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CORRIGENDUM: Cancels and replaces document COM(2013)331 final of 27 mai 2013. Paragraphs 33, 34, 39 and 63 of the Court's Special Report were deleted, therefore the numbering of the replies has been adapted. In paragraph 49, the word "contends" was replaced by "is of the view".

**REPLIES OF THE COMMISSION TO THE SPECIAL REPORT OF THE  
EUROPEAN COURT OF AUDITORS**

**"SUPPORT FOR THE IMPROVEMENT OF THE ECONOMIC VALUE OF  
FORESTS FROM THE EUROPEAN AGRICULTURAL FUND FOR RURAL  
DEVELOPMENT"**

## **REPLIES OF THE COMMISSION TO THE SPECIAL REPORT OF THE EUROPEAN COURT OF AUDITORS**

### **"SUPPORT FOR THE IMPROVEMENT OF THE ECONOMIC VALUE OF FORESTS FROM THE EUROPEAN AGRICULTURAL FUND FOR RURAL DEVELOPMENT"**

#### **EXECUTIVE SUMMARY**

VI. Although some aspects of the measure could have been explained more clearly, implementation could have been improved and challenges needed to be overcome in monitoring and evaluation, implementation and results were stronger in some cases.

Moreover, lessons have been learned which will be applied for the coming period – especially through guidance and within the programming process.

VII. The Commission analysed the situation of the forest sector in the 2005 Commission Staff Working Document, which formed an annex to the Communication on the implementation of the EU Forestry Strategy (document reference SEC(2005) 333).

The term "economic value" was indeed not defined in the legal provisions. However, it was regarded as a reasonably clear term, and for the purposes of monitoring / evaluation was captured by the result indicator of "increase in gross value added".

The term "forestry holding" was indeed not defined. Additional guidance on this point may be needed in future. The Commission will also investigate with the Council and the European Parliament to what extent certain issues could be solved through a definition of "forest" in the relevant legal acts.

Particular conditions concerning the size, main activity and legal status of beneficiaries are considered an issue to be addressed in individual rural development programmes ( RDPs) on the basis of a SWOT<sup>1</sup> analysis.

The Commission will pay the necessary attention to the issue of forest management plans in the negotiation of future RDPs and will provide guidance as necessary.

IX. The Commission considers that measure 122 was used incorrectly in some but not all cases cited by the Court. Nevertheless, it will make the necessary efforts (including through initial guidance) to ensure that Member States / regions use the correct measure to support a given operation in the next period.

See also the replies to §§ 35, 36 and 37 for concrete examples with regard to correct implementation in general, and the replies to paragraphs 40 and 42 for examples with regard to use of the correct measure.

The Commission considers that where measure 122 was the correct measure to use, the economic value of forests was indeed increased – even if the exact nature of the link between the aid and the increase of value of the forest varied according to the type of investment.

The Commission will investigate with the Council and the European Parliament to what extent the desired relationship between investments in equipment and improvements to the economic value of forests could be clarified in the relevant legal acts.

Common reply to §§ X and XI:

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<sup>1</sup> SWOT-analysis: Analysis of Strengths, Weaknesses, Opportunities and Threats. Every RDP must contain a SWOT analysis as part of the basis for planning spending through the RDP.

The indicators and the evaluation questions of the current CMEF are related to the rationale and the objectives of the measure and the axis in which it is included, and make a useful contribution to overall assessment of the measure.

The Commission considers that appropriate analysis of relevant data within the framework provided can illustrate the economic improvements generated through investments supported under this measure. It is recognised however, that Member States have experienced some difficulties in undertaking this economic analysis, and as a result the Commission has 1) issued additional guidance in relation to the current period, and 2) reviewed the situation in order to improve the effectiveness of monitoring and evaluation for the future period.

For the next programming period, together with the Member States the Commission is developing a CMEF which will allow the assessment, for each RDP, of progress in implementation against commonly defined target indicators for the priorities and focus areas selected for the programme. At the basis is an indicator plan which for each focus area sets the target and the planned outputs and expenditure for the measures that will be used to achieve the targets and objectives of the programme. The indicator plan represents more accurately the quantified intervention logic for each individual programme than does the current rigid axis structure.

The qualitative assessment of measure 122 plays an important role alongside quantitative assessment, as it sometimes takes more time for policy intervention to lead to a clearly measurable effect in the case of forestry than in the case of farming.

XII. The Commission considers that where measure 122 was the correct measure to use, the economic value of forests was indeed increased.

When assessing the contribution to improving the economic value of forests different factors such as multifunctionality and sustainability must also be taken into account.

XIII. As for the recommendation that the Commission should define and assess the EU needs for improving the economic value of the forests, as well as clearly define the key features, the Commission agrees that it should continue to define and assess the need to improve the economic value of forests in the EU, in such a way as to justify in general terms the inclusion of relevant support in rural development policy.

It considers that studies already available indicate needs in general terms at EU level.<sup>2</sup>

The Commission considers that more specific needs should continue to be assessed and defined at national and programme level by the competent national and regional authorities.

The Commission believes it should continue to define basic eligibility conditions at EU level, but that more precise eligibility conditions and selection criteria should be set within individual RDPs. It believes that its proposals for a rural development policy for after 2013 follow this approach. However, the Commission should provide additional guidance in this matter.

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<sup>2</sup> These studies include (among others): "Prospects for the market supply of wood and other forest products from areas with fragmented forest-ownership structures"; [http://ec.europa.eu/agriculture/analysis/external/supply-wood/index\\_en.htm](http://ec.europa.eu/agriculture/analysis/external/supply-wood/index_en.htm); "Good practice guidance on the sustainable mobilisation of wood in Europe"; [http://ec.europa.eu/agriculture/fore/publi/forest\\_brochure\\_en.pdf](http://ec.europa.eu/agriculture/fore/publi/forest_brochure_en.pdf) and "Study of the Effects of Globalization on the Economic Viability of EU Forestry"; [http://ec.europa.eu/agriculture/analysis/external/viability\\_forestry/index\\_en.htm](http://ec.europa.eu/agriculture/analysis/external/viability_forestry/index_en.htm)

The Commission will also investigate with the Council and the European Parliament to what extent the desired relationship between investments in equipment and improvements to the economic value of forests could be clarified in the relevant legal acts.

As for the recommendation that the Member States should describe in their RDPs the specific economic needs and opportunities of the different types of forest areas and beneficiaries, as well as enhance forest management, the Commission notes that the principle of subsidiarity hands considerable discretion to Member States and regions in respect of the points raised – in line, for example, with the European Parliament's "Report on the implementation of a European Union Forestry Strategy" (A6-0015/2006).

The Commission agrees that adequate descriptions are needed. The level of detail required with regard to types of area and beneficiary may vary from one RDP territory to another.

The Commission considers that a reasonable proportion of forests supported through the measure should be subject to forest management plans. That "reasonable proportion" should be set within the programming process.

As for the recommendation that the Member States should set requirements to ensure that forestry support is consistent, as well as put in place adequate procedures to ensure that support is effective in increasing the economic value of the forest areas, the Commission notes that the principle of subsidiarity hands considerable discretion to Member States and regions in respect of the points raised – in line, for example, with the European Parliament's "Report on the implementation of a European Union Forestry Strategy" (A6-0015/2006).

For the next programming period, together with the Member States the Commission is developing a CMEF which will allow the assessment, for each RDP, of progress in implementation against commonly defined target indicators for the priorities and focus areas selected for the programme. At the basis is an indicator plan which for each focus area sets the target and the planned outputs and expenditure for the measures that will be used to achieve the targets and objectives of the programme. The indicator plan represents more accurately the quantified intervention logic for each individual programme than does the current rigid axis structure.

The qualitative assessment of measure 122 can play a valuable role alongside quantitative assessment, as it sometimes takes more time for policy intervention to lead to a clearly measurable effect in the case of forestry than in the case of farming.

As for the recommendation that the Commission should improve its monitoring of the measure, the Commission agrees that beneficiaries should be required to provide data. However, these data may be of a very basic nature and require significant processing to allow conclusions about increases in value.

To compile result indicators such as 'increase of gross value added ( GVA)', MS have been invited<sup>3</sup> to capture relevant information on GVA from the supported holdings when the application is approved and 2 years after the investment completion in order to integrate as much as possible the long-term effect of the investments.

In practice, it has been difficult for managing authorities (MAs) to compile the necessary data and conduct the analysis required to establish values for these types of result indicators as part of their

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<sup>3</sup> working document providing guidance to MS for the result indicator 'increase of GVA':  
[http://enrd.ec.europa.eu/app\\_templates/filedownload.cfm?id=84053593-C697-FF89-ED5C-51797D9754FD](http://enrd.ec.europa.eu/app_templates/filedownload.cfm?id=84053593-C697-FF89-ED5C-51797D9754FD)

regular monitoring activities. Therefore, for the next programming period, this task the establishment of values for this indicator will rather be undertaken by the programme evaluators.

The Commission considers this a feasible and adequate approach.

## **OBSERVATIONS**

20. During the formulation of the forestry-related measures, the Commission used the analysis that was available.

One of the main sources was the Commission staff working document in annex to the Communication on the Implementation of the EU Forestry Strategy of 10.3.2005 (SEC(2005) 333), which identified needs and strategic objectives.

See paragraph 30 and the associated footnotes.

21. The opinions to which the Court refers were indeed not available in 2004. However, the main substance of the opinions in question was already contained in the EU Forestry Strategy (COM (1998) 649) and the subsequent related Council Resolution 99C56, which were available in 2004.

Among other things, the Strategy sets out the extent of private forest ownership in the EU (accounting for 65 % of total forest), the number of private owners and the resultant level of fragmentation.

The Commission proposal for the post-2013 Rural Development Regulation took account of an SFC opinion from 2009 and the European Parliament's "Report on the implementation of a European Union Forestry Strategy" (A6-0015/2006) of 2006.

22. The RDP of Tuscany clearly states that support is available only in respect of forests owned by private owners or their associations, or by municipalities and their associations.

Eligibility for support in the case of forests owned by national or regional governments but managed by other entities is a subject of debate in the ongoing formal discussions about the future CAP.

23. In forest science and practice the concept of 'economic value of forests' is well recognised, and a set of operations leading to a likely increase in value in the long term is also well recognised. MS can tailor this set of operations to their own circumstances.

Some indication as to the types of project that may be financed under the heading of improving the economic value of forests is suggested by the chapeau of Article 20(b) of Regulation 1698/2005 which refers to "restructuring and developing physical potential and promoting innovation".

The "potential" economic value of a forest stand may depend on the possible use of a forest and its socio-economic and technological environment. This argues against defining "economic value" too narrowly. Finally, the Common Monitoring and Evaluation Framework sets out a result indicator "increase in gross value added in supported holdings". This contributes to a notion of what the measure should achieve.

24. Additional guidance on the term "forestry holding" may be needed for the future.

To the extent that the equipment is used primarily for the purposes of managing the investor's holding and the excess capacity is not such as to imply a disproportionate purchase for this purpose this investment should be considered as being made at the level of the holding.

The Commission will also investigate with the Council and the European Parliament to what extent the desired relationship between investments in equipment and improvements to the economic value of forests could be clarified in the relevant legal acts.

See reply to § 35 concerning HU.

25. The Commission considers that measure 123 requires a different approach because well-run larger companies active in processing and marketing should not normally experience particular difficulties in raising the necessary capital to make useful investments in those activities.

The Commission takes the view that, by contrast, no direct limit is necessary on the size of beneficiaries to which support could be paid under measure 122.

With regard to increasing the economic value of forests, support is often needed for large beneficiaries as well as for small ones given that the relevant operations supported by measure 122 are often unprofitable in the short term, even in the case of large beneficiaries.

The economic value and performance of a holding depends on many factors besides size. Therefore, the assessment of which categories of forest should and should not be supported – including in terms of size – is best made at RDP level.

Member States and regions are indeed expected to set additional conditions for eligibility for support under this measure within their programmes as necessary, according to the circumstances of the programming area.

With regard to the particular case of SE, the Commission refers the Court to its reply to paragraph 24 – concerning the unusually favourable conditions enjoyed by the SE forestry sector.

27. During the process of RDP negotiation, the Commission clarified the intended meaning of the relevant provision of Article 18 of Regulation (EC) 1974/2006.

The intended meaning is that replanting with the same tree species and the same structure cannot be supported. This is considered an aspect of normal practice in commercial forestry and does not lead to a sufficiently high increase in value of the forest compared to the situation before felling.

On the other hand, it is intended that a significant restructuring of a forest, or change of species composition – leading to an increase in value – should be eligible for support.

28. The requirement of optimising the allocation of resources is not stated explicitly in the legislation, but is nonetheless implied.

Besides analysis provided in RDPs, MS provided analysis of their situation in their national strategy plans (NSPs). In several cases they referred in these to their national forest programmes / plans or equivalent instrument as the main basis of their forestry-related policies.

29. The Commission notes that the principle of subsidiarity hands considerable discretion to Member States and regions in respect of the points raised – in line, for example, with the European Parliament's "Report on the implementation of a European Union Forestry Strategy" (A6-0015/2006).

The authorities of Hungary<sup>4</sup>, Tuscany<sup>5</sup>, Slovenia<sup>6</sup>, Austria<sup>7</sup> and Galicia<sup>8</sup> all made reasonable attempts at a suitably specific identification of needs which allowed a link to be made to measure 122.

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<sup>4</sup> As for Hungary, the NHRDP (New Hungary Rural Development Programme) reads: "Because of recent privatisation of the forests (40% of the forests have been privatized) the most urgent need is therefore the modernisation of machinery and equipment of the private forests." Therefore the NHRDP identifies specific needs for private forests and targets the support to private forests of at least 50 ha where forest management based on a forest management plan is ensured.

<sup>5</sup> As for Italy (Tuscany), much of the relevant analysis is in fact contained in the related National Strategic Plan (NSP). The Italian NSP provides a clear SWOT analysis on forests and establishes a series of related objectives, e.g. promotion of energy saving; modernization of machinery and equipment of the private forests – which have a clear link to measure 122..

30. The Commission takes the view that needs and opportunities were described with sufficient clarity to make programming measure 122 appropriate and possible in each case, even if the analyses in question could have been improved in some cases.

### **Box 1 – Examples of unclear identification of needs in the RDPs of the Member States**

With regard to Slovenia: its RDP clearly identifies a number of weaknesses in the forestry sector. For example, equipment of low technical standard and poor working techniques are listed as being among the causes of a low utilisation of forests' economic potential. Making forests more open / accessible is described as an opportunity to lower the cost of obtaining wood and therefore to help to increase income from forests.

However, with respect to a separate analysis of needs based on types of beneficiaries this was not a legal requirement and Slovenia did not provide such an analysis.

While the weaknesses were not explicitly mentioned in the Austrian RDP, these weaknesses were identified in the case of Austria as: limited profitability of small forests and small availability of biomass. As a consequence, the potential competitiveness is reduced. The experience gained during the previous Programming period led the managing authority to expect that about 50 000 ha would be covered.

This omission will be corrected by including them in the next programme modification.

31. The Commission considers that the information gained through the EU Forestry Strategy implementation report preparation, the continuous discussion with stakeholder representatives (e.g. through the Advisory group on Forestry and Cork) and the series of bilateral negotiations with Member States and regions provided an adequate basis for approving rural development programmes.

Please also see reply to paragraph 30.

Reply to paragraph 32:

The Commission notes that the principle of subsidiarity hands considerable discretion to Member States and regions in respect of the points raised – in line, for example, with the European Parliament's "Report on the implementation of a European Union Forestry Strategy" (A6-0015/2006).

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<sup>6</sup> As for Slovenia, the RDP provides for a detailed "analysis of the situation in the light of strengths and weaknesses" in respect of the forestry sector (chapter 3.1.2). It looks at specific features of the forestry sector in Slovenia and suggest improvements. Low labour performance characterizes the sector and the situation of forests can be improved by better accessibility of forests e.g. providing forest roads and trails. In addition, weak and inadequate infrastructure and insufficient equipment for forestry work are mentioned as reasons for high management costs.

<sup>7</sup> As for Austria, the RDP identifies the following needs: (a) to increase the economic and ecological value of forests by reinforcing a mixed stand composition (Chapter 3.1.3, p. 34); (b) to enhance the competitiveness of the forestry sector (Chapter 3.2.2.1, p. 63) . This shall be achieved by increasing the availability of the raw material wood and, consequently, increasing the energy supply. It has been found that, M 122 in the table on page 64 (SWOT) was omitted due to an editorial mistake. This will be corrected by introducing it in the frame of the next programme modification.

<sup>8</sup> As for Galicia, the specific needs for the forestry sector identified in the SWOT analysis, such as the small economic dimension of forest holdings (p. 45 RDP) are directly linked with and addressed by measure 122. The need to increase the economic dimension of forests is clearly recognized within the rationale for intervention of measure 122.

Various points should be borne in mind with regard to the particular cases of Bulgaria<sup>9</sup> (which had in fact declared some expenditure), Romania<sup>10</sup> and Greece<sup>11</sup>.

33. The Commission will further analyse the points raised by the Court.

Certain types of machinery are very expensive and provide a return on investment only in the long term – a fact accepted in the forest sector.

This makes it difficult to set rigid rules about proportionality at EU level. It should be decided in the programme negotiation process whether a limit on funding in proportion to holding size is appropriate, taking into account the characteristics of the programme area<sup>12</sup>.

Action was taken to rectify problems in the cases of Hungary and Austria.

See also comment on subsidiarity in the reply to paragraph 32

34. Indeed, this was the case in Hungary prior to 2010. The managing authority changed the eligibility requirements in 2010 to make support proportional to the size of the registered forest areas and decreased the maximum support per application.

35. IT (Tuscany): The observation has been taken into account. The Rural Development Programme for Tuscany 2007-2013 has been modified accordingly on 11/12/2012.

36. The Commission considers that investments need not serve exclusively the purposes of a specific forest holding in order to be eligible for support – though they would have to serve at least partly that holding.

See also reply to § 24.

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<sup>9</sup> As for **Bulgaria**, there is an EAFRD expenditure of 4.8 million € in the 4<sup>th</sup> quarter of 2011, whose declaration was received by the Commission services on 10 January 2012 – deadline for submitting declaration was end of January. The BG authorities intend to transfer more than 80% of M122 budget to other RDP measures (with the 7<sup>th</sup> RDP modification indeed some 50% of M122 initial budget was transferred to other measures, but with the 8<sup>th</sup> modification of the BG RDP 6 MEUR public expenditure is reserved for the Guarantee Fund, which also covers M122, so stay within M122 and are not transferred to other measures). Despite the pressing need to improve the economic value of private and municipal forests in BG, measure 122 implementation has been difficult for the following reasons. **First, nearly 80% of BG forests are state-owned and therefore not eligible for support under M122.** Then, in the case of the remaining 20 %, the Bulgarian authorities indicate the following reasons for weak interest in this measure: (a) 90% of forests restored to private owners are less than 1 ha in area and therefore only eligible for a very low level of support; (b) owners usually live far from their forests and as a result show little interest; (c) associations of forest owners covered their major needs when they received support under measure 1.4 of the BG SAPARD programme; (d) municipalities owning forests have a preference for preparing projects under MM 321 and 322; opportunities under M122 are therefore of less interest to them; (e) the length of time taken to process the few applications received has discouraged other potential beneficiaries from applying.

<sup>10</sup> **Romania** had indeed not declared any expenditure by the end of 2011. As it is implementing its first post-accession RDP there are several new measures to be implemented. It launched the first call for measure 122 in 2012.

<sup>11</sup> On 10<sup>th</sup> January 2011 a new modification of the **Greek** programme was adopted and Greece opted for not using EU support for measure 122.

<sup>12</sup> With regard to the particular case of Hungary, see reply to §37.

With regard to the particular case of Slovenia: the Slovenian RDP includes a requirement that the support to investments in construction or reconstruction of forest roads must comply with the applicable forest management plan and the support to investments in felling and extraction of wood and for forest tracks must comply with the silvicultural plan.

In Austria, beneficiaries of measure 122 are defined in the RDP as forest owners, their associations and communes. In case of support for associations of forest owners the association as such might not own any specific area of forest. However, each member of the association must be a forest owner as stipulated in Art. 27 of Reg. (EU) 1698/2005. The type of beneficiaries was further clarified, deleting "other beneficiaries" at the occasion of the second programme modification. The COM notification on the approval of this programme amendment was sent to AT on 27 April 2009 (ARES (2009) 79362).



As for Hungary, M122 only supports the purchase of machinery to forest holders who run forestry activities on the basis of a forest management plan on at least 50ha of forest. In the Commission's understanding the beneficiaries used the machines for their forest areas although maybe not exclusively, but there should be a link to a forest area.

38. The Commission notes that many items of machinery can be used for both forestry and farming. The Commission considers that such items should not be excluded from investment support simply because they have an agricultural application beside a silvicultural application.

(On the other hand, investments in machines which can only be used for agriculture should not be supported through measure 122.)

With regard to the particular case of Hungary: in 2010 the Hungarian authorities decided to adjust the list of eligible machines, restricting them to items which are "forestry-specific".

With regard to the particular case of Tuscany, see reply to § 50. The investments may be made at the level of forestry holdings and linked to forest areas because the chestnuts come from forest land. The investments are also contributing to the enhancement of the forest. The Commission considers that these investments can be eligible under measure 122. The Commission takes note of the Court's observation and will further clarify the situation.

39. In general terms, the Commission notes that difficulties of legal interpretation have arisen regarding the demarcation between measures 122 and 123.

It has proposed that these two measures be merged in the post-2013 period.

41. Some machinery can be used both for forestry and agriculture. The fact that a machine could also be used for agriculture should not make its purchase ineligible for support under measure 122 if it can be used in forestry work. Taking this approach could force some operators to buy two machines instead of one, which would be inefficient.

With regard to the particular case of Hungary: in 2010 the Hungarian authorities decided to adjust the list of eligible machines, restricting them to items which are "forestry-specific".

43. The indicators are not established only through guidelines, but are included in the implementing regulation (Annex VIII of Regulation 1974/2006).

Result indicators are not set at measure level, but at axis level, reflecting the fact that it is the combined action of a range of measures which causes the result.

44. The objectives are defined at axis level,<sup>13</sup> it is a combination of measures (including measure 122) which, *in fine*, will allow the achievement of the objectives set.

Output indicators are not meant to measure achievement of objectives. They are used to measure activities directly realised at measure level.

At axis level, result indicators measures the direct and immediate effects of interventions and are fed by several measures.

At RDP level, the objective achievements are measured by evaluators using notably the common impact indicators completed with a broad range of analysis and approaches (additional indicators, counterfactual methodologies, samples...).

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<sup>13</sup> The objective of axis 1 is 'competitiveness of agriculture and forestry by supporting restructuring, development and innovation'

46. The evaluation questions relate directly to the rationale and specific objectives of the measure, as set out in recital 22 of Regulation 1698/2005, and in Guidance Note E of the CMEF Handbook. Taken together they cover the scope of the measure and its activities.

It is noteworthy that the questions related to sustainable management of forests are relevant to all beneficiaries.

47. MS or regions are supposed to track the increase in gross value added (GVA), and indeed, there have been difficulties in relation to this (e.g. in the collection of data).

The Commission has taken steps to address the problem and in a working paper of March 2010 provided guidance on the definition and the methodology to be used for measurement of this indicator. In addition, and as result of the lack of quantitative data available for carrying out the MTEs, the Commission sent a letter in 2011 inviting the MA of Galicia (and other programmes) to implement all necessary systems to collect monitoring information so that the results and impacts of the programme can be measured.

Such systems may involve approaches other than simply asking the beneficiaries the value of their forest before and after the investment, as it is often difficult for the beneficiaries to provide the relevant information in such a direct form.

The Commission also emphasises that, whatever difficulties may have been involved in assessing increases in GVA, ex-ante judgements about what types of practice increase the value of a forest can be made on a very well-established foundation of experience in the domain of forest science.

In the context of the mid-term review, Slovenia and Austria established procedures intended to determine the effect of measure 122 on the economic value of forests.

49. With regard to investments which supposedly concerned "agriculture", the Commission is of the view that an investment related to chestnuts need not necessarily be considered "agricultural" and may improve the value of a forest – as chestnuts grow on trees and these trees may form part of a forest. However, if the chestnuts in question come from an orchard rather than a forest, the investment would indeed be "agricultural".

The Commission will assess what additional guidance is needed on this and similar issues in future. It will also investigate with the Council and the European Parliament to what extent these issues could be solved through a definition of "forest" in the relevant legal acts.

With regard to processing and marketing, the Commission notes that in some cases it is difficult to draw a clear dividing line between what activities related to thinning / felling and activities related to processing / marketing.

For example, the purchase and use of wood-chipping equipment can help to provide organic matter for the soil and reduce the risk of fire and pests which would increase the value of the forest. If the equipment is suited for these purposes, it is considered eligible. However, the purchase of equipment for the purpose of producing wood chips for fuel should not be supported under measure 122.

The Commission has proposed to combine the current measures 122 and 123 after 2013.

With regard to operating costs and consumables, the Commission refers the Court to its reply to paragraph 35.

When assessing the contribution to improving the economic value of forests different factors such as multifunctionality and sustainability must also be taken into account.

52. Decisions about which specific categories of private owners to support belongs to the process of formulating / negotiating a given RDP, on the basis of a SWOT analysis related to the programme area in question.

Common reply to §§ 52 and 53:

The combination of a number of measures from the current period into one measure – as proposed by the Commission - provides a clearer overview.

In particular, measures 122 and 123 from the current period will be combined into a single "sub-measure" with one set of maximum aid intensities rather than two.

Nevertheless, it is not appropriate to set identical conditions for all of the forestry sub-measures: they are too different in terms of their content and the relevant categories of beneficiary.

Overall, the Commission considers that, where problems exist, they can be addressed essentially through guidance, through the combination of the current measures 122 and 123 and through greater attention to certain issues during the programming process.

### **CONCLUSIONS AND RECOMMENDATIONS**

54. Although some aspects of the measure could have been explained more clearly to the management authorities, implementation could be improved and challenges needed to be overcome in monitoring and evaluation, implementation and results were stronger in some cases.

Moreover, lessons have been learned which will be applied for the coming period – especially through guidance and within the programming process.

55. The Commission considers that, where problems exist, they can be addressed primarily through guidance, through the combination of the current measures 122 and 123 and through greater attention to certain issues during the programming process.

However, it will investigate with the Council and the European Parliament to what extent certain issues could be addressed in the relevant legal acts through a definition of "forest" as well as a clearer explanation of the relationship between investments in equipment and improvements to the economic value of forests.

56. The Commission analysed the situation of the forest sector in the 2005 Commission Staff Working Document, which formed an annex to the Communication on the implementation of the EU Forestry Strategy (document reference SEC(2005) 333), which identified needs and strategic objectives.

The Commission is in the process of reviewing the 1998 EU Forestry Strategy. The adoption of the "Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions; together with our forests: a new EU forest strategy" is intended for 2013 and the Communication and a Staff Working Document annexed to the Communication will provide an EU-level analysis of the EU forestry sector.

57. In forest science and practice the concept of 'economic value of forests' is well recognised, and a set of operations leading to a likely increase in value in the long term is also well recognised. MS can tailor this set of operations to their own circumstances.

Some indication as to the types of project that may be financed under the heading of improving the economic value of forests is suggested by the chapeau of Article 20(b) of Regulation 1698/2005 which refers to "restructuring and developing physical potential and promoting innovation".

The "potential" economic value of a forest stand may depend on the possible use of a forest and its socio-economic and technological environment. This argues against defining "economic value" too narrowly.

Finally, the Common Monitoring and Evaluation Framework sets out a result indicator "increase in gross value added in supported holdings". This contributes to a notion of what the measure should achieve.

Additional guidance on the term "forestry holding" may be needed in future. The Commission will also investigate with the Council and the European Parliament to what extent certain issues could be solved through a definition of "forest" in the relevant legal acts.

Particular conditions concerning the size, main activity and legal status of beneficiaries are considered an issue to be addressed in individual RDPs on the basis of a SWOT analysis.

58. The Commission will pay the necessary attention to this issue in the negotiation of future RDPs and will provide guidance as necessary.

59. The Commission notes that the principle of subsidiarity hands considerable discretion to Member States and regions in respect of the points raised – in line, for example, with the European Parliament's "Report on the implementation of a European Union Forestry Strategy" (A6-0015/2006).

The quality of analysis varied from one MS / region to another. This point will be addressed in the next programming period.

### **Recommendation 1**

The Commission accepts that it should continue to define and assess the need to improve the economic value of forests in the EU, in such a way as to justify in general terms the inclusion of relevant support in rural development policy.

It considers that studies already available indicate needs in general terms at EU level. These studies include (among others):

- "Prospects for the market supply of wood and other forest products from areas with fragmented forest-ownership structures" ;

[http://ec.europa.eu/agriculture/analysis/external/supply-wood/index\\_en.htm](http://ec.europa.eu/agriculture/analysis/external/supply-wood/index_en.htm)

- "Good practice guidance on the sustainable mobilisation of wood in Europe";

[http://ec.europa.eu/agriculture/fore/publi/forest\\_brochure\\_en.pdf](http://ec.europa.eu/agriculture/fore/publi/forest_brochure_en.pdf)

- "Study of the Effects of Globalization on the Economic Viability of EU Forestry".

[http://ec.europa.eu/agriculture/analysis/external/viability\\_forestry/index\\_en.htm](http://ec.europa.eu/agriculture/analysis/external/viability_forestry/index_en.htm)

The Commission considers that more specific needs should continue to be assessed and defined at national and programme level by the competent national and regional authorities.

The Commission believes it should continue to define basic eligibility conditions at EU level, but that more precise eligibility conditions and selection criteria should be set within individual RDPs. It believes that its proposals for a rural development policy for after 2013 follow this approach.

However, additional guidance in this matter should be provided. The Commission will also investigate with the Council and the European Parliament to what extent the desired relationship between investments in equipment and improvements to the economic value of forests could be clarified in the relevant legal acts.

## **Recommendation 2**

The Commission notes that the principle of subsidiarity hands considerable discretion to Member States and regions in respect of the points raised – in line, for example, with the European Parliament's "Report on the implementation of a European Union Forestry Strategy" (A6-0015/2006).

However, the Commission agrees that adequate descriptions are needed. The level of detail required with regard to types of area and beneficiary may vary from one RDP territory to another.

In the period 2014-2020, RDPs will be influenced by partnership agreements (PAs) at Member State level, which will contain analyses of development needs for the Member State concerned in relation to the thematic objectives of the European Structural and Investment (ESI) funds. The Commission has already provided an analytical position paper to each Member State to help guide the elaboration of the PAs, and will provide further input through dialogue once the legislative framework is in place.

The Commission considers that a reasonable proportion of forests supported through measure 122 should be subject to forest management plans. That "reasonable proportion" should be set within the programming process.

The Commission also considers that forest certification is a market-based tool and that there is no reason for the EU to intervene in this field. The current and proposed future Rural Development Regulations offer support for the preparation of forest management plans and sustainable management of forests, which are the main prerequisites for receiving certification.

60. The Commission notes that the principle of subsidiarity hands considerable discretion to Member States and regions in respect of the points raised – in line, for example, with the European Parliament's "Report on the implementation of a European Union Forestry Strategy" (A6-0015/2006).

In any case, the Commission does not consider that weaknesses in implementation of measure 122 occurred in every case cited by the Court.

Nevertheless, it will make the necessary efforts (including through initial guidance) to ensure that Member States / regions use the correct measure to support a given operation in the next period.

It will also investigate with the Council and the European Parliament to what extent some of the issues in question could be solved through a definition of "forest" in the relevant legal acts.

61. With regard to "disproportionately high" aid, it must be borne in mind that certain types of machinery are very expensive and provide a return on investment only in the long term – a fact accepted in the forest sector.

This makes it difficult to set rigid rules about proportionality at EU level. It should be decided in the programme negotiation process whether a limit on funding in proportion to holding size is appropriate, taking into account the characteristics of the programme area.

With regard to felling, because of the primarily economic nature of the operations referred to by the Court, state aid clearance in respect of measure 122 is sought not under the set of state aid guidelines cited by the Court but rather under the Guidelines on national regional aid (2006/C 54/08), Commission Regulation 800/2008 (the so-called "Block exemption Regulation") or Commission Regulation 1998/2006 (the so-called "De minimis Regulation").

Measure 122 permits investments in machinery for harvesting. The machinery also serves to eliminate certain trees for good forest management.

62. The Commission considers that where measure 122 was the correct measure to use, the economic value of forests was indeed increased – even if the exact nature of the link between the aid and the increase of value of the forest varied according to the type of investment.

The Commission considers that the economic value of a forest is linked to its multifunctionality: it depends on various potential uses of the forest and not only on the single (though important) component that is wood.

In the case of a forest which is used commercially for recreation on the basis of entrance fees, thinning and pruning may increase the potential economic value of the trees as a source of wood, but the main value of the forest stand may come from the accessibility of the land and the forest structure.

### **Recommendation 3**

The Commission notes that the principle of subsidiarity hands considerable discretion to Member States and regions in respect of the points raised – in line, for example, with the European Parliament's "Report on the implementation of a European Union Forestry Strategy" (A6-0015/2006).

The Commission notes that precisely measuring increases in the economic value of a given forest may continue to present challenges in some cases.

Nevertheless, the possibility of a certain level of measurement, combined with general expert knowledge about the benefits of certain types of investment for the value of a forest, constitute a valid basis for operating measure 122.

For the next programming period, together with the Member States the Commission is developing a CMEF which will allow the assessment, for each RDP, of progress in implementation against commonly defined target indicators for the priorities and focus areas selected for the programme. At the basis is an indicator plan which for each focus area sets the target and the planned outputs and expenditure for the measures that will be used to achieve the targets and objectives of the programme. The indicator plan represents more accurately the quantified intervention logic for each individual programme than does the current rigid axis structure.

Common reply to §§ 63-64:

The indicators and the evaluation questions of the current CMEF are related to the rationale and the objectives of measure 122 and the axis in which it is included.

The Commission considers that appropriate analysis of relevant data within the framework provided can illustrate the economic improvements generated through investments supported under this measure. It is recognised however, that Member States have experienced some difficulties in undertaking this economic analysis, and as a result the Commission has 1) issued additional guidance in relation to the current period, and 2) reviewed the situation in order to improve the effectiveness of monitoring and evaluation for the future period.

For the next programming period, together with the Member States the Commission is developing a CMEF which will allow the assessment, for each RDP, of progress in implementation against commonly defined target indicators for the priorities and focus areas selected for the programme. At the basis is an indicator plan which for each focus area sets the target and the planned outputs and expenditure for the measures that will be used to achieve the targets and objectives of the programme. The indicator plan represents more accurately the quantified intervention logic for each individual programme than does the current rigid axis structure.

It should be understood that qualitative assessment of measure 122 can play a valuable role alongside quantitative assessment, as it sometimes takes more time for policy intervention to lead to a clearly measurable effect in the case of forestry than in the case of farming.

Slovenia and Austria established procedures intended to determine the effect of measure 122 on the economic value of forests.

66. The Commission considers that where measure 122 was the correct measure to use, the economic value of forests was indeed increased.

#### **Recommendation 4**

The Commission accepts that beneficiaries should be required to provide data. However, these data may be of a very basic nature and require significant processing to allow conclusions about increases in value.

To compile result indicators such as 'increase of GVA', MS have been invited<sup>14</sup> to capture relevant information on GVA from the supported holdings when the application is approved and 2 years after the investment completion in order to integrate as much as possible the long-term effect of the investments.

In practice, it has been difficult for MAs to compile the necessary data and conduct the analysis required to establish values for these types of result indicators as part of their regular monitoring activities. Therefore, for the next programming period, this task the establishment of values for this indicator will rather be undertaken by the programme evaluators.

The Commission considers this a feasible and adequate approach.

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<sup>14</sup> working document providing guidance to MS for the result indicator 'increase of GVA':  
[http://enrd.ec.europa.eu/app\\_templates/filedownload.cfm?id=84053593-C697-FF89-ED5C-51797D9754FD](http://enrd.ec.europa.eu/app_templates/filedownload.cfm?id=84053593-C697-FF89-ED5C-51797D9754FD)