

WEDNESDAY 5 DECEMBER 2007

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Present

Arran, E.  
Cameron of Dillington, L.  
Dundee, E.  
Greaves, L.  
Plumb, L.  
Sewell, L. (Chairman)  
Ullswater, V.

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Witness: **Mr Valentin Almansa de Lara**, Agriculture Counsellor, Spanish Permanent Representation, examined.

**Q537 Chairman:** Thank you very much for finding the time to come and assist us in our inquiry. I will say a little bit about who we are and what we are doing. We are a Sub-Committee of the European Select Committee of the House of Lords. We are conducting an inquiry into the Health Check but also looking slightly beyond the Health Check at the future shape of CAP and how it is likely to evolve. This is a formal evidence session so we will be taking a note of the evidence and you will have every opportunity after the meeting to get a copy and you can make changes or revisions. The best way forward is if we have a conversation across the topics that I have outlined. The Commission's Communication on the Health Check really suggests a number of policy areas that could be improved in the light of the changes since 2003. Looking at Spain, what has been your experience of the 2003 reforms? I come from Scotland, which I have to mention in that context because Scotland has gone slightly differently from England and Wales. Are there differences in the autonomous communities in how the impact of the 2003 has gone? Basically, what has happened to Spain after 2003?

**Mr Almansa de Lara:** We are trying to maintain the same system in the whole country. We have 17 autonomous regions and they have full competence in agricultural matters. We try to maintain from central government a more or less similar approach in the whole country otherwise we would have problems because the trade between the regions is free but if you apply different systems in different regions you could have distortions in competitiveness or the market. We try to maintain the same system and we have done that with success up to today. Now, in Spain the system is the same for the whole of Spain in general terms. The only point where we maintain a difference is we do not allow the selling of Single Payment rights between autonomous regions. Single Payments are allocated in one region and remain in that region. This is the only limitation we put on the system. The rest of the system is the same for all. We apply the same decoupling system in all areas, the same deadlines, the same dates. The rest is the same. In relation to our experience, it is too early for us to have made a definitive conclusion. We applied the reforms in 2006 and for the first year nothing is new because the people need more than one year to adapt to the new situation and normally farmers are very conservative so they try to change as little as they can. In the first year nothing changed in Spain and the new decisions had not been taken so people maintained their inertia. This is the second year and in this year we have had various strange market situations with these incredibly high prices for cereals, milk and other commodities. We are not able to know exactly what the impact is of the 2003 reforms. We have not had the time and now we have a very difficult situation in the market and we do not know if the situation we have now is because of the reform or the change in the market. We cannot establish any conclusions now. We may need two or three years more and a normal market situation, let me say, to see exactly what is happening. In other Member States which have applied the reforms since 2005 they have more experience than us but it is too early for us to obtain any conclusion.

**Q538 Chairman:** That must make it very difficult looking forward.

**Mr Almansa de Lara:** Yes, of course. The Commission has presented us with this new Communication and thinks we need to move forward and we have said okay but we do not know where we are now so we need to have more figures, more dates, more information and more time to see clearly where we are going with our reforms. We did not apply the reforms until 2006 in Spain and now we are trying to change again. In relation to the Health Check Communication we think we need to separate two questions. Some are technical arrangements and we are okay with those, we were in favour of adjusting and this so-called fine-tuning of the 2003 reforms. We have detected some problems in this application and we are open to discuss these. To touch key elements of the 2003 agreement, such as decoupling, modulation, elimination of some of the market tools, intervention tools, this transition to a regional system being more or less compulsory, we think we need more time and more debate about it. We need an impact assessment, impact analysis. We want to know exactly what is happening and then we can discuss where we want to go. It is difficult for us to think about the future if we do not know where we are now exactly. This is the general approach we have in relation to this situation.

**Chairman:** I think we are going to push you a little bit on the Health Check.

**Q539 Earl of Arran:** I see exactly what you are saying as a new entrant in the whole organisation. This is nothing to do with the Health Check particularly because I think you have answered where you are on that, but in general - I know little about your agriculture and your farming in Spain - is it sufficiently good and the industry sufficiently buoyant to be attracting many new entrants into the agricultural market? Are the youth wanting to play their part in the agricultural market when in England it is very much on the decline, sadly?

**Mr Almansa de Lara:** It depends on the sectors. If you speak about livestock, in my opinion we are in a very good position to compete. In pork, our increase in the last ten or 20 years

was very good. We are selling a lot in Russia and other third countries, also in the Union. It is the same for beef where we have more than doubled our production. In general in the livestock sector we have more problems with poultry but with the rest we are okay. On the agricultural side, olive oil is working well, fruit and vegetables is working well, cereals is a poor sector but the problem with cereals is the rain and there is nothing we can do to solve this problem, we have no rain so our yields are very low. It is not a problem of lack of competitiveness. We think we can compete in the market but we need to know the rules to compete and after that we can discuss the European standard quality system.

**Q540 Lord Cameron of Dillington:** Which proposals in the Health Check put forward by the Commissioner do you favour and which ones do you find difficult?

*Mr Almansa de Lara:* On the official point of view it is too early for me to say because at the last Council my minister made this clear separation between what we think are deeper reforms and technical reforms. The technical reforms we are okay with if we want to change the scope or adjust the scope of the cross-compliance that is okay, we can do it. We want to remove set-aside definitely, but we have removed now so that we can do it.

**Q541 Lord Cameron of Dillington:** How do you see milk quotas?

*Mr Almansa de Lara:* We are open to the debate but we think we need more information. In the last Council most of the Member States were more or less in favour of a debate but other Member States wondered what would happen with these difficult regions, mountain regions, the production in these regions. We are open to this debate, we are not saying we do not want it, but we need an impact analysis as to what will happen in some areas.

**Q542 Lord Cameron of Dillington:** What about capping of large farms, where do you stand on that?

**Mr Almansa de Lara:** I have no definite opinion but I do not know that we have a very big problem with this. I have no official opinion. I do not think that we have a big problem with this.

**Q543 Lord Cameron of Dillington:** You have got quite big farms.

**Mr Almansa de Lara:** Yes, but the amount is not very big. We have made some calculations and this capping will cost nothing because the money remains in the first pillar and in the country. It is something like €72 million for Spain which is not a very high quantity. The modulation is much more important for us than this. It is more important that we debate modulation.

**Q544 Chairman:** Modulation is more important than capping?

**Mr Almansa de Lara:** It is much more money. The modulation is something like €240 million for us per year. This debate is three times more important than the other in terms of money. Again, this 72 million will remain in the first pillar under Article 69 so we can manage the money. Other Member States have more problems with this than us, but I am not sure if this will be our definitive position. This is a general overview.

**Q545 Viscount Ullswater:** Modulation brings us on to the funding under Pillar II and it forms part of the very crucial element of the CAP and its reform. Could you comment on what Spain's experience of implementing the EAFRD is? You were talking about the autonomous communities, is there any difference in their ability to apply these funds in different axes amongst those various communities?

**Mr Almansa de Lara:** I am not an expert on rural development. I am more of an expert on the CAP in general because I have been involved in this kind of reform since 1992.

**Lord Cameron of Dillington:** Here we go again!

**Q546 Chairman:** You look remarkably young and youthful!

*Mr Almansa de Lara:* I have good experience of that but that is not the case in rural development so I have checked with my colleagues. They told me that in rural development we have a system that is very similar to yours. We have 17 regions and we have 17 different regional programmes more or less. It is a very complicated exercise because we have 17 regions plus central government and then we have some regions which are competence regions and some that are not which have less money in rural development. In the beginning the exercise was very complicated to try to distribute the money between the 17 regions and central government. We succeeded in the end and obtained a framework for the distribution of money. Now we have 17 regional programmes plus one, which is the National Rural Network and they tell me it is the same in the UK, you have these national rural networks, more or less with the same competence as in the UK. We put more money in this National Rural Network because we are putting in national money in co-operation with local action groups in inter-territorial and trans-national programmes. I do not know what these programmes are but we are putting more money than you in this National Rural Network because of these inter-territorial and trans-national programmes. Then we have the national programme with six programmes which are compulsory for all the regions. All the regions are obliged to put these six programmes in place. The national funds have priority in relation to these six programmes. We spend the national funds first in these six programmes and if there is more money we distribute that around the other regional programmes. We try to maintain a national agricultural policy and it is not easy with 17 but we do our best. In the different regional programmes the distribution between axes is different and there are some figures and an average on the first axis, competitiveness, could be between 50 and 55 per cent; the second axis, environment, between 35 and 40 per cent; the third axis, diversification, between ten and 15 per cent more or less; and around all these axes the LEADER approach

has 12 per cent of the money. We put a lot more money at a national and regional level into rural development because we obtain less money from Brussels and we try to maintain the same level of expenditure so we put more national money in that. For this programme we have €1,800 million more than in the past framework. We have put more national and regional money into the system and we receive less money from the Union because we have these two or three big regions which have met the convergence objectives. I would like to make a comment. People say that rural development funds are very important but what we saw what happen in the last budgetary perspective, where the prime ministers took the money because the bigger reduction of the budget was made in this area. This is a personal opinion but it seemed a strange exercise to take money from the first pillar, send the money to rural development because it is very important and then take money out from the rural development. I need to reflect about this kind of exercise. This is a personal opinion.

**Q547 Lord Plumb:** Could I follow up on this question. My impression is that Spain has done better out of the CAP than any other country in Europe and you therefore rely to a large extent on support, and now the support under the Single Payment from the old system. You are giving the regions responsibility for dealing with this, they are autonomous, and moving money from Pillar I to Pillar II which is a matter of concern for this Committee because we are hearing from all over the place that this should be done. I think we would all agree with you that you do not want it moved to Pillar II and then taken away, but take a region where you have got a lot of mountainous areas, a lot of room for development in those areas perhaps, would you not think that it is probably a good thing to move the money from Pillar I to Pillar II so that in that particular region you can use the funds better in areas of need, because it is need not just for farming those areas necessarily but for maintaining the areas, probably stocking them with whatever and making them much more interesting for the tourists, et cetera, in other words partly social?

*Mr Almansa de Lara:* Again, this is a personal comment. We must take account of the fact that we are speaking about regions and we need to distribute the money between regions. We are not a central government with all the power. These things could be easy with central government that has the money and decides to fix a priority on milk production in mountain areas, for example, and send the money to this and it is the same for you if it is one region or another because this is your priority. But when you have autonomous regions, and I do not know if it is the same for you in the UK, you need to distribute the money first and then speak about the programmes. The exercise to distribute the money is at the beginning so it is difficult to fix priorities. The only way we can do that is with national programmes. We can make a national programme and say it is compulsory and we will put money in, but at the end you are obliged to meet the figures and see what happens. If with these programmes there is a big distortion of the distribution of money and the other autonomous regions will complain and say, “You are making a programme for one region, not for all”. This is the reason why it is so difficult. We are putting in place a national programme but we must take care that this national programme does not change the distribution of the money. A little, yes, but if this national programme produces a movement of the money from one community to another in a big amount I am sure we will have problems.

**Q548 Lord Greaves:** Within each region is the amount that is allocated to Pillar I and Pillar II, the amount to modulation, is set at national level or can that change at regional level?

*Mr Almansa de Lara:* I do not know. I can ask but I do not know.

**Q549 Lord Greaves:** That seems to be crucial.

*Mr Almansa de Lara:* It is not possible because in the last framework we lost one of our biggest regions from convergence, Castilla y León. This was the second biggest region for money. The first was Andalusia and the second was Castilla y León. We lost the money

from the Union for this region because it has met convergence criteria and we were obliged to put national money in to cover this. The distribution is not in the same way that we are receiving the money from the modulation, we redistribute the money. I am not sure about the system. It is difficult because we have to maintain a balance between the 17 regions.

**Q550 Earl of Dundee:** Rethinking priorities in agriculture forms part of the budget and in that context, therefore, what are Spain's future priorities in the field of agriculture?

*Mr Almansa de Lara:* For CAP or the budget?

**Q551 Earl of Dundee:** If you would like to comment in general.

*Mr Almansa de Lara:* We think we need to reflect on the future and we prefer to reflect first in principle and then on the budget. I heard Guy Legras a long time ago, who was Director General for Agriculture for a long time, say that a politician who does not put in place policies which explain the budget is obliged to put in place policies which the budgets allow. We are in favour of discussing the principles first and then the budget. Now the situation is different than in the past, we are facing new challenges about supply and we think we have a problem with supply. We are not sure that for political and security reasons it is good to have these problems and this level of prices because now we are dependent on third-countries for a lot of commodities. What happens if we have a big drought in Australia or South America or the United States? At the end we are rich countries so we will pay, our consumers will pay a higher price, but what happens with the poorest countries. The supply is a matter of concern for us and we need to reflect on this and change our minds perhaps because in the last 30 years we have only spoken about surplus. This was the only thing we were focused on, surplus, and this was the aim of the 1992 reform and the 2000 reform. Now we are in a different situation and have a problem with supplies. We need to reflect on supplies first and whether the policy we have in place now is good enough to solve this problem. We want to

reflect on that. We also want to reflect on this so-called quality European standard. The consumers are not prepared to pay for it and when they go to a supermarket they prefer the cheapest. It is the same whether it is from Brazil or wherever, they prefer the cheapest. It is not clear that the Europeans prefer to pay for this standard of quality. It is not clear that the WTO will take on board these concerns. We need to take a decision. We can leave this European standard or we will have to pay for it. If the consumer does not want to pay then it is the taxpayers who will have to pay. This is a crucial decision for the future and we need to have a debate about this. We cannot say that we want a very high standard of quality if nobody is prepared to pay for it. This is the second point that we think we need to reflect on. We defend the highest possible standard for Europeans. We also want to reflect on the protection of the environment. The market is the word and if you read the Communication the market alone could solve all the problems, but we have some doubts about that. First of all, we are speaking about food, we are not speaking about tables or chairs, so what happens if the market makes a mistake. We need to reflect on this to see if we need to maintain some tools to control the market. We have no final position but we need to reflect on that. In relation to the protection of the environment, we are sure that bad use of the surface produces problems but we are also sure that under-use of the surface produces also problems for the environment. We can see that in Spain or in other areas. Is the market the best tool to manage the environment? Will the market pay the farmer for his role or will ask the farmer only to produce more? It is okay because the market will lead? Another problem is the management of the territory. Can the market assure us that people will be in all the territories around all the countries in Europe or do we need some measures to help the people to be there. If we leave it to the market, who will produce 2,000 litres per year or 20,000 litres per year in the high mountains? Nobody. The market will never pay for this production. We

have no definitive opinion but we think before we go ahead with this exercise we need to reflect in a different way on where we want to go and what we want to do with our policy.

**Q552 Earl of Dundee:** You have explained to us how reflection is required and you need to analyse the results of recent changes. You have also pointed out how important it is to be fair-minded between the 17 regions in your country. That apart, after 2013, taking into account the direction which your regions are already moving in, what changes do you anticipate in farming systems?

**Q553 Mr Almansa de Lara:** I am sorry, I do not understand.

**Q554 Earl of Dundee:** I am talking about your 17 regions. I am taking your point about how one cannot jump to conclusions too readily, you need to analyse the results from recent changes.

**Mr Almansa de Lara:** Yes.

**Q555 Earl of Dundee:** You have explained to us how important it is in your country with your federal system of the 17 regions to be fair-minded and to be seen to be fair-minded among those regions. Nevertheless, you and your countrymen will have some ideas of what farming plans, which may be lost for Spain after 2013 as a whole. Would you like to comment?

**Mr Almansa de Lara:** Of course we want to see farmers in the country, we want to see people living in the countryside. We want to have an active and profitable agriculture. If we have an active and profitable agriculture we will have farmers, we will have people managing the territory and protecting the environment, and also people making money in rural areas. Our aim is that people in rural areas have money, have benefits, and can live there with their activities. This is our task.

**Q556 Lord Cameron of Dillington:** Do you mean outside agriculture?

*Mr Almansa de Lara:* We think agriculture must be the engine. It is possible to have other activities. Spain is a very big country and if you travel 300 kilometres from Madrid the alternatives are tourism but that is for weekends and not the rest of the week, you know.

**Q557 Lord Cameron of Dillington:** With broadband technology you can be a stockbroker.

*Mr Almansa de Lara:* It is possible. We saw a big change in Ireland but Ireland is a smaller country and the distances are smaller. I do not know if that is possible in Spain.

**Q558 Lord Cameron of Dillington:** You have mentioned all the reasons why: the environment, the social implications of keeping people on the territory, and there could be lots of other reasons, but can you see a situation where agriculture is in a free market, no support, and the state buys goods such as habitats, maybe even land management, in other words the state says, “We want the land in these mountains, a poor region, maintained, therefore we will pay you just to maintain the land” but agriculture itself is in a free market? Do you see that?

*Mr Almansa de Lara:* It is difficult because you need to be active in a business. I do not know how to explain it really. It is like the Indians in North America who are paid to be Indians on a reserve. You need some economic activity. They need to be active in their business and their business is agriculture. Again, we can pay more or differently if they maintain rules about the environment or whatever but you are obliged to maintain economic activity otherwise I cannot see people living in the countryside.

**Q559 Lord Greaves:** I am interested in disadvantaged areas and particularly upland areas, but is it not the case that in quite a lot of Spain this battle has been lost already, that a lot of areas that used to be pastures, used to be grazing land for animals, are no longer and are being taken over by scrub and areas that used to be arable, the terraces on the hillsides and so on,

again a lot of it has been abandoned and taken over by scrub. In a lot of Spain in difficult areas the farmers have gone and that process is still continuing in a lot of Spain and in practice agriculture in Spain is going to be concentrated in future in the better areas, particularly if it is going to get hotter and even drier.

**Mr Almansa de Lara:** We will see what happens with climate change. It is clear if the rain leaves we will have big problems because Spain has problems now with the rain and if it rains less we will have big problems. You are right, Spain is in the same general trend as other Member States and we have fewer farmers. For instance, in milk we used to have something like 250,000 farmers in 1992 and now we have less than 25,000. It is clear the decrease of arable farmers is going on. We are seeing more and more older farmers on the farms and no young people. The problem is not only agricultural, it is related to other things. In the very remote areas of Spain you will have no cinema, no hospital, no disco, no girls, and it is a real problem in parts of Spain, so young people do not want to stay there because there are no girls and they prefer to go to a city or a big village. Some co-operatives are now forming programmes to put in place employment only for girls to be sure that the girls stay on the spot and the boys stay as well. These are the kinds of problems we are facing in the rural areas. They are not typically agricultural problems but related to lack of discos, cinemas. We need to try to stop this trend and if there is economic improvement on the land and we are spending a lot of money on infrastructure, the roads in Spain today are nothing like the roads ten or 20 years ago, and now you can have the Internet in most of the country. We are spending a lot of money and building hospitals in the countryside. We are trying to provide this to allow the people to be there.

**Q560 Lord Greaves:** That does not make it possible for people to make money out of farming, does it? It might make it better to live in those areas so that people might go and run little businesses on the Internet and so on, or buy second homes and set up tourist things, but

it is still impossible to make a living from the traditional ways of grazing their sheep or cultivating the terraces.

**Mr Almansa de Lara:** It is clear if we were still producing like our grandfathers we would be totally lost. Our livestock system is a very intensive one, only our suckler cows are in extensive production. All of our beef production is intensive and our pig production is intensive. The system of production must change and it must be more efficient.

**Chairman:** Let us go back to the relationship between agricultural support and structural funds.

**Q561 Viscount Ullswater:** You have talked a lot about how to maintain the community in fragile rural areas. I am wondering whether the CAP should be the driver for this or whether it is European structural funds, regional funds, of which Spain is a big recipient. Do they lie nicely closely together? Do they overlap or are there gaps between them? The more modulation takes place the more money is going to be shifted into Pillar II and I wonder how you feel those two sit together.

**Mr Almansa de Lara:** We are trying to avoid this overlapping. It is a very strange name in Spain, I do not know if it is okay in English. We have built what we call a National Reference Strategic Framework for all funds, so there is a framework built in Spain where all reforms are involved. We try to maintain co-ordination between the actions of all reforms inside this National Framework. This involves all structural and rural development funds. On the rural development side, every programme we build must have a part which demonstrates it has a complementary relationship with the actions of the other funds. I am not sure if we are succeeding in this exercise but we are doing our best. We build a National Framework first where all the funds are involved and then every programme for rural development is obliged to demonstrate that it is complementary with other actions of other reforms. We are

trying. I am not an expert so I do not know if we are succeeding in this exercise but we are doing our best. If they start overlapping we will lose money on this issue.

**Q562 Lord Plumb:** I know there is growing interest in turning wheat into ethanol and there are one or two Spanish companies that are very interested in this development. Is this helped financially by government? Building the plant, of course, is quite an expensive business. Is this a development that you are going to encourage?

*Mr Almansa de Lara:* I am not sure but I think they have big tax advantages because if you produce ethanol you have tax advantages, but I am not sure. In Spain at this moment these plants are not working because with the price of cereals it is not profitable. We have very big plants which are closed because with these prices of cereals they cannot work. I still think in pesetas, it is difficult for me to think in euros. They need lower prices. I think it is the biggest one in Europe that opened in Salamanca last year and it closed one month later because the prices were not low enough for them.

**Q563 Lord Plumb:** That is why I asked the question. I have been to that plant. There is a proposal to build a plant elsewhere in Europe.

*Mr Almansa de Lara:* Perhaps they have based that on the prices of cereals in the past. Nobody thought in 2003 that we would have these prices for cereals. We do not know what will happen in ten years, we will see.

**Q564 Chairman:** Could we just finish off by looking at climate change because it does seem to me that you are part of Europe that is vulnerable to climate change and the agricultural industry may face major problems of adaptation as a result of climate change in the future, just no rain. How are you responding to that at the moment?

*Mr Almansa de Lara:* In agriculture?

**Q565 Chairman:** Yes.

*Mr Almansa de Lara:* The bigger problem is the water, as you know. Traditionally we have spent a lot of money on irrigation and in some parts we have very old irrigation systems and we are spending a lot of money to rebuild the irrigation systems to make better use of the water. We felt we were losing a lot of money because we made bad use of it. Now we are spending a lot of money from the Agriculture Ministry on the rebuilding of the irrigation systems. In times past they used - I do not know the term in English - the irrigation system when you only opened the water and covered the soil, which was the normal system, but it is difficult to see this kind of system now and we are going to build a good system for trees, for fruit and vegetables more and more. We are improving a lot. Our main concern at this moment is the use of water because it is our worst scenario.

**Q566 Chairman:** Where does the money for that come from? Is it national exchequer or coming through funds?

*Mr Almansa de Lara:* It is national plus Community funds. It could be under rural development but I am not sure. I can check that if you want.

**Q567 Chairman:** It would be interesting to know how you fund that.

*Mr Almansa de Lara:* I will check but I do not know. We are spending a lot of money and we have a national programme because it is a high priority for us.

**Chairman:** I think that is it. Thank you very much for all the help you have given us.