase in the level of support for mountain farms was mainly achieved through the additional part-instrument of Area Aid 1 (payments up to 6 ha UAA) which has the function of providing a basic level of support, thus enhancing the payment level on smaller farms. There is also a preferential treatment of livestock-rearing farms and the forage land type. These differentiations contribute substantially to the high acceptance of the compensatory allowances within the agricultural sector. But they are also important for the acceptance of this support system outside the agricultural sector. Compared with the previous period the graduation now starts at a much higher point (60 hectares) and is much narrower. This is particularly the case for farms with no disadvantages or with low or medium levels of disadvantage.

The compensatory allowances makes an important contribution in offsetting the natural handicaps in LFAs in terms of high production costs and low production potential. It is also an important part of the agricultural income in mountain areas (rising sharply with increasing level of difficulties). It also makes an important contribution in ensuring continued agricultural land use in LFAs. There is also high complementarity with the objectives of the agri-environment measures and other rural development support measures, which means that it contributes to the achievement of primary objectives of the Rural Development Plan (RDP).

The RDP itself plays a major role in maintaining agriculture and population density, the protection of cultural landscapes and the delivery of environmental objectives. The contribution of the RDP support to the agricultural income of mountain farms averaged 66% in 2004. The two most important measures for mountain farms are the LFA payments and the agri-environmental programme. One of the most demanding environmental elements of the agri-environmental programme is organic farming which is focused on the mountain area. This does not mean there has been no structural change and no reduction in the numbers of mountain farms over recent years. But the reduction in the number of mountain farms with

LFA payments is less than it is for non-mountain farms (according to the agricultural census 1995 and 2003).

The latest evaluation studies on regional and agricultural policy in mountain areas have shown the continuing valuation of mountain farming (Dax/Hovorka 2003, p. 218). But for the next RDP (2007 – 2013) some improvements are still possible (e.g. higher proportion of payments for rural development measures, like art. 33 measures) and also within the LFA payment some adaptations are under discussion (e.g. increase of the graduation framework). In the long run, society will only be ready to finance agricultural subsidies if it is proved that these subsidies will achieve ecological, social and economic aims (Hovorka/Hoppichler 2006, p. 709). This is a challenge but also an opportunity for agriculture, in particular for mountain farming.

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