



CAP reform 2013

**last chance to stop the decline of Europe's
High Nature Value farming?**





Bulgaria – Berkovitsa. Extensive grazing of upland pastures is one of the most widespread types of HNV farming.



Romania – Maramures. A largely semi-natural landscape of hay meadows and pastures.

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*Cover photograph: Binding on Vallay Island
Jamie Boyle, RSPB Scotland.*

Introduction

The CAP is at a cross-roads. The current system is expensive, inefficient and discredited. Of a current CAP budget of approximately €53bn, over €40bn are spent every year on “Pillar 1” income payments to farmers according to obsolete criteria that have no connection with present-day policy aims.

Much of this money goes to farms that are commercially viable without income payments¹. Large amounts of public money are being wasted to no purpose, an unacceptable situation in these times of crisis in public finances. It is time to reform the rationale and mechanisms for Pillar 1 support.

Meanwhile, the EU is failing to meet environmental aims that are intimately tied up with farming and the use of rural land, such as the target to halt biodiversity decline by 2010. A key action for achieving this target is to maintain the types of farming that continue to harbour a wide range of wildlife, because they have not been intensified to the degree of mainstream “industrialised” farming. This is High Nature Value (HNV) farming.

HNV farming typically involves more traditional, low-intensity systems that tend to generate lower incomes from the market and also to receive the smallest Pillar 1 payments. The pressure is therefore on HNV farmers to either abandon or intensify their farming system in the search for better returns – both paths are major causes of biodiversity loss and of the decline in other ecosystem services associated especially with extensive livestock systems, such as storing carbon in permanent grasslands and reducing fire risk in southern regions.

In March 2010, five leading farming and environmental NGOs published a joint paper presenting their proposals for a new CAP². This proposes a coherent European agricultural policy based on a new contract between society and farmers, with support re-directed towards those who produce environmental benefits, underpinned by a strong common framework of standards. A system of tiered payments to promote sustainable farming systems and ensure the delivery of public goods. This includes a basic area payment with conditions attached, additional payments targeted at more environmentally valuable farming systems – HNV farming and organic farming – and higher tier agri-environment payments and capital grants for specific objectives.

On 19-20 July, a major European conference took place as the culmination of Commissioner Ciolos’s public consultation on the CAP post-2013. Many contributors supported the re-targeting of CAP support in favour of farming types that are most valuable in terms of public goods, and most in need of economic support to be viable, including HNV farming.

This paper explores in more detail, from the point of view of EFNCP, BirdLife International, Butterfly Conservation Europe and WWF, how a targeted Pillar 1 scheme for HNV farming should work. The paper complements the NGO joint paper, specifically focusing on the HNV farming issue – the other schemes proposed in the joint paper are no less important for the sustainability of EU farming.

While in the NGO joint paper the continuation of a two pillar CAP was not advocated, we believe that given the political likelihood of this structure remaining, the HNV farming support scheme would fit better into Pillar 1: in this way support to HNV farming would be delivered in a consistent and cost-efficient manner across the EU through direct payments. This should be additional to existing Pillar 2 agri-environment schemes, which remain essential for delivering targeted biodiversity management.

¹ LEI (2010) Farm viability in the European Union: assessment of the impact of changes in farm payments, <http://www.lei.dlo.nl/publicaties/PDF/2010/2010-011.pdf>

² BirdLife, EEB, EFNCP, IFOAM, WWF (2010) Proposal for a new EU Common Agricultural Policy, <http://cap2020.ieep.eu/assets/2010/6/10/NGO-CAP-proposal.pdf>

EU policy goals concerning HNV farming – biodiversity and rural development

COMMUNICATION FROM THE COMMISSION ON HALTING THE LOSS OF BIODIVERSITY BY 2010 AND BEYOND:

*Natura 2000 and the conservation of threatened species will not be viable in the long-term without a wider terrestrial, freshwater and marine environment favourable to biodiversity. Key actions include: optimising the use of available measures under the reformed CAP, notably to prevent intensification or abandonment of **high-nature-value farmland**, woodland and forest and supporting their restoration;*

EU COUNCIL DECISION ON COMMUNITY STRATEGIC GUIDELINES FOR RURAL DEVELOPMENT:

*To protect and enhance the EU's natural resources and landscapes in rural areas, the resources devoted to axis 2 should contribute to three EU-level priority areas: biodiversity and the preservation and development of **high nature value farming and forestry systems** and traditional agricultural landscapes; water; and climate change.*

What is HNV farming?

The term High Nature Value (HNV) farming is used to describe broad types of farming that, because of their characteristics, are inherently high in biodiversity. Typically, these are low-intensity farming systems. Since the 1990s there has been a growing recognition that the conservation of biodiversity in Europe depends on the continuation of these farming systems across large areas of the countryside.³

Farming in Europe ranges from the most intensive production systems, normally on more fertile land, to very low-intensity, more traditional land-uses, usually found on poorer land. It is well documented that a more intensive application of machinery, fertilisers, biocides and livestock reduces the opportunities for wildlife on cropped and grazed land. For example, grasslands that have not been sown or fertilised can harbour as many as 135 species of flora per square metre (eg. in Iberian wooded pastures), compared with as few as one or two plant species on intensively managed grasslands. The intensification of farming also tends to eliminate features such as field margins and uncultivated patches that are valuable refuges for wildlife. For these reasons, intensive farming is inherently low in biodiversity.

By contrast, at the lowest end of the farming intensity spectrum, the productive land itself supports a range of biodiversity, especially when a high proportion of the land is in, or close to, a 'semi-natural' state⁴ (eg. hay-meadows, pastures and orchards that are not heavily fertilised or regularly re-sown). Low-intensity farming of this sort still covers extensive areas of Europe's more marginal regions.

Biodiversity conservation goals in Europe cannot be met solely by protecting particular habitats, species or areas, such as under Natura 2000. We must also maintain the low-intensity land-uses that favour the dynamics of natural processes and create opportunities for many of our most valued habitats and species to flourish across large, contiguous areas of land. This function is especially important to allow wildlife to adapt to climate change. These two approaches – Natura 2000 and support for HNV farming – are mutually supporting. The Natura 2000 network protects a significant proportion of the HNV farming area, especially parts that are of recognised biodiversity quality; while supporting HNV farming directly benefits the conservation of Natura 2000 farmland habitats, both within the designated sites and in the wider countryside.

Estimates undertaken by the European Environment Agency (EEA) and the European Commission (JRC) suggest that over 30% of farmland in the EU may be HNV farmland. In several countries, the figure is over 50%, and for some NUTS2 regions it is even higher.⁵

³ Baldock D, Beaufoy G, Bennett G and Clark J, 1993. *Nature conservation and new directions in the CAP*. IEEP London

⁴ Semi-natural vegetation is naturally occurring (not planted) grass, scrub or woodland that is grazed and/or cut on a regular basis, resulting in a state that mimics natural habitats.

⁵ Paracchini, M.L., Petersen, J-E., Hoogeveen, Y., Bamps, C., Burfield, I. and van Swaay, C., 2008. High nature value farmland in Europe. An estimate of the distribution patterns on the basis of land cover and biodiversity data. European Commission Joint Research Centre, Institute for Environment and Sustainability. Office for Official Publications of the European Communities, Luxembourg.

Public goods and ecosystem services

HNV farming produces most of the public goods associated with European agriculture, including landscapes well-suited for wildlife to adapt to climate change, carbon storage in the soils of permanent grassland, and reduced fire risk through extensive grazing in southern regions. HNV farming is also a rich repository of rural culture, language and heritage.

Goods and services such as management of water quantity and quality and of air and soil quality are likely to be provided by HNV practices such as low use of chemical inputs, low level grazing of wetlands, leaving some areas of scrub, fallow or a vegetated understorey to fruit or olive trees.

This demonstrates the importance of HNV farming systems for attaining EU policy goals. The success of key environmental legislation such as the Water Framework Directive, the land use component of climate change targets and meeting the 2020 biodiversity targets are all heavily dependent on agricultural activity. While making changes to some of the more damaging activities common in conventional agriculture is necessary, it is essential to maintain existing sustainable systems and the benefits they provide.

The importance of HNV farming for meeting environmental and poverty reduction goals was recognised in the recent 'International Framework for Agriculture Knowledge, Science and Technology for Development (IAASTD)'; an authoritative multi-government approved scientific assessment of global agricultural knowledge and how it can 'reduce hunger and poverty, to improve rural livelihoods and to facilitate equitable environmentally, socially, and economically sustainable development'. The final reports stressed heavily the importance of multifunctional agriculture, addressing the needs of small-scale farmers and incorporating local and traditional knowledge more effectively into agricultural knowledge and technology.

A CAP re-orientated towards delivering public goods therefore must give high priority to supporting HNV farming types. Blanket support to all farming will not achieve the EU's policy goals.

The challenges faced by HNV farming

The majority of HNV farming is found on less productive land, where physical limitations (soils, topography, climate, remoteness) have prevented intensification. Due to these same factors, HNV farmland generally has limited production options, compared with more fertile land. Few if any alternative uses are possible. Large areas have been afforested in the past, mostly with public subsidy, a change of use that often entails a considerable loss of biodiversity, landscape and socio-cultural values, as well as leading to severe wild-fire problems in southern Europe.

Today the value of maintaining HNV farming is recognised for the multiple environmental goods such systems produce. But HNV farming faces enormous challenges of socio-economic viability. As intensive farming expands and increases its yields, and as incomes rise in the wider economy, it becomes harder to earn a living from HNV farming.

Across vast areas of the EU's most fragile rural landscapes, farmers face stark choices between abandonment and intensification. Every day, farmers are giving up and selling their stock. Landscapes rich in biodiversity and culture, beneficial for soil conservation and climate change, and resistant to forest fires, are being lost to scrub, dense forest or new intensive uses, such as large irrigated monocultures. Abandonment is a major issue that is already leading to serious biodiversity loss, for example for butterflies and birds⁷.

⁶ <http://www.agassessment.org/>

⁷ Van Swaay, C., Cuttelod, A., Collins, S., Maes, D., Lopez Munguira, M., Šašić, M., Settele, J., Verovnik, R., Verstrael, T., Warren, M., Wiemers, M. and Wynhof, I. 2010. *European Red List of Butterflies*. Luxembourg: Publications Office of the European Union.

Economics of HNV farms

HNV farms generally have lower net incomes than non-HNV farms, and often have negative net incomes, sometimes even with CAP support. In such cases, farms are sustained by family farm labour that is valued below the minimum wage. Despite these obvious needs, HNV farms tend to receive lower levels of support from the CAP than non-HNV farms, especially from Pillar 1. These facts are shown by EU-funded studies⁸ and illustrated by the examples at the end of this paper.

HNV farms often survive thanks to a low-costs strategy. But as on all farms, investments are needed to maintain and improve infrastructure, animal housing, machinery, and to evolve towards a more sustainable future. Farmers with limited incomes also tend to have limited capital, and face difficulties in accessing grant aid for capital investments, as schemes require the farmer to provide a proportion of the capital. Higher rates of grant should be allowable for HNV farms where these investments are justified on the basis of the environmental benefits the farms provide.

In many parts of Europe, HNV farming landscapes are made up of many small, part-time holdings. EU and national agricultural policies often ignore or exclude such very small or part-time farms, as they are not regarded as “professional”. This approach conflicts with the EU commitments to maintaining HNV farming and biodiversity.

Small-scale farming systems should be valued for their true multi-functionality – providing local employment and subsistence that is resilient to economic downturns, supplying local markets with local produce with a minimal carbon footprint, as well as the public goods such as biodiversity and landscape that we focus on in this document. Attempts to convert such landscapes to competitive full-time farming following the intensification model of recent decades would entail enormous environmental costs. Yet neither can such landscapes and farming systems be fossilised. A process of evolution towards greater economic sustainability is necessary, in some cases involving larger farm size. New visions are needed for rural areas dominated by small-scale farming, steering the changes that are bound to come in a direction that maintains environmental values and other public goods.

The reality is that many HNV farms can never be expected to provide a full-time income, so that maintaining farming activity on a part-time basis is a necessary strategy, and one that is already widespread in Europe. For this strategy to be sustainable, the part-time farming itself must be able to generate an economic return on the labour input, and often this will be possible only with the aid of income payments. This is an important consideration for the design of payment schemes – a rate per hectare that seems appropriate for larger farms may result in a payment of almost no value for a very small farm.

Eligibility for Support

A characteristic of HNV farming in many regions is a reliance on common grazing lands. Although barely on the radar of many agricultural policy makers, common grazing land covers many millions of hectares of European farmland. Most of this land has not been reseeded or fertilised and so is of significant environmental value. Many areas of common grazing do not have fences, making shepherds a vital part of the farming system (also to defend their flocks against predators such as wolves and bears). The farmers that use common grazings may have almost no land of their own, which is an important consideration for the implementation of CAP support payments paid on a hectare basis.

Grasslands with a high proportion of scrub and/or trees are of particular biodiversity value, as in Iberian dehesas/montados and nordic wood pastures. Continued sustainable grazing of such grassland is especially important, and needs to be encouraged through CAP support payments. Yet in many countries such land is excluded from CAP support, because of CAP rules and their interpretation. It is essential that CAP rules are clarified and changed to ensure scrubby and woody pasture can receive payments without total clearance of non-herbaceous vegetation.

⁸ Gay, S.H., Osterburg, B., Baldock, D. and Zdanowicz, A., 2005. *Recent evolution of the EU Common Agricultural Policy (CAP): state of play and environmental potential*. MEACAP WP6 D4b.

Current CAP short-comings

In order to maintain the environmental benefits provided by HNV farming, it is essential to address the socio-economic challenges faced by the farmers themselves. In particular, there is a need to ensure acceptable income levels (returns to labour) to allow beneficial farming activity to continue. Providing appropriate and effective income support for HNV farming through the CAP is therefore a key concern.

Pillar 1

Currently, the bulk of CAP support is distributed through Pillar 1. There are no mechanisms to target support in a way that ensures efficiency or linkages to EU policy objectives. Even under the current justification of income support, the largest payments generally go to those most able to provide their own income⁹. This is particularly the case in the EU-15 where most support is paid on a “historical basis” i.e. the highest payments go to those who produced most agricultural goods in a historical period almost ten years in the past, generally by farming the most intensively, or who produced certain crops that were highly subsidised at the time. See illustrative example from Basse-Normandie.

Illustration of the bias of Pillar 1 payments towards intensive, non-HNV farm types – Basse-Normandie (France)¹⁰

HNV farming in Basse-Normandie involves a large proportion of the farm’s forage area being under permanent pasture, with a farm-level livestock density at or below about 1 LU/ha. These conditions coincide with grassland in an approximately semi-natural state and with considerably higher floristic diversity than under more intensive use.

The farm type that exhibits the clearest HNV characteristics is the small, “non-professional” mixed holding with sheep. These farms have a very high proportion of permanent grassland and livestock densities average only 0.7 LU/ha.

Beef farms and low-intensity dairy farms based on permanent pasture generally also have HNV characteristics, although in some cases the stocking densities are higher than the optimum from a biodiversity point of view (e.g. regional average 1.22 LU/ha for grassland dairy). Maize-based dairy farms, “commercial” sheep farms and crop farms are considered generally not HNV, due to their lower proportion of permanent grassland and high stocking densities (>1.6 LU/ha), and consequently low biodiversity.

The table illustrates the estimated CAP support (Pillar 1 and PHAE) received by each farm type, calculated for the holding, and also per hectare (UAA) and per Annual Work Unit (AWU). Support payments are those applicable in 2007. For the purposes of the calculation, all payments including Single Payment Scheme (SPS) are allocated to the relevant production sectors, although in practice most are decoupled.

Potentially HNV farm types are shown in green, non-HNV types in yellow. The most supported farm type (non-HNV) receives 5.7 times more for each hour of work than the least supported (HNV), and 3.5 times more per hectare.

In the dairy sector, intensive maize-based farms receive more than double the support received by the low-intensity grass-based dairy farms, in EUR/AWU. The farm types eligible for the lowest levels of support include two types of farm with HNV characteristics: the non-professional farms, and low-intensity grassland dairy farms.

⁹ www.farmsubsidy.org

¹⁰ Poux X. in Poux X and Beaufoy G. Distribution of the CAP budget in a biodiversity perspective, France case study. Report to EEA, 2008.

Estimated payments (2007) that can be received by different farm types in Basse-Normandie

	Crop payments (EUR)	Dairy payments (EUR)	Beef/sheep Premia (EUR)	PHAE (grassland premium) (EUR)	EUR / holding	EUR / ha UAA	EUR / Annual Work Unit (AWU)
Non professional	525		642	572	1 739	183	3 622
Grassland dairy	1 172	923	727	2 484	5 305	136	3 467
Beef	1 858		20 286	3 566	25 711	476	19 045
Maize dairy	12 888	1 917	968		15 773	225	7 583
Sheep	3 151		4 398		7 549	184	4 934
Crops	39 816				39 816	404	20 419

Several studies have shown how HNV farming in particular is disadvantaged by the current Single Payment System (SPS), especially in the Member States that continue to base payments on historic subsidy patterns¹¹.

Options for improving the targeting of Pillar 1 payments are available for Member States, but have been used very little. In the olive sector for example, Member States had the option from 2004 to use 40% of their olive support budget for payments targeted on social and environmental grounds. This option was so little used that it was abolished in 2009 after five years of wasted opportunity.

Under Article 68, up to 10% of Pillar 1 payments can be targeted, for example at “specific types of farming which are important for the protection or enhancement of the environment” and “to ensure against land being abandoned”. These are clear opportunities to target HNV farming systems. From a very slow start, some Member States are starting to use Article 68 for environmental objectives, including schemes for supporting permanent grassland under low-intensity use (e.g. in Denmark), and for local HNV farming support schemes (in the Burren, Ireland).

But the opportunities to target HNV systems have very largely been missed, and it is clearly time to replace the optional approach of Article 68 with a specific HNV support measure established at EU level and which all Member States should implement, with adaptations to national and regional conditions. Under a CAP that gives priority to public goods, the main income support instrument (Pillar 1) should favour HNV farms and other types of farming that are rich in public goods in a consistent manner across the EU.

Pillar 2 – Rural Development Programmes (RDPs)

While a targeted Pillar 1 scheme is most appropriate for supporting basic economic viability of HNV farming systems, Pillar 2 has a crucial role to play in supporting the delivery of additional biodiversity and landscape benefits from HNV farming, e.g. by incentivising specific practices through agri-environment schemes. There are also important opportunities for investments to improve economic sustainability and working conditions of HNV farming through Axis I, and for local action targeted on HNV farming through the LEADER approach.

Although supporting HNV farming is a EU priority for RDP spending, there are huge differences in the extent to which authorities are doing this. As shown by a recent EEA report, expenditure on agri-environment and LFA, measures with the clear potential to support HNV farming, varies greatly, and the lowest expenditure is often found in regions with the largest concentrations of HNV farming¹².

¹¹ EEA Technical report No 12/2009 Distribution and targeting of the CAP budget from a biodiversity perspective.

¹² European Evaluation network for Rural Development, 2008. Guidance Document to the Member States on the Application of the HNV Impact Indicator.

The RDP policy response to HNV farming at Member State and regional levels is highly inconsistent, and still in its infancy in many countries. Very few Member States have carried out even a basic assessment of the types of HNV farming found in their territories, or of the challenges involved in maintaining these systems, as recommended by the European Commission¹³.

Some Member States are making progress with indicative mapping of HNV farming, but the approaches taken are variable and give an approximate picture of geographic distribution at best. Such maps should not be used to direct HNV support payments. It is important that an HNV farming payment encourages the continuation of particular farming types and management practices, and farm-level criteria therefore are essential. A blanket payment to all farms in a particular area regardless of their characteristics is an extremely inefficient approach to targeting HNV farming.

Some Member States are showing the way in using the RDP in ways that favour HNV farming. The most explicit focus on HNV farming can be found in new Member States, such as Bulgaria, Slovenia and Romania. The main measure being used is agri-environment. The success of schemes has been variable to date but the intentions are ambitious and should be applauded.

Part of the problem is that although schemes to support HNV farming can be implemented under current RDPs, there is no measure explicitly designed or intended for this purpose. Also, the available measures have drawbacks in their design. Agri-environment payments are calculated on the basis of income forgone and additional cost and so in theory cannot pay for the continuation of existing farming systems, even if this delivers significant benefits. In practice some schemes, for example the PHAE2 “grassland premium” in France (see box) and the Romanian scheme for HNV grasslands, have the effect of supporting farms mainly on the basis of existing characteristics, but this is not a consistent pan-EU approach to agri-environment.

Agri-environment schemes (AES) remain a vital part of the CAP, which can and do deliver considerable biodiversity benefits¹⁴. They are a good mechanism for promoting particular farming practices targeted at specific conservation objectives, and which go beyond the broad HNV farming criteria which would justify the Pillar 1 payment presented below. An HNV farming payment does not reduce the need for a well-funded (at least at current levels) agri-environment budget.

The agri-environment budget is severely overstretched with the multiple environmental issues the schemes must address. In addition, the most targeted schemes are expensive to operate and can involve serious time commitments from farmers and administrators in ensuring measures are suitably targeted. AES of this sort are not suitable for providing broad support for the continuation of current HNV farming systems. Providing this support through a new Pillar 1 scheme should allow for better targeting of AES to specific actions that deliver additional benefits.

The LFA scheme (renamed Natural Handicap by the 2005 rural development regulation) has potential for supporting HNV farming. It is an income support measure which should compensate for physical limitations to farm productivity such as steep slopes, poor soils, low temperatures, etc. The purpose of the scheme is to support farming that maintains the countryside, to promote sustainable farming and to ensure environmental requirements.

In practice, the scheme is poorly targeted to meet these aims and has also been criticised for its extremely variable implementation across the EU both in the level of payments and their justification¹⁵. Many criteria actively work against HNV farmers e.g. higher payments to the most productive land or the exclusion of small farms and part-time or older farmers. The scheme could be better targeted if farm-level eligibility criteria were used to direct payments to holdings most relevant to maintaining the environmental values of the area.

¹³ European Evaluation network for Rural Development, 2008. Guidance Document to the Member States on the Application of the HNV Impact Indicator.

¹⁴ N. Boatman, C. Ramwell, H. Parry, N. Jones, J. Bishop, P. Gaskell, C. Short, J. Mills & J. Dwyer, A review of environmental benefits from agri-environment schemes, <http://www.lupg.org.uk/Default.aspx?page=143>

¹⁵ IEEP (2006) An Evaluation of the Less Favoured Area Measure in the 25 Member States Of The European Union



Germany – semi-natural grassland.

French Grassland Premium Scheme – PHAE2¹⁶

The PHAE2 “grassland premium” scheme in France is a broad agri-environment measure that supports grass-based livestock farms on the basis of existing farming characteristics.

The criteria applied are mostly very relevant to HNV farming – proportion of grassland, livestock densities per hectare, presence of “biodiversity elements” (types of semi-natural landcover). The scheme operates on a large territorial scale, involving approximately 3.3 million hectares in 2008-9, or 30% of the grassland area in France.

A similar approach could form the basis for a pan-EU HNV farming support scheme under Pillar 1, with some adaptation of the criteria and thresholds applied.

Overall, it is clear that the current EU policy package fails to provide sufficient economic support across the large areas of land under HNV farming systems, and thus will fail to secure the benefits they provide. Much of the support under Pillar 1 is wasted on farms which provide little in the way of public goods. The justification that the payments are income support cannot stand scrutiny since the farms receiving the largest payments are often those most successful in market terms too.

Some positive initiatives exist for redirecting support, but consistency and coherence across the EU are fundamentally absent. While Rural Development funding could be used to better support HNV farming, the mechanisms are not ideal and it makes up a small proportion of the total CAP. Major changes are needed to the way that CAP mechanisms are designed and targeted in order to better support HNV farming.

¹⁶ Prime Herbagère Agri-environnementale

Protecting, supporting and monitoring semi-natural grasslands

Grasslands are central to HNV farming and provide a wide range of ecosystem services. Their environmental value depends on how they are managed. Re-seeded, fertilised grasslands tend to be highly productive but of minimal environmental value; “semi-natural” grassland (not reseeded or fertilised), subject to low levels of cutting and/or grazing, has lower productivity but environmental values are very high.

The most biodiverse grasslands are threatened by a variety of changes in land use including: conversion to arable land and biofuels; intensification of use (re-seeding, fertilising, mowing); overgrazing; building development and afforestation. Over Europe as a whole, abandonment is considered the main threat in the longer term.

EU measures exist for the protection of semi-natural grasslands, including the Directive on Environmental Impact Assessment and CAP cross-compliance, which aims to prevent the decline of permanent pasture. However, these important EU measures are proving ineffective¹⁷.

Legal protection fails partly because neither governments nor farmers have reliable information on which grasslands are of environmental value, and where they are. Semi-natural grasslands normally are not distinguished from other less valuable grasslands on LPIS (Land Parcel Information System) that is used to manage CAP payments. This powerful data system has great potential for improved protection of semi-natural grasslands. Some countries have already begun to record all semi-natural grassland on LPIS, e.g. Slovakia. The HNV farming support scheme will motivate farmers and authorities to improve the recording of semi-natural grassland.

There are major contradictions at present between EU and national data bases and the way in which they interpret grasslands. For example, the EU farmland data base FSS (Farm Structures Survey) exclude common grazings, which constitute some of the largest semi-natural grassland areas in Europe. This should be corrected.

Permanent pasture statistics for some countries exclude grasslands with a high proportion of scrub and/or trees, even though these are of particular biodiversity value (as in nordic wood pastures) and at a high risk of abandonment. Such data exclusions render the cross-compliance mechanism to protect permanent pasture ineffective.

Continued sustainable grazing of scrubby and wooded grassland is especially important, yet CAP rules on land eligibility lead some countries to exclude it from CAP support payments.

EU and national definitions of grasslands should be made consistent, and should distinguish semi-natural grasslands (including scrubby and woody pastures) as a specific category to be registered on LPIS. Other biodiversity features should also be recorded. This has an initial cost, but will result in more efficient protection, support and monitoring of these grasslands.

Public goods can only be supported efficiently through public funds if adequate data system exists at all levels. The current IACS and LPIS systems should be maintained as the basis for implementing targeted support to HNV farming post-2013, with on-going improvements to allow fine-tuning of the scheme and more effective cross-compliance.

¹⁷ BirdLife (2010) Through the Green Smokescreen: How is CAP cross compliance delivering for biodiversity?
http://www.birdlife.org/news/news/2009/11/green_smokescreen.html

Proposals for targeted, effective and efficient support to HNV farming

Maintaining HNV farming is an EU objective, shared by rural development and biodiversity policies. But if HNV farming is to be maintained, a new approach is needed. The aim should be to establish a consistent and effective strategy for maintaining HNV farming across the EU.

The strategy should include:

- A targeted support payment for HNV farming under Pillar 1.
- RDP investment aids for HNV farming at higher rates of grant than other farms.
- Targeted agri-environment schemes for pursuing specific objectives and promoting certain practices.
- Local projects that work pro-actively with HNV farmers mainstreamed into rural development policy, e.g. as a special type of LEADER project for HNV farming.
- Development of a consistent EU model of LPIS that includes biodiversity features such as semi-natural grasslands, and a consistent approach to recording numbers of all grazing livestock through IACS.
- Development of consistent EU rules for ensuring scrubby and woody grazing land is included in permanent pasture statistics, and is eligible for CAP payments.
- Improved cross-compliance protection for permanent grassland and for biodiversity features, complemented by targeted HNV support payments.
- Adaptation of administrative and regulatory mechanisms, such as veterinary visits and controls on livestock movements, to HNV farming conditions.

Considerations for targeting support at HNV farming

Efficient targeting of Pillar 1 direct payments is urgently required. Support should be targeted towards farms with the characteristics that provide public goods, and with payments that are effective in increasing incomes to a level that allows the continuation of HNV farming systems producing these public goods. It is not efficient for expenditure on agri-environment and LFA to correct the current irrational weighting of Pillar 1 in favour of the most intensive farming systems.

We propose that under the current process of CAP reform, a scheme for supporting HNV farming is introduced at EU level¹⁸, providing support payments to farms that meet a set of basic criteria, to be determined at national level within an EU framework. This is not an exact science and cannot be perfectly tuned, but it will be far more efficient in linking payments to public goods than the current non-targeted system of CAP income payments.

Simple criteria are needed to qualify a parcel or combination of parcels for an HNV farming payment, on the basis of HNV farming characteristics: low-intensity land use and particular farming practices. The criteria will need to be tailored to broad types of HNV farmland – low-intensity livestock, arable crops, and permanent crops.

¹⁸ A parallel scheme for supporting organic farming is proposed. See BirdLife, EEB, EFNCP, IFOAM, WWF (2010) Proposal for a new EU Common Agricultural Policy, <http://cap2020.ieep.eu/assets/2010/6/10/NGO-CAP-proposal.pdf>.

Guiding principles for HNV farming payments

Support for HNV farming should be delivered in a systemic and cost-efficient manner across the EU.

The aim of payments is to maintain public goods provision by improving the economic sustainability of broad HNV farming types, thus slowing or halting the process of abandonment and intensification.

The payments should offer the HNV farming-recipient a real increase in income compared with the present, for maintaining an existing farming system. Other farmers may choose to adapt their farming system in order to meet the requirements of the HNV payment.

The mechanism should be an administratively-light direct payment at a sufficient level to maintain basic income levels, on condition of continuing with specific farming practices.

The payment conditions should be as simple as possible while providing effective targeting of the most environmentally valuable farming.

The criteria should be incorporated as far as possible in the normal control system for CAP payments (LPIS and IACS¹⁹).

By providing a direct economic incentive for farmers to maintain permanent grassland and biodiversity features, and to register these on LPIS, the HNV payment will boost the effective application of these aspects of cross-compliance.

The application for the HNV farming payment should include commitments to specific management requirements (specific cross compliance measures), including maintenance of biodiversity features. Restoration or specific management of features should be promoted by agri-environment.

The aim of this broad support scheme is not to capture all types of farming with significance for biodiversity, as this would require very detailed criteria and thus lead to an excessively complicated system. Certain situations will not be covered by the broad criteria, for example rice cultivation or other forms of arable cropping that may be valuable for some species under specific practices.

These more localised situations are best addressed through agri-environment schemes, as at present. The new HNV farming scheme will take some of the burden of supporting broad farming systems from agri-environment through a lower cost approach, allowing tighter targeting of this measure on more specific environmental objectives.

The criteria presented below are consistent with those of the EU Guidance Document on HNV farming indicators²⁰. They aim to capture the low-intensity characteristics HNV livestock, arable and permanent crops, along with specific landcover features that add biodiversity value to these systems.

Low-intensity livestock

For HNV livestock farming, permanent pasture is a key characteristic that is recorded on IACS and provides a simple basis for an area payment (the EU permanent pasture category includes hay meadows that have not been reseeded within 5 years). However, permanent pasture is of variable environmental value depending on its management. For example, fertilisation or heavy grazing can greatly reduce its environmental value.

¹⁹ Land Parcel Information System and Integrated Administration and Control System

²⁰ European Evaluation network for Rural Development, 2008. Guidance Document to the Member States on the Application of the HNV Impact Indicator.

There is a strong correlation between livestock density at the farm level, and intensity of permanent grassland use. To ensure that the farming system is low-intensity and appropriate to justify HNV support, thresholds for livestock density per hectare of forage at the farm level should be applied. The aim of these thresholds is not to achieve a perfect grazing system from a biodiversity perspective, but rather to target support to a broad category of low-intensity livestock farming based on permanent pasture that has not been intensified.

Appropriate livestock density thresholds should be established per region, but as a guideline at EU level, farms stocked above about 1 LU/ha generally are based on forage that is not semi-natural and therefore not likely to be HNV, e.g. permanent pasture is likely to have been reseeded and fertilised. (See below for discussion of mechanisms using HNV points or tiers, that could include higher LU/ha thresholds in situations of lower nature value.) In regions with low-yielding permanent grassland, the maximum thresholds for HNV payments should be much lower, e.g. 0.2-0.3 LU/ha. A minimum LU/ha should also be set for the region to ensure a minimum level of grazing is maintained.

Payments would be per hectare of permanent pasture. It is essential to include off-farm grazing land (e.g. common land) in the scheme, and all pastures with scrub and tree cover that are in legal grazing use. Hay meadows would also be included whether grazed or not. A maximum payment threshold could be set at 70-80% of the farm's area, in order not to discourage fodder production (e.g. traditional fodder crops) on extensive livestock farms.

Permanent crops

Tree crops such as olives and other fruit/nut trees would qualify for HNV farming payments when the trees are standards or semi-standards (i.e. not more intensively-managed dwarf varieties), not irrigated, and if a spontaneous (not sown) under-storey is allowed to develop between autumn and spring, as occurs under traditional low-intensity systems. Dates would need to be set appropriately for the region, allowing for flora and fauna to develop before removal by mowing, grazing or light tillage in springtime. Low tree density per hectare (regionally appropriate thresholds) is also an appropriate criterion in many cases. Herbicides should not be used, and limits for input use could be included.

Arable

Arable cropping is mostly intensive. Except in areas where physical or structural limitations have prevented intensification, arable land generally would not qualify for HNV farming payments without changes to current practices.

Low-intensity arable systems are found mainly in parts of southern and eastern Europe, and locally (and becoming rarer) in places such as the west of Scotland and Ireland. The farming characteristics vary considerably according to the region.

Under the most extensive HNV arable farming, mainly in Iberia, a proportion of the land is left fallow for one or more years. A minimum fallow ratio, for example 10%, should be required for arable land to qualify for HNV payment. Bare fallows should not be eligible - spontaneous vegetation should be allowed to develop on the fallow land, as a condition of payment. However, long-term fallows must be managed with a minimum mowing regime to prevent succession to scrub.

In eastern and north-western Europe, small field sizes are an indication of low intensity use, and generally favour farmland biodiversity, especially in a mosaic with semi-natural grassland or orchards, and where surrounded by semi-natural boundary features. HNV payments could be based on field size criteria, with thresholds determined at the regional level. Semi-natural boundary features would count as biodiversity features (see below).

In all arable systems, basic management requirements should be applied to ensure biodiversity benefits. For example winter stubble and spring sowing in northern Europe, appropriate management of fallow land in southern Europe. These requirements should be simply defined and checked. Limits for input use could be included.

Biodiversity features

Features such as hedges, dry-stone walls, ponds and patches of semi-natural habitat add to the structural diversity of habitats on HNV farmland. In spite of their public goods value, such features are often excluded from the farmland area eligible for current Pillar 1 payments, depending on national rules. Specific small-scale habitat types that are considered of biodiversity value at regional, national or EU level should qualify as biodiversity features and receive payments e.g. traditional orchards and hay meadows, species-rich grassland, etc. Farmers would declare these on their IACS application and they would be registered on LPIS.

A Basic HNV support payment

The table below illustrates how HNV farming systems could be identified at the parcel and holding level. Payments would be for the area of land in low-intensity livestock, arable, and permanent cropping meeting the criteria in column two. These criteria should be applicable through the existing LPIS-IACS system that governs CAP payments at the farm level. Basic management requirements may be needed to justify the HNV payment, especially for crop systems – these are suggested in column three, and go beyond GAEC. They should be defined at the appropriate geographic level, e.g. the region.

Biodiversity features shown in column four are similar to those applied under the PHAE2 scheme in France. These should be declared in the farmer's application and registered on LPIS, and also receive payment. Such features are starting to be added to LPIS already in some countries, and this will need to be done in all Member States to ensure efficient implementation of the cross-compliance requirements introduced at the CAP Health Check. If practical difficulties emerge, a possible option would be to introduce this aspect of the scheme as a second stage, once the main HNV farming payment is up and running.

Payment options – Discussion

We believe these criteria are suitable for defining HNV farming, and allow the broad targeting of support at farms and farmland that are inherently valuable for biodiversity. Payments would be allocated per hectare of farmland meeting the low-intensity criteria and simple additional conditions, and also for identified biodiversity features (possibly to be introduced as a second stage).

In the farm examples at the end of this document, we have assumed the same payment level per hectare for the low-intensity farmland area as for the biodiversity features. An option would be to offer higher levels of payment for certain biodiversity features considered of exceptional value, thus rewarding for example fields of species-rich grassland or other priority habitats.

Further testing and discussion are needed to define the appropriate set of criteria and conditions, and the relevant biodiversity features, at regional level. Member States should justify to the Commission the criteria they choose to apply (within the EU framework) with examples of the farm types that will be targeted, and the biodiversity values generally associated with them.

Criteria for HNV farming payments

HNV farmland – payment per hectare meeting LPIS-IACS criteria and additional requirements			Biodiversity features – HNV payment in proportion to total area of features (or equivalent for linear features).
HNV farmland type	Criteria on LPIS-IACS	Additional requirements	Biodiversity features should be registered on LPIS at the time of application, and maintained in good condition.
Low intensity livestock on permanent pasture (including hay meadows)	Area of permanent pasture Stocking Density < x LU/ha of forage at farm level (to be set regionally within EU limit of approx. 1 LU/ha) Both criteria to include off-farm grazing and scrub/wood pasture.	Minimum LU/ha on pastures (regional) Regional management requirements e.g. mowing dates for hay meadows	Biodiversity features could include: Semi-natural farmland habitats of regional, national or EU importance, such as species-rich grassland including hay meadows, traditional orchards.
Low intensity cropping	Area of arable land Fallow > 10% of arable area No irrigation Field size < x (regional)	Regional management requirements e.g. spring cropping, overwinter stubble in Northern Europe; non-tillage of fallows in south. Input limits, cutting dates	- Linear and point features such as hedges, dry-stone walls including terraces, ponds, uncultivated patches. - Uncultivated strips along water courses and hedgerows. - Arable fallows of more than 1 year, not ploughed or treated with herbicide, with minimum management regime of grazing and/or mowing.
Low intensity fruit/nuts/olives	Area of fruit/nut/olives crop No irrigation Tree density / ha < x Field size < x (regional)	Standard/semi-standard trees Spontaneous under-storey during autumn-spring (dates to be set regionally) Regional management requirements e.g. no herbicides, other input limits	

A system that divides all farms into HNV or non-HNV as the basis for allocating payments should be avoided if possible, as in reality there is a gradient from farms of least nature value to the highest nature value. There are several ways of recognising this gradient in a payment system. Discussion and modelling of these options are needed to explore the effects in different situations. This paper aims to provide some options for discussion rather than provide a definite solution.

For example, a progressive scheme using a system of points could be applied. This could be tailored to the specific HNV farming types – livestock, arable, permanent crops – or operate as a combined points system. In the case of livestock farming, higher points could be allocated to farms with a lower LU/ha of forage at holding level, below a maximum threshold of 1 LU/ha. For arable land, points could be increased for a higher proportion of land within the holding in a semi-natural state (including fallow land under appropriate management for biodiversity), in inverse proportion to field size, etc.

A menu of simple management requirements could be devised, with points allocated according to the requirements met by the farm, for example on input use. Points could also be allocated in proportion to the coverage of biodiversity features on the farm.

A system for livestock farming is illustrated in the diagram below. The relative weighting of points would have to be analysed carefully. The below is a schematic presentation of the idea.

	% of farm area under permanent grass	LU / ha of forage (must include off-farm grazing e.g. commons)	% of farm area under semi-natural features (hedges, traditional orchards and hay-meadows, dry-stone walls etc.)
	20% ⇔ 80%	1LU/ha ⇔ 0.2LU/ha	10% ⇔ 100%
HNV points	1 ⇔ 5	1 ⇔ 5	1 ⇔ 10

In this example, a farm with 20% of area under permanent grass, 1 LU/ha of forage and 10% of area under semi-natural features would have 3 points.

A farm with 80% of area under permanent grass, 0.2 LU/ha of forage and 50% of area under semi-natural features would have 15 points.

There are a number of alternatives for setting payment rates each of which have advantages and disadvantages. A cut-off could be set so all those who had above say 10 points received a flat rate payment for the area qualifying as HNV. This would be relatively simple but would mean that those close to an HNV system received nothing and those with the most valuable HNV systems received no additional payments. Alternatively there could be a range of between 2 and 4 HNV tiers, with threshold values for each tier. The highest tier would require the lowest stocking densities and highest proportion of permanent grassland, and of biodiversity features. The payment would increase with the tier level.

HNV payment rates per hectare could be either the same for each type of farmland (livestock, crops) or payments could be differentiated, reflecting the different environmental values and economic needs of each farming type. For example, low-intensity livestock raising on permanent pasture probably justifies (environmentally) and requires (economically) a higher payment than low-intensity arable cropping. However, this will depend on the payment criteria and management requirements in each case.

Payment levels and HNV budgetary envelope

The HNV farming payment is a direct payment to provide the necessary economic viability to particular farming systems that produce public goods. Payments should not be calculated in terms of income forgone and additional cost. The scheme should be obligatory for Member States, with appropriate flexibility, and therefore should be implemented under Pillar 1, so that it is 100% financed from the EU budget.

HNV farming payments should start from a high rate per hectare, and should be degressive, for example 100% for the first 5ha, 75% for next 10ha, etc., in order to ensure effective levels of support for small farms, that have higher costs per hectare and are characteristic of many HNV farming landscapes especially in more marginal areas. Larger farms have considerable economies of scale, so that lower payments per hectare can be sufficient to ensure the viability of the HNV farming system. Without a degressive payment, some farmers could receive excessively large payments, which is not an efficient policy design.

Appropriate payment levels and the details of degressivity should be fine-tuned as far as possible in order to ensure an efficient system. The appropriate choices will depend to a large extent on what system of basic Pillar 1 payments is implemented after 2013.



Spain – Extremadura. Extensive arable and sheep system with a mix of semi-natural pasture, crops and fallow.

Currently Pillar 1 support received per hectare of farmland varies massively from farm to farm and from region to region under the current CAP, especially in countries applying the “historic” system for payment calculation. Grazing land used at low intensity can receive as little as €25 per hectare, while the most productive land under irrigated arable crops or olives can receive over €500 or €1000 respectively.

A change to flat-rate Pillar 1 payments per hectare will automatically increase the basic payment received by low-intensity farming, but how much will depend greatly on the implementation regime (e.g. whether flat-rate across the EU or regionalised to maintain current budgetary distribution). Whether degressivity is applied or not to basic Pillar payments also has a major influence on economic outcomes at the farm level, and hence on the level of HNV payment required.

Appropriate payment levels will need to be calculated, and a Pillar 1 budgetary envelope allocated for the HNV farming payment scheme. Estimates should be made of how much farmland could qualify under this system, and what average payments rates per hectare would result from the degressivity of the payments. From JRC research referred to above, a reasonable estimate is that between 30% and 40% of the total EU farmland area can be expected to qualify for an HNV payment.

If as a starting point we estimate a total EU farmland area of approximately 200 million hectares (to include common grazings and other land currently excluded from the EU’s UAA statistics), this gives an approximate HNV farmland area of 60-80 million ha.

An average payment for HNV farming of €200 over 80 million ha would absorb an annual budgetary envelope of €16 billion, or less than half the amount currently spent on Pillar 1 direct payments.

Additional needs

Mechanisms should be incorporated to address situations that are widespread in HNV farming, such as small farms and landless graziers. Landless graziers should be able to claim the payment on the basis of verified grazing rights or in certain situations on the basis of stock numbers. Users of common land should be able to claim on the basis of verified grazing rights, or preferably jointly as a grazing association.

Agri-environment

Specific agri-environment measures should complement the proposed HNV support scheme. Agri-environment should be targeted on promoting and adapting specific practices and to specific environmental objectives above and beyond the basic requirements of the Pillar 1 HNV payment. For example, maintenance of defined grazing regimes, shepherding of remote pastures, late mowing of hay meadows, transhumance and specific livestock types.

Local strategies and projects for HNV farming

As well as improved income support, HNV farming needs a pro-active approach to working with farming communities at the local level to overcome problems and develop strategies for the future. This is especially necessary in the most marginal farming situations, where the social fabric of rural areas is under severe threat. Changes in farming are certain to happen and are necessary to maintain socio-economic standards, but this process can be steered in a way that maintains rather than degrades biodiversity and other public goods.

HNV farmers in such situations need to be motivated, encouraged and informed by expert advice from local action groups employing multi-disciplinary animators. Experience shows that such an approach can greatly increase the take-up and effectiveness of agri-environment schemes, stimulate marketing initiatives and diversification, draw in other funding and create a critical mass of “belief” in the future that is crucial to sustainability.

Projects exist, e.g. with LIFE and NGO funding, that illustrate the huge benefits for the environment and for social sustainability that can be achieved by this pro-active targeted approach. Future RDPs should give priority to mainstreaming this approach. An example is the ADEPT project in Târnava Mare, Romania (see box). The annual cost of the project is less than 5 euros per hectare of farmland in this 85,000 hectare Natura 2000 site, a low cost compared with typical agri-environment expenditure.

This approach might be developed as special type of LEADER project targeting HNV farmers and farming, for example. Central to the approach is for farmers to form associations and to develop common strategies, with external assistance and grant aid, for maintaining and developing HNV farming at the local level to ensure economic and ecological sustainability.

ADEPT rural development project targeting HNV farming – Târnava Mare, Romania

Romania holds a large proportion of the HNV farmland, mostly on very small livestock farms. The Romanian government has set up an ambitious scheme for supporting HNV farming through agri-environment payments. However, up-take is patchy and national rules exclude 1.9 million farms of under 1 ha from the scheme, and from all CAP support.

The ADEPT project shows how a pro-active, NGO-led local approach can help to maintain HNV systems. The ADEPT team works with farmers to solve their problems, bring them into support schemes and improve the opportunities to market their produce. They also work together with the government to improve the design of schemes. Thanks to this dynamic approach, up-take of the HNV farming scheme is very high compared to national trends. In one commune where ADEPT are active, 99 farmers joined the scheme in 2009, compared with 3 in a neighbouring commune.

Common grazing land is a key part of HNV farming in the area. ADEPT has promoted the setting up of common-land grazing associations to apply for agri-environment payments. In Seica Mare village, approximately 1000ha of communal grazing land have been leased by the Town Hall for 5 years to the village grazing association, who have then accessed Measure 214 agri-environment payments.

This has unlocked access to agri-environment payments worth €180,000/year, in exchange for which the grazing association must maintain the land properly. The money will allow investments in common projects including a milk collection and processing unit, and a village abattoir which will add value to local agricultural projects and create further employment.



Estonia – wood pasture, generally not eligible for CAP support thus increasing the abandonment threat.

Conclusions

Much of European biodiversity is dependent on the continuation of low-intensity farming, where it still survives. This is especially in more marginal areas where physical, and sometimes socio-economic conditions, have prevented intensification. A key feature of low-intensity farmland is semi-natural vegetation that is used for livestock raising, such as hay meadows, and pastures of grassland, scrub and forest.

However, it is increasingly difficult to make a living from this type of farming, and it is need of economic support. As the EU struggles to reform its obsolete CAP, there is a last opportunity to redress years of bias that favoured intensive farming. The CAP should not be abolished, it should be remodelled to better support the provision of environmental goods including better support for low-intensity, High Nature Value farming.

We therefore propose the creation of an EU-wide strategy for supporting HNV farming. This should consist of:

- A targeted support payment for HNV farming under Pillar 1.
- RDP investment aids for HNV farming at higher rates of grant than other farms
- Targeted agri-environment schemes for pursuing specific objectives and promoting certain practices.
- Local projects that work pro-actively with HNV farmers mainstreamed into rural development policy, e.g. as a special type of LEADER project for HNV farming.
- Development of consistent EU model of LPIS that includes biodiversity features such as semi-natural grasslands, and of IACS to establish a consistent approach to recording numbers of all grazing livestock.
- Development of consistent EU rules for ensuring scrubby and woody grazing land is included in permanent pasture statistics, and ensuring eligibility for CAP payments.
- Improved cross-compliance protection for permanent grassland and for biodiversity features, complemented by targeted HNV support payments.
- Adaptation of administrative and regulatory mechanisms, such as veterinary visits and controls on livestock movements, to HNV farming conditions.

Serious decline of EU farmland biodiversity

Monitoring of grassland butterflies shows serious declines in abundance over the period 1990 to 2009. The loss of grassland butterflies approaches 70% over this period.

Furthermore butterfly populations were starting from a low base in 1990, compared with many decades ago – there were significant declines in range and species abundance in intensively farmed areas of Europe in the decades running up to 1990.

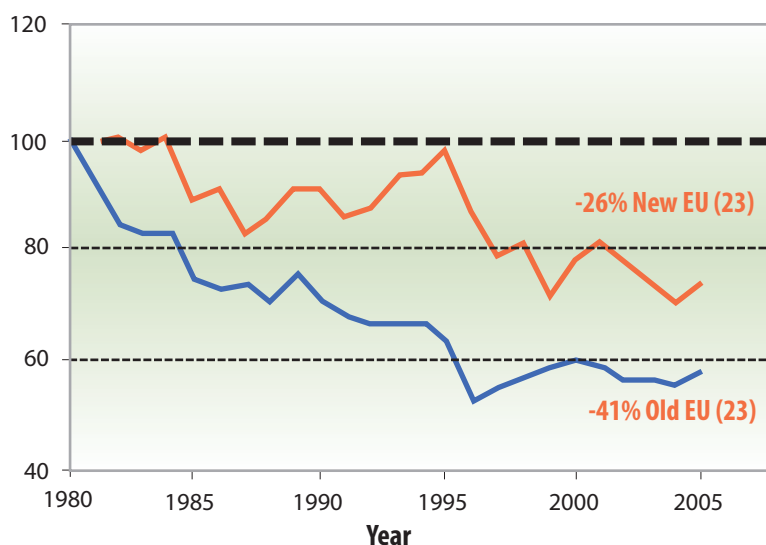
Grassland butterflies thrive on sustainably managed grassland with many wild flowers providing either nectar for adult butterflies or larval food plants. Protection and low-intensity management of HNV farmland would help to stem grassland butterfly losses and could help to start their recovery.

Europe's farmland birds have declined by almost 50% in the past 25 years – a trend caused by EU-wide agricultural intensification. Declines have been faster in the old member states where the CAP has been in place longer. However, declines in the new member states (which tend to have a higher proportion of HNV farming) are still occurring. Action to maintain HNV farming is seen as vital to halting and reversing the decline of Europe's birds.



European Grassland Butterfly Indicator

*Butterfly Conservation Europe /
Statistics Netherlands*



**Trends of common farmland birds
in Old and New EU countries**



Bulgaria – scrubby land in centre of photo may be excluded from CAP support for grazing, leading to the loss of a structurally diverse habitat.



Albania – mediterranean mosaic landscape of low-intensity permanent crops and semi-natural vegetation.

Illustrations of the economics of HNV farming and the effect of HNV payments

The following examples are “work in progress”, intended to test some assumptions and payment options. While we cannot predict budgets for the future CAP, in order to allow comparison of incomes, we have used estimated payments as follows:

Pillar 1 Basic Farm Sustainability Scheme in the form of a direct flat rate payment (see NGO joint vision paper), which effectively would replace SPS and SAPS- the examples use €100/ha. This figure is not a proposal, it is simply used to test the model.

HNV farming payment (degressive)

	First 5 ha	>5 – 10 ha	>10 – 50 ha	>50 ha
Degression	€300	€200	€100	€25

The figures in the examples for net income and farm business income exclude unpaid family labour. This income therefore must pay for family labour and also provide funds for reinvestment and return on capital employed. In the examples, agri-environment and non-farming incomes are excluded. Due to limited data availability, some of the examples do not include figures for family labour input.

For farms receiving agri-environment, the amounts are shown at the end of the table. In some cases, the proposed HNV farming payment would replace part or all of current agri-environment payments. This has not been explored in more detail. For example, in the Romanian cases, it would be logical for the “standard” agri-environment payment for HNV grassland to be replaced by the Pillar 1 HNV payment, whereas the farm would continue to receive the agri-environment payment for “traditional” (non-mechanised) mowing of hay meadows, as this goes beyond the criteria considered for the proposed Pillar 1 HNV payment.

The examples show how a change from SPS/SAPS to a flat-rate payment can result in considerable increases in incomes for low-intensity farms, and reductions for more intensive farms, as expected. The Scottish large-scale upland farm for example benefits from a very large increase in income, taking the farm from a significant net loss at present to a considerable surplus for reinvestment. It might be considered logical to apply degressivity to this basic Pillar 1 payment to avoid excessively high payments to very large farms, as well as to the HNV payment.

The examples show large differences in current SPS payments for the farms. For example, the Devon farm receives a much higher payment than the bigger Scottish Croft 1 due to higher productivity of the land, and possibly also due to the shift in England to area payments, whereas Scotland applies the historic basis for SPS.

As a result, the change to a theoretical flat-rate direct payment at €100/ha produces an approx three-fold increase in support for the Scottish croft, and a 50% reduction for the Devon farm.

With the payments and degressivity we have applied in these tests, the Devon farm “recovers” the loss of SPS, and ends up in a slightly better position than at present, with a small (but clearly insufficient) income for the farming family’s labour.

The Scottish Croft 1 goes from the present situation of almost no net income with which to pay the farmer, to a small but probably adequate income.

The Romanian cases are complicated by the fact that some farms renting grazing land from the Town Hall receive Pillar 1 SAPS payment for this land, and some do not, depending on Town Hall policy.

The two olive farms are starkly contrasting, the HNV farming making a loss with current SPS payment, whereas the intensive farm makes a very large net income even in the complete absence of Pillar 1 support.

England – Devon lowland grazing farm (cattle-sheep).

Adapted from Farm Business Survey data. Farm provides total employment of 0.8 AWU (annual work unit) approx. In this example, a small area (4 ha) of the farm's permanent grassland is recorded on local authority's data base as being species rich and of conservation value. In this model the payment applied is the same as for the other permanent grassland, but an option could be to pay a higher support rate for recognised species-rich grassland.

	Area Hectares	Calculation of HNV payment	Current Income Situation	Proposed Income Situation
Farm Size	50			
UAA	46			
LU/ha	1			
Total HNV Farmland Area	35	5300		
<i>Permanent Grassland</i>	35			
<i>Arable</i>				
<i>Permanent Crops</i>				
Total Biodiversity Features Area	7	2200		
<i>Species-rich Grassland</i>	4			
<i>Orchards</i>	2			
<i>Hedges</i>	1			
Net Income from Production			-1765	-1765
Current Pillar 1			10059	
Pillar 1 Flat-rate @ €100/ha				4600
Proposed Pillar 1 HNV Payment				7500
Farm Business Income			8294	10335
Hours Worked by Family			Not Available	Not Available

Western Isles, Scotland. Croft 1

73 ha are semi-natural permanent pasture, 2 ha are intensively managed grass, temporary grass and arable. Livestock are 50 hill sheep producing store lambs, and 5 suckler cows producing store calves.

Net margin data taken from QMS figures for 2008 for hill suckler cows and average-performing LFA hill flocks. Own family labour estimated 1 hr/day for cows (approx. 45 days) and 40 days for sheep.

Current CAP income based on historic SFP based on approx. €20/ewe and €200/cow. Historic LFA payment of approx. €12/ha is not included in calculations.

	Area Hectares	Calculation of HNV payment	Current Income Situation	Proposed Income Situation
Farm Size	75			
UAA	75			
LU/ha	0.19			
Total HNV Farmland Area	73	7375		
<i>Permanent Grassland</i>	73			
<i>Arable</i>				
<i>Permanent Crops</i>				
Total Biodiversity Features Area	0			
Net Income from Production			-2056	-2056
Current Pillar 1			2400	
Pillar 1 flat-rate @ €100/ha				7500
Proposed Pillar 1 HNV payment				7375
Farm Business Income			344	12819
Hours worked by family			680	680
Income per hour family labour €			0.50	18.85
Available to re-invest if family labour paid at €15/hour			-9856	2619



Scotland – Skye small-scale cropping.



Scotland – Uist machair arable-grassland.

Scotland – Uists. Croft 2

Crofter manages several crofts which is why total area is larger than is typical in the Uists

- 10 ha of machair (calcareous grassland), most within an SPA and SAC. Two years cropping followed by two years fallow. Used to produce crop silage.
- 10 ha of inbye,
- 150ha of rough grazing some of which is common land.

Current payments

- Article 68 (Scottish Beef Calf Scheme – a headage payment for beef calves with a higher payment for the first 10).
- Rural Stewardship Scheme (agri-environment) – include measures for management of machair and corncrake conservation.
- Less Favoured Area Support.

	Area hectares	Calculation of HNV Payment	Current Income Situation	Proposed Income Situation
Farm Size	170			
UAA	170			
LU/ha	0.26			
Total HNV Farmland Area	170	9800		
<i>Permanent Grassland</i>	160			
<i>Arable</i>	10			
<i>Permanent Crops</i>				
Total Biodiversity Features Area	0			
Production Income			12100	12100
<i>Production Costs</i>			13310	13310
Net Income from Production			-1210	-1210
Current Pillar 1			11737	
Pillar 1 flat-rate @ €100				17000
Proposed Pillar 1 HNV Payment				9800
Farm Business Income			10527	25590
Hours Worked by Family			2700	2700
Income per Hour Family Labour €			3.89	9.47
Available to re-invest if family labour paid at €15/hour			-29973	-14910
Other Payments				
LFA-SS			6897	
Article 68 SBCS			1573	
RSS agri-environment			3993	
Total Other Payments			12463	

Scotland – large-scale upland farm

Based on Westfield (Caithness) monitor farm data and QMS national data for 2008. The example farm has 1622 ha of forage, of which 1390 is in permanent grassland, 200 ha are intensively managed and – 1190 ha are semi-natural. 232 ha is in temporary grassland and arable.

The farm has 256 cows, 60 + 35 + 64 young stock >6 months (351 LU), and 457 ewes plus 20% followers (82 LU).

	Area hectares	Calculation of HNV Payment	Current Income Situation	Proposed Income Situation
Farm Size	1622			
UAA	1622			
LU/ha	0.37			
Total HNV Farmland Area	1390	40300		
<i>Permanent Grassland</i>	1390			
<i>Arable</i>				
<i>Permanent Crops</i>				
Total Biodiversity Features Area	3	900		
<i>Hedges</i>	3			
Net Income from Production			-19226	-19226
Current Pillar 1			50993	
Pillar 1 flat-rate @ €100/ha				162200
Proposed Pillar 1 HNV Payment				41200
Farm Business Income			31767	184174
Hours Worked by Family			4992	4992
Income per hour Family Labour in €			6.36	36.89
Available to re-invest if family labour @ €15/hour			-43113	109294

Romanian sheep farm

Managed by family. Labour = 1.5 AWU from family + 4 employees 6 months per year (2 AWU)

Farms 750 sheep of which they own 150, and 550 lambs of which they own 50. Other stock are kept on behalf of other villages, who receive part of produce. Half the farm's income is from lamb sales.

Farmer owns 7 ha and has long-term rent + Pillar 1 payment on a further 20 ha. The remaining 170 ha are rented from local town council and he gets no Pillar 1 payments.

	Area hectares	Calculation of HNV Payment	Current Income Situation	Proposed Income Situation
Farm Size	27			
UAA	27			
Off-farm Grazing	170			
LU/ha	0.87			
Total HNV Farmland Area	197	10300		
<i>Permanent Grassland</i>	197			
<i>Arable</i>				
Total Biodiversity Features Area	0			
Production Net Income			8457	8457
Current Pillar 1 (27ha part owned/ part rented land x €71/ha)			1917	
Pillar 1 flat-rate @ €100/ha (includes grazing land rented from Town Hall)				2700
Proposed Pillar 1 HNV payment				10300
Farm Business Income			10374	21457
Hours Worked by Family (1.4 AWU)			2880	2880
Income per hour family labour in €			3.60	7.45
Available to reinvest if family labour paid at €800/month			-4026	7057
Current Pillar 2 payments				
Currently 2 agri-environment payments on 27 ha – €124 + €58. Latter compatible with HNV Pillar 1 payment			4914	1000

Romania – cattle farm

Farm with 7 cows + 5 followers, worked by one family member. The farm has 6 ha of meadow and 2 ha of arable land. The farmer and his wife also rent 24 ha from the Town Hall, for which they do not get CAP payments, although they are likely to do so in the future.

The cows produce an average of 2800 litres/year. He keeps 2 litres back every day for personal use, which has been accounted for in the budget. The rest he sells to village Milk Collection Point.

	Area hectares	Calculation of HNV Payment	Current Income Situation	Proposed Income Situation
Farm Size	8			
UAA	8			
Off-farm Grazing	24			
LU/ha	0.31			
Total HNV Farmland Area	32	5000		
<i>Permanent Grassland</i>	30			
<i>Arable</i>	2			
Total Biodiversity Features Area				
Production Net Income			4408	4408
Current Pillar 1 (8ha x €71/ha)			568	
Pillar 1 flat-rate @ €100/ha (including common grazing)				3200
Proposed Pillar 1 HNV Payment				5000
Farm Business Income			4976	12608
Hours worked by family (1 x AWU)			1920	1920
Income per hour family labour in €			2.59	6.57
Available to reinvest if family labour paid at €800/month			-9424	-1792
Current Pillar 2 payments				
Currently 2 agri-environment payments on 6 ha – €124 + €58. Latter compatible with HNV Pillar 1 payment			1092	300



Romania – shepherded sheep keeping woody pasture open.



Poland – diverse small-scale arable landscape with semi-natural field boundaries.

Poland – small arable farm

Family farm with parents working full time and 3 children part time. In addition to cereals, the farm produces pigs and vegetables (4 ha) for the market.

	Area Hectares	Calculation of HNV Payment	Current Income Situation	Proposed Income Situation
Farm Size	11.5			
UAA	11			
LU/ha	0.1			
Total HNV Farmland Area	11	2900		
<i>Permanent Grassland</i>				
<i>Arable</i>	9.92			
<i>Permanent Crops</i>	1			
Total Biodiversity Features Area	0.5	150		
<i>Semi-natural Field Boundaries</i>	0.5			
Net Income from Production			7725	7725
Current Pillar 1			1950	
Pillar 1 flat-rate @ €100/ha				1100
Proposed Pillar 1 HNV Payment				3050
Farm Business Income			9675	11875
Hours worked by family			4750	4750
Income per hour family labour			2.03	2.5
Available to reinvest if family labour paid at €800/month			-14325	-12125

Spain – low-intensity olive grove, part time. 3ha. Non-irrigated

This example of an HNV olive groves makes a loss with current Pillar 1 support. There are no agri-environment schemes available to such farms in the region, and the farm is not eligible for LFA support as it is part-time (national rules). The proposed HNV payment results in a small net profit.

	Area hectares	Calculation of HNV Payment	Current Income Situation	Proposed Income Situation
Farm Size	3			
UAA	3			
LU/ha				
Total HNV Farmland Area	3	900		
<i>Permanent Grassland</i>				
<i>Arable</i>				
<i>Permanent Crops</i>	3			
Total Biodiversity Features Area	0.2	60		
<i>Stone Walls, Terraces</i>	0.06			
<i>Ponds</i>				
<i>Others</i>	0.14			
Net Income from Production			-900	-900
Current Pillar 1			390	
Pillar 1 flat-rate @ €100/ha				300
Proposed Pillar 1 HNV payment				960
Farm Business Income			-510	360

Farmer's labour is costed already in this example. So the 360 € is for his managerial time and re-investment.

Spain – intensive olive grove. 15ha. Irrigated

Example from Olivae no. 111, 2009. In marked contrast to the HNV olive grove, this intensive irrigated farm makes a large profit even with no Pillar 1 support.

	Area hectares	Calculation of HNV Payment	Current Income Situation	Proposed Income Situation
Farm Size	15			
UAA	15			
Total HNV Farmland Area	0			
<i>Permanent Grassland</i>				
<i>Arable</i>				
<i>Permanent Crops</i>				
Total Biodiversity Features Area	0			
Net Income from Production			58017	58017
Current Pillar 1			21390	
Pillar 1 flat-rate @ €100/ha				1500
Proposed Pillar 1 HNV Payment				0
Farm Business Income			79407	59517
Hours worked by family			Not Available	Not Available

Spain – HNV olive grove with semi-permanent understorey.



CAP reform 2013

last chance to stop the decline of Europe's High Nature Value farming?

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