European Economic and Social Committee

NAT/324
Support for rural development by the EAFRD

Brussels, 13 December 2006

OPINION

of the
European Economic and Social Committee
on the

Proposal for a Council Regulation amending Regulation (EC) No 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD)
COM(2006) 237 final – 2006/0082 (CNS)

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On 13 July 2006 the Council decided to consult the European Economic and Social Committee, under Articles 37 and 299(2) of the Treaty establishing the European Community, on the

> *Proposal for a Council Regulation amending Regulation (EC) No 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD)*
> *COM(2006) 237 final – 2006/0082 (CNS).*

The Section for Agriculture, Rural Development and the Environment, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 8 November 2006. The rapporteur was Mr Kienle.

At its 431st plenary session, held on 13 and 14 December 2006 (meeting of 13 December), the European Economic and Social Committee adopted the following opinion by 127 votes to three, with 4 abstentions.

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1. Summary of conclusions and recommendations

1.1 In the view of the EESC, the proposal to amend two articles in the EAFRD Regulation is a logical consequence of the European Council decision on the Financial Perspective 2007-2013. When allocating resources from the Cohesion Fund, it makes sense to take into account the economic strength of Member States on a case-by-case basis. In the situation as described, exempting Portugal from the co-financing obligation is acceptable.

1.2 The EESC also takes the opportunity afforded by the submission of the Commission's proposal to study carefully the reduction in EAFRD resources and the special regulations for some Member States concerning the level and system of rural development resources, both adopted at the European Council.

2. Introductory remarks

2.1 The EU's Financial Framework 2007-2013

2.1.1 Following months of negotiations, on 19 December 2005 the EU heads of state or government agreed on the EU's Financial Framework for the period 2007-2013. The compromise, enacted in the intersinstitutional agreement of 14 June 2006 between the European Parliament, the Council and the European Commission, includes funding arrangements for the various headings, as well as a raft of other provisions.

2.2 Current legal basis of the EAFRD Regulation

2.2.1 Some of these agreements concern support for rural areas, which is set out in Council Regulation (EC) No 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD).

2.2.2 The Commission proposes incorporating the agreements struck in December 2005 into Regulation (EC) No 1698/2005 (the EAFRD Regulation). The purpose of the Commission proposal is thus to bring the EAFRD Regulation into line with the wording of the financial agreement.

3. Gist of the Commission proposal

3.1 Aim of the Commission proposal

3.1.1 The aim of the Commission proposal is to harmonise the Council decision on the Financial Perspective 2007-2013 of 19 December 2005 and the EAFRD Regulation. This involves amending two articles of the EAFRD Regulation, namely Articles 69(6) and 70.

3.2 Allocation of cohesion funding resources

3.2.1 Article 69(6) of the present EAFRD Regulation limits the total annual allocations that each Member State may receive from funds for promoting cohesion (including EAFRD resources) to a maximum of 4% of its GDP. Point 40 of the Council decision on the Financial Perspective 2007-2013 limits the total annual allocation of resources from funds promoting cohesion to between 3.2398% and 3.7893% of GDP, based on average per capita GNP.

3.3 Rules for calculating the allocation of resources from cohesion funding

3.3.1 The Council decision on the Financial Perspective 2007-2013 includes further technical rules. The upper threshold for transfers is to be reduced by 0.09 percentage points of GDP for every increase in average per capita GNP of five percentage points compared with the EU average in 2001-2003.

3.3.2 A review has been scheduled for 2010. If this reveals that a Member State's cumulated GDP for the years 2007-2009 has diverged by more than 5% from the estimated GDP, including as a consequence of exchange rate changes, the amounts allocated for that period to that Member State will be adjusted accordingly. The total net effect, whether positive or negative, of these adjustments may not exceed EUR 3 billion.

3.3.3 Rules for correctly calculating the value of the Polish zloty are also set out.

3.4 **Portugal's partial exemption from co-financing obligations**

3.4.1 Article 70 of the EAFRD Regulation stipulates that EAFRD resources are only supplementary and that (varying degrees of) national co-financing is mandatory. The financial agreement of December 2005, however, grants Portugal a sum of EUR 320 million for rural development which does not need to be co-financed (point 63). According to the Commission's proposal, this agreement is to be incorporated into Article 70 of the EAFRD Regulation. Article 70(4) includes an exemption clause for outermost regions and the smaller Aegean islands which permits EAFRD funding of up to 85%. The same paragraph will now also enshrine the exemption clause removing Portugal's obligation to co-finance an EAFRD allocation of EUR 320 million.

4. **General comments**

4.1 **Legal bases must be consistent**

4.1.1 The EESC stresses the unquestionable need for legal bases to be compatible. The Commission proposal to amend Regulation (EC) No 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) is a logical consequence of the Council decision on the Financial Perspective 2007-2013. The formulations in the Commission proposal reflect the Council decisions of December 2005 and are incorporated coherently into the structure of the EAFRD Regulation.

4.2 **Opportunity to comment on the substance of the Council decision on the Financial Perspective**

4.2.1 The European Parliament, the European Commission, the Committee of the Regions and the EESC now have the opportunity to comment on those substantive elements of the Council decision on the Financial Perspective which are not already part of the interinstitutional agreement.

4.3 **Reinforcing the EU's cohesion policy**

4.3.1 The EESC has always been committed to the cohesion goals, which aim to strengthen economic and social cohesion in the EU and to narrow the gaps in development between regions. The premise of the convergence goal, an important element of cohesion policy, is that improving conditions and factors conducive to growth for the least developed Member States and regions will bring them closer to the EU average.

4.3.2 The EESC points out that cohesion policy is implemented via funds (European Regional Development Fund (ERDF), European Social Fund (ESF) and Cohesion Fund) and that access to these depends on the economic strength and situation of the region. Regions with a regional GDP below 75% of the EU average are eligible for support under the convergence goal, while all other regions have access to assistance under the regional competitiveness and employment goals. There is a total of 846 convergence regions in 18 out of the 25 EU Member States. These include nine out of the ten new Member States (Cyprus being the exception) and regions in Germany, Spain, France, the United Kingdom, Portugal, Belgium, Austria, Greece and Italy.

4.3.3 The EESC welcomes the rules which take into account the differing economic strength of Member States when calculating the ceiling for allocating cohesion funding. A sliding scale, in contrast to the blanket 4% ceiling, respects the notion of convergence and of a system of assistance which allows the least developed Member States to receive relatively more funding. It also validates a ceiling based on the economic strength of a country.

4.4 **Promotion of rural development must be appropriate in level and organisation**

4.4.1 In the view of the EESC, the "second pillar" of the Common Agricultural Policy – promoting rural development – is an extremely important policy whose significance has quite rightly increased in recent years and must continue to increase. This is manifest in the pronouncements of the Commission and the Member States, even though the resources provided for the "second pillar" in the funding period 2007-2013 in no way reflect such political declarations of intent. The EESC is extremely critical in this regard and will address this issue at an appropriate time.

4.4.2 During the negotiations on the Financial Perspective 2007-2013, several states managed to secure special terms regarding the level and organisation of rural development funding. Of the total EUR 69.75 billion available for rural development, EUR 4.07 billion were set aside for eight countries. Austria received EUR 1.35 billion, Sweden EUR 820 million, Ireland and Italy EUR 500 million each, Finland EUR 460 million, Portugal EUR 320 million, France EUR 100 million and Luxembourg EUR 20 million. The EESC acknowledges that, although this impromptu allocation of resources is a political concession, it also shows the commitment to, and significance of, rural development in these countries. Quite apart from the principle involved in making such an exceptional and large allocation of resources during negotiations, the EESC also sees the danger of rural development policy fragmenting as a result of different funding allocations and different degrees of commitment by the individual Member States.

4.4.3 Aware of Portugal's difficult position, outlined in the Commission's Report on the situation in Portuguese agriculture (COM/2003/0359 final) of 19 June 2003, the EESC accepts the Council's agreement to exempt that country from the obligation to co-finance funding of EUR 320 million. The principle of co-financing for promoting rural development is a correct one, but not a dogma. The EESC will continue, as it does now, to critically examine the level and structure of co-financing on a case-by-case basis.

Brussels, 13 December 2006.

The President of the European Economic and Social Committee	The Secretary-General of the European Economic and Social Committee
Dimitris Dimitriadis	Patrick Venturini