

WEDNESDAY 4 MARCH 2009

Present

Arran, E.
Brooke of Alverthorpe, L.
Caithness, E.
Cameron of Dillington, L.
Sewel, L. (Chairman)
Ullswater, V.

Witness: **Mr Alois Bauer**, Agriculture Counsellor, Germany, examined.

Q240 Chairman: Thank you very much for taking the time to come in and help us with our inquiry on Less Favoured Areas. This is a formal evidence-taking session of the House of Lords Select Committee and a note will be taken. You will get a copy of the transcript within a very short while when you will have the opportunity to revise it and take out any slips or mistakes. The best thing to do, I think, is a question and answer conversation. I think you have seen the list of topics we want to cover.

Mr Bauer: Yes.

Q241 Chairman: Could you begin by outlining for us the LFA in Germany in terms of the proportion of land covered by it, who is eligible to receive LFA payments, how land is classified and, I suppose, critically, what proportion of farm incomes in the areas that are covered by LFA payments is dependent upon LFA payments themselves?

Mr Bauer: I will, of course, help myself with papers from the experts in the ministry.

Q242 Chairman: We are all right then, are we not!

Mr Bauer: As you know, I am responsible for the whole range of issues the ministry is covering, so here in the Permanent Representation I am dealing with everything from agriculture, food law, fisheries to consumer protection. Land designated as LFA has an

important proportion in Germany. Under the legal definition we have almost ten million hectares out of roughly 17 million hectares of agricultural land.

Q243 Chairman: Ten million out of 17 million?

Mr Bauer: Yes, but not the totality of LFA is receiving payments. This is due to the different implementation which is done by the Länder in Germany. Specific payments are paid only for 4.3 million hectares. This, I think, makes it clear that the relationship is a little different. For the designated LFA area the exact figure would be 9.992 million hectares. The largest part is what is classified under Article 19, which is generally Less Favoured Areas. We have 370,000 hectares of mountain areas, then 199,000 hectares of areas with specific handicaps and 567,000 hectares with specific environmental handicaps. This is the total picture for Germany.

Q244 Chairman: Have you any figures that give an insight into the extent to which farmers in receipt of LFA payments are dependent upon LFA payments, so the proportion that the LFA payment represents of total farm income?

Mr Bauer: I have a figure which is not very new. It comes from our Agriculture Report in 2007 and it says that within the areas the LFA payments make up 11 per cent of the farm income. This is an average figure and you must realise that agriculture in Germany is very diverse between the Länder and the areas.

Q245 Chairman: So there will be some farmers who will be pretty heavily dependent upon LFAs, will there not?

Mr Bauer: Yes. I do not have a table where it shows that, but the average would be 11 per cent.

Chairman: Let us move onto the interesting issue of where the Länder fit in and the governance of the system.

Q246 Lord Brooke of Alverthorpe: This is following up some of the statistics which are given where the numbers eligible and the numbers actually paid are quite significantly different and, as you mentioned, this varies depending on the policies pursued at Länder level. Could you describe a little bit more how the issue is approached at Länder level and how the take-up and the implementation of the policy vary between different parts of the country?

Mr Bauer: The division of competences in this sector is governed by our Basic Law. For agricultural structures we have what we call *Gemeinschaftsaufgabe*, the joint task of the federal level and the Länder. This is why we have a framework plan for rural development which is decided together by the Bund and the Länder, and within this framework plan the Bund finances 60 per cent and each Land then takes up the rest. Within the framework of this federal plan the Länder have a broad range of common criteria they can choose from and a broad range of measures, for example, the level of payments, payments per hectare and so on. This is the joint framework for the whole of rural development and within that we also have the LFA scheme. We have Länder which do not implement the payments under the LFA scheme. We have three Länder, among them, Lower Saxony, which is quite important for agriculture in Germany, and Schleswig-Holstein, which do not have payments under the LFA scheme.

Q247 Lord Brooke of Alverthorpe: So it is possible that they do meet the criteria but a political decision is taken?

Mr Bauer: Yes. It depends sometimes on the priorities of available financing.

Lord Brooke of Alverthorpe: What is the feeling amongst the farmers then if they are in one of the Länder where they know there are criteria which they could meet and they are not being paid by anyone?

Q248 Chairman: They are not very happy!

Mr Bauer: Apparently it is not a problem for the Länder governments to implement the rural development plan without LFA payments. Maybe there are groups of farmers who would prefer to have the payments too, but I think they accept that in their regions the conditions, the structures, the landscapes are different. Among the Länder the average payment per hectare varies. For example, in Bavaria it is around €100, in Rheinland-Pfalz it is €56, and in Saxony it would be €15 on average, so there is a broad range of payments per hectare too. This reflects different conditions the Länder set for receiving the payments. We use an agricultural indicator (“Landwirtschaftliche Vergleichszahl”) which combines the quality of the land with socio-economic factors and also climatic factors, so this is a combined index which we traditionally use to classify agricultural land and compare farms with other regions. The joint framework only says that the payment has to be differentiated according to this indicator, but in principle it leaves to the Länder how they implement it and how they value each step of this classification.

Q249 Lord Brooke of Alverthorpe: So at the end of the day, presumably, if the Länder are looking for budgetary savings they ignore those factors and they do not make payments just the same?

Mr Bauer: No. As we see it, different Länder are making different levels of payment for these steps. They even start with setting higher levels of this indicator for the entry level, so to speak.

Q250 Lord Cameron of Dillington: Is it done on a farm-by-farm basis or is it done on an administrative area basis?

Mr Bauer: It is done on an administrative area basis. I have some figures here, just to compare them, for Baden-Württemberg and some other Länder, for example, Hessen. They are very similar. Baden-Württemberg differentiates on grassland where in mountain areas they go up to €150 per hectare. In a special area, in the Allgäu, their limit would be €140. In other less favoured regions they differentiate with an indicator. In regions where the indicator is less than 14.9 points farmers can receive €120 and in regions with an indicator from 30 points upwards farmers can receive €50. In the respective areas in for example, Hessen, they do not start with 14.9 points; they start with 16 points and they do not have €120, they have €146 as a limit. The €50 payment, which is in Baden-Württemberg starts with 30 points, in Hessen begins at 25 points. That is just to illustrate that there is quite a variety among the Länder in how they implement these provisions.

Q251 Chairman: And that is generally accepted? That does not become an issue of tension?

Mr Bauer: No. We appreciate our federal system. Of course, sometimes it depends on the budgetary situations and priorities of the Länder which are different within Germany. Sometimes it is interpreted as the Länder government's different attitude towards agriculture, towards the sector. I remember it was a small issue in some of the elections we had in the past, but we still have this wide range and people accept it. They accept policies which are adapted to the different Länder situations.

Q252 Earl of Caithness: Is there any evidence of farmers going out of business and land abandonment as a result of the different Länder taking different views?

Mr Bauer: I do not think so. Farmers are going out of business, of course, but until now the proportion of land being abandoned is very low in Germany. Usually the first step out of business is not simply stopping doing agriculture. It is more typically to have some income combination, to go for additional income, be it tourism or be it outside agriculture. In general, and relating to one of the questions I received, our experts tell me that the goal of the system in principle in Germany has been achieved, to avoid land being abandoned to a large extent.

Q253 Viscount Ullswater: That really goes to the heart of my question because this is the rationale of the whole scheme. What do the federal government and the Länder see as the rationale for the LFA payments? Is it to keep agriculture in place, is it to keep the environment in place, and is it properly targeted so that it is delivering that return? What are people paying for?

Mr Bauer: That is a question you can always discuss from different angles. In a scheme which has a certain average design, which is not really targeted to each individual situation of an individual farm, of course, you may in principle expect that there is some room for improvement concerning the effectiveness of the payments, but in general the aim as we see it within the Less Favoured Areas, is to keep the land under cultivation as much as possible. That is our goal, because we think this is what then delivers the other goals, which are maintaining rural communities alive, keeping the land in a good environmental condition and avoiding abandonment in some regions which then would be followed by afforestation, so what we call keeping open the landscape. It is also to avoid negative effects, for example, by farmers trying to react in the way of over-intensification because this also could be an effect when you are under pressure. You have in principle two paths which could be followed. The first would lead to extensification and at the end abandonment, and the other would be intensification. There are limits to intensification, of course, especially in these areas, but you can never exclude the possibility that somebody will try it. We have seen that, for example,

in milk production, and we are also trying to avoid with the possibility of these payments an intensification not adapted to the location..

Q254 Viscount Ullswater: So you see it still as an agricultural subsidy rather than environmental subsidy?

Mr Bauer: Yes, but delivering environmental goals also, by maintaining the agricultural land in good condition.

Q255 Viscount Ullswater: In a viable farming condition?

Mr Bauer: Yes.

Q256 Earl of Arran: Knowing, as you do, the intentions and the objectives of the LFA scheme, how do you see them either differing from or complementing those of the existing CAP instruments, such as the single farm payment or agri-environment schemes?

Mr Bauer: If you take the agri-environment schemes since the latest developments, agri-environmental schemes only pay for what you have to invest in addition, so there is no income effect in principle. You achieve a higher level of environmental standards and the cost you have is paid via the environmental schemes, so for the farm income in principle it should be a zero sum game. On the other side, the direct payments, which contribute to a very large extent to the income of farmers, first of all they do not differentiate between areas. In a sense direct payments are the basic income instrument we have, with, of course, links to cross-compliance, and by those linked to environmental benefits too, but they are not specifically designed for the specific disadvantages of certain areas. Maybe we can say that direct payments and Less Favoured Areas are the same types of instrument regarding their income effect, whereas the environmental programmes as we see them normally have no income effect.

Q257 Earl of Arran: By and large in Germany as a whole is there great pressure from the farmers to come to the negotiating table and renegotiate the LFAs?

Mr Bauer: No.

Q258 Chairman: They prefer to keep things as they are, do they?

Mr Bauer: Yes. I suppose farmers are more on the conservative side relating to the scheme.

Q259 Chairman: “It is our money. We’ll keep it. Go away”, yes.

Mr Bauer: You have heard about the very large proportion of land which is under the LFA area in Germany even if they do not all receive payments. Maybe it is also because the design of the system is not so bad at all.

Q260 Chairman: Can I put to you that one way forward is to keep single farm payments and put something like LFA on top of the single farm payment for the disadvantaged areas, move it as part of a Pillar 1 support?

Mr Bauer: No, we are still not very far in the discussion about future agricultural policy here, and thus I should avoid going into details, unfortunately. We are preparing for it, of course, but we still have our internal procedures which have to be done before we come to a position on this.

Q261 Chairman: That is the sort of issue you identify as being part of a future debate?

Mr Bauer: Yes, of course.

Q262 Earl of Caithness: I would like to change the subject to the suggested biophysical criteria suggested by the Commission. What are your government’s views on this? Do you agree with the Commission or would you like to see other or alternative designation criteria, and if you do is that going to have any effect at all in Germany?

Mr Bauer: Our experts think that the biophysical criteria proposed by the Commission are possible criteria which we can use, in other words, that we do not reject them. We would have to discuss the threshold values which you have to pass in order to be classified, of course, but in principle the criteria are in our view valid. The first step, to classify the bigger areas according to such criteria, would be possible at EU level, we think. The next step then, to refine this classification, we think should be done at national or even regional level because it would then be rather difficult to have sufficiently sophisticated criteria at an EU-wide level. In principle we think these biophysical criteria are valid but we are not sure if they are so very far away from what we have achieved with the indicator which we have used, because into this indicator we also feed things like climate, rainfall, slope, et cetera. We have done a test at a very general level with these criteria. There would be changes in the single areas, but it is not that we only lose areas. It is more that in some areas there is also a shift to new areas and out of existing areas. They have done the test in a few of the Länder and apparently the overall difference would not be very huge.

Q263 Earl of Caithness: But besides the EU criteria you would still like a separate level for national or regional criteria?

Mr Bauer: Yes.

Q264 Earl of Caithness: So that the Länder can still be flexible, as they are now?

Mr Bauer: Yes.

Q265 Lord Cameron of Dillington: That brings me on to my question, which is about the eligibility criteria. The Commission now are obviously seeking to put in a framework for eligibility criteria to determine access to aid. I am just wondering what sort of rules you might like to see within that framework, what criteria you might like to see, and what sort of

harmonisation across Europe you would like to see within that, and whether any farms or any farming practices should be excluded from the eligibility criteria.

Mr Bauer: I will begin with the last because it is easier. We already are excluding now in our national framework programme certain areas which are classified as intensive agricultural production areas, and this would be maybe the same as we would like to see at the EU level, a general provision saying intensive agricultural production should be excluded.

Q266 Lord Cameron of Dillington: But what do you mean by “intensive”? Is ordinary dairy intensive?

Mr Bauer: No, not ordinary dairy. We would exclude, for example, maize but also specific intensive cultures and this exclusion we already apply in our programmes. But, again, at EU level it might be a general provision and then leaving room for the Member States and the regions to decide themselves how far they go.

Q267 Chairman: So you say intensive, no, but leave it to the regions and the Member States to decide what “intensive” is?

Mr Bauer: Yes.

Q268 Chairman: That raises single market issues though, does it not?

Mr Bauer: As I said, we are doing that already. Of course, nobody would exclude, for example, ecological production or production types which are clearly extensive. We have a lot of Community regulations defining what is extensive, so nobody would believe you if you excluded extensive production. As I said, corn production and wine are intensive. Sugar beet would be intensive too.

Q269 Viscount Ullswater: But you would not exclude part-time farming as a classification from receipt of payment?

Mr Bauer: No, especially because, as I said before, part-time farming, while seen sometimes as a first step out of farming from, let us say, the farm level or the family level, it is very valuable for keeping land cultivated.

Q270 Lord Brooke of Alverthorpe: We talked earlier about the conservatism of farmers and that they probably would not wish to see any changes taking place in the present basis on which payments are made. However, if the terms of eligibility and so on did change and some farmers had to lose the present entitlement or have reduced entitlement, would you see a case being developed for them to be given some parachute assistance, so to speak, whilst they adjusted to the changes?

Mr Bauer: No, we have not yet developed a detailed position on that, but if the areas were considerable then certainly we would be in favour of some transition scheme in order to help them over the loss of this payment. The direct payment you lose has an immediate and direct effect on your income. That is not something we usually do without some phasing out.

Q271 Lord Brooke of Alverthorpe: You would envisage some form of compensation?

Mr Bauer: Yes.

Q272 Lord Cameron of Dillington: Can I go back to the previous question that I asked you, and I know you are speaking for Germany but consider the rest of Europe? To what extent do you think the eligibility rules ought to be harmonised? LFAs are very different in every country and there is a case for Member States being able to say, “These are the ones that are important in our country”, but on the other hand that makes the Commission rather nervous, and I was just wondering what position your country might take on this.

Mr Bauer: We think that harmonisation is achieved by the common criteria of designating the areas as such, but then would favour not to have too detailed rules about the eligibility of

individual farms. Of course, and I think the Commission had some examples of this, you can always have some discussions on the average harvest or something like that, but the value added of such an exercise for harmonisation, I think, is not too big. We are in favour, once the areas are designated, of also having farms in the area being eligible, once they fulfil the criteria, of course, but not in the first step of designating the areas and then again designating certain sub-areas which are eligible or not. We think that by having too many detailed EU-wide criteria we would end up in a patchwork of sub-levels of areas, and for the farmers in the regions we think it would be a very difficult situation because then you would have, of course, many situations of eligible and not eligible neighbouring areas. Also from an administrative view it would not be very easy. It would be much more complicated than now.

Q273 Lord Cameron of Dillington: Moving on to the payment formula, at the moment it is based on “additional costs and income foregone related to the handicap”. Do you think this is a good formula? Do you think it is going to change? Obviously, with the different payments you have already described that happen in Germany the Länder are taking different views. Do you expect to see more convergence on an EU-wide basis in dealing with this issue?

Mr Bauer: No. We are happy with the principle of “additional costs and income foregone” because this in our view is the formula which should be applied, even with the differences among the Länder, because in the Länder the differentiation is based on objective criteria on the basis of this indicator.

Q274 Lord Cameron of Dillington: Because essentially it remains an agricultural subsidy?

Mr Bauer: Yes.

Q275 Lord Cameron of Dillington: And the environment is just a spin-off?

Mr Bauer: Yes, and we think there are limited possibilities for having such an EU-wide harmonisation because this type of measure is typically very regionalised. It is designed to take into account the different and difficult regional situations, so we do not think that beyond this formula and beyond the flexibility we have now there should be too much convergence on the basis of unified criteria, for example.

Q276 Earl of Arran: I am afraid it looks as if you have to go mapping in order to arrive at some kind of assessment of what the impact will be of these new proposals if they come about. You have got to draw a map of how they will exist in the future. Do you have a mapping procedure? Do you have a map in existence at the moment of the land under LFAs and do you have the data or do you have to prepare one from the beginning?

Mr Bauer: You mean for the existing scheme?

Earl of Arran: Yes.

Lord Brooke of Alverthorpe: No, for the new framework.

Q277 Earl of Arran: For the new framework. Do you have one for the existing framework?

Mr Bauer: Yes, of course, for the existing framework we have maps, also the Commission has maps, but for the new framework we have done only a very rough estimate for a few Länder in Germany, and the ministry has the data, and this is where we came to the result that the overall differences in relation to the existing system are not too heavy. This was done on the basis of five Länder, including western and eastern Länder and in principle those with the biggest areas.

Q278 Lord Brooke of Alverthorpe: Do you think there is a real public benefit from the scheme or do you think there could be better alternatives?

Mr Bauer: There are always better --- no: there are always alternatives. I remember a discussion with university experts about the development of the basic idea behind agricultural policy, starting with, say, “steering” the markets, then decoupling, and a next step which would be “targeting”. This was, of course, a discussion about direct payments, not especially the LFA payments. The experts developed an idea of how future payments at a very regionalised level could be very targeted, really oriented only towards what society would get for a certain payment, and, of course, this would be an alternative. But you always have to keep in mind that you have to administrate that. We would need a lot of administrations at regional level to have a very sophisticated and very refined alternative payment system, and so, even if we want to have a more targeted system, we have to keep in mind that it must be possible for the administrations to run it and control it. The system we have, the LFA system, is not something new. It has a long history, it has evolved, and this is maybe why, at least as we think, it has very high merits, and, to answer your question, we believe that it delivers value for the public.

Q279 Chairman: Finally, what is your feeling, your perception, of how difficult it will be to get agreement among the Member States on this topic? Do you think it is one where it will be relatively easy to get agreement or do you think it is one where there are real differences among the Member States and it will be controversial and difficult?

Mr Bauer: No. Until now it did not look too difficult. But we see that in discussions about other aspects of agricultural policy, especially new Member States feel that they need some compensation, as they feel that the level of payments is too low in their states. If such a discussion comes into the LFA topic then it may be more difficult. If it is done on this technical level, as the Commission has started now with its consultation paper, I think it should not be too difficult.

Q280 Chairman: But the fear is that it will move away from being a technical exercise?

Mr Bauer: Of course.

Chairman: Thank you very much indeed. That was very helpful and very clear.