

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 Charlina Vitcheva**, Minister Plenipotentiary, and **Ms Neli Georgieva**, Counsellor, Bulgaria, examined.

Q377 Chairman: Thank you very much for taking the time to come and help us with our inquiry into Less Favoured Areas. We are particularly interested to hear the perception from Bulgaria as it is a new Member State which has a particular agricultural background. We are a Sub-Committee of the House of Lords. This is an evidence-taking session. We are collecting evidence for the inquiry that we are doing and we will be producing a report on the Less Favoured Areas scheme. A note will be taken of the evidence we receive. You will get a copy of that in the next few days and you can revise it and take any slips or errors out of it. I wonder if you can begin by giving us an indication of how important Less Favoured Area payments are to Bulgarian agriculture. What proportion of agricultural land in Bulgaria is classified as a Less Favoured Area and is eligible to receive LFA payments?

Ms Vitcheva: May I first of all say that we are colleagues from the Bulgarian Permanent Representation and we are very pleased to be able to share with you any information related to LFAs. It is a real pleasure and honour. First of all maybe I have to make a few opening remarks. It is important to know that Bulgaria has just started applying LFAs, so we do not have much experience of that. We have just started with the new programming period. It is

perhaps also important to know that we did not have any such payments before entering the European Union (with the exception of one pilot project for 4 municipalities). So this is a new measure for us.

Q378 Chairman: So since when have you been paying LFAs?

Ms Vitcheva: The first year was 2007, so we started with the first year of the current programming period, 2007-2013. Our experience is of one year of implementation in 2007 because for 2008 we still do not have all the data collected; it is not completed. The payments are not fully implemented. On the importance of Less Favoured Areas, you are right that we have to start with what is the share of the LFAs as designed. We have more than one third of our territory covered with mountains so that gives the mountainous and semi-mountainous areas quite a big share. If we are talking about figures vis-à-vis the whole territory of the country, about 50 per cent of our territory can be classified under the criteria designed for LFAs, but if we consider only the utilised agricultural land then the proportion is lower. In terms of mountainous areas we have 16.5 per cent, and for other LFAs, we have over eight per cent, so it comes to, let us say, 25 per cent of the overall utilised agricultural area that we have under LFAs.

Q379 Chairman: So most of it is mountain?

Ms Vitcheva: Yes, most of it is mountain areas. The other thing that is important to know is that since we started in 2007 we have not had the burden of the past and we have not designated any LFAs on the basis of socio-economic criteria, so no such leftover from the past 2000-2006 period. We started immediately with the criteria that are very close to what are considered to be the future criteria for LFAs.

Q380 Chairman: That is very interesting.

Ms Vitcheva: We do not have the intermediate zones based on socio-economic criteria that are a big pain for the old Member States. There is no such burden on us, fortunately.

Q381 Chairman: So how are you classifying them? On what basis do you identify them?

Ms Vitcheva: The 16.5 per cent that comes from the mountain areas is clear-cut. For the other LFAs we consider the soil fertility grid area, and there we have over eight per cent of our utilised agricultural land. This is in general what we can say about the area. On the side of the financing, LFAs cover two measures from Axis 2 under rural development and maybe it is good to indicate what proportion of the overall financing we envisage under Axis 2, which is land management, agri-environment and so on. Under Axis 2 we have 27 per cent of the overall envelope for rural development and out of that about 35 per cent is designed for LFAs. That means that about ten per cent of the overall envelope for rural development will go for LFAs. I do not know how it is in other countries but we consider ten per cent is not a huge amount. I can say that in our case because we are a new Member of the European Union and you know that eastern Europe has a lot of problems in general with the competitiveness of the sector, so one of the reasons for having a kind of role share is that we designate a lot of our EAFRD envelope resources to Axis 1 which is for investment in agricultural holdings and processing.

Q382 Chairman: Can I take the non-mountain LFA area? The agricultural holdings that qualify for LFA payments in those areas, how important is the LFA payment to those farmers? Roughly what proportion of their income would come from LFA payments?

Ms Vitcheva: We tried to make a calculation, but it was not very conclusive. The task was given to a research institute and it based the calculations on the lower yields in these areas. They were compared to the yields in normal areas, non-LFA areas, and on the basis of the difference in yields they calculated as a percentage how much less we have in general as

production. The government decided to compensate 66 per cent of the loss which results from the lower yields. The proportion from the income I cannot tell you for the moment and I will tell you why. The Farm Accountancy Data Network is a network that compiles data on the accounting data which sets income, and we used the described type of methodology, starting from the difference of yields. Therefore, it is really difficult to say at this stage, what proportion of the overall income the LFAs support represents. Something that can help is if we compare what our agricultural producers in LFAs can get from the direct payments and the LFAs, it is 50/50. In an LFA one farmer will get per hectare one farmer will get 50 per cent as LFA support and 50 per cent from direct payments. However, it is important to know that in our case the direct payments are low and progress so that means that LFA will gradually decrease their share over the years.

Q383 Chairman: So LFA at the moment represents approximately 50 per cent of the total CAP support?

Ms Vitcheva: Yes; 50 per cent.

Q384 Chairman: Finally, what sort of agricultural products are these farmers producing?

Ms Vitcheva: I do not have this data but I guess it is rather varied because in our country we have almost everything with the exception of tropical fruit. Very often we are asked whether we are a tropical country because people think we have olives. No, we do not have olives, we do not have citrus fruits, but otherwise we have everything and the LFAs are more or less very evenly spread; we do not have a strong prevalence of any sector so that is why I cannot tell you about any specific sector – maybe the pastures, but that is for the mountainous areas. For the soil fertility it is again varied, my colleague tells me. Cereals maybe but in general almost every type of farming is covered.

Q385 Lord Brooke of Alverthorpe: Could you say to what extent the abandonment of farmland is a problem or not in Bulgaria and, if it is a problem, which are the areas which are most at risk? Can you say if you understand the factors which lead to the land use change, and, where there is change, where does it end up?

Ms Vitcheva: Abandonment is a severe problem and it is very much linked to the depopulation process in the rural areas. I will give you a few figures. In the rural areas in general, not just the LFAs, we have minus 12 per thousand natural growth of population, if we can call it growth, so the population is decreasing, and it decreases not only because births are double less than the number of deaths but because migration is negative, unfortunately, so depopulation is the biggest challenge and it leads to abandonment. Another factor for abandonment of land is our agricultural reform which took place at the end of the last century and the beginning of this century. That was the restitution of land to former owners and what happened was that many people that do not have a tradition of dealing with agriculture now have their land back and this land is often not cultivated and it kind of loses its status of utilised agricultural land.

Q386 Lord Brooke of Alverthorpe: This is de-nationalisation?

Ms Vitcheva: Exactly.

Q387 Lord Brooke of Alverthorpe: Moving from the state back to the private owners?

Ms Vitcheva: Yes. Which areas? LFAs, of course, because there the conditions are the most difficult for farming and, of course, LFAs suffer the most from abandonment and depopulation.

Q388 Chairman: I can quite well understand that you are going through this process of agricultural reform and giving it to former owners and a lot of people will have no interest

and just sit on it, but why do they not sell and why do you not get consolidation into larger farms rather than abandonment?

Ms Vitcheva: In the first years especially the land price was very low and that hampered it very much. People were guarding their land in order to wait for higher prices because the expectation was for higher prices. Sometimes lack of clarity of ownership resulting from the reform creates legal uncertainty that does not allow for land amalgamation and consolidation. The government puts in a lot of effort, but sometimes it is very difficult for a country like ours, post-socialist, to try and introduce administrative measures to urge people to change. It is not possible in our case because it reminds the people of the old times when they were urged to enter the co-operatives, so it is very tricky. We even have projects, special government projects, for land consolidation. This policy gives results but it needs time.

Q389 Lord Brooke of Alverthorpe: Sometimes abandonment of farmland can lead to planting of tree estates, forestry. Is this a policy which is being pursued? Would forestry grow freely there?

Ms Vitcheva: We are trying to increase the forestry land but not at the expense of agricultural land. This measure, afforestation of agricultural land, is not popular at the moment. We are just at the start. We are beginning the rural development programme implementation now, so we still need to see how it is going to develop in the future.

Q390 Lord Brooke of Alverthorpe: It is not popular in what sense, that people do not like the visual appearance of trees growing or that people just do not want to do it?

Ms Vitcheva: This is one of the eligible measures under the rural development regulation, but in order to implement this measure you need a potential beneficiary that will be interested in doing that. We do not have people that are interested in doing that for the moment.

Q391 Viscount Ullswater: I think you have answered very clearly how much of the budget is allocated to the Less Favoured Areas. I think you said that ten per cent of the overall envelope was the money. What are you seeking in return for this investment? Is it to maintain a rural population? Is it to maintain a landscape? What are the factors which you are looking for with the investment of this money and do you reckon, the way it is targeted, the way the LFA payments are made, that you are succeeding with it?

Ms Vitcheva: Thank you for this question. We have our targets that are in the rural development programme now. They are varied. As you say, yes, we are seeking to stop the depopulation trend. We are seeking improvement and maintenance of the landscape. We would like to keep agriculture still in the LFAs because it seems to be the basic type of activity that is possible in the LFAs. Once we keep agriculture in these areas that means that the whole area will be viable, so these are the targets that we have. Our ex-ante analysis suggests that with the type of measures we envisage, including with the LFAs we will be able to achieve these targets to a certain extent, and the way the support is calculated with compensating the income foregone seems adequate to achieve these targets, but we cannot say what the exact results will be. We can only talk on the basis of the ex-ante analysis for the moment. We do not have experience. These are the targets. You very rightly pointed out the targets that we have for this measure, and, again, we think the method of calculation is appropriate in order to achieve these targets.

Q392 Viscount Ullswater: Is that in order to boost tourism? Is that a factor that has a knock-on effect?

Ms Vitcheva: Yes. I am not quite certain what proportion of the LFAs could benefit from rural tourism but this measure is again at the start. We had it under the pre-accession instrument, SAPARD. I do not know whether you have heard about SAPARD.

Q393 Chairman: Yes.

Ms Vitcheva: So rural tourism was under the diversification types of measures, so we have a very good interest in rural areas but more in the rural areas that are not LFAs. For the LFAs it is still agriculture that remains the basis and, of course, if we can put in more and more layers of economic activity that will only be positive.

Q394 Lord Cameron of Dillington: Going on from that, I was wondering how the objectives that you have just outlined fitted in with the other agricultural payments, either in terms of Pillar 1 payments or environmental schemes. Where does the LFA fit in with that and what is the difference between the objectives of the packages?

Ms Vitcheva: In our view LFA as an instrument has a very clear objective, to compensate for the worse conditions in these areas and to keep people staying there. In our view it is a clear-cut objective. For direct payments it is a little bit different. What we consider is that LFAs are complementary to the other types of support and our basic interest is not only to complement them in a good and efficient way but also to have full consistency among the different types of support. For example, for the LFAs one of the requirements is to have the good agricultural and environmental practice fulfilled. If not, of course, they cannot be eligible. That means that in terms of keeping the environment in general, not just agri-environment, there is consistency. It is the same with direct payments and cross-compliance. We have to be very consistent and in accordance with the EU law requirements. We think it is complementary and we think it has its own role. In our case, with the mountainous areas, the projected outcome of that measure is extremely visible.

Q395 Lord Cameron of Dillington: So there is quite a strong environmental element to the Less Favoured Area payment?

Ms Vitcheva: Yes, because in terms of keeping the agricultural activity in these areas, take, for example, the ones that are related to steep slopes, the inclination over 15 per cent, if we do not have agricultural activity there, there is going to be erosion of these areas, so there is a clear link between keeping the landscape and the good environmental situation of the region and the LFAs support.

Q396 Chairman: Where does skiing fit into this?

Ms Vitcheva: It is in the high mountains, not on the agricultural land.

Q397 Earl of Caithness: I think you answered my question about biophysical criteria when you answered the first question, so I would like to ask a completely different question of which you have had no notice. Given that you have just started this scheme, it has been running for a year, do you support the Commission in their idea to change the LFA structure now or would you rather let the system which you have started settle down and wrap it up as part of the CAP reforms to 2013?

Ms Vitcheva: If I correctly understand the question, maybe for the old Member States it is an important question because, as I said, the old Member States have the burden of the past and they still have areas that are not going to be eligible in the next programming period most probably. In our case we also have some differences in terms of area if we consider the current way of designation and the way of designation that the Commission has as a project now. Our interest will be to keep the system as it is to the end of 2013 and then any reform that is decided for the LFAs to become part of the CAP beyond 2013. We would not like to see changes in the meantime. We are going to have in 2011, for example, maybe an agreement on LFAs. By the end of the programming period there will be only two years left. Why should we disturb the system? Of course, there is something very important here. We do not have areas under socio-economic criteria. I understand this is the basic problem for the

Commission and therefore for many of the Member States. We do not have this problem, so if there is any difference of area designation it will appear as a result of different biophysical criteria, not socio-economic criteria. The difference comes from the soil fertility criteria – currently applied and newly considered. We compared the maps that we have in both cases and some areas which we thought were more LFAs disappeared and some new ones appeared that we did not consider as LFAs. So obviously, there should be some kind of refining of the criteria that are now considered for soil fertility.

Q398 Earl of Caithness: Given what you have just said, do you think there ought to be two levels of criteria, the EU level and the Bulgarian level, so that you can add in bits of land that you think are important for LFA support?

Ms Vitcheva: It is a very tricky question. On the one hand it is important to have a level playing field, so I think that any diversion of criteria or any discretion that is given to any Member State in terms of taking on board the specificity of the country is okay as long as it does not spoil the competitive environment. We cannot be against it but there should be a very good balance between harmonisation in order to achieve a good competitive environment and on the other hand taking on board the specificity of every country. It is rather tricky so we need a balance there.

Q399 Chairman: It is incredibly rational.

Ms Vitcheva: We are trying to be.

Q400 Earl of Arran: You have covered so much ground in such a short time, and you have covered some of my question already. I just want to press you on the eligibility criteria and I have three questions. First, what kinds of LFA criteria would you like to see included in the framework? Secondly, what kinds of currently eligible farms and farming practices would

you like to see excluded from the procedure payments? Thirdly, what degree of harmonisation of eligibility criteria would your government support?

Ms Vitcheva: I can tell you what our eligibility criteria are for the moment, just to see where we are. The LFAs have to be registered in IACS, the Integrated Administration and Control System. This registration is obligatory in order to have the possibility of controlling the areas. Then we have this condition to fulfil, the good agricultural and environmental conditions requirement. Then – continuing for at least five years, the agricultural activity counting from the first year of receiving the LFA support. So we need to be sure that it is not just to get the support for one year and the beneficiaries abandon the area. This is in order to get the real objectives reached. Then we have something specific in our case - a lower minimum ceiling for the mountain areas of 0.5 hectares.

Q401 Chairman: That is the farm size?

Ms Vitcheva: That is for the farm size in the mountains, and for the other LFAs we have one hectare ceiling.

Q402 Chairman: So if you are below that you fall out?

Ms Vitcheva: Yes. This is what we have. What should be included? We do not think anything else could be included in these criteria at the level of experience we have now. Turning to farm practices, we do not exclude any farming practices and it is in our view a little bit dangerous to exclude farming practices. I do not know if you mean farming practices or types of usage of land, because if we talk about different types of crops or animal breeding we are at risk of getting into conflict with WTO rules. We should not differentiate the measure according to the usage of land, so we do not exclude any sector from the LFA support. On the degree of harmonisation, maybe I will answer the same way as I did for the previous question. It should be harmonisation up to the level of a good rationale. Anything

that will square the countries under one denominator and is not representative would not serve. Harmonisation, yes, but specificity should also be taken into account, so there should be a discretion to add to the criteria.

Q403 Earl of Arran: What degree of pressure is there from your farmers to come to the table and negotiate? Are your farmers pressing the government?

Ms Vitcheva: What we see now is that the farmers are very much aware of what they are entitled to from the direct payments of Pillar 1. For rural development they remember everything from SAPARD, but this is an investment aid they have in their head rather than per hectare paid. So LFA support is still not a tool for pressure on behalf of the farmers. We do not feel it for the moment.

Q404 Chairman: Would you exclude from the eligibility criteria part-time farmers?

Ms Vitcheva: My colleague is rightly saying to me that in these areas we have basically agricultural activity.

Q405 Chairman: So it is full-time? They have not diversified yet?

Ms Vitcheva: Practically, yes but there are currently no exclusions.

Q406 Chairman: But that will happen. You will get diversification.

Ms Vitcheva: Yes, but if it happens, – and this is not related to our position; it is just a personal thinking – it seems to me that if we consider the methodology, income foregone, the LFA support should cover only agriculture income in both cases.

Q407 Viscount Ullswater: We were given a document which indicated that 75 per cent of the agricultural holdings are less than one hectare. I do not know where that particular piece

of information came from but is that a problem in that a lot of the holdings are not eligible to receive LFA?

Ms Vitcheva: Seventy-five per cent are less than one hectare? Maybe the figure is a little bit out of date but, again, we still have a large number of holdings, not agricultural land. As part of agricultural land it is not that severe, but as part of the number of holdings, yes, we still have a large number less than one hectare. You have to know that for LFAs for the mountain areas where this problem is the most acute we have 0.5 hectares. We have many holdings like this, so that is why we have this minimum ceiling reduced to 0.5 hectares.

Q408 Chairman: It seems, from what we have got here, that although you have 75 per cent of agricultural holdings less than one hectare the average farm size is 4.4 hectares.

Ms Vitcheva: Yes.

Q409 Chairman: That feels about right, does it?

Ms Vitcheva: Yes.

Q410 Chairman: It is still small, is it not?

Ms Vitcheva: Yes, it is still small. It is increasing but you have to know that we have a few very large farms and it very much varies with regard to the type of cultivation. For example, for cereals we have really large farms, but for fruit and vegetables, no.

Q411 Chairman: Wine?

Ms Vitcheva: They are medium to small, but now we have some big vineyards as well. It goes in the direction of amalgamation.

Q412 Viscount Ullswater: Would vineyards be included in LFA?

Ms Vitcheva: If they are in such areas they have to be covered.

Q413 Viscount Ullswater: So every activity is covered?

Ms Vitcheva: Every activity. We do not differentiate.

Q414 Chairman: You are driven by the soil?

Ms Vitcheva: Yes, and mountains.

Earl of Arran: Very good wine you have too, delicious.

Chairman: Thank you for that, Lord Arran.

Q415 Earl of Arran: A pleasure, Chairman!

Ms Vitcheva: Thank you for the compliment.

Q416 Earl of Dundee: On the new payment formula, what do you think about it and how is it likely to affect your own payment levels?

Ms Vitcheva: We have been asking our colleagues about a new formula and they have not come across anything really explicit. Maybe you mean the principle of the calculation based on income foregone.

Q417 Chairman: Yes, exactly.

Ms Vitcheva: We did it on this type of calculation for the period 2007-2013, so we are in this scheme more or less, so we think that we are not going to have a big change as a result of massive implementation of this formula, or rather this principle. Let us put it as “principle” because we have not seen any formula with parameters and so on, so we consider it a logical way of thinking. In our case we are based more or less on this type of calculation and we consider it as the legitimate one.

Q418 Earl of Dundee: So, as you say, it might not cause too much change with you, but, wearing your objective hat beyond Bulgaria, do you think the new formula will promote

transparency and hence assist justification for paying anything at all, and would it probably, do you think, thereby achieve a greater degree of consistency or harmonisation in payment levels across EU Member States?

Ms Vitcheva: If we base the calculation on the income foregone, taking into consideration the huge differences in income in different Member States, I would not say that there will be a convergence, rather the opposite.

Q419 Earl of Dundee: Or even a greater degree of consistency? There might not even be that?

Ms Vitcheva: It will give transparency. We know the problems that the Court of Auditors expressly put forward with the implementation of the LFAs and that is why we are having a reform. Transparency is needed and maybe this formula or this principle will bring more transparency. In our view the risk is that we could make it very complicated in calculating and designing the whole scheme. Once it is too complicated then we breach the good balance between implementation efficiency and simplicity, transparency and accuracy. Therefore, we have to strike the right balance and not have too much administration. We need to aim at lower costs for administration. So it should be a good balance between cost efficiency of control and accuracy of methodology with regard to targets achieving.

Q420 Lord Brooke of Alverthorpe: How did you alight on this system for determining the first year of entry, that this should be the basis for your calculations? Were you given guidance from Brussels? Were you used as a guinea pig?

Ms Vitcheva: We were given guidance from the Commission, and I remember when we were discussing our rural development programme and the designation of LFAs that at that time it was already clear that the socio-economic criteria most probably were going to disappear, so that is why we based our rural development programme on excluding the socio-economic

criteria. Of course, we could have kept a bigger area and then claimed. However, we decided to be consistent from the very start.

Q421 Lord Brooke of Alverthorpe: Do you know from your experience with the other new entrant countries whether they went through the same process as you did?

Ms Vitcheva: In fact, we are only two countries, Bulgaria and Romania, that started in 2007. The other new MSs joined in 2004 and have some experience from the 2000-2006 programming period.

Q422 Lord Brooke of Alverthorpe: They came earlier?

Ms Vitcheva: Yes. For the Romanian side, we do not know how they decided on the LFAs.

Q423 Lord Brooke of Alverthorpe: We should ask the Romanians then, should we?

Ms Vitcheva: Yes.

Q424 Chairman: I tell you this much: what is coming over is that you are indeed blessed by not having the burden of the past.

Ms Vitcheva: Yes, that is why I started with that.

Q425 Lord Cameron of Dillington: Turning to mapping and data collection, are you in a position to be able to provide the relevant information for the impact assessment that the Commission are looking to do for the changes?

Ms Vitcheva: Yes. We have some kind of mapping on the basis of certain parameters. What we still do not have is the climate map. We do not have this layer on the map. What we have, for example, is mountain areas. We have the slope inclination, we have soil fertility in our mapping, but we still do not have the parameter of climate as a layer on the map, so this is what we need.

Q426 Earl of Arran: Just out of interest, is there much foreign investment in farmland in Bulgaria at the moment?

Ms Vitcheva: No, I would not say so.

Q427 Earl of Arran: Is one allowed to buy land in Bulgaria?

Ms Vitcheva: To buy land?

Q428 Earl of Arran: I am not very rich. Do not worry.

Ms Vitcheva: The buyer needs to be registered under the Bulgarian law, that is the condition, but once you are a Bulgarian company you can buy land. Otherwise, we have this transitional period of seven years. It is horizontal for all new Member States.

Q429 Lord Cameron of Dillington: You mentioned climate just then. Is climate change going to be an important area for Bulgaria in the future? Will the possibility of drought and water shortages start to feature in your criteria for LFAs?

Ms Vitcheva: I would say that it is a horizontal problem for Bulgaria. We should not stick it to certain types of area or only to LFAs. We have very severe problems with drought at the moment and it is becoming more and more acute with the years. Drought urges the absolute need to improve water management, and that is why we had a very big problem in accepting for the CAP Health Check that for the new challenges the new Member States did not get anything in addition to the rural programmes. We said it very clearly at the time.

Q430 Earl of Caithness: Just to come back to Lord Cameron's question on mapping, if the Commission were to lay down a tight timetable for you to complete your mapping on the climate, could you do it?

Ms Vitcheva: We have to do it and we know that our colleagues have to buy certain data from our meteorological institute. I think they will manage but in our case the climate element

is not an important parameter. This is our expectation: it is not going to change the map very much. It is not going to add a lot. The biggest stake is for the mountain areas and this mapping on the basis of altitude is done and the other for the slope and soil is done, so these are the basics.

Q431 Lord Cameron of Dillington: The amount of rain?

Ms Vitcheva: The rate of differences is not in our case so substantial, for example, for temperatures, and only a few areas might be additionally included, but not a lot. We hope to be able to do it.

Q432 Chairman: Thank you very much indeed. I think this has been one of the most refreshing sessions we have had. It has been very good.

Ms Vitcheva: Thank you.

Q433 Chairman: It makes such a difference from, let us say, some rather defensive arguing that we often hear in these inquiries.

Ms Vitcheva: Maybe because we are very new, we are just starting into the dispute. We are free from any historical burden.

Chairman: Thank you very much.