

WEDNESDAY 4 MARCH 2009

Present

Arran, E.
Brooke of Alverthorpe, L.
Caithness, E.
Cameron of Dillington, L.
Dundee, E.
Sewel, L. (Chairman)
Ullswater, V.

Witnesses: **Ms Lene Naesager**, Member of Commissioner Boel's Cabinet, and **Mr Alex Page**, European Commission, examined.

Q321 Chairman: Thank you very much for coming along and helping us with our inquiry into the LFA scheme. This is a formal evidence-taking session so a note will be taken. You will get a transcript within a little while and you can read over it and do any corrections that are necessary, as usual. I do have to say that just about all the evidence we have taken from anybody having any interest in agriculture – I am not saying the environment – is, “Please go away and don't disturb us”. Does that come as a surprise?

Ms Naesager: In agriculture? No. For instance, when we started with the wine reform, where you also had an investigation and when you came to Brussels, we met the same reaction. It was, “Things are more or less doing fine. Don't change what we have now, or, if you change, then just give us more money”. That was it, so I am not surprised. The agricultural world is quite conservative. However, this is a matter of life and my Commissioner, who unfortunately could not meet you today because she has other activities, is perfectly aware of this, of course, and she is used to it. Also, if we look at this exercise that we are doing here under the LFA, we consider that this is more a technical than a political exercise, so we are not so concerned about this attitude of “No change, please”.

Q322 Chairman: What is your killer argument to come up with and convince people that there is a need for change?

Ms Naesager: For the intermediate LFA, because we only talk about the intermediate LFA in this exercise, it is that we had a report from the Court of Auditors in 2003, I think it was, giving us some criticism, saying that there were too many criteria, that Member States were doing basically what they wanted to do and that there was not enough control. We also had our Rural Development Regulation adopted in 2005 in which we set out the overall criteria for the intermediate LFA but we were not able to delimit the areas, and we are now in a situation where, due to the criticism from the Court of Auditors, due to what happened in the Rural Development Regulation where we had a certain deadline by which to react, we believe that we need to do something. These are our main arguments to Member States for saying that we cannot just continue with the situation as it has been more or less since 1975. We need to look at the criteria, we need to harmonise the criteria for the LFA, we need to use objective elements. From a political point of view, because that is what I represent, I think it is important to indicate that so far there has been a lot of calm around this exercise. From the technical point of view in DG Agri, of course, there have been a lot of technical meetings, more than 100 meetings with experts from Member States and a lot of meetings in our impact assessment group. There have also been meetings with the Joint Research Centre and there has been established an expert panel. However, at the political level Member States so far have been quite calm. We did not have the same experience when we did the wine reform, so I am pretty confident that this could be an exercise that would be smoother than the wine reform or the health check.

Q323 Chairman: We have clearly not been speaking to the same people!

Ms Naesager: You might have some information that I do not have.

Q324 Chairman: I wonder if we could go through the timetable that you are working to – publication of your communication, discussions in Council, mapping by Member States and the legislative proposals. Can you put a timeline on all that for us?

Ms Naesager: That I can do. We are in a process inside the Commission where we consult the different services, which is what we always have to do, and our communication is scheduled to be adopted on 21 April, so next month, at the college meeting in Strasbourg. That is the first thing I would say. What we do after that is that the Commission is going to present the communication at the Council on 23 April and, of course, there we will have the first debate with Member States and we will have their initial reaction to the communication. In regard to the communication, I cannot give you all the details, of course, at this stage because it is still an internal document, but we will do the review of the criteria that we have announced and that we have to build upon. We will suggest the methodology to be used by Member States in order to define what are considered as intermediate LFAs, which will be based on the biophysical criteria. We will also invite Member States to provide us with maps, so there will be an exercise for Member States to carry out from the date of the publication of our communication until a certain time limit in which the Member States need to collect data at a national level, draw up their maps and send the maps to us so that we can use this information in our future work because we have to make our impact assessment as solid as possible with the maps. After, we have to decide how to draw up the legal proposal. I think that for the legal proposal you will not see something from our side in 2009. It will be at the earliest in 2010. If I can just go back, I mentioned that the discussions in Council will start on 23 April. We will, of course, in Council have a lot of working groups and meetings in the special committee on agriculture. That goes without saying. This is usual business. I know that the Czech Presidency is very keen on having conclusions on this communication during their Presidency in June. What the conclusions will be, how they are going to be drafted, is so

far an open question. We will have to see. We have to talk with them, but that will definitely be something that they would like to go for. This also means that, for instance, for the Swedish Presidency there might not be a role for them to play in this exercise because if the Czechs really succeed by having conclusions and they close the debate in June, then what we have to do in the Commission is wait for the maps from Member States in the autumn, and that means during the Swedish Presidency, we will have to have extra contacts with Member States, and then we come to after 1 January 2010.

Q325 Chairman: Have you identified points of agreement or points of disagreement amongst the Member States? Do you see the political landscape yet?

Ms Naesager: Personally, I do not quite see the political landscape yet. It is not so clear yet. From a technical point of view I think that the contacts with Member States have been quite good and it is going well, but sometimes you can have a situation whereby, even though the contacts are technical, although they are smooth, the political landscape may change a bit later on. Since the Cabinet has hardly had any contacts with Member States on this exercise on the LFAs, no direct discussions with ministers from different Member States so far, it is difficult for me to say now what the political landscape is going to look like. However, as I mentioned beforehand, I do not think the exercise is going to be extremely controversial.

Q326 Chairman: Let us assume we get Lisbon. How does co-decision play into this and having to work with those well-known agricultural reformers, the Agricultural Committee of the Parliament?

Ms Naesager: That will be a major challenge for us.

Q327 Chairman: Too true!

Ms Naesager: As you know, we are used to the consultation procedure with the European Parliament. Politically speaking, we have to look at what the European Parliament tells us. When we go to the co-decision procedure, hopefully, (that is a personal point of view) as from 1 January 2010, it is clear that the political landscape will change because we have another player in the decision-making process, the European Parliament. A lot of things will depend on how the European Parliament is composed after the elections here in June 2009, what the committee on Agriculture will look like in to the future. We simply do not know, but it is clear that if we get the co-decision procedure we will not be able with our legal proposal later on to have our fast-track procedure that we are used to in agriculture, which basically means that we have a proposal and six months after we have the political agreement. These days will be over and gone, so it means that we will have to be well prepared, we will have to do from our side, from the Cabinet side, from the DG Agri side, a lot of work in order to make contact with the MEPs in the European Parliament to explain the necessity of what we are doing. Then we will have also to integrate in our decision-making process the fact that we might be heading for at least 14-15 months of procedure before we have the final decision. This will be the reality of life and this is the reality of life that many other DGs are living with today. We are one of the last sectors to be spared this experience.

Chairman: And we all think it is a very good thing, of course.

Q328 Lord Brooke of Alverthorpe: On the mapping and the consultation with Member States, what is the timetabling on that and do you expect them to be in a position to respond to your timetable?

Ms Naesager: We will put a time frame in the communication that you will see on 21 April. That goes without saying. We need to have a clear time frame for Member States to send us the information and the maps. I cannot tell you precisely what the date is today but we will talk about it somewhere in autumn this year to give Member States sufficient time to do their

homework. We also know that most of the Member States do actually have quite a lot of the information that we would like to get hold of, and we do count on good collaboration from the Member States' side. It is in their interest. If they do not provide us with sufficient information, with the maps, we might have to look at the official data that we have and then we might have to draw up the map for the Member State, which could be an interesting exercise.

Q329 Chairman: I think you will get the data in that case.

Ms Naesager: I think so too.

Q330 Viscount Ullswater: The revised LFA scheme is likely to be applied from 2014. In the meantime discussions will take place on the EU budget period post-2013, and, of course, by extension, discussions will take place on the future of the CAP and the size of it in that budget period. To what extent do you think that the review of the budget and, by implication, the review of the CAP, will have an impact upon the LFA scheme review which is under discussion at the moment?

Ms Naesager: First of all, on the date, the new LFA scheme will come into force from 1 January 2014. This is the date for the new CAP that we will have. What is important here is that what we are doing is not a reform. It is a technical exercise that we are looking at. What we will also do is try to help Member States to better target the money on the basis of the biophysical criteria that we want to establish. We do not believe that the exercise we are carrying out now will have an impact on the budgetary discussion. This is an exercise that is separate from what we are doing now. Also, when we talk about an intermediate LFA, as you know, this is within the Second Pillar, the rural development policy. It is within Axis 2 on agri-environmental measures, so I think we have to look at it as two different issues. I do not think there will be any overlap because when we talk about budgets for post-2013 this is a

major political task that we need to get into and there is already a lot of work that has started in order to try to see how we can define objectives for agriculture in the future in order to discuss the amount of money that should be allocated to agriculture.

Q331 Viscount Ullswater: Are you suggesting that there are two parallel lines of discussion going on? One is the rather technical one which is a review of the LFA scheme that you have outlined; however, what has not quite taken place yet is the financial discussions about the CAP and its future into which the LFA scheme drops somewhere but you have not decided quite where?

Ms Naesager: The LFA scheme will be somewhere in the future, a part of the future scheme, but I cannot tell you today how the future scheme will look. I cannot tell you today how much money we will have for our future CAP. What is clear from my Commission's side is that, of course, she wants to fight to keep what we already have. This is extremely important for us, but how the complete drawing is going to look is difficult to say. In any case, we maintain that the LFA review is technical and we do not want to start talking about money in that context because they are simply two different things.

Q332 Chairman: You think so?

Ms Naesager: I think so. If we look at the situation now, under rural development you have the allocation for Member States. The Member State has decided how much to allocate to the LFA. This is not going to change until 2014 when we will have a new scheme. When we talk about the budgetary review it is an overall political exercise where we look at big political principles and ideas and the structure for the future CAP. It could be that LFA could be mentioned as an element but I do not think that the LFA will take a major part in the main discussion on how the post-2013 CAP should look. This is my personal point of view.

Q333 Chairman: You do not think some Member States might say, “Why don’t we put everything into a basket and look at it all in the context of the new CAP?”?

Ms Naesager: I do not exclude anything, that I do not, because we are still early on in the process, but I think that we are going to talk about broader principles when it comes to the future of the CAP.

Q334 Earl of Arran: My question has already been answered, but if the CAP budget were to be reduced after 2013 might that in turn provide additional pressure for the LFA scheme to be applied similarly across the European Union in order to avoid distortions of the single market?

Ms Naesager: I have to some extent answered that but what I can add is that it is important to note that the LFA scheme is not compulsory; it is voluntary for Member States. It is implemented in all our Member States in different ways. A few Member States do not have intermediate LFAs. I think it is important that we maintain this flexibility, that it is up to the Member State itself to decide, on the basis of the criteria that we would like them to accept, what are the intermediate LFAs. Another thing is that I also think that the LFA will still be a part of the rural development structure or be linked to agri-environmental issues. That is also extremely important. What we are aiming at is to diminish the differences between Member States. You talk about distortion of competition. The whole exercise that we are doing now is to diminish the differences between Member States because there are many, also due to the fact that we have more than 100 different criteria being applied by the different Member States, so we want to have clear objectives, we want to have clear criteria and we want to have transparency, which is very important as well. That will lower the risk of unequal treatment among Member States without saying that everybody will have to do the same with regard to the LFAs.

Q335 Earl of Arran: How determined are you as the Commission that the LFA should change?

Ms Naesager: We are very determined. First of all, the Council is determined. The Council gave us a mandate to look into the LFA criteria. We have the Court of Auditors' report as well, so we have no choice; we have to do something.

Q336 Earl of Arran: But you accept the fact that it could be kicked into touch and the status quo could continue?

Ms Naesager: We have not decided upon any of the options yet. When you see our impact assessment we will have four options and what we call the status quo plus is an option. We always have several options that we have to look into. I must admit that the status quo plus I do not think will be retained as an option by the Commission.

Q337 Lord Brooke of Alverthorpe: If I may come back to the subject that I particularly want to focus on, the technical aspect of the exercise, we have been taking evidence in London and many of the witnesses have repeatedly raised concerns that the new approach to LFA designation based on common biophysical criteria could result in the omission of some disadvantaged areas whose handicap is based on interaction between two different indicators, neither of which is above the threshold value used. Have you come any closer to resolving the problem, given that you are trying to reduce, as you have said, the differences between countries?

Ms Naesager: I know from DG Agri that we have not got any evidence that proves this concern. I know that you probably have had a lot of different contacts with farmers and farm organisations and so on. What DG Agri tells me is that the Joint Research Centre has been working together with the panel of experts in order to evaluate what should be the criteria and the indicators to be used. The problem is a little bit that if we have a system whereby we add

on different indicators in order to reach certain thresholds would that really be an objective exercise? Could it lead to a lot of discrimination between Member States and a lot of discrimination between farmers if Member States have the possibility of saying that they look at different indicators in order to reach a certain threshold to consider the area as being less favourable? I do not know. The debate is not closed, so, of course, if we get some evidence that is able to persuade our scientific experts and ourselves we can always look into the matter, but I think it is key that we have as objective and clear criteria as possible.

Q338 Chairman: Is there not a methodological problem here, because disadvantage is a relative concept and you are measuring it in terms of, above a threshold value, the possession or not of a discrete variable? If you are measuring disadvantage would not a better approach be to build up an index and, as long as you use a number of variables which are dimensions of disadvantage, you can find out what you score on each variable which can place you on an index? Why not do that? I think logically that is a more defensible position than saying it is the possession of a discrete variable above a threshold.

Ms Naesager: I see where you come from but I think that we might end up in a situation whereby the situations between Member States could be very different and where we will not really meet the concerns of the Court of Auditors because there could be left a lot of discretion to Member States to build these indicators and add them as they want in order to reach this index. However, the debate is not closed.

Q339 Lord Brooke of Alverthorpe: So even the technical issues are not simple and straightforward when nation states' interests start to arise?

Ms Naesager: Technical issues are always, in political discussions and negotiations, influenced by the political decisions at the very end.

Q340 Earl of Dundee: At present, as we know, LFA payment levels vary a great deal across different Member States. Do you think that the new payment formula will properly narrow or even eliminate those gaps?

Ms Naesager: I do not think that the new payment formula will lead to some kind of harmonisation or convergence of payments between Member States, and this is not what we are searching for. We are looking at the additional cost and the income foregone and this notion is different in each Member State because it depends very much on what is the cost of the different efforts which are being made, what is the cost of labour, what is the income that is not being received and so on, so we will never, I think, be in a situation whereby we will have a totally harmonised system, and this is not our objective in relation to the payment formula. We will put out the general criteria but we will not start to harmonise the level of payment.

Q341 Earl of Dundee: But, as you say, we do not really want harmonisation. What we do want is an improvement in the system and presumably we would agree that that aspect of improvement is to narrow the gap that subsists at the moment between different Member States when they receive their payments. It could be, I suppose, being pessimistic, that the new payment formula might not even achieve that. Are you confident that, as it is and when it works, it will do what it is supposed to do?

Ms Naesager: I think it is going to do what it is supposed to do. The additional cost and income foregone is also a notion that we used in state aid. There we employed it quite a lot when Member States had state aid schemes and they notified that to us, so it is something that we are very familiar with. Plus, it is a notion which is recognised in WTO terms. As long as we have big gaps between the poorest and the richest Member States we can only choose a method and we cannot in such a case go for a fixed level of payment.

Q342 Lord Cameron of Dillington: Can I ask a question about the income foregone formula? Is it redundant as a formula now? For a lot of the farms we are talking about survival income rather than income foregone. They are already losing lots of money, as are farms outside the LFAs, and especially with new criteria, new ambitions, say, environmental wishes connected to the LFA, is the income foregone formula now redundant?

Ms Naesager: I do not think so. You are talking about if the farm is profitable. That is something that we do not look at. We simply look at what are the additional costs and what is the income foregone. These are the only things that we look at in this context. We do not look at whether the farm is earning a lot of money. I know there are constraints in relation to some environmental conditions and that life is not always easy in the LFA areas but I think that the formula is the formula we need to use and it is also the formula that is in our Council regulation on rural development, so I think this is a formula that is going to stay, also because it is a WTO recognised green box formula.

Q343 Lord Cameron of Dillington: So what do you see as the main purpose of the LFA payments?

Ms Naesager: The main purpose of the LFA payments is to maintain farming in handicapped areas.

Q344 Lord Cameron of Dillington: So it is an agricultural subsidy rather than an environmental one?

Ms Naesager: It is under the agricultural policy.

Q345 Lord Cameron of Dillington: It is in the rural development policy.

Ms Naesager: But this is also the agricultural policy. I would consider it still as an agricultural subsidy but it is one type of agricultural subsidy. We have many agricultural

subsidies. We have the direct payment under the direct payment scheme. Under rural development we have different types of agricultural subsidies and we have the LFA payment, which is also an agricultural subsidy but with a certain heading, which is to maintain farming and protect the environment.

Q346 Chairman: This becomes theoretical and theological, does it not? Is it an agricultural subsidy that is there to maintain agricultural activity in order to deliver environmental benefits?

Ms Naesager: I think so, yes.

Chairman: That is what I think as well. The only trouble is, everybody we have spoken to sees it just as a form of income support.

Q347 Lord Brooke of Alverthorpe: “And do not change it, please”.

Ms Naesager: Yes, that you said beforehand. I think that throughout the years since 1975 it has been looked upon as a kind of income support, but things have moved on and we cannot just say “income support by all means” to farmers today. We need to rub it in with some other requirements and here we have environment, we have land management, we have maintenance of farming in some difficult areas, and this is still under the heading of agricultural policy.

Q348 Viscount Ullswater: At least it is now decoupled because it started in Britain as the hill cow subsidy; that was a coupled payment, but now it is a decoupled payment, which is probably better.

Ms Naesager: Yes.

Q349 Earl of Caithness: As a result of your proposals, if a number of farmers no longer receive the LFA payment, and from the evidence we have taken it does look as though that

number could be quite substantial, do you have proposals to compensate those farmers and should they be so compensated?

Ms Naesager: We have still not drawn up our legal proposals, so this is really for the future. In general terms, if we see that there are some difficulties in moving from one system to another we always try to find solutions. We do accept using transitional periods in order to solve specific problems. What counts is the end result. If it takes a little bit longer it is not the main problem; getting there is the issue. A kind of transitional period for Member States in order to adapt to the new system could be envisaged, of course, but this will be under a new Commission, maybe a new commissioner, I do not know, so I cannot give you any guarantees about specific compensation. On that I cannot pronounce myself.

Q350 Earl of Caithness: Would the transitional proposal, if there is one, come from the Commission or would you allow Member States to add their own transitional proposals?

Ms Naesager: Normally, when we have reforms and when we change systems it is the Commission that proposes a specific transitional period. What could be envisaged is a time frame for transition and then Member States can use the available transition as they want. We had something similar in the fruit and vegetable reform where we had maximum periods for the transitional period and where some Member States chose to go earlier into the single payment scheme for some fruit and vegetables than they could according to the transitional period, so it could be envisaged but the overall frame is to be set in the Council regulation.

Q351 Earl of Arran: Witnesses have pointed out to us that meeting cross compliance conditions is often more onerous for farms in LFA areas, yet single farm payments are often lower in those areas due to low historic yields. In the longer term do you see this as providing a reason to review how farms in disadvantaged areas fare under the single payment scheme, and looking to improve the targeting of that support?

Ms Naesager: I think that you are heading quite far there. My only answer to this is that it could be one element that could be discussed in the CAP post-2013, the new CAP. We cannot really go into that discussion now.

Q352 Chairman: That is a very safe answer!

Ms Naesager: In any case, I cannot commit the Commission here.

Q353 Chairman: You could say, “We have no plans to”.

Ms Naesager: Yes, but this is really for the future.

Chairman: Thank you very much, as usual.