

The New Rural Development Policy
- Issues from an Irish Perspective -

Up-date on Policy Discussions (No.2)

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1. Introduction

In July 2004, the European Commission adopted a draft Regulation for a European Agricultural Fund for Rural Development (EAFRD), intended to provide a single framework for the implementation of rural development policy during 2007-2013. The proposed Regulation defines the objectives for rural development policy, the strategic framework for implementing the policy and the priorities and measures that are to be financed for rural development purposes. The draft Regulation also lays down rules on partnership, programming, evaluation, financial management, monitoring and control.

This policy update on rural development is the second in a series prepared by the Irish Regions Office and the NASC Brussels Office. It provides an overview of the policy context and the way in which EU rural development policy has evolved over time (Section 2). It then describes the principal elements of the new rural development policy (Section 3), and some of the main issues that have arisen to date in discussions in the European Parliament, Council and Committee of the Regions (Section 4). In Section 5 key issues from an Irish perspective are discussed. The paper concludes (Section 6) with a look forward, including key milestones in this and related policy debates during the coming period.

The principal changes in this update by comparison with the earlier document (March 2005) are in Sections 4, 5 and 6.

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2. The Evolving Policy Context – some key developments

Until the 1980s, it was thought that agricultural policy alone, implemented through the Common Agricultural Policy (CAP), could sustain viable rural communities. By the mid-1980s, however, it was clear that this was not possible. Market supports under the CAP had led to over-production in many areas, giving rise to growing surpluses and unsustainable cost increases from the CAP budget. Vastly improved productivity and efficiency also led to a significant reduction in farm employment with consequences for the economic viability of rural areas. In 1988 the European Commission published its Green Paper on *“The Future of Rural Society”*, which called for a wider rural development agenda. The CAP reforms, under Commissioner McSharry, were accompanied by the introduction of the LEADER programme, which aimed to give effect to this wider, multi-sectoral concept of rural development albeit on a relatively small scale given the limited resources allocated to LEADER.

The Cork Declaration of November 1996 recognised that the CAP would require further reform, to take account of emerging issues, such as the impact of farming on the rural environment, food quality and safety and animal welfare, and that a multi-sectoral approach to rural development was required as a complement to the agricultural dimension. The Agenda 2000 reforms established the twin-pillar structure of the CAP: market and income policy (the 1st pillar), and sustainable development of rural areas (the 2nd pillar). Despite this, an agri-centred model of rural development largely prevailed and, LEADER apart, for the programming period 2000-2006, EU rural development policy effectively constitutes the structural aspects of the CAP, agri-environment schemes such as REPS, compensatory payments, and forestry measures.

In October 2002, the European Council decided, in the context of forthcoming enlargement of the Union, to maintain a constant budget for CAP (1st pillar) until 2013. This means that for the period 2007-2013, the maximum level of expenditure cannot exceed the level reached in 2006 (agreed under Agenda 2000). In effect the European Council of EU-15 decided that farmers in the ‘new Member States’ would only receive part of the direct payments that farmers in the EU-15 receive, 25% in 2004 to 100% by 2012. This decision was based on a compromise agreed by the French and German governments. However, a number of Member States are now calling for this decision to be revised, in the context of the negotiations on the Financial Perspectives 2007-2013, (see also section 5.1).

In June 2003, Member States agreed on a further fundamental reform of the CAP. This reform aimed to further strengthen rural development by transferring funds from the 1st Pillar to the 2nd Pillar. At the same time, the scope of the current rural development instruments was expanded in order to respond to growing public concern on food quality, environmental protection and animal welfare. Therefore, a number of measures were added to the range of measures already in place, including the following categories:

- *Food quality measures (participation in quality schemes);*
- *Meeting EU standards on the environment, health (public, animal, plant), animal welfare, occupational safety;*
- *Animal welfare (beyond good animal husbandry practice);*
- *Support for young farmers (reinforced);*
- *Support for the implementation of Natura 2000 (Birds and Habitats Directive);*
- *Support for forestry (widened scope);*
- *Increased EU co-financing rate for agri-environment and animal welfare;*
- *Less favoured areas (increased maximum level of support).*

With a view to strengthening EU financial support for rural development the 2003 reforms introduced a new system of compulsory *modulation*. This system was designed to switch funds from the 1st to the 2nd Pillar. Member States can use these funds to finance the introduction of the new rural development measures or to reinforce existing measures. It is now compulsory for Member States to apply modulation, which will result in all amounts of direct payments exceeding €5000 a year being reduced by 3 % in 2005, 4 % in 2006 and 5 % from 2007 onwards. This will result in a net transfer of funds from the 1st to the 2nd Pillar of the CAP, leading to additional rural development funds of €1,200m per year.

This reform consolidates the two-pillar system and reinforces the principle of environmental integration, with new or amended measures to promote the protection of the farmed environment in both pillars. The 1st pillar concentrates on providing a basic income support to farmers, who are free to produce in response to market demand. The 2nd pillar supports agriculture as a provider of public goods in its environmental and rural functions, and supports rural areas in their development. Complementarity between the two pillars is further strengthened with the introduction of *decoupling* and *cross-compliance* to be implemented from 2005 onwards.

Some Key elements of the reformed CAP

- A single farm payment for farmers, independent from production (decoupling); limited coupled elements may be maintained to avoid abandonment of production;
- This payment is linked to the respect for environmental, food safety, animal and plant health and animal welfare standards, as well as the requirement to keep all farmland in good agricultural and environmental condition ("cross-compliance");
- A strengthened rural development policy with more money, new measures to promote the environment, quality and animal welfare and to help farmers to meet EU production standards starting in 2005;
- A reduction in direct payments ("modulation") for bigger farms to finance the new rural development policy;
- A mechanism for financial discipline to ensure that the farm budget fixed until 2013 is not overshot;
- Revisions to the market policy of the CAP.

The Salzburg Declaration of November 2003 calls for a more broadly-scoped rural development policy, and is the key reference for the Commission's proposals for post 2006. Adopted at a major stakeholder conference co-ordinated by the former Agriculture Commissioner, Mr. Franz Fischler, the declaration sets out key principles to guide future rural development policy. These emphasise investment in the broader rural economy and rural communities, preservation of the diversity of the countryside, encouragement of multi-functional agriculture, and promotion of the competitiveness of the farming sector. The declaration says rural development policy must serve the needs of the broader society in rural areas and contribute to cohesion, and that it should be implemented in the framework of comprehensive strategies involving partnership between public and private organisations and civil society in line with the principle of subsidiarity. It calls for simplification of EU rural development policy, with delivery based on one programming, financing and control system.

It is within this evolving policy context that the European Commission has adopted its proposal for the European Agricultural Fund for Rural Development (EAFRD) 2007-2013.

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3. The EAFRD - New Elements of Rural Development

The EAFRD introduces a single funding and programming instrument for rural development, which is intended to be much simpler to manage and control. The main features of the new rural development policy are:

- One funding and programming instrument – the EAFRD;
- An EU strategy for rural development with better focus on EU priorities;
- A reinforced control, evaluation and reporting system - clearance of accounts audit system to be extended to all parts of rural development;
- A strengthened bottom-up approach – Member States, regions and local action groups to have more say in tailoring programmes to local needs.
- Mainstreaming of the LEADER approach within rural development programmes, also permitting the application of this approach to the sectoral (agricultural) components of the new rural development programmes.

The EAFRD proposes three main priority axes for action. These are:

Axis 1: Improving Competitiveness of Farming and Forestry

This includes on-farm investment, young farmer installation, food quality schemes etc. A minimum of 15% of the national envelope is to be spent on Axis I, the EU co-financing rate would be a maximum of 50% in Ireland.

Axis 2: Environment and Land Management

To include animal welfare, disadvantaged and environmental area payments. A minimum of 25% of the national envelope is to be spent on this with a maximum co-financing rate of 55%.

Axis 3: Improving Quality of Life and Diversification

Including assistance for diversification, micro-enterprises, tourism and village renewal. A minimum of 15% of the national envelope is to be allocated to Axis III, with a maximum co-financing rate of 50%.

Each rural development programme must have a LEADER element for the implementation of local development strategies of local action groups.

In comparing the current programming period and the proposed EAFRD, the most significant new elements are as follows:

- Integration of all rural development measures into a single funding and programming system;
- Greater emphasis on the environment and sustainable development;
- Enhanced focus on the territorial dimension;
- Strengthened partnership arrangements.

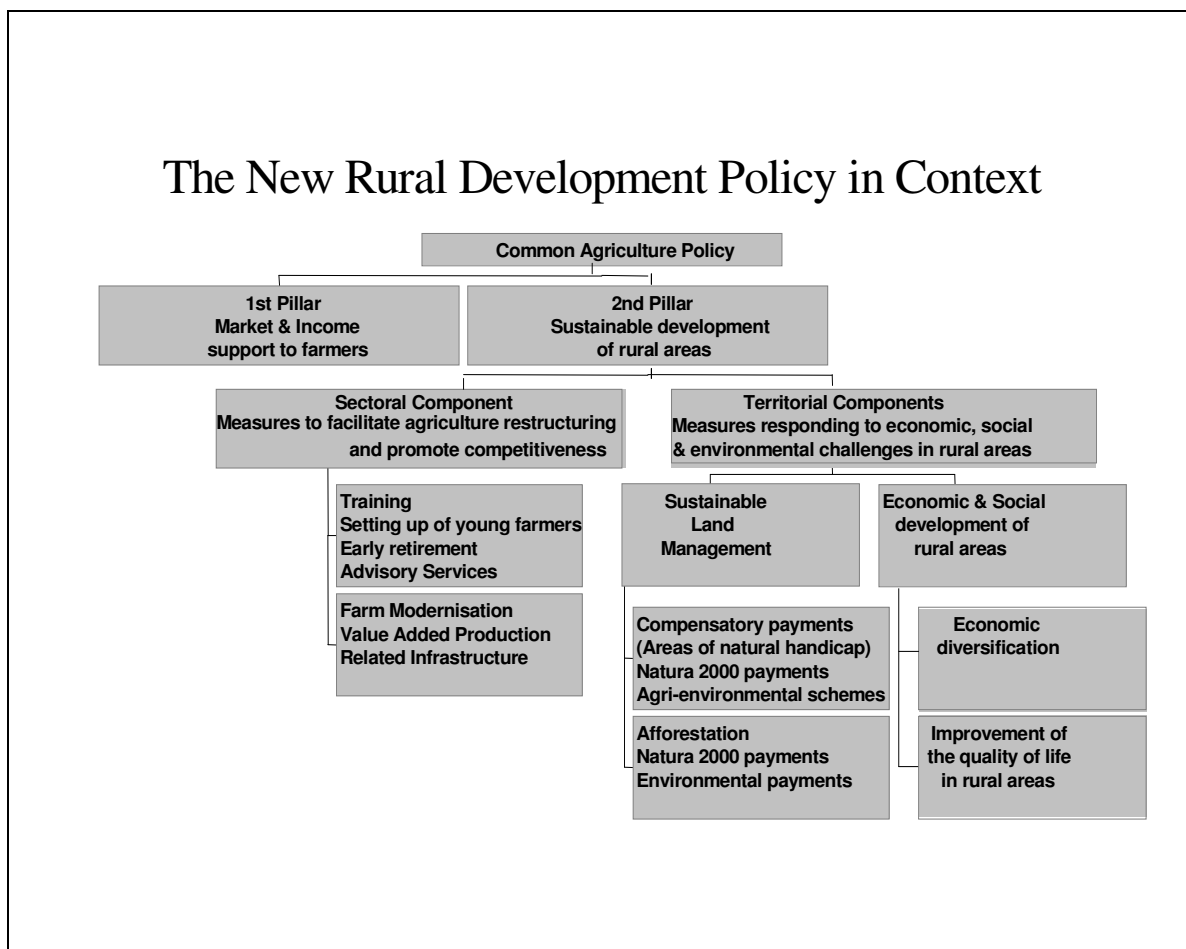
3.1 A Single Funding and Programming System

The EAFRD introduces a single funding and programming instrument for rural development, which is intended to be much simpler to manage and control.

Under the current programming period, rural development measures are funded by the European Agricultural Guidance and Guarantee Fund (EAGGF), which comprises Structural Funds and non-Structural Funds components and thus different programming and management systems. In the case of Objective 1 regions (including regions in transition), schemes are financed by the EAGGF Guidance Section (Structural Funds), with the exception of the so-called accompanying measures (compensatory allowances, early retirement, agri-environment measures and some forestry schemes), which are financed by the EAGGF Guarantee Section (which does not come within the ambit of the Structural Funds). Outside Objective 1 regions, the EAGGF Guarantee Section funds all measures. In all cases the EAGGF Guidance Section funds the LEADER+

Community Initiative programme. This situation makes for very complicated programming and management systems, which the Commission proposes to simplify for the next period.

The Commission's proposal decouples rural development policy from the Structural Funds but also imports many of the features (partnership, programming, control and monitoring, etc) of the Structural Funds to the new rural development framework.



3.2 Integration of the Environment and Sustainable Development

For the 1st pillar, cross-compliance is the core instrument for achieving integration. From 2005 onwards, farmers receiving direct payments under the CAP will be obliged to comply with environmental, food safety, public, animal and plant health and animal welfare standards, as well as being required to keep farmland in good environmental and agricultural condition. Farmers who fail to meet these standards will risk partial or complete reduction of direct support.

As regards the 2nd pillar, the Commission is proposing a separate axis on environment and land management with a minimum of 25% of a Member State's EAFRD resources be allocated to environmental and land management measures. Agri-environment measures such as REPS continue to be compulsory. There is more emphasis on forestry measures, in part because of the contribution of forests to environmental welfare. Support for measures that contribute to the protection and enhancement of the public amenity value of NATURA 2000 sites is emphasised. The designation of less-favoured areas (LFAs) for purposes of compensatory payments will no longer be based on socio-economic criteria but on factors such as soil productivity, climatic conditions and the importance of extensive farming activities for land management, (see section 5.5). Measures to promote a

more rapid implementation by farmers of standards based on Community legislation concerning the environment, public health, animal and plant health, animal welfare and occupational safety will be given prominence.

3.3 An Enhanced Territorial Dimension

The new environment and sustainable development priorities, together with a greater emphasis on economic diversification and improvement of quality of life in rural areas, mean that the territorial dimension of rural development policy is considerably enhanced. Rural development policy must contribute to the general objectives for economic and social cohesion set out in Article 158 of the Treaty. A minimum of 15% of a Member State's EAFRD resources will be allocated to Axis III measures relating to the broader rural economy, including diversification into non-agricultural activities and the development of services and this axis represents a significant interface with EU Regional Policy, (see section 5.7). Local development strategies will have to demonstrate territorial coherence and synergy between measures intended for the broader rural economy.

3.4 A Strengthened Partnership Approach

Rural development programmes are to be implemented within a broad partnership including, inter alia, regional, local authorities and other public authorities, the economic and social partners, and other appropriate bodies representing civil society, environmental NGOs and bodies responsible for promoting gender equality, in line with national rules and practices. The LEADER partnership approach may be extended to the sectoral (agricultural) axis of the next generation of rural development programmes, (see section 5.11).

The Commission's proposals provide for a broader definition of delivery mechanisms for Axis III measures than is the case currently, potentially opening up more direct opportunities for local authorities in the implementation process (see section 5.10).

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4. State-of-Play within the EU Institutional Decision-Making Process

Consideration of the detail of the EAFRD regulation is on-going within the various EU Institutions and in the Member States. Negotiations on the Financial Perspectives for 2007-2013 are underway and an agreement on these is a vital component in reaching final agreement on the rural development and structural funds regulations. The Luxembourg Presidency hopes to have an agreement on the Financial Perspectives by June 2005.

European Parliament: The European Parliament is currently deliberating on the EAFRD proposal. The main report is being drafted by Ms. Agnes SCHIERHUBER (AU/EPP-ED) in the Agriculture and Rural Development (AGRI) Committee. Ms. SCHIERHUBER in her draft report has adopted a more 'traditional' view of rural development, treating it as a supporting element of the CAP, with heavy emphasis on the agricultural aspects. Some of the main recommendations include: finance available under modulation should only be earmarked for farming and forestry and confined to Axis I and II; a revision downwards of the budget minimums for each axis (with Axis III allocated 5%); a reduction of the budget for LEADER from 7% to 3%; and a reduced performance reserve of 2%.

Three other committees are preparing opinions, which will feed into the final report. One of these opinions has been drafted by Ms. Marion HARKIN (IR/ALDE) in the Regional Development (REGI) Committee. Ms. HARKIN in her draft opinion is supportive of the minimum budgetary thresholds for each axis, welcomes Axis III in particular, is concerned about the designation of LFAs, supports better rural proofing of policy, calls for a separate funding mechanism to support NATURA 2000 and proposes that the 3% budget reserve be allocated at the outset to LEADER. The European Parliament is scheduled to adopt its report in June.

The European Parliament's special committee on the Financial Perspectives adopted its report on May 10th. The Report broadly supports the approach taken by the European Commission although it calls for a lower budget than the 1.14% GNI proposed by the Commission. The Parliament is calling for 1.07% GNI, but this does not

include a number of reserves, funds and administrative expenses that were contained in the original proposal of the Commission; the Parliament is suggesting that these areas of EU spending be financed outside the multi-annual budget framework. Two issues of note in terms of the discussions on the EAFRD Regulation include: (1) the call by the Parliament for a gradual introduction of co-financing of agricultural payments by Member States, if sufficient funding is not provided for payments for Romania and Bulgaria; and (2) a call to earmark €21b to the NATURA 2000 network of conservation areas.

Within the institutional structure the final agreement on the multi-annual Financial Perspectives must be approved by the European Parliament and it is thus in a key position on reaching a final deal. In the absence of a deal the Parliament can set annual budgets for the European Union, with minimum annual budget increases, thus strengthening its position in the negotiating process.

Committee of the Regions: The Committee adopted its opinion on the EAFRD regulation at its February Plenary session. The opinion, drafted by Mr. Jan LOKKER (NL/EPP), is broadly supportive of the provisions of the regulation and the desire to have a balanced rural development policy. The Committee supports the minimum budgetary thresholds for each axis, but proposes regional deviations from these thresholds when required. Irish members of the CoR played a key role in drafting the text and submitted a number of successful amendments on the Less Favoured Areas (LFAs), forestry measures, the range of measures to be supported under Axis III, rural proofing and an enhanced role for local authorities in the implementation process.

Council: The Luxembourg Presidency's objective is to have the EAFRD regulation adopted by the Council by the end of June 2005. This may not be realistic, as the issue is tied up with the question of the overall size of the financial resources for the period 2007-2013 (Financial Perspectives) and their allocation among Member States. It is possible that the core policy elements may be agreed by June, leaving the question of financial resources to be resolved in the autumn. At present there seem to be three key issues for debate in the Council: (a) criteria for allocating the rural development funding across Member States; (b) the minimum expenditure ratios proposed by the Commission for each Axis; and (c) the proposed changes in the criteria for designating Least Favoured Areas (LFAs).

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5. Key Issues from an Irish Perspective

From an Irish perspective the issues currently being discussed in the Council are fundamental, as well as a number of other issues, such as the proposed changes in the forestry measure. These are outlined below with some commentary on the current state of play in the negotiations.

5.1 Allocation of the Budget to each Member State (Art 70)

The Commission's proposal envisages that the resources available for commitment from the Fund for the period 2007-2013 will be €88.75 billion at 2004 prices (to be indexed at 2% per year). At least EUR 31.3 billion is to be concentrated in regions eligible for the Convergence Objective (new Objective 1 under the Commission's cohesion policy proposals). The draft regulation says the Commission will make an initial annual indicative breakdown by Member State based on objective criteria and taking into account:

- The amounts reserved for regions eligible to the Convergence Objective;
- Past performance, and
- Particular situations and needs.

These funding proposals are an integral part of the proposed Financial Perspectives for 2007-2013. The overall level of resources for rural development, and the allocations to individual Member States, will ultimately be decided in the context of a political agreement in the European Council on the EU budget for the next programming period.

A group of six Member States (all net contributors to the EU budget) wants to limit the budget to 1% of aggregate GDP, whereas the Commission has proposed 1.14% of payment appropriations. If these Member States have their way, the areas of the budget proposals that are likely to lose out are the Structural Funds (in particular funding for non-Convergence regions) and also rural development. There have been suggestions that if the final agreement on the Financial Perspectives is close to 1% aggregate GDP, then the EAFRD could face a €4bn reduction in its annual budget or some 30% less than the Commission is currently proposing.

If less resources are available for rural development than proposed by the Commission, the EU-15 Member States are likely to be the losers. The rationale for this relates to the deal agreed by the European Council in October 2002 concerning CAP funding for the period 2007-2013 (see section 2). As part compensation for not receiving CAP payments at the level of EU-15 Member States, the new Member States were promised higher levels of rural development funding. They are therefore likely to have a prior claim on the resources for rural development in the context of a deal on the Financial Perspectives. If there are fewer resources for rural development, than proposed by the Commission, Axis III is likely to lose out to Axes I and II, given the strength of the farming lobby and the priority attached to competitiveness and environmental issues under the Lisbon Strategy.

However, in terms of financial transfers it is now likely that the EAFRD will be more significant than the Structural Funds for Ireland, with transfers from the EAFRD worth at least twice of the transfers from the Structural Funds.

5.2 A Performance Reserve (Art 70 and 92)

The Commission is also proposing to allocate 3% of the total budget (€2.66 billion) to a Performance Reserve. The Commission proposes to use this reserve to support implementation of the LEADER approach in the rural development programmes. Implementation of the LEADER approach would be evaluated on the basis of:

- The priority given to the LEADER approach;
- The territorial coverage of the LEADER approach;
- The stage reached in implementing the LEADER priority axis;
- The leverage effect on private capital;
- The results of the mid-term evaluation.

The Commission proposes to review in 2011 the annual allocations for the years 2012 and 2013 in order to distribute the Performance Reserve. However, within the Council a number of Member States oppose establishing such a reserve. In general there is very little support by Member States for Performance Reserves, which are also a feature of the proposed Structural Funds regulations and it looks likely that this proposed reserve will not be part of the final EAFRD regulation.

In her opinion in the European Parliament, Ms. Marion HARKIN is also proposing that this performance reserve be abolished and that the LEADER measure be allocated a total of 10% of the budget, at the outset of the programme period. However, it seems that the view in the Council is that the €2.66b would be available across all the axes and not just for LEADER.

5.3 Financing – Distribution of Modulated Funds

The Commission is proposing a budget of €88.75bn for the EAFRD 2007-2013. The compulsory modulation under the 1st pillar of the CAP and other transfers would add another €8.4bn to the EAFRD budget. This modulated money would be used for rural development and shared out among the EU-15 Member States on the basis of agreed allocation criteria. A safety net provision means that no Member State will receive less than 80% of what it raises through modulation. (During 2005-2006 Ireland will raise €40m approximately per year through a 3% modulation rate, of which €34m will be retained annually within Ireland for rural development. The modulation rate will rise to 5% from 2007 onwards. Based on these figures, Ireland can expect to receive approximately €360m-€420m of the €8.4bn modulated money during 2007-2013).

In principle, this modulated money is available for all three axes of the Commission's rural development proposals. While the farming lobby would like to see this budget allocated to the more sectoral measures in Axis I and Axis II, the Commission's position is that this €8.4bn should be used to finance measures across the entire programme. It is understood that while this may be an issue for the farming lobby, it is not an issue in Council discussions. It must also be noted that this €8.4bn is the only element of the EAFRD budget that is guaranteed, the proposed €88.75 is subject to a suitable agreement on the Financial Perspectives.

5.4 Minimum Financial Allocations to each Axis (Art 16)

The proposals from the European Commission set out minimum financial allocations for each of the three priority axes and for the LEADER priority. These are as follows:

- Axis I (Improving the Competitiveness of the Agriculture and Forestry Sector) - 15%
- Axis II (Land Management) - 25%
- Axis III (Diversification of the Rural Economy and the Quality of Life in Rural Areas) - 15%
- LEADER - 7%

The objective of the Commission in setting these minimums is to ensure that sustainable rural development is delivered through a *balanced strategy* and to *avoid concentration* on just one aspect. The Commission also hopes that in setting these minimums, it is providing some clarity to the Member States in what it sees as a suitable balance between the priorities, while at the same time providing a degree of flexibility. In view of a re-focusing on the Lisbon Strategy, the Commission also believes that the balance of minimum resources that it is proposing will better help the Member States deliver on the Lisbon objectives, of growth, competitiveness and development, in rural areas. The Commission feels that the EAFRD must be seen to contribute directly to the Lisbon objectives. This linkage with a reformed Lisbon Strategy may, however, place a higher priority on structural measures aimed at improving competitiveness of agriculture (Axis I), possibly to the detriment of other aspects in the context of a tighter budgetary framework.

Many Member States are against the setting of these minimum levels, believing instead that they should be free to set resources against the priorities as needs dictate in each country. At the very least Member States would like to see lower minimums being set for each priority at the EU level and from the discussions to date it is likely that there will be an agreement on lower minimums, especially for Axis III.

Discussions on this issue are on-going and are likely to be one of the key decisions that will have to be taken at Ministerial level, towards the end of the negotiations. A possible compromise may be minimum allocations of 10% for Axis I, 20% for Axis II and 10% for Axis III. It would appear that few Member States have much of a problem with a minimum of 20/25% for Axis II. The Commission may have a bottom line for Axis III, in view of its potential contribution to the Lisbon Strategy objectives and also on the basis that if the minimum for Axis III is below 10% there will be a loss of critical scale and an issue of credibility about the EU's commitment to a broader rural development agenda.

5.5 Less Favoured Areas – A Re-definition (Art 35 and Art 47)

The Commission is proposing a change in the criteria for defining Less Favoured Areas (LFAs), which could result in a reduction in the land area classified as LFA, in Ireland and in other Member States. The farming lobby in Ireland has claimed that the new proposals could effect up to 100,000 farmers and lead to a loss of payments worth €230m per year.

The Commission is proposing these changes based on recommendations by the Court of Auditors, which has criticised the current criteria as they are national rather than EU-wide and they are seen as out-dated. The Commission is therefore proposing more agronomic-based criteria (such as: *stocking densities; crop yields; area in permanent pasture*), with a move away from the socio-economic criteria used until now. The Commission presented the Member States with a methodology for applying these criteria and asked them to run simulations

and report back to the Commission. This methodology is based at the NUTS V level. Member States reported back at the Agriculture Council meeting on March 15th.

The simulations drawn up on the basis of the methodology developed by the Commission indicated a 12% drop in the total area currently defined as less favoured. More importantly there were very considerable distortions among the Member States, with some gaining strongly (e.g. The Netherlands +193%) and others losing out in a major way (e.g. Denmark -96%). (The simulations for Ireland indicated an increase in LFAs.) It appears the outcome was politically unacceptable for a large number of Member States.

This is an issue that has attracted much attention from the Member States. Discussions are on-going and are likely to be one of the key decisions that will have to be taken at Ministerial level, towards the end of the negotiations. While there are major difficulties in defining LFAs using new criteria, the issue may not prevent an agreement from being reached on the rural development proposals in June. A phasing out process is a negotiating option that may facilitate agreement. This option would leave current arrangements in place for the moment on the understanding that there would be a review, possibly in 2009, which would result in a redefinition based on agronomic criteria.

5.6 Changes in the Forestry Measures (Art 40)

Under Axis II, there are a number of proposed measures targeting the sustainable use of forestry land. One of the key changes to these measures relates to the '*First Afforestation of Agricultural Land*', which may have a significant impact in Ireland in particular. A similar measure exists within the current rural development programmes but the changes proposed by the Commission are likely to make the measure less attractive to farmers in Ireland, as a mechanism to diversify their activities.

The current programme provides support to farmers and associations for (a) planting – establishment costs; (b) maintenance costs; (c) and an annual premium to offset loss of income from afforestation. The current support for establishment costs is up to 100% - the Commission would like to cut such support to 40%. The current period for annual premiums is 20 years – the Commission proposes to cut this to 10 years. The Commission's rationale for proposing these changes is that current levels of support are too high and 20 years is too long a period to commit budgetary resources for premia, as such a timescale has no compatibility with the Financial Perspectives or the mainstream programme periods.

These proposed cuts are an issue that the farming lobby has highlighted and Ireland has raised in the negotiations to date. The Commission recognises that Ireland has a particular case, given that it has a relatively low percentage of afforested land, compared with other Member States, and that potential still exists in the Irish forestry sector. The Commission is likely to agree some compromise on this issue and this may be resolved in the coming months of discussions. A compromise agreement may see a reduction in grant aid for establishment costs, but not to the level proposed by the Commission, and a cutback to perhaps 15 years in the period over which premiums are paid.

5.7 Programming – the process (Art 9 – Art 18)

The Commission is proposing a new programming approach for the EAFRD. The Commission will prepare an EU Strategy for Rural Development (Art 9 – Art 10), which must be adopted by the Council no later than three months after the adoption of the EAFRD Regulation. The intention of this strategy is to establish strategic priorities for the three policy axes and provide EU level guidelines for national rural development programming.

Each Member State should then prepare a National Strategy Plan for Rural Development (Art 11). This would: translate the EU priorities to the national situation; set the thematic and territorial priorities for rural development under each priority axis including quantified objectives and core result indicators; demonstrate the complementarity of rural development programming with other EU policies, in particular CAP and Cohesion Policy; and ensure that Community, national and regional priorities all co-ordinate. A Member State must

prepare the National Strategic Plan in a process of stakeholder consultation based on the Member State's institutional arrangements, in the period immediately after the adoption of the EU Strategy for Rural Development and submit it to the Commission. The intention is that the National Strategy Plan will be the reference tool for preparing the rural development programmes. The draft regulation says that each national strategy plan shall include, inter alia, a list of the rural development programmes implementing the national strategy plan and an indicative Fund allocation for each programme.

Rural Development Programmes (Art 14 – Art 18) articulate the national strategy into a set of measures for each of the three thematic axes and LEADER. Member States have a number of options for submitting rural development programmes. These are:

- One Rural Development Programme for the entire country;
- One Rural Development Programme for the entire country, with sub-programmes for the regions;
- A number of Regional Rural Development Programmes (at NUTS II level);
- A number of Regional Rural Development Programmes, with each containing horizontal National measures.

One of the issues that may influence the option that a Member State may take is the N+2 rule. In this regard the first option provides the safest approach for applying N+2.

The critical point in de-coupling rural development from the Structural Funds is that complementarity must be demonstrated between the rural development and the Structural Funds programmes. This will be a matter for Member States to arrange (e.g. if non-national roads infrastructure measure is to be funded under Axis III, it will have to tie in with the Structural Funds programmes to ensure complementarity). These matters, together with the arrangements for managing, monitoring and implementing programmes, will be resolved in the context of planning at national/regional levels for the next programming period due to take place during 2006.

5.8 Partnership and Monitoring – Designation of Authorities (Art 6 and Art 81)

The draft regulation provides for a representative partnership in the implementation of the rural development programmes, whereby Member States *'shall create the conditions for a broad and effective involvement of all appropriate bodies, in accordance with national rules and practices'*. However, while the Commission would like to see a greater emphasis on consultation and partnership in implementation, monitoring and evaluation it recognises that the scope and nature of this is at the discretion of the Member States.

Member States are responsible for ensuring that the relevant management and control systems are in place, prior to the adoption of the rural development programme. For all programmes Member States must designate: the managing authority (a public or private national, regional or local body or the Member State itself); the paying authority and the certifying authority. Each programme will also have a Monitoring Committee. As the Commission's proposals permit regional as well as national programmes, there is clearly wide scope for regionalising programme management and monitoring functions, building on experience with the current regional programmes in Ireland, which include a range of rural development measures.

In Ireland the EAFRD is likely to be implemented by two departments, the Department of Agriculture and the Department of Community, Rural & Gaeltacht Affairs. Issues to be decided are whether there is to be a single national programme and, if so, which department will be the Managing Authority and chair the Monitoring Committee. Any case for regionalisation of programming may not be helped by the fact that the draft EAFRD regulation does not make a distinction between the BMW and S&E regions similar to that made in the Structural Funds regulations, whereby the former will have a phasing-in status and enjoy higher levels of funding on a transitional basis.

5.9 Link with EU Regional Policy – Distribution of Funds and Co-financing Rates (Art 70 - Art 71)

The Commission in making its proposals on the future of EU Regional Policy and on Rural Development Policy championed the compatibility of objectives and the programming approach. This approach is further reflected in

the draft proposals from the Commission on the future of regional State Aid, where aid rates permitted will follow closely the designations for the future Structural Funds, Objective 1, Phasing-in, Phasing-out, etc. The EAFRD also follows this approach, but only partially. Of the total budget of €88.75bn, at least €31.3bn will be concentrated in Convergence (Objective 1) regions.

Additionally, the Commission is proposing the following co-financing rates for each measure:

Axis 1: Improving competitiveness of farming and forestry: The EU co-financing rate is 50% maximum, but 75% in Convergence regions.

Axis 2: Environment and land management: The EU co-financing rate is 55% maximum and 80% in Convergence regions.

Axis 3: Improving quality of life and diversification: The EU co-financing rate is 50% maximum and 75% in Convergence regions.

However, unlike the draft regulations on the Structural Funds and initial proposals on the future of regional State Aids, the Commission is not proposing to provide any special distribution of funds or transitional arrangements for EU co-funding for 'natural effect' regions emerging from Objective 1, such as the BMW Assembly region in Ireland. The Commission has indicated that this has not become an issue in the negotiations to date. However, Ms. Mairead McGUINNESS (IE/EPP-ED) tabled two amendments to the AGRI Committee Report on the EAFRD on this issue, one of which was adopted (See Appendix).

5.10 Axis III – A Direct Role for Local Authorities? (Art 49 – Art 59)

The proposed Axis III sets out a range of measures that potentially provide a direct role for local authorities in delivering rural development policy.

Axis III measures (Article 49)

(a) Measures to diversify the rural economy, comprising:

- Diversification into non-agricultural activities.
- Support for the creation and development of micro-enterprises with a view to promoting entrepreneurship and developing the economic fabric.
- Encouragement of tourism activities.
- The protection, upgrading and management of the natural heritage, so contributing to sustainable economic development.

(b) Measures to improve the quality of rural life in the rural areas, comprising:

- Essential services for the economy and rural population.
- Village renovation and development; conservation and upgrading of the rural heritage.
- A vocational training measure for economic actors operating in the fields covered by priority axis 3.
- A skills-acquisition and animation measure with a view to preparing and implementing a local development strategy.

In the draft regulations the Commission provides that measures under Axis III *'shall be implemented preferably through local development strategies'* (Art 58). However, it is likely that this article will be removed from the final draft and included only as a recital. The argument for the removal is the use of the word 'preferably', which the Commission now accepts should not be contained in a legal text. The intention of the Commission is to facilitate the development of local strategies, as broad as possible, which would not be bound by some of the requirements of the current or new LEADER programme. This intention remains however and it would seem to open the way for local authorities, or groups of authorities, to draw-up local strategies which could be set within the regional/national rural development programmes. Nonetheless, it will be a matter for each Member State to establish how this would work in practice and what the dynamics would be in terms of local authorities and LEADER groups.

Axis III has also come under pressure from some Member States and the farming lobby. Consequently, of the three proposed axes it is also seen as potentially the most vulnerable to a reduction in the budget set aside for

the EAFRD. However, any changes in this regard will have to wait until a final agreement on the Financial Perspectives is reached, possibly in June 2005.

5.11 Mainstreaming LEADER – What does it mean in practice (Art 60 –Art 69)

One of the key aspects of the new rural development approach is the 'mainstreaming' of the LEADER programme. LEADER will no longer be a Community Initiative but will be an integral part of all rural development programmes. The intention behind this mainstreaming is to: (1) simplify the programming process, so that LEADER does not involve a separate programming approach, and (2) apply the LEADER 'bottom-up' model more widely, across all priorities.

The LEADER Approach

The LEADER approach is a local development strategy that comprises at least the following elements:

- Area-based programmes intended for well-identified sub-regional rural territories.
- Bottom-up approach with a decision-making power for local action groups concerning the elaboration and implementation of a local development strategy;
- Local public-private partnerships (hereinafter called "Local Action Groups");
- Multi-sectoral global approach based on the interaction between actors and projects of different sectors of the local economy;
- Implementation of innovative approaches;
- Implementation of co-operation projects;
- Networking of local partnerships.

Local Action Groups

- They must propose an integrated local development strategy and be responsible for its implementation.
- The area covered by the strategy shall be coherent and offer sufficient critical mass in terms of human, financial and economic resources to support a viable development strategy.
- The Local action groups shall choose the projects to be financed under the strategy.
- They may also select co-operation projects.

Measures

The support granted under the LEADER priority axis is for:

- Implementing local rural development strategies, through a LEADER approach,
- Implementing co-operation projects;
- Running the local action group, acquiring skills and animating the territory.

One of the other advantages of mainstreaming LEADER, is that by being part of a wider rural development programme, the funding allocated to LEADER is better protected in the context of the N+2 rule. The start-up time for LEADER projects/measures takes longer in all Member States, which exposes LEADER funding more easily to decommitment of financial resources by application of the N+2 rule. Placing it in a broader programme means that financial resources can be allocated to other measures in the programme and re-allocated back to LEADER at a later stage, without any monies being lost to the programme.

It is proposed that each rural development programme will contain a LEADER chapter to finance the implementation of the local development strategies of local action groups (LEADER Companies). These local action groups can prepare their strategies based on one, two or all three of the proposed axes. However, these groups will not be subject to the pre-defined measures set out under these priority axes and may develop other measures, once they contribute to the overall achievement of the priority axes. The Commission is expected to issue further guidance on this in the coming months, possibly July.

In terms of financing, the Commission is currently proposing that a minimum of 7% of the budget be allocated to LEADER. The financing of the strategies will be drawn from the three axes depending on the measures set out by the local action groups in their strategies. In practical terms, and based on experience in Ireland, many of the

measures that LEADER Companies will focus on will most likely be Axis III type measures. Therefore, most, if not all, of the 7% for LEADER will come from the Axis III allocation (this would mean that the 15% minimum set aside for Axis III could be reduced to 8% after the LEADER funding has been allocated).

The requirement in the draft EAFRD for a broad integrated local strategy for rural development may necessitate new delivery mechanisms that build on the LEADER approach as it has been implemented in Ireland since 1990. Mainstreaming may suggest less emphasis on innovation and more focus on the application of the LEADER methodology to local rural development programmes embracing a broader spectrum, including for example: NATURA measures, agri-tourism measures, broadband, the Rural Social Scheme, the use of forestry for tourism purposes, development of micro-enterprises and local services. Considerations of critical mass may argue for a structure of rural development groups based on the county (with exceptions such as for the islands and the Gaeltacht), with perhaps some rationalisation of the LEADER companies that exist at present. These are matters for consideration and decision at national level.

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6. Future Developments

Below are some of the key dates in the negotiations and decisions on the future rural development policy. Also, included are some forthcoming conferences that will be addressing aspects of the EAFRD proposal.

EU Institutions:

May: Informal Council (Ministers with responsibility for regional policy issues) to consider first draft of Strategic Guidelines for Regional Policy (May 20th – 21st).

May: Agriculture Council will meet and discuss aspects of the EAFRD Regulation, Brussels, May 30th.

June: The European Parliament is scheduled to adopt its report on the EAFRD.

June: The Commission hopes that the STAR working group will conclude its discussions in time for the Agriculture Council to adopt the EAFRD Regulation at its meeting on June 20th.

June: The Luxembourg Presidency hopes that the European Council will be able to reach an agreement on the Financial Perspective on June 16th-17th.

June: The Luxembourg Presidency hopes to have Council agreement on the key policy aspects of the EAFRD.

June: According to its work programmes the European Commission is scheduled to adopt the Strategic Guidelines for European Rural Development 2007-2013 in June 2005. At this stage it is uncertain if this adoption will be delayed until the draft Regulation is agreed. As set out in section 5.7, each Member State will then initiate its process for preparing a National Strategy Plan for Rural Development.

July: UK takes on EU Presidency for six months (from 1st July).

Conferences and Seminars:

May: NASC Conference: Rural and Local Development – Issues, Challenges & Priorities, Tralee, Co. Kerry, May 26th.

Oct: National stakeholder conference on the new rural development programme, co-ordinated by the Department of Community, Rural & Gaeltacht Affairs.

APPENDIX:

Amendments tabled by Mairead McGuinness

Draft Report

Agnes Schierhuber

Council regulation on support for rural development by the European Agricultural Fund for Rural Development (EAFRD)

Amendment

Article 71, paragraph 1

<p>1. The Decision adopting a rural development programme shall fix the maximum contribution from the fund for each priority heading. The decision shall clearly identify, where necessary, the appropriations allocated to the regions eligible for the Convergence Objective.</p>	<p>1. The Decision adopting a rural development programme shall fix the maximum contribution from the fund for each priority heading. The decision shall clearly identify, where necessary, the appropriations allocated to the regions eligible for the Convergence Objective, including the statistical and natural effect regions.</p>
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Amendment

Article 71, paragraph 3

<p>3. The Fund contribution rate shall be established for each priority axis. In the case of priority axis 1 (competitiveness) and axis 3 (diversification and quality of life) the following ceiling shall apply respectively:</p> <p>(a) 75% of the eligible public expenditure in the regions referred to in Article 5(1) and (2) of Regulation (EC) No.../...[cohesion];</p> <p>(b) 50% of the eligible public expenditure in the other regions.</p> <p>In the case of priority axis 2 (land management) and Leader the following ceilings shall apply respectively:</p> <p>(a) 80% of the eligible public expenditure in the regions referred to in Article 5(1) and (2) of Regulation (EC) No.../...[cohesion];</p> <p>(b) 55% of the eligible public expenditure in the other regions.</p> <p>The minimum Fund contribution rate at priority axis level shall be 20%.</p>	<p>3. The Fund contribution rate shall be established for each priority axis. In the case of priority axis 1 (competitiveness) and axis 3 (diversification and quality of life) the following ceiling shall apply respectively:</p> <p>(a) 75% of the eligible public expenditure in the regions referred to in Article 5(1) and (2) and Article 6(2) of Regulation (EC) No.../... [cohesion];</p> <p>(b) 50% of the eligible public expenditure in the other regions.</p> <p>In the case of priority axis 2 (land management) and Leader the following ceilings shall apply respectively:</p> <p>(a) 80% of the eligible public expenditure in the regions referred to in Article 5(1) and (2)) and Article 6(2) of Regulation (EC) No.../... [cohesion];</p> <p>(b) 55% of the eligible public expenditure in the other regions.</p> <p>The minimum Fund contribution rate at priority axis level shall be 20%.</p>
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