

## I

*(Information)*

## COURT OF AUDITORS

**SPECIAL REPORT No 9/2004****on Forestry Measures within Rural Development Policy, together with  
the Commission's replies***(pursuant to the second subparagraph of Article 248(4) of the EC Treaty)**(2005/C 67/01)***CONTENTS**

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**GLOSSARY OF TERMS**

**Afforestation of agricultural land:** where new forests and woodland are created from agricultural land (this afforestation policy was originally dealt with under 1992 common agricultural policy (CAP) reform as part of a set of policies to take farmland out of food production).

**CAP:** common agricultural policy

**Crown cover density:** proportion of area covered by the vertical projection of tree crown

**DG:** Directorate-General

**EAGGF:** European Agricultural Guidance and Guarantee Fund

**Forest action:** afforestation and other forestry measures

**Forest area:** the United Nations Food and Agriculture Organisation final report on global forest resources assessment (FRA), issued in 1995, defined a forest as: an area with 20 % crown cover density for industrialised countries and 10 % for developing countries.

**Forestry measures:** measures (i) to improve the multifunctional role of forests and woodland and to protect against, or assist in re-establishing forests after natural disasters (fire, flood, high winds etc.); (ii) to maintain and improve the ecological stability of forests where the protective and ecological role of these forests is of public interest, and (iii) to afforest non-agricultural land.

**Forestry plans:** national or subnational forest programmes (or equivalent instruments) are the basis for forestry support in the EU <sup>(1)</sup>. They provide a framework for applying sustainable forest management. They are tools for planning, implementing and monitoring forestry and forest-related activities and provide an environment for the concerted and coordinated implementation of programmes and activities by all interested parties on the basis of mutually agreed objectives and strategies <sup>(2)</sup>.

**Forestry structures measures:** measures which address the development of forests and forestry, the protection of forests against atmospheric pollution and fires and forestry research.

**OP:** operational Programme.

**Star Committee:** Commission Committee on Agricultural Structures and Rural Development.

**Sustainable forestry:** a widely used definition is: 'development which meets the need of the present without compromising the ability of future generations to meet their own needs'. Sustainable forest management thus means finding the right balance between economic, environmental and social aspects for current and future generations.

**Wooded land/woodland area:** the UN/FAO final report on Global Forest Resources Assessment, issued in 1995, defined for developed countries as land which has some forestry characteristics but is not forest. It includes woody elements more than 50 cm and less than 7 m in height, covering more than about 20 % of the area.

<sup>(1)</sup> Article 29 of Council Regulation (EC) No 1257/1999 (OJ L 160, 26.6.1999, p. 80).

<sup>(2)</sup> COM(1998) 649, 3.11.1998.

**SUMMARY**

I. Forests and woodlands cover 136 million ha (36 %) of the land area of the European Union of 15 Member States. Forestry and forest-based industries provide employment for 2,6 million people. Forests and woodlands have important environmental benefits such as the preservation of fauna and flora and protection against desertification.

II. Although the Treaties have little to say about forestry, EU support for forestry has existed since 1964. In 1998 the Council adopted an EU forestry strategy <sup>(1)</sup> based on two key principles: (a) forest management should be sustainable <sup>(2)</sup>, (b) forests have a multifunctional (ecological, economic and social) role.

III. Since the year 2000, forestry measures, grouped in two categories of action, afforestation and other forestry measures, have been financed by rural development funds. Planned EU spending on forestry for the period 2000 to 2006 is 4,7 billion euro, half for afforestation of agricultural land and half for other forestry measures.

IV. The Court's audit determined whether the forestry measures were based on forestry plans or equivalent instruments; how such measures were programmed and financed; how they were implemented and what their impact was. Audit visits were carried out at the Commission and in the main recipient Member States (Spain, Portugal, Italy, Ireland and France). A sample of projects, selected on the basis of their financial importance and representativeness, were visited on the spot.

V. The EU forestry strategy assumes that the objectives of forestry policy (mainly economic, environmental and social) are complementary: in reality they are often contradictory. In the absence of a commonly applied definition of 'forest', the extent to which the objective is achieved is difficult to monitor (see paragraphs 15 to 18).

VI. Management of the EU forestry strategy is shared between the Commission and the Member States. There is no clear responsibility for assessing the extent to which the financed projects contribute to the achievement of the EU strategy (see paragraphs 19 to 22).

VII. Since 2000 Member States have been required to base their forestry measures on national or sub-national forest programmes. However, these do not always exist and, when they do, they have a widely varying content. In the absence of forest programmes the Commission accepted rural development plans (RDP) and operational programmes (OP) as equivalent to the national programmes. However their assessment was affected by the Commission's own internal organisation and by the time pressure. The Commission's information on forestry actions in Member States is still incomplete (see paragraphs 23 to 36).

VIII. Forestry support is implemented using rural development programming tools but is hampered by the large uptake of funds for forestry CAP accompanying measures which had been entered into previously. Because of the long contract period for forestry there is little freedom to manoeuvre: much of the money available has in practice already been allocated in the form of CAP accompanying measures (see paragraphs 37 to 39).

IX. The system in place for implementing forestry measures is complex. This creates difficulties for both managing authorities and beneficiaries (see paragraphs 40 to 42).

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<sup>(1)</sup> Council Resolution of 15 December 1998 (OJ C 56, 26.2.1999, p. 1). The Council Resolution states that the responsibility for forestry policy lies with the Member States and that Community actions are based on the principle of subsidiarity: 'emphasises the principle of subsidiarity, given the fact that the Treaty establishing the European Community makes no provisions for a specific common forestry policy and that responsibility for forestry policy lies with the Member States, nevertheless taking into account that, pursuant to the principle of subsidiarity and the concept of shared responsibility, the Community can contribute positively to the implementation of sustainable forest management and the multifunctional role of forests.'

<sup>(2)</sup> 1993 pan-European Ministerial Conference in Helsinki.

X. The audit found a number of weaknesses in the implementation of forestry measures (see paragraphs 43 to 58 and 62 to 64), such as:

- varying interpretations were noted in prioritising the land to be afforested,
- no clear Community guidelines on how to ensure compatibility with the environment,
- unclear project selection criteria,
- unsatisfactory arrangements for deciding on eligibility relating to land use, loss of income and whether beneficiaries were farmers,
- weak on the spot checks to verify the correctness of claims,
- a need to improve control procedures for public contract tendering.

XI. Afforestation carried out by municipalities does not receive aid for the maintenance of seedlings and young plantations. As some of these local authorities claimed that they might not have sufficient financial resources, there is a risk that projects which have received considerable EU aid will fail in subsequent years (see paragraphs 59 to 61).

XII. Increasing woodland area by grant-aided afforestation of agricultural land is very expensive mainly due to the compensation paid for loss of agricultural income over a period of 20 years. Moreover, the results have not been very significant and could have been obtained more cheaply (see paragraphs 65 to 78).

XIII. Various aspects of the support scheme should be reviewed. In particular the Commission should reconsider how the afforestation measure can be better targeted, at a lower cost to the EU budget taking into account the changing public needs and the fact that the emphasis of Community legislation is now on sustainable environmental benefits (see paragraphs 79 to 87).

## INTRODUCTION

### *Forests in the EU: key data*

1. Forests and other wooded areas account for 136 million ha <sup>(1)</sup>, which is about 36 % of the total EU surface area. Forests favour tourism and are considered to be an important component of European nature, being home to a rich variety of mammals, birds and reptiles. They protect against desertification and avalanches and act as windbreaks.

2. Forests are of considerable socio-economic relevance. About 65 % of forests are privately owned by approximately 12 million owners in the EU. However ownership structures vary widely within the EU. In Greece and Ireland, the State owns about two thirds of forest land. In Belgium, France, Germany, Italy, Luxembourg and Spain, the main forest owners are local communities and in Nordic countries private holdings are predominant. In economic terms the EU-15 is the world's second largest paper and

sawn wood producer and the third largest exporter of forest products. The value of forest-based industries' production amounts to close to 300 billion euro, which represents 10 % of total of manufacturing value in the EU <sup>(1)</sup>.

3. Forest sector is an important employer, particularly in EU rural areas. According to the Commission <sup>(2)</sup>, the sector is estimated to employ directly 2,6 million people.

### *EU forestry support and the EU forestry strategy*

4. The EU has provided support for forestry since 1964. For more than 30 years that support consisted of improving forestry structures and, since 1992, afforestation of agricultural land. A new impetus was given on 15 December 1998, when the Council adopted a Resolution <sup>(3)</sup> setting out an EU forestry strategy.

<sup>(1)</sup> Source: Commission.

<sup>(2)</sup> COM(1998) 649.

<sup>(3)</sup> Council Resolution of 15 December 1998.

5. The Strategy fixes a framework for forestry actions, creating the perspective for the integration of forests into other policies and encouraging a participatory and transparent approach for all 'stakeholders' <sup>(1)</sup>. It is based on international undertakings previously given by the Community and the Member States and was to be applied using national or regional forestry plans.

6. Two guiding principles govern the Strategy:

(a) forest management should be sustainable <sup>(2)</sup>,

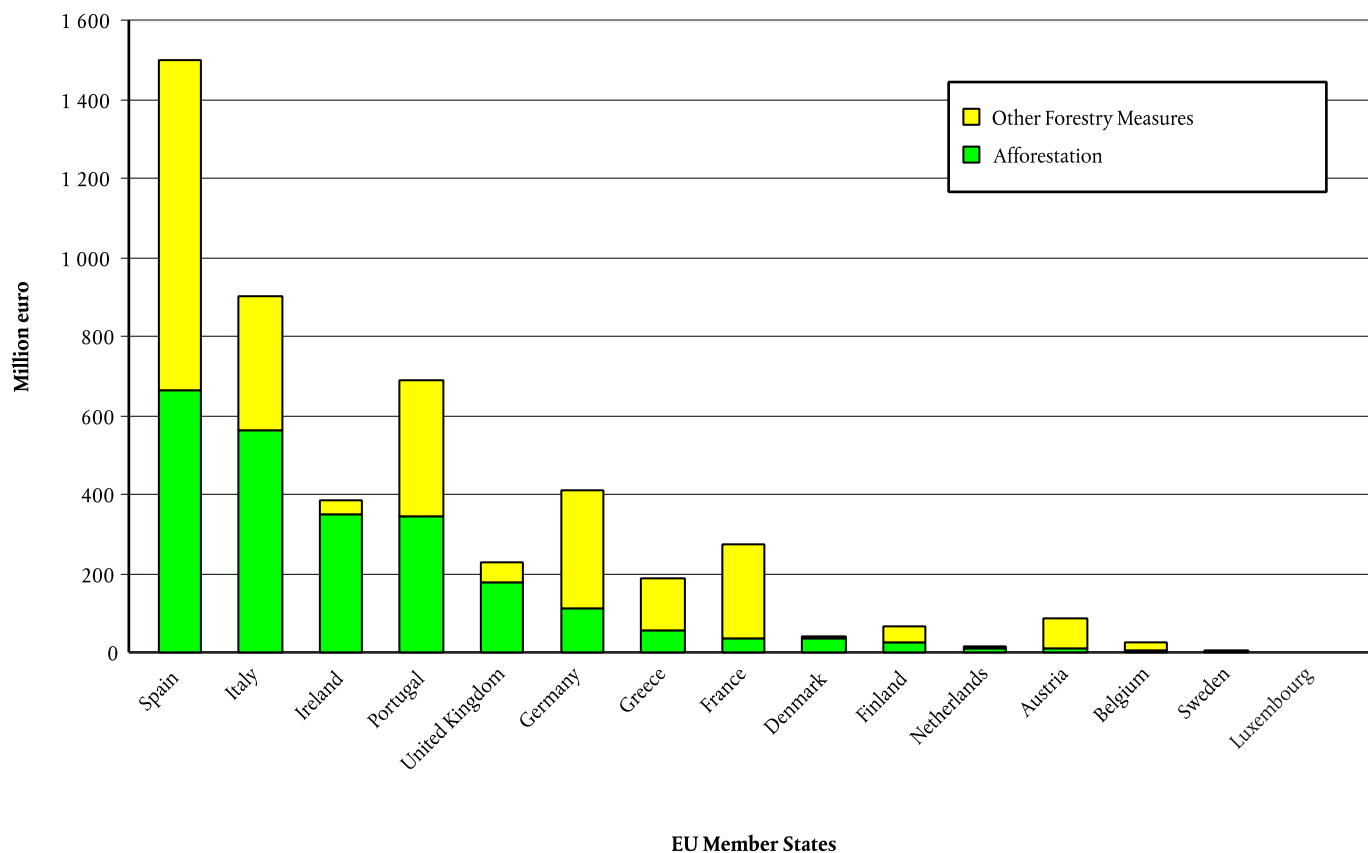
(b) forests have a multifunctional (ecological, economic and social) role.

### EU financial support to forests

7. Some 1 500 million euro were spent in the period 1992 to 1999 on afforestation of agricultural land. For the period 2000 to 2006 the EU contribution is planned to be 2 387 million euro for afforestation measures and 2 420 million euro for other forestry measures <sup>(3)</sup> (see table).

Table

Financial forecast of forestry measures 2000 to 2006: EU contribution under EAGGF



Source: Commission

<sup>(1)</sup> Council Resolution of 15 December 1998. The Council Resolution states that the responsibility for forestry policy lies with the Member States and that Community actions are based on the principle of subsidiarity: emphasises the principle of subsidiarity, given the fact that the Treaty establishing the European Community makes no provisions for a specific common forestry policy and that responsibility for forestry policy lies with the Member States, nevertheless taking into account that, pursuant to the principle of subsidiarity and the concept of shared responsibility, the Community can contribute positively to the implementation of sustainable forest management and the multifunctional role of forests.

<sup>(2)</sup> 1993 pan-European Ministerial Conference in Helsinki.

<sup>(3)</sup> Source: Commission.

8. From the year 2000, forestry expenditure was integrated into the support for rural development by Regulation (EC) No 1257/1999 <sup>(1)</sup>. Such support is intended to promote, in particular, one or more of the following objectives (Article 29):

- sustainable forest management and development of forestry,
- maintenance and improvement of forest resources,
- extension of woodland areas.

Two distinct types of actions were set:

- (a) afforestation <sup>(2)</sup> (Article 31),
- (b) other forestry measures <sup>(2)</sup> (Articles 30 and 32).

9. All EU financial support for afforestation of agricultural land is charged to the EAGGF-Guarantee section. Afforestation of 'other' land is financed by the Guidance section of EAGGF if it takes place in regions which are classified as 'Objective 1' <sup>(3)</sup> for the purposes of the Structural Funds and by the Guarantee section of the EAGGF if it takes place elsewhere.

10. The figures in the *table* demonstrate the different approaches to the strategy adopted by the Member States. The northern EU countries (Sweden and Finland) have substantial forest cover already and do not have any significant afforestation policy, preferring to concentrate on other rural development priorities. Expenditure is highest in Spain, Italy and Portugal which face not only serious risk of damage of forests through fires and drought but also promote afforestation measures for economic, social and environmental reasons.

### **The audit of the Court**

11. A previous Court audit of the afforestation of agricultural land <sup>(4)</sup> concluded that there were insufficient impact analyses and lack of evaluations and monitoring of implementation by the Member States.

<sup>(1)</sup> Regulation (EC) No 1257/1999 which sets out the framework regulation for rural development support.

<sup>(2)</sup> See glossary.

<sup>(3)</sup> Objective 1 of the Structural Funds is aimed at promoting the development and structural adjustments of regions whose development is lagging behind.

<sup>(4)</sup> Special Report No 14/2000 (OJ C 353, 8.12.2000, p. 1).

12. The present audit covered the forestry measures of the rural development Regulation summarised in paragraph 8 above <sup>(5)</sup>. The principal objectives of the Court's audit were to determine:

- whether the forestry measures are based on forestry plans or equivalent instruments,
- how such measures were programmed and financed,
- how they were implemented,
- what was the impact of the measures as regards economy, efficiency and effectiveness.

13. Audit visits were carried out at the Commission (Directorate-General for Agriculture), where information on the implementation of the strategy was examined. Audits were also carried out of the management of forestry measures and projects by the national, regional and local administrations in the main recipient Member States (Spain, Portugal, Italy, Ireland and France). Thirty four projects, selected on the basis of their financial importance and representativity of the measures, were visited on the spot.

## **THE EU STRATEGY AND ITS IMPLEMENTATION**

### **Legal framework**

14. The Treaty establishing the European Community makes no provision for a common forestry policy, nor do the articles of the EC Treaty relating to the common agricultural policy set out market provisions for forestry products such as timber. Instead, Community forestry actions have been undertaken by applying the EC Treaty provisions of other policies <sup>(6)</sup>.

*Annex I* summarises the main forestry actions carried out in the past.

<sup>(5)</sup> The audit scope did not cover other forestry financing by the EU budget like Forestry Research, Forest Natura 2000, Forest Focus.

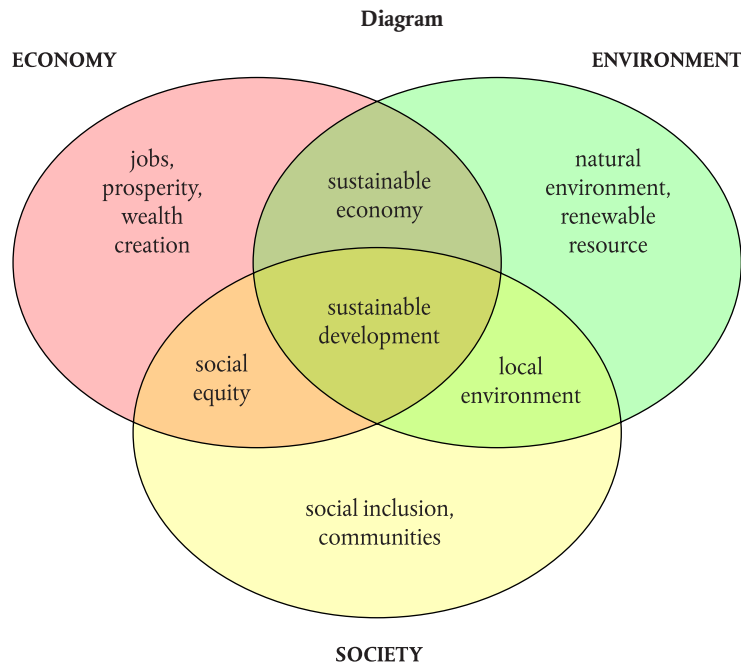
<sup>(6)</sup> The Commission (COM(1998) 649) indicates the relevance of forestry by the following:

- with their many functions, forests are essential to rural areas and constitute a major component of an integrated rural development policy, particularly because of their contribution to income and employment and their ecological and social value,
- forests and their diversity are an important part of the European natural environment and their protection and conservation falls within the scope of a number of Community policies and is the subject in particular of specific environmental issues such as the EU Biodiversity Strategy, Natura 2000 and the implementation of the Climate Change Convention,
- for forest products, and in particular wood (as well as cork and resins), the rules of the Internal Market apply, including the normal EU competition rules on state aids, mergers and cartels.

### Sustainability and how to implement it

15. The concept of sustainability has been developed in international conferences and is mostly linked to political commitments. Conferences in Helsinki and Lisbon, in 1993 and 1998 respectively defined more explicitly the concept of sustainable forest management by drawing up a set of monitoring indicators. However, this concept is vague because it is based on the integration of aims (mainly economic, environmental and social) and intentions (e. g. protection of biodiversity, and productivity), which can be contradictory.

16. It appears to have been particularly difficult to obtain an appropriate balance between the economic, ecological and social aims. Interested parties identify the balance in different ways depending on their own interests and conflicts between these stakeholders exist. In one Member State visited the policy was highly criticised by environmental NGO's which claimed that it was over-focused on economic aspects without due regard to the need to maintain bio-diversity. Other Member States gave limited consideration to the social aspects of forests. The *diagram* illustrates the various sustainability components.



### Member States define 'forest' differently

17. Member States do not use a consistent definition of woodland areas. A definition, developed internationally does exist (notably by the Food and Agriculture Organization of the United Nations – FAO <sup>(1)</sup>), but this is not applied in all the Member States in the same way, as is highlighted in a report produced by the European Commission <sup>(2)</sup>.

18. *Annex II* illustrates the differences in the forestry definitions applied by the Member States. For example, if the definition of forest area used by Ireland were to be applied, the total EU forested area would be roughly 5 % less, whereas if the Luxembourg definition were to be applied the forest area would be approximately 3 % <sup>(3)</sup> more. One of the objectives of EU forest support is

the extension of wooded land, however in the absence of a commonly applied definition, the extent to which the objective is achieved is difficult to monitor.

### The shared management for implementing the forest strategy is not clear

19. The management of the EU Forestry Strategy is shared between the Commission and the Member States. The different responsibilities for implementation of the strategy under the rural development regulation are:

- (a) level I: the Strategy was proposed by the Commission <sup>(4)</sup> (and then adopted by the Council); this took account of the international commitments and the main concepts of sustainability and multi-functionality;
- (b) level II: in line with the principle of subsidiarity, the Member States are responsible for planning and implementing national forest programmes or equivalent instruments;

<sup>(1)</sup> The FAO final report on Global Forest Resources Assessment (FRA) issued in 1995 set a forest definition at 20 per cent crown cover density for industrialised countries and 10 % for developing countries.

<sup>(2)</sup> Study on European Forestry Information and Communication System (EFICS) 1997.

<sup>(3)</sup> Reference UN/FAO Report 'Forest Resources' year 2000, p. 34.

<sup>(4)</sup> The Commission Communication was prepared on the basis of a specific request of the European Parliament (A4-0414/96, OJ C 55, 24.2.1997, p. 22).



- (c) level III: forestry measures are co-financed by Member States and the Community budget under the terms of Regulation (EC) No 1257/1999, which defines the structure and requirements of the forestry measures;
- (d) level IV: individual projects are authorised and managed by the national, regional or local authorities of the Member States.

20. Thus, forestry measures in the Member States must comply with the requirements of Regulation (EC) No 1257/1999, for which the Commission has financial responsibility <sup>(1)</sup>, including the assessment of their soundness (efficient, effective, economic) whilst Member States are responsible for drawing-up and implementing the national programmes which apply the measures <sup>(2)</sup>.

21. The audit found that neither the Commission nor the Member States assumed responsibility for assessing whether a project contributed to the achievement of the EU forestry strategy. Furthermore, national administrations did not systematically assess whether a project approved for EU co-financing was coherent with the strategy and its objectives.

22. There is a need to clarify the responsibilities and roles of the Commission and the Member States in implementing the strategy not only in order to generally strengthen effective management but also to maximise the impact of EU funding on forestry. It will also assist the Commission in complying fully with the legal requirements of financial accountability for implementing the budget.

#### NATIONAL FOREST PROGRAMMES (NFP) OR EQUIVALENT INSTRUMENTS

23. As indicated in paragraph 19(a) and as stipulated in the basic Regulation on support for rural development <sup>(3)</sup>, from 1999, Member States were required to base their forestry rural development measures on national or subnational forest programmes or equivalent instruments.

<sup>(1)</sup> Article 274 of the EC Treaty: 'The Commission shall implement the budget, in accordance with the provisions of the regulations made pursuant to Article 279, on its own responsibility and within the limits of the appropriations, having regard to the principles of sound financial management. Member States shall cooperate with the Commission to ensure that the appropriations are used in accordance with the principles of sound financial management.'

<sup>(2)</sup> According to Article 29 of Regulation (EC) No 1257/1999, support shall be based 'on national or subnational forest programmes or equivalent instruments which should take into account the commitments made in the Ministerial Conferences on the protection of forests in Europe'.

<sup>(3)</sup> Article 29 of Regulation (EC) No 1257/1999.

24. A study <sup>(4)</sup>, co-financed by the Commission, which aimed at providing policy makers with improved means to formulate and implement national forest programmes, examined the existence of such programmes in the Member States. This revealed that the availability and content of such programmes varied widely. The study observes that, even by 2001, some Member States did not have such programmes, others were developing them and, only a few were already implementing them.

25. Indeed, it was only in April 2003 that a common approach to defining the principles of national forest programmes was decided <sup>(5)</sup>.

26. The main problems highlighted in the study were: that the process of developing forest programmes is slow; that there is a vagueness in their formulation; and that, when available, their implementation is fragmented. The study identified the existence of many actors and the vagueness of the concept of sustainability as being amongst the causes of this situation.

27. In the absence of forestry programmes, the Regulation allows forestry support to be based on equivalent instruments <sup>(6)</sup>. The Regulation clearly states that the instrument should be equivalent and thus constitute and justify the link between the EU forestry strategy and the national forestry measures, co-financed by the EU. Rural development plans (RDP) and operational programmes (OP) have been accepted by the Commission as being equivalent to forestry programmes.

28. However, RDP establish the relationship between various rural development measures in order to implement rural development policy. They generally do not focus on forestry but on other agricultural priorities, which indeed, absorb most of the financial resources. While forestry programmes focus on forest-related priorities including the implementation of the strategy, forestry measures as set out in RDPs tend to be marginal, as compared to the more agriculturally orientated measures in the second pillar of the CAP.

29. Furthermore the Commission's assessment of the equivalent instruments was affected by both: time constraints and internal organisation as explained hereunder.

<sup>(4)</sup> Source: 'National forest programmes in European countries: an initial overview based on a quick survey in countries participating in the COST E-19 Action' page 11.

<sup>(5)</sup> Fourth Ministerial Conference on the Protection of Forests in Europe (Vienna, April 2003).

<sup>(6)</sup> Article 29(4) of Regulation (EC) No 1257/1999.

30. According to the legislation <sup>(1)</sup>, both the RDP and the OP had to be submitted by the national authorities to the Commission by the end of 1999. The programming period started on 1 January 2000. At the end 1999 and the beginning 2000 the Commission had an extremely heavy workload and for several months the Commission's units had to assess large quantities of documents in a very short period <sup>(2)</sup>.

31. Often extensive discussions and negotiations took place between the Commission and the national authorities before the approval of plans. Forestry measures were just one of the topics of the discussion and numerous amendments followed. The approval process took more than a year for most Member States and programmes and plans were approved as late as 2001.

32. One of the reasons for this is that many different DGs and units are involved in the Commission's approval process of the RDP and OP <sup>(3)</sup> and thus in the approval of forestry measures. DG Agriculture was responsible for the analysis of the RDP. While the OP were mainly under the overall coordinating responsibility of DG Regional Policy. In total more than eight units within DG Agriculture and seven other DG's (e. g. Environment, Energy and Transport, Health and Consumer Protection) are involved in forest related issues. This division of forestry related matters amongst so many departments within the Commission threatens coherence and complicates decision-making.

33. This issue was already raised in 1997 by the Economic and Social Committee <sup>(4)</sup> which wrote: 'the responsibility for the drawing up and application of key EU laws and regulations affecting forestry is divided between various directorates-general of the European Commission. This makes it difficult to take account of forestry policy objectives in a coherent manner.'

<sup>(1)</sup> Regulation (EC) No 1257/1999 and Council Regulation (EC) No 1260/1999 (OJ L 161, 26.6.1999, p. 1).

<sup>(2)</sup> 69 operational programmes for Objective 1 regions plus the programme complements, 20 Objective 2 Single Programming Documents including EAGGF Guarantee measures, 68 RDPs EAGGF Guarantee and Leader + 73 programmes.

<sup>(3)</sup> Main DGs being, DG AGRI/DG REGIO/DG ENV.

<sup>(4)</sup> Opinion of the Economic and Social Committee on 'The situation and problems of forestry in the European Union and potential for developing forestry policies' (OJ C 206, 7.7.1997, p. 128).

### ***Commission information on forestry action at Member State level is still incomplete***

34. In order to assess the coherence with the EU-financed forestry measures, the Commission needs information on those forestry measures in the Member States which are not financed by the EU budget. However this information was not available to the Commission when Regulation (EC) No 1257/1999 was proposed and adopted and is still lacking. According to the Commission, Member States themselves do not have an inventory of the different forestry measures.

35. The Commission is required to be notified of State Aid in forestry (and other) sectors and the unit responsible for forestry in DG Agriculture receives a copy of the information sent by Member States. However, no inventory of that aid is made.

36. An EU financed research project (coordinated by the European Forestry Institute) aims to obtain more reliable knowledge of the public funding of the forest sector and first results should become available in the course of the year 2004. Such basic information on the existing financial instruments and their effects should be an essential prerequisite before launching any additional EU funding.

### **LARGE UPTAKE OF FUNDS FROM PREVIOUS PROGRAMMING PERIOD**

37. The use of rural development programming is hampered by the extensive uptake of funds for forestry CAP accompanying measures which had been entered into previously. Because of the long contract period for forestry, there is little freedom to manoeuvre: much of the money available has in practice already been allocated in the form of CAP accompanying measures as detailed below.

38. Afforestation contracts established before 2000 (when the measure was funded as an accompanying measure under the CAP reform) and running for a maximum of 20 years, have taken up considerable funds for the afforestation measure as part of rural development. Indeed, in the period 2000 to 2002, most of the funds allocated to afforestation in the programming period 2000 to 2006 were spent on previous contracts under accompanying measure arrangements. Thus, although environmental constraints have been considerably reinforced in the new programming period, no additional environmental benefits can be identified as yet, because in general, the less-strict commitments contracted before 2000 apply to most of the funds used.

39. The seven years of the current programming period is ill-fitted for afforestation contracts which can and frequently do last 20 years. The entitlement of the beneficiary, in particular, to an annual premium for each hectare to cover a supposed loss of income for a period of up to 20 years greatly exceeds the financing resources available in the programmes.

## A COMPLEX SYSTEM

### *Creating difficulties for managing authorities and beneficiaries*

40. Financing arrangements are complex as indicated in paragraph 5. The requirement for managing authorities to use two sets of rules constitutes a significant and unnecessary complication. Checks on operations to be carried out by the Member State differ depending on whether the operations were financed by the Guarantee Section of EAGGF or by the Guidance section (1). This duality of systems reduces their clarity and effectiveness. At the Salzburg conference on rural development this delivery system was criticised by various stakeholders (2).

(1) EAGGF Guarantee: the Commission Regulation (EC) No 817/2004 (OJ L 153, 30.4.2004, p. 30) on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF) sets out in Article 69 that on-the-spot checks shall cover at least 5 % of beneficiaries each year and all the different types of rural development measures set out in the programming documents. On-the-spot checks shall be spread over the year on the basis of an analysis of the risks presented by each rural development measure. Checks shall cover all the commitments and obligations of a beneficiary which can be checked at the time of the visit. They shall be made in accordance with Title III of Regulation (EC) No 2419/2001.

EAGGF Guidance: Commission Regulation (EC) No 438/2001 (OJ L 63, 3.3.2001, p. 21) (on Structural Funds Management) sets out (Article 10) that 'Member States shall organise checks on operations on an appropriate sampling basis, designed in particular to: (a) verify the effectiveness of the management and control systems in place; (b) verify selectively, on the basis of risk analysis, expenditure declarations made at the various levels concerned. The checks carried out before the winding-up of each assistance shall cover at least 5 % of the total eligible expenditure and be based on a representative sample of the operations approved, taking account of the requirements of paragraph 3. Member States shall seek to spread the implementation of the checks evenly over the period concerned. They shall ensure an appropriate separation of tasks as between such checks and implementation or payment procedures concerning operations'.

(2) The European conference on rural development held in Salzburg in November 2003 expressed in its conclusions concern as to 'the complexity of the current delivery system for EU rural development policy, with different funding sources and procedures according to whether an intervention is implemented within or outside Objective 1 regions'.

41. The Regulatory framework has been amended on various occasions. Most recently in 2003 various amendments were introduced of which two are of particular importance. Standard unit costs for establishing the cost of certain forestry investments were once again allowed, whereas previously invoices or equivalent documents, providing evidence of expenditure incurred, were required. In addition, the sanction system which was based on IACS requirements (3) for area payments are considered no longer to be applicable with retroactive effect to 1 January 2000. As a result, it is unclear which sanctions are to be applied in case of differences between surface declared and those established during the check.

42. The system for the beneficiary is equally complex. In order to benefit from measures, beneficiaries have to provide up to 22 documents. The time allowed for presenting the information is short, and is further complicated by the fact that application periods are not always well known in advanced. As a consequence, in all the Member States visited, applications are usually presented on behalf of beneficiaries by specialised agencies and consultants, thereby increasing the administrative burden (Italy, Ireland, Spain, Portugal, France).

## IMPLEMENTATION OF FORESTRY MEASURES

### *Afforestation of agricultural land*

43. For the period 1992 to 1999, Regulation (EEC) No 2080/92 regulated afforestation of agricultural land. It was a CAP accompanying measure, compulsory for the Member State, aimed to promote an alternative use of agricultural land and the development of forestry activities on farms.

44. For the period 2000 to 2006, afforestation of agricultural land as stipulated in Article 31 of Regulation (EC) No 1257/1999 consists of converting agricultural land into forests or woodland. Afforestation aims to promote the extension of woodland areas provided that it complies with Regulation (EC) No 1257/1999 (see paragraph 8). Support shall be granted if planting is adapted to local conditions and is compatible with the environment. The agricultural land eligible for support shall be specified by the Member State and shall include, in particular, arable land, grassland, permanent pastures and land used for perennial crops, where farming takes place on a regular basis (Regulation (EC) No 445/2002, Article 26).

(3) Council Regulation (EEC) No 3508/92 of 27 November 1992 establishing an Integrated Administration and Control System (IACS) for certain Community aid schemes (OJ L 355, 5.12.1992, p. 1).

45. As a consequence, afforestation of agricultural land was refocused from promoting an alternative use of agricultural land under the Regulation (EEC) No 2080/92 to promoting the extension of woodland areas provided that it complies with Regulation (EC) No 1257/1999. Furthermore, afforestation is now part of the RDP, which have their own administrative, implementation and control criteria by the Member States. Afforestation is no longer compulsory.

### Extension of woodland compatible with the environment

46. Varying interpretations were noted in prioritising the land to be afforested taking into account the environment. In some countries low quality and low value land on exposed hills was given priority in order to combat erosion (Spain), thus taking into account the environmental needs but not always complying with the requirement to be agricultural land. In other countries (Italy, Portugal), in which comparable climate conditions were found with similar environmental needs, conversion of high quality and high value agricultural land into forests was noted. No clear operational objectives were set nor were guidelines issued on how to prioritise afforestation in order to be compatible with strategy, particularly that part relating to the environment. In three of the five Member States visited, no systematic checks were made prior to project approval to assess compatibility with the environment (Spain, Portugal, France) and in one Member State (Ireland), despite being provided for in the procedures, lack of prior approval was noted in one of the projects visited.

### Administrative implementation (Unclear project selection criteria)

47. For most of the measures, more project applications were introduced than funds were available. Consequently, a choice had to be made regarding which projects to finance between the applications eligible. Notwithstanding the Guideline document issued by the Commission <sup>(1)</sup>, the audit noted a number of weaknesses in the project selection procedure: frequent lack of clear, transparent and objective criteria for prioritising and selecting the different project applications (Italy, Spain, Portugal, France). Often the 'first come first served' principle was used <sup>(2)</sup>. Sometimes the selection procedures were insufficiently documented. No proper information system was in place to record rejected or excluded applications (Italy, Portugal).

<sup>(1)</sup> Guideline document VI/10535/99 rev.7 issued by the Commission's services for the implementation of the management, checks and penalties concerning rural development measures under Regulation (EC) No 1257/1999, point 3(5).

<sup>(2)</sup> In particular, having just one single call for applications instead of recurrent ones encourages a first in approval of projects.

### Uncertain verification of previous land use

48. An important feature of the afforestation measure is that, in order to be eligible the land should have been used for agricultural purposes in the past. The previous use of the land also determines the compensation aid for loss of income, higher in case of the more remunerative previous uses. Therefore, it is of the highest importance that reliable systems are in place to verify that the information provided to justify the level of compensation is correct <sup>(3)</sup>.

49. During the audit it was noted that, in most cases, the information provided stems from a self-declaration by the applicant. In most cases, crops allowing the highest compensation rate, e.g. wheat, were declared as having been grown in the past. However, no valid procedures were applied by the administration to check the veracity of this declaration. In particular, there were no systematic checks of what crop had been declared in the previous years in the IACS <sup>(4)</sup> system (Italy, Ireland, Spain, Portugal). Certain administrations accepted cadastral information (some of it, out of date) as justifying the declaration (Spain, Ireland). Others checked the validity of the self-declarations during the on the spot visits carried out by the managing authority before the investment was approved (Italy, Ireland). However these visits, although useful, did not always allow identification of the exact crop grown on the land in the past.

50. In some cases a high level of compensation of income was allocated whereas the surrounding areas were of poor quality and at the time of the visit used as grazing land for sheep (Ireland). In other cases debatable conditions for previous land use were noted (Spain), the land having been abandoned for many years.

51. During the audit it was noted that the reference period for justifying the classification of land as agricultural varied considerably between Member States. In one Member State (Spain) this period was set at five times the period used by other Member States visited (10 years against two). Such a long period increases the difficulties in verifying the use of the land in the past and casts doubt on the reality of the agricultural land use. The audit identified debatable cases of land accepted as having had an agricultural use in the past. There is a clear need for a consistent approach and the Commission should issue guidance.

<sup>(3)</sup> See also Guideline document VI/10535/99 rev.7, point 3(7).

<sup>(4)</sup> Regulation (EEC) No 3508/92.

### Calculation of compensation for loss of income

52. The amount per hectare to be paid as compensation for loss of income for up to 20 years is set out in the RDP. The legal basis (Regulation (EC) No 1257/1999) does not require Member States to justify the calculation of these amounts in its proposed plan, whereas for agri-environment measures this is a requirement. The issue has been raised by the Court in the past <sup>(1)</sup>. The audit in the Member States found that the amounts set as compensation for loss of income were within the limits set by the Regulation. However, in nearly all Member States visited no satisfactory documentation was provided which justified the loss of income set as compensation in the RDP (Italy, Ireland, Spain, Portugal). This key information should be provided and examined by the Commission.

### Unverifiable criteria for designation as a farmer

53. Another aspect of the loss of income compensation is that the beneficiary receives a higher compensation if he is a farmer. Criteria for qualifying as a farmer vary between Member States and also between the conditions laid down according to Regulations (EEC) No 2080/92 and (EC) No 1257/1999. Usually the criteria applied rely on the working time spent on farming and on the income received from it.

54. The audit found that it was very difficult to check that a beneficiary actually was a farmer. In particular, the percentage of time really spent on agricultural activities is usually not verifiable. Thus, once again the status of farmer relies on a declaration by the beneficiary himself that the criteria have been fulfilled (Italy, Ireland, Portugal).

(1) Special Report No 14/2000 'Greening the Cap' paragraph 47 'In respect of agri-environmental measures, Member States must provide detailed evidence to support proposed program aid rates; these specific rates are then approved by the Commission. By contrast, in respect of afforestation measures, such information is not demanded of national authorities; the Commission approves aid rate maxima, within which Member States are free to set aid rates, without need for Commission approval.'

55. The audit identified debatable cases of beneficiaries being paid as farmers. Cases which were accepted by the national authority included land purchased by someone who farmed a different piece of land. He was considered to be a farmer due to the activity on the other land and as a consequence received a loss of income compensation on the land just purchased although he himself had never farmed it before <sup>(2)</sup>.

56. The difficulties raised by the distinction between farmers and non-farmers in the practical implementation of the measure was known by the Commission prior to the approval of Regulation (EC) No 1257/1999. In its 1997 Report <sup>(3)</sup> to Parliament and the Council on the application of Regulation (EEC) No 2080/92 it is stated that, 'in relation to the premium covering income loss (...) the difference in aid depending on whether or not the recipient is a farmer practising farming as a main occupation (...) raises difficult issues for the relevant administrations in the Member States (...)'. However the Commission appears not to have followed this up by giving guidance and no corrective action was taken.

### Weak on-the-spot checks by the national authority

57. Member States are required to organise on the spot visits to check the regularity of the payments <sup>(4)</sup>. Several weaknesses were noted in this respect:

- insufficient application of a risk analysis (Italy, Spain) and non-segregation of the duties between managing officials and officials in charge of on-the-spot checks (Italy, Ireland),
- insufficient documentation of the checks carried out (Italy, Ireland, France),
- unsatisfactory verification of expenditure incurred (Ireland, Spain, Portugal, France).

(2) Article 31 of Regulation (EC) No 1257/1999 states that an annual premium per hectare may be paid 'to cover loss of income resulting from afforestation for a maximum period of 20 years for farmers or associations thereof who worked the land before its afforestation or for any other private law person'.

(3) Report to Parliament and the Council on the application of Regulation (EEC) No 2080/92 (COM(1997) 630 of 28.11.1997).

(4) Commission Regulation (EC) No 445/2002, Article 61 (OJ L 74, 15.3.2002, p. 1).

### Other forestry measures

58. The other forestry measures cover a wide variety of actions and interventions and are set out in Regulation (EC) No 1257/1999, Articles 30 and 32. They concern mainly investments in forestry but also afforestation of non-agricultural land. Some aim at maintaining and improving the ecological stability of forests where the protective and ecological role of these forests are of public interest. Others aim at preventing fires and other natural disasters and combating erosion.

### Eligibility of public land

59. The governing Regulation provides that <sup>(1)</sup>, support for forestry may be granted only for forests and areas owned by private owners or by municipalities. Associations of these two owners may also benefit from aid.

60. Land and forest owned by public authorities other than municipalities (e.g. State or region) are not eligible. During the audit several managing authorities criticised this, arguing that actions with a significant ecological value were not encouraged (Italy, Spain). In one Member State (Ireland) a semi-public body, which prima facie was not eligible, benefited from these subsidies. An amendment <sup>(2)</sup> of the basic Regulation now allows for investments in public forests with the aim of improving their ecological or social value (Article 30(1), second indent). However the non-eligibility for afforestation of public land (with the exception of municipalities) remains.

61. Afforestation carried out by municipalities does not, under the present support system, receive maintenance aid. Municipalities claimed that they might not have sufficient finance to ensure that seedlings and young plantations are correctly looked after and maintained. This severely risks that projects which have received considerable EU and national funding will fail in subsequent years.

### Large uptake of funds for restoring damage caused by natural disasters

62. In 1999 strong winds affected several countries including France, Germany, Austria and Denmark. Only one Member State (France) decided to use the option of co-financing the cost of restoring the damage from RD funds. However, this led to two thirds of the available resources being used on this measure alone. In the other Member States, additional funds were made available which did not affect the planned strategy or programming arrangements.

<sup>(1)</sup> Article 29 of Regulation (EC) No 1257/1999, as amended by Council Regulation (EC) No 1783/2003 (OJ L 270, 21.10.2003, p. 70).

<sup>(2)</sup> Regulation (EC) No 1783/2003.

63. Therefore different approaches exist to deal with the same problem. Although legal, it is doubtful whether these different approaches to funding windfall damages and implementing the strategy are equally valid in the long term. The Commission should assess which approach better complies with the future needs of EU forests. For example, in Denmark after the 1999 windfall a scheme was introduced combining insurance against future windfall with Government support to re-establish private forests.

### Compliance with tendering procedures

64. The audit showed that control procedures for public contract tendering for forestry actions should be improved particularly in view of the low level of competition in this area. Cases of infringement of the tendering procedure were found in two Member States (Italy and Ireland).

### IMPACT OF AFFORESTATION OF AGRICULTURAL LAND MEASURE

#### *Afforestation of agricultural land is very expensive due mainly to the compensation for loss of income over a 20-year period (Economy)*

65. For the period 1992 to 1999, afforestation of agricultural land under Regulation (EEC) No 2080/92 cost 1,519 billion euro to the EU budget. For the period 2000 to 2006, a further 2,38 billion euro of the EU budget were allocated to afforestation of agricultural land under Regulation (EC) No 1257/1999.

66. In the case of agricultural land owned by a private person (the most common case) the cost of financing is composed of three elements:

- (a) the establishment costs (for preparation and planting);
  - (b) an annual premium per hectare to cover maintenance costs for a period of five years;
- and
- (c) an annual premium per hectare to cover the loss of income resulting from afforestation for a period of 20 years <sup>(3)</sup>.

<sup>(3)</sup> The rural development plans set out the amount per hectare to be paid as loss of income compensation for the following 20 years. The compensation for loss of income varies depending on the previous use of the afforested land, being higher in the case of the more remunerative uses and if the beneficiary qualifies as a farmer.

67. It is the loss of income compensation that incurs the most costs. For example, the EU financing granted to one afforestation project, audited, totalled 847 487 euro (75 % of the total cost) and was constituted as follows: establishment cost 137 940 euro (16 %), maintenance cost for the five years 101 748 euro (12 %) and the costs for loss of income for 20 years 607 799 euro (72 %).

68. In all projects audited, the compensation for loss of income represented more than half of the total cost. Beneficiaries see this compensation as a guaranteed income and it has become the main factor in attracting applications for the measure.

69. For the period 1992 to 1999 under Regulation (EEC) No 2080/92 the afforestation of agricultural land was a CAP accompanying measure aiming to promote an alternative use of agricultural land. Since 2000 the measure became part of the rural development support Regulation (EC) No 1257/1999 aiming to promote the extension of woodland areas with due regard to environmental impact. Considering this change in focus, the use of most of the resources to compensate for the loss of income over 20 years in case of private agricultural land does not appear to be the most economic option to achieve the given objective and should be reconsidered (see also following paragraphs).

#### ***Degree of afforestation is not very significant (Effectiveness)***

70. According to the official final evaluation of Regulation (EEC) No 2080/92, afforestation was made at a cost of 1,519 billion euro. In this evaluation it is indicated that the plantations created represented 0,92 % (1 041 589 hectares) of the European forested area of 1998. The evaluator concluded that 'overall this contribution does not seem to be very significant'. The consequent impact on reducing agricultural production, which was the objective of this regulation, was considered to be quite limited.

71. Regulation (EC) No 1257/1999 allocated a further 2,38 billion euro to the afforestation of agricultural land over the period 2000 to 2006. The objective became the extension of woodland areas. However, the mechanism remained largely unchanged. Therefore it is likely that the contribution to the increase in forestry resources will not be more significant under Regulation (EC) No 1257/1999 than that obtained under Regulation (EEC) No 2080/92.

72. In 1995, the accession of Finland, Sweden and Austria increased the forested area in the EU by around 57 million hectares, from 79 million to 136 million hectares (+ 72 %). Enlargement in 2004 will lead to another increase of the EU forests of around 24 million hectares from 136 million to 160 million hectares.

73. Afforestation of agricultural land was discussed during a conference on the future of Rural Development which was held in November 2003 <sup>(1)</sup>. However, the changing context and the successive enlargement have affected priorities, which, until now, have been insufficiently taken into account.

74. Doubts on the effectiveness of afforestation were already raised in 1997 by the Economic and Social Committee <sup>(2)</sup> which wrote: 'another question which needs to be addressed is whether it would be more effective in the long run to use EU resources for promoting the marketing of timber, including its use as an energy source, rather than provide direct assistance for afforestation. In particular, EU funds should be allocated to research, training, information, advice and support for rural areas so as to enable the forestry sector to operate and compete more effectively in the longer term. EU assistance for afforestation should focus on improving the quality of forests through such measures as erosion prevention, conservation of groundwater, protection from fire damage or the re-afforestation of areas devastated by fire. Funding provided under the Union's structural and regional policy programmes should be used more widely to support the application of economical and environmentally-friendly practices in forestry and the forest industry.' Many of the recommendations were taken into account in the Regulation (EC) No 1257/1999, however the core expenditure still relates to afforestation.

#### ***Result could be better achieved (Efficiency)***

75. Regarding the objective of increase of woodland areas (see paragraph 8), there are different kind of land which might be afforested. The Regulation stipulates that where support is granted for afforestation of agricultural land owned by public authorities, it shall cover only the cost of establishment <sup>(3)</sup>, i.e. no loss of income compensation or maintenance are to be paid which is indeed the case for afforestation of private land. Thus theoretically it could be argued that if the aim is to extend woodland, focussing this action on public land would be much more efficient. It would lead to a significant economy (no payment of loss of income compensation), thus, with the same funding, allowing for a considerably bigger area to be afforested.

<sup>(1)</sup> The Conference concluded on the opportunity of 'refocusing of afforestation measures to strengthen multi-functionality and sustainability (e.g. risk management, improve environmental benefits and reduce fire risks)'.  
<sup>(2)</sup> Opinion of the Economic and Social Committee on 'The situation and problems of forestry in the European Union and potential for developing forestry policies'.  
<sup>(3)</sup> Article 31 of Regulation (EC) No 1257/1999.

### ***It has a very dispersed impact***

76. Furthermore, the impact of afforestation has been very dispersed due, in part, to its voluntary nature. Some farmers apply the measures, others do not. As a result, there is no coordinated strategy and afforestation projects are approved piecemeal with the consequence that there is often no appreciable impact on the region or locality.

### **IMPACT OF OTHER FORESTRY MEASURES**

77. Various Member States (Denmark, Italy, Portugal and Greece) indicated that the effective implementation of an EU-wide forestry policy was affected by the list of actions included in Articles 30 and 32 which they claim looks more like a framework than targeted actions.

78. Measures under Article 32 focus more on environmental benefits. However, the take-up has been extremely low, apparently due to the fact that the maximum premium allowed is not considered attractive enough by potential beneficiaries (all Member States). The Commission should study this phenomenon with a view to ensuring that this aspect of the strategy is operating as intended.

### **CONCLUSION AND RECOMMENDATIONS**

79. The EU has been supporting forestry action since 1964 although no provision is made for a common forestry policy. Since 2000 financial support is granted as part of the EU rural development regulation but is based on international political commitments. The concepts in these commitments (sustainability and multi-functionality) being vague, the additional EU value of its support is difficult to assess. It is not helped by the fact that Member States define 'forest' differently (see paragraphs 14 to 18).

— The Commission should simplify and make more coherent the legal basis of EU forestry action and work towards a common understanding and interpretation of 'forest'.

80. The shared management for implementing the forest strategy is not clear. Due to this lack of clarity neither the Member State nor the Commission feel responsible for assessing whether a forestry project contributed to the achievement of the EU forestry strategy (see paragraphs 19 to 22).

— Clarity should be sought in attributing responsibilities to the Member States and the Commission for the implementation of the EU forestry strategy when EU-financed forestry measures are used.

81. The Commission bases its forestry support on there being national or subnational forestry programmes or equivalent instruments but these programmes are rarely available and, if so, their quality is very varied (see paragraphs 23 to 26).

82. When using equivalent instruments, usually rural development plans, the qualitative assessment of the forestry measures suffers from time constraints and availability of staff. The qualitative assessment also suffers from lack of information in the Commission on forestry action by Member States level (see paragraphs 27 to 36).

— The Commission and Member States should, in partnership, ensure the development of strategic planning documents which can be used as an effective tool for the planning of forestry measures and aid.

— The Commission should ensure that the qualitative assessment of the forestry part in each rural development plan is appropriate.

83. Afforestation contracts established before 2000 and running for up to 20 years have taken up considerable amounts of funds which had been planned to be used for the implementation of afforestation measures as part of rural development. Furthermore, a seven-year programming period is ill-fitted to the longer planning required for forest actions, of up to 20 years (see paragraphs 37 to 39).

84. The use of varying financing arrangements (a mix of EAGGF Guidance and Guarantee funding) has led to a complex delivery system of rural development policy (see paragraphs 40 to 42).

— The Commission should examine the financing arrangements with a view to simplification.

85. Examination of a selection of projects revealed a number of weaknesses. There were varying interpretations in prioritising the land to be afforested. When project applications exceeded available funds, there were no clear criteria for project selection (ranking). Furthermore, uncertainty existed as to the previous land use and whether the beneficiary was a farmer. There were also instances of weak and insufficient control systems operated by the Member States (see paragraphs 43 to 58 and 62 to 64).



- The Commission should, together with the Member States, examine the system of application and approval of projects in order to ensure that the most viable and worthy proposals for assistance within the terms of the EU and national strategies receive aid.
  - The Commission should review current checks by Member States with a view to reinforcing administrative and control systems and to take appropriate action in case of non compliance.
86. Afforestation carried out by municipalities (local authorities) does not, under the present support system, receive maintenance aid. They might not have sufficient finance to ensure that seedlings and young plantations are correctly looked after (maintenance) this severely risks that projects which have received considerable EU and national funding will fail in subsequent years (see paragraphs 59 to 61).
- The Commission should examine the circumstances surrounding the granting of aid for afforestation to avoid that

aid is granted in circumstances where the projects cannot be sustained. If necessary it should propose changes to the current basis for granting aid.

87. The impact of the measure for afforestation of agricultural land has been low. The degree of afforestation is not significant and the result could be obtained more cheaply. The projects financed lead to dispersed and uncoordinated implementation in rural areas. Overall forestry action is not sufficiently targeted (see paragraphs 65 to 78).

- The Commission should reconsider how the afforestation measure may be better targeted and at a lower cost to the budget, taking into account the changing public needs and the fact that the emphasis of Community legislation is now on environmental benefits.

This report was adopted by the Court of Auditors in Luxembourg at its meeting of 14 October 2004.

*For the Court of Auditors*  
Juan Manuel FABRA VALLÉS  
*President*

## ANNEX I

## COMMUNITY FORESTRY RELATED ACTIONS IN THE PERIOD 1964 TO 1999

**1964 to 1988:**

Until 1988, the European Community took certain measures to develop the forestry sector, which were always directly linked to the common agricultural policy, in particular the policy on improving agricultural structures. The measures concerned harmonisation of legislation, the development of forests and forestry, the protection of forests against atmospheric pollution and fires and forestry research.

**1988 to 1992:**

The Community adopted a more coherent approach to its forestry projects. In September 1988 the Commission presented to the Council a Community forestry action programme. This was adopted by the Council in 1989 and focused on five main areas:

- afforestation of agricultural land,
- development and optimum use of forests in rural areas,
- cork,
- forest protection,
- accompanying measures.

**1992 to 1999:**

In 1992 Community measures in the forestry sector entered a more ambitious phase. Decisions in two main areas fundamentally modified the 1988 action programme:

- measures to protect forests from atmospheric pollution and fires were strengthened <sup>(1)</sup>,
- forestry measures in agriculture were adopted <sup>(2)</sup> as part of the measures accompanying the reform of the CAP to support afforestation of agricultural land.

Since 1992, other Community measures in the forestry sector have included the European Forestry Information and Communication System (EFICS) <sup>(3)</sup> and forestry research co-financed under the EU's research and development programmes in the field of agricultural and environmental research.

*During the 1990s, the European forestry debate focused mainly on defining and implementing the principles of sustainable forestry. The concept of sustainable forest management was defined in 1993 by the pan-European ministerial conference in Helsinki on the protection of forests. Sustainable forest management consists of a balanced combination of ecological, economic, social and cultural activities. The debate on the EU forestry strategy was initiated by, amongst others, the report from the European Parliament <sup>(4)</sup>, the Communication from the Commission on a forestry strategy for the European Union <sup>(5)</sup> and the Council Resolution on a forestry strategy for the European Union <sup>(6)</sup>. The debate reaffirmed, in particular, the principles that forests have a multi-functional role that the rules of the market economy should apply to them and that, in accordance with subsidiarity, the strategy should be implemented at the lowest possible level. Although the subsidiarity principle is to be applied and the forestry strategy seeks to improve coordination within the Community, concrete proposals on improving cooperation are lacking.*

<sup>(1)</sup> Regulation (EEC) No 2157/92 and Regulation (EEC) No 2158/92 of 23 July 1992.

<sup>(2)</sup> Regulation (EEC) No 2080/92 of 30 July 1992.

<sup>(3)</sup> Regulation (EC) No 400/94.

<sup>(4)</sup> A4-0414/96; PE 213.578/fin (the Thomas Report).

<sup>(5)</sup> COM(1998) 649 final.

<sup>(6)</sup> Council Resolution of 15 December 1998.

## ANNEX II

## FOREST DEFINITION IN THE MEMBER STATES

Definition of forest: main criteria and threshold used by country according to the European Forestry Information and Communication System (EFICS)

Country	Minimum				Height in mature age
	Width	Crown cover	Area	Potential production	
Austria	10 m	30 %	0,05 ha		
Belgium (Walloon region)	9 m		0,1 ha		
Belgium (Flemish region)	25 m	20 %	0,5 ha		
Denmark	20 m		0,5 ha		6 m
Finland			0,25 ha	1 m <sup>3</sup> /ha/year	
France	15 m	10 % or 500 stems/ha with cbh < 24,5 cm	0,05 ha		
Germany	10 m		0,1 ha		
Greece	30 m	10 %	0,5 ha		
Ireland	40 m	20 %	0,5 ha	4 m <sup>3</sup> /ha/year (conifer) 2 m <sup>3</sup> /ha/year (broadleaf)	
Italy	20 m	20 %	0,2 ha		
Luxembourg	none	none	none		
Portugal	15 m	10 %	0,2 ha		
Spain	20 m	30 %	0,25 ha		
Sweden			0,25 ha	1 m <sup>3</sup> /ha/year	
Netherlands	30 m	20 %	0,5 ha		
United Kingdom	50 m	20 %	2 ha		

Sources: EC 1997 — Study on European Forestry Information and Communication System (EFICS). Reports on forestry inventory and survey systems. European Commission, Luxembourg.

## THE COMMISSION'S REPLIES

### SUMMARY

II. The Commission welcomes this report whose timely presentation will allow appropriate consideration to be taken in the light of the forthcoming review of the EU forest strategy and the future rural development framework (COM(2004) 490 final).

With regard to the principle of subsidiarity the Commission considers that a number of implementation decisions remain at the discretion of the Member States, as it is expressed in various parts of the Commission's reply to this report.

V. Sustainable forest management is based on the balanced integration of economic, social and environmental objectives weighing the various issues at stake.

The Commission considers that the quality of monitoring can be assured without a common definition of forest. The outcome of the policy can be monitored at Member State level and subsequently at EU level.

VI. The link between the forestry strategy and the individual projects co-financed by the EAGGF funds is ensured via the rural development programmes (RDPs). The Commission verifies that programmes are in line with the forestry strategy. The national or regional authorities approve the individual projects on basis of the RDP.

In the proposal for the future rural development framework the Commission proposes a clearer demarcation of responsibilities between the Commission and the Member States.

The contribution to the achievement of the EU forestry strategy is assessed for each rural development programme in the evaluation reports prepared by the Member States and summarised by the Commission. The Commission proposed in July 2004 (COM(2004) 490 final) to reinforce the evaluation requirements for the future rural development framework.

VII. European countries have developed a common approach to national forest programmes in the context of the Ministerial Conferences on the protection of forest in Europe (MCPFE) and significant progress has been made in drawing up programmes. However, when such programmes are not available, the acceptance of rural development programmes (RDPs) and operational programmes (OPs) as equivalent seems to be a justified approach in order not to hamper the implementation of the forestry measures in the programmes.

In order to ensure the quality of the approved programmes an in-depth analysis was made in collaboration with all associated Commission services which included intensive contacts with the Member States. This process took time.

VIII. Long-term contracts are necessary to ensure sufficient uptake of measures like afforestation of agricultural land. By their nature they affect several programming periods.

As for as the duration of the contracts and the amounts of aid are concerned, the proposals for the rural development framework for the post 2006 period contain a number of modifications to mitigate these problems, notably by reducing the duration and the ceiling for compensation of loss of income.

IX. The Commission is aware of the fact that the system is complex and has consequently already introduced simplifications and proposed further substantial steps for the post 2006 rural development framework. One of the simplifications is the introduction of a single Fund for rural development.

X. — The implementation of the forestry measures is guided by the principle of subsidiarity. The type of land to be afforested is largely a matter for the Member States to decide on basis of the national and regional situation and need. The proposal for the post 2006 rural development policy contains several elements for improved environmental targeting in the selection of land for afforestation.

— Compatibility with the environment is a legal requirement. Member States implement this obligation on basis of the regional conditions.

— Most programmes include selection criteria, but it is recognised that in some cases there may be a need to improve the definition of these.

The Commission audit services verify the selection systems on the basis of guidelines it has issued. Non-transparency or non-objectivity in the project selection entails recommendations addressed to the Member State and may also lead to financial corrections within the clearance of accounts decisions.

— The definitions of 'agricultural land' and a 'farmer' are within the competence of the Member States and must be indicated in the national or regional programmes. Verifications must be ensured by the Member States and in accordance with guidelines issued by the Commission.

The Commission recognises that there is scope for improvements and will for the next programming period review requirements and provide more guidance to Member States for the issues mentioned by the Court.

- The Commission has also identified weaknesses similar to those mentioned by the Court and has imposed financial corrections. Regulatory steps have been undertaken to improve the verification of claims.
- In their work, the Commission audit services pay particular attention to the respect of proper control procedures for public contract tendering for all measures allowing for aid under rural development to be granted to public bodies.

XI. There is a certain responsibility of municipalities to maintain their own forests. The authorities approving projects should require sufficient evidence from the municipalities that the maintenance work is ensured.

XII. A long-term compensation is necessary for afforestation of agricultural land to be attractive to farmers. Nevertheless, the proposals for post 2006 rural development framework provide to limit the compensation for income loss to 10 years. On top of the overall impact account should be taken on the significant effect in certain specific regions.

XIII. Sustainability is already an overarching principle of Council Regulation (EC) No 1257/1999. The proposals for post 2006 rural development framework further meet this recommendation by targeting afforestation more explicitly on environmental objectives and by requiring designation of areas suitable for (and thus limited to) afforestation for environmental reasons.

## INTRODUCTION

4. The Council Resolution on an EU forestry strategy provided a reference framework for forest-related activities in the EU. It is important to note that the strategy confirmed the subsidiarity principle applied in the forestry area.

5. With regard to the principle of subsidiarity the Commission considers that a number of implementation decisions remain at the discretion of the Member States, as it is expressed in various parts of the Commission's reply to this report.

10. The rural development Regulation is based on the principle of subsidiarity and it is up to the Member States to draw up their rural development programmes, considering national and regional priorities.

11. The Commission carried out an evaluation of Council Regulation (EEC) No 2080/92 in 2001 and clearer guidelines for monitoring measures were introduced by Regulation (EC) No 1257/1999. With this regulation the requirement for an *ex ante* evaluation of rural development programmes (RDPs) has been introduced, as well as a thorough mid-term evaluation of these, which would lead, if necessary, to an adaptation of the programmes concerned.

## THE EU STRATEGY AND ITS IMPLEMENTATION

15. The concept of sustainability is consistent with the notion introduced and defined by the 'Brundtland Report' to the World Commission on Environment and Development in 1987, which now applies to all sectors of the economy and sustainable development strategies developed worldwide.

Sustainable forest management is based on the balanced integration of economic, social and environmental objectives. There may be conflicts between the three types of objectives, but these conflicts should be seen as healthy ones, and they should give rise to cooperation between different interest groups and a constructive search for the best solution. The progress achieved in the establishment of criteria and indicators of sustainable forest management as well as in the use of voluntary schemes to certify sustainable managed forests in the EU are indicative of the progress achieved in the last years towards sustainable forest management.

16. Sustainable forest management requires a participatory approach and involvement of all relevant stakeholders in order to build consensus and to find satisfactory approaches. Countries are developing appropriate mechanisms and structures for the participation of stakeholders in forest policy formulation and implementation processes, notably in the context of their national forest programmes.

In Member States that for socio-economic reasons in the past put more emphasis on the economic development of the sector, are gradually considering and developing strategies towards diversification and incorporating environmental and social objectives. Sustainability and sustainable development do not define a static state of stability, but rather a dynamic process of change with the goal of continuous improvement.

17. Forest definition lies within the competence of the Member States. The differences respond to historical, social, legal and ecological conditions in the countries. However, for statistical purposes the Member States adjust the data according to a common method developed within the context of the Joint FAO/UNECE/Eurostat/ITTO questionnaire for collecting forest statistics. In this way, the forest data become comparable both with regard to forest area and stand volume.

18. The Commission considers that the quality of monitoring can be assured without a common definition of forest. The outcome of the policy can be monitored at Member State level against the objectives set in the RDPs, allowing subsequently an assessment at EU level (eg. *ex post* evaluations). As indicated in paragraph 17, forest-related data are made comparable between countries.

Regular reporting by Member States, based on commonly agreed monitoring indicators, enables the measurement of progress in the implementation in the RDPs.

19. The shared management and the Commission responsibilities for the implementation of the EU forestry strategy were established by the Council in its Resolution of 15 December 1998 on a forestry strategy for the European Union. It should be noted that evaluation is an integral part of the programme management and assesses the degree of achievement of the programme objectives.

20. Being part of the CAP the forestry measures are implemented under shared management and the Commission thereby considers that a number of implementation decisions remain at the discretion of the Member States. The Commission has to assess the conformity of programmes with the Community objectives and legislation. The implementation of the approved programmes is delegated to Member States. This includes all contacts with the beneficiary from the assessment of the project to the final payment. The Commission supervises the implementation of programmes via monitoring and evaluation. It audits the conformity of the implementation with the approved programmes and the relevant Community rules in order to assess any possible risk to the Funds and to assume final responsibility for the execution of the Community budget.

If the Commission audits reveal deficiencies in Member States' management and control systems and/or non-conformity with Community rules in project implementation, financial corrections may be proposed within the Commission clearance of account procedure.

21 to 22. The forestry strategy provides a reference framework for forestry-related actions in the EU. Measures included in programmes shall be in line with EU objectives, hereunder the forestry strategy. It is part of the rural development programmes approval to confirm this. When selecting individual projects, the competent national or regional authorities shall ensure that projects selected are in conformity with the programme. See also reply to point 20.

The proposal for the post 2006 rural development framework contains a clearer demarcation of responsibilities between the Commission and Member States. As to the implementation of EU strategies (including the forestry strategy), the proposal provides for the drawing up of an EU strategy plan for rural development to be adopted by the Council and the European Parliament.

The contribution to the achievement of the EU forestry strategy is assessed for each rural development programme in the evaluation reports prepared by the Member States and summarised by the Commission. The Commission proposed in July 2004 (COM(2004) 490 final) to reinforce the evaluation requirements for the future rural development framework.

#### **NATIONAL FOREST PROGRAMMES (NFP) OR EQUIVALENT INSTRUMENTS**

24. The COST (cooperation on science and technology) study mentioned by the Court was a preparatory stocktaking of the situation in the countries participating in the COST action in order to launch the discussion.

At the beginning of the present programming period, only few Member States had developed national forestry programmes, but progress has been achieved over the last years. Member States are developing to a different degree mechanisms and approaches to the forest policy making process that are consistent with the principles of national forest programmes.

25 and 26. The concept of national forest programmes has evolved under a variety of intergovernmental processes over the last 20 years. Today, the term has become an important concept with a broad scope for achieving sustainable forest management. At international level there is agreement on the general principles and dimensions of national forest programmes. However, there is no commonly agreed definition. In response to this need, the European countries have developed a common approach to national forest programmes in the context of the Ministerial Conference on the Protection of Forest in Europe (MCPFE).

27. In the absence of national forest plans in some Member States in 2000, it seemed justified to accept RDPs or OPs, a possibility which was provided for in Regulation (EC) No 1257/1999 (Article 29). When necessary, during the *ex ante* assessment of programmes the Commission requested additional information concerning the link between the proposed forestry measures and the fulfilment of the undertakings given by the Community and the Member States at international level.

28. Rural development as part of the common agricultural policy, with a corresponding legal basis in the Treaty of course, has by nature a focus on the agricultural sector. Forestry is nevertheless considered as an integral and essential part of the rural economy and rural development, which is reflected by the forestry chapter in Regulation (EC) No 1257/1999. Member States can set their forestry related objectives in the rural development programmes.

The essential contribution of forestry to rural development is to be reinforced according to the proposals for the post 2006 rural development framework: forestry is particularly addressed under axis I and II; several forestry measures are to be better articulated and targeted, for example addressing the importance of forests for the implementation of Natura 2000.

29 and 30. The Commission acknowledges the fact that the transition between two programming periods creates a heavy workload on its services. This is due to the fact that the Commission examines all programmes submitted by the Member States before approving them.

31. Forestry measures form an integral part of the rural development programmes (see also reply paragraph 28). The lengthy duration of the approval process is an indication of the time and efforts put in by the Commission in order to have correct programmes. This includes intensive contacts with the Member State during this process.

32. The involvement of many other units/DGs is linked to the fact that rural development measures (including forestry measures) not only touch agricultural issues but are placed within a wider rural context and can have an economic, social and environmental impact. Therefore, the approval of the measures is sought to be based on an as wide as possible mutual agreement within the Commission services, while DG AGRI remains the lead service for the afforestation of agricultural land.

33. In March 2002 the Commission established an inter-service group on forestry to strengthen the coordination of forestry issues among the services responsible for the different Community policies. The inter-service group, chaired by DG Agriculture, has brought together desk officers and managers from 10 different directorates-general.

34. The rural development programmes provide information on the linkage between proposed measures and national/subnational forest programmes or equivalent instruments (Regulation (EC) No 817/2004 Annex II, point 9(3)(X)) in order to allow the Commission to check their coherence. In addition, Regulation (EC) No 1257/1999 obliges each Member State to submit, as part of the rural development programme, the information necessary to allow a check of compatibility with competition rules.

35. It is true that no specific inventory of State aid decisions relating to forestry is made. However all decisions taken by the Commission in the field of State aid, and therefore also decisions taken on State aid in the forestry sector, are published in full on the website of the Commission Secretariat-General. In addition, a short resumé of each State aid measure for forestry is published in the OJ 'C' series.

36. The Commission proposed to select for funding the project within the Quality of Life specific programme under the fifth research framework programme (1998 to 2002). The aim of the project is to evaluate the effects of different financial instruments in the forest sector. The Commission attaches importance to the results of the project to learn from best practice and to draw conclusions. However, the project will not provide a complete overview of financial instruments, as it is limited in scope to some specific countries.

The Commission is also currently analysing mid-term evaluations of rural development programmes under Regulation (EC) No 1257/1999, which will include the evaluation of the forestry measures in a number of Member States.

#### **LARGE UPTAKE OF FUNDS FROM PREVIOUS PROGRAMMING PERIOD**

37 to 39. Continuity has to be ensured in rural development. Where the Regulations (EEC) No 2080/92 and (EC)

No 1257/1999 provide for a long-term (up to 20 years) compensation for income losses by nature, this affects several programming periods.

The longer-term compensation for income foregone is a core element to make afforestation of (more or less) productive agricultural land attractive for farmers; the only alternatives would be a capitalised one-off aid or an (eventually higher payment) over a shorter period with all resulting problems for the control of the commitment over a longer period.

However, with its rural development proposals for the post 2006 period (COM(2004) 490 final) the Commission envisages to mitigate the problem by granting income loss compensation for only up to 10 years and by reducing the ceiling for compensation for loss of income.

As far as environmental targeting of afforestation is concerned, it will be reinforced in the post 2006 rural development proposal. Recital 37 of the proposal names, in the first place, the protection of the environment as objective of afforestation; and 'any first afforestation should be adapted to local conditions and compatible with the environment and enhance biodiversity'. Moreover, Member States will have to designate areas suitable for afforestation for environmental reasons (Article 47(5)).

#### **A COMPLEX SYSTEM**

40. The Commission also finds that the current financing arrangements are complex and should be simplified. In the papers presented at the Salzburg conference by the Commission, this issue was addressed. It has been followed-up in the Commission's proposal for the post 2006 rural development framework which provides for a single fund with a single, significantly simplified delivery system.

41. The regulatory framework was modified in the spirit of simplification and of adherence to the real situation and to the best practices in use. The application of standard unit costs in forestry is justified by the specific nature of the projects supported. It is also a measurable method (the national authorities are required to establish a priori of a pricing system based on objective criteria) that provides for an effective simplification of the administrative procedures. Concerning the sanction system for forestry measures other than afforestation of agricultural land, as these are not generally linked to area measurements, sanctions based on IACS rules are not appropriate. The sanctions to be applied are therefore those set out in Article 64 of Regulation (EC) No 445/2002, replaced by Article 73 of Regulation (EC) No 817/2004, which reads as follows: 'Member States shall lay down the rules on penalties applicable to infringements of the provisions of this Regulation and shall take all measures necessary to ensure that they are implemented. The penalties provided for must be effective, proportionate and dissuasive'. This element is taken into account in the Commission's audits.

42. The procedures for applications are basically established by the Member States according to their administrative organisation. The number of documents required to apply for aid under a measure depends largely on the eligibility criteria set by the programming document and on the national requirement in terms of supporting documentation. The assistance of external consultants can improve the quality of projects.

#### IMPLEMENTATION OF FORESTRY MEASURES

46. Afforestation strategies are defined by the Member States either at national or at regional level. The Member States indicate in their rural development programmes the type of land to be afforested, the specific priorities to be addressed and the compatibility with the environment of the proposed actions. The Commission services examine these questions during the approval procedure for rural development programmes.

Where systematic checks on compatibility with the environment were left aside, the Commission has already conducted legal proceedings against Member States and will not hesitate to continue the same approach if need be.

A significant improvement of the environmental targeting and compatibility can be expected from the rural development proposals for post 2006 period. Both aspects are significantly reinforced in a way that Member States have to consider clearly environmental aspects as

- (a) to the design of the measure, and
- (b) to the implementation of the measure.

The essential tool to verify this *ex post* is the reinforced monitoring and assessment of the results achieved also in terms of environmental delivery.

47. The DG AGRI audit services apply, consistently, the approach indicated in the Guideline document provided to Member States to all rural development measures implying selections among applications eligible for financing due to limited funds available. When, during audits, findings are made in respect of non-transparency or non-objectivity of the selection systems, recommendations are made and financial corrections may be imposed.

Generally, the rural development programmes do include selection criteria, but the Commission recognises that in some cases there is scope for improvements. The issue of lack of recording of rejected projects mainly relates to Regulation (EEC) No 2080/92. For the present programming period this has been improved.

48. The national/regional definition of 'agricultural land' must be part of the rural development programme.

49. DG Agriculture has recommended cross-checks with the IACS system, or when appropriate with another reliable database, and has made efforts in order to ensure that this recommendation is respected.

50 and 51. The verification of the previous agricultural use and intensity is the competence of the Member States. The only Community provision is in Article 32 of Regulation (EC) No 817/2004 (shall be specified by the Member State where farming takes place on a regular basis). The Commission has the intention for the next programming period to specify the conditions in the implementing rules. In addition, a research project is to be launched about harmonised and appropriate methods to calculate area-related premiums, i.e. including the compensation of income loss (level must be determined by real previous use) and maintenance cost. Moreover, the designation of areas suitable for afforestation (RD-proposal post-2006, see paragraph 38) will contribute to limit possible abuses.

52. For the next programming period the Commission intends to review the calculation of payment levels (see also paragraphs 50 and 51).

53. Given these great varieties in tax systems, property rights etc. among the Member States a definition of a 'farmer' at Community level is difficult. In the absence of a Community definition the Commission accepts the national definitions of a 'farmer'; its national/regional definition must be part of the rural development programme. The verification of this status, however, is the responsibility of the Member State. The objective verification is difficult. For the next programming period more Community guidance is envisaged (e.g. requirement for proof via official documents, e.g. being registered, tax declaration, applications for direct payments).

54. The definition of the status of 'farmer' for the purposes of afforestation measures is to be provided by the Member State according to detailed criteria (Article 33 of Regulation (EC) No 817/2004). The Member State is required to define appropriate control criteria to verify the compliance with the given definition. Mostly, this is checked on the basis of official documents (e.g. income declarations, payment to the health/security system of farmer categories, registration in the farmers' register. See also the reply to paragraph 53).

55. The important starting point for the Commission is that the definitions of the eligibility criteria set in Member States' programmes meet the objectives of the Regulation. Attempts by individuals to evade the provisions cannot be avoided completely. Member States shall duly check applications against this possibility and in case of doubts undertake the appropriate actions. When the Commission services during audits in Member States find weaknesses in the control systems, they are followed up by recommendations and may also result in imposing financial corrections.



57. The Commission has applied financial corrections on the basis of these and other findings and addressed recommendations to the Member States audited and found not to be in conformity.

The shortcoming 'unsatisfactory verification of realised expenditure' was addressed with the introduction of the derogation for standard costs in forestry by Regulation (EC) No 963/2003 when appropriate standard cost systems were found to be in place.

60. The objective of afforestation of agricultural land under Regulation (EEC) No 2080/92 was both to reduce the agricultural production potential and to increase forest production. In order to meet both objectives with a limited overall budget for rural development a certain targeting on private owners and municipalities seemed appropriate. It should be noted that Regulation (EC) No 1783/2003 opened the measure to improve the ecological and social value of forest owned by public authorities. The afforestation of agricultural land owned by public authorities would be eligible according to the proposals for post 2006 rural development proposal.

In the case of Ireland, the Commission considered that amounts paid to the organisation concerned were ineligible, and has recovered all amounts paid under the clearance of accounts procedure. Since the Commission began this action (recently confirmed by the European Court of Justice) the Irish authorities have not paid any further EU money to the organisation.

61. Concerning targeting, see reply to point 60. There is a certain responsibility of municipalities to maintain their own forests. The authorities approving projects should require sufficient evidence from the municipalities that the maintenance work is ensured.

62. Such major unforeseen events have a huge impact on forestry resources and must lead to an appropriate review and, where necessary, to an adaptation of the strategy. Member States may choose different approaches to tackle these unexpected problems.

Given the gravity of the damages in France, the choice of the national authorities to reallocate funds towards restoration/prevention seems to be justified. This can be entirely supported from an environmental point of view, as in many cases the restoration activities were used as an occasion for conversion to more ecologically oriented forestry, which corresponds with the elements of the forestry strategy regarding biodiversity.

63. There are several forestry establishment and management techniques that can, to a limited extent, reduce the degree of windfalls by increasing the stability of forests (e.g. as regards the plantation in the margins or the mix of species and ages). Such investments are eligible under rural development. However, actions of this type can only have limited impact.

Storms and their destructive power cannot be influenced by the techniques applied. However, as to other types of natural disasters, floods and forest fires, the Commission pursues a series of initiatives to reduce the risk and to mitigate the impact.

The Commission, as part of the Luxembourg compromise of the Presidency in June 2003 on the CAP reform, committed itself to analyse measures related to crisis and risk management in agriculture. In the framework of this exercise consideration will be given to aspects of risk management related to natural disasters in forestry.

64. In their work, the Commission audit services pay particular attention to the respect of proper control procedures for public contract tendering for all measures allowing for aid under rural development to be granted to public bodies.

#### **IMPACT OF AFFORESTATION OF AGRICULTURAL LAND MEASURE**

67. The example mentioned by the Court, underlines the importance of income loss compensation in the framework of the afforestation of agricultural land, due to the need for a longer period of compensation payments to make the measure attractive.

68. The loss of income over a considerable number of years from the land planted with forest is in fact the biggest cost to the farmer entering the scheme.

69. Afforestation does indeed appear to be expensive but it can be justified as a long term investment in ecological stability and renewable natural resources.

See answer to paragraph 70.

70. It is worth noting that the evaluation report of Regulation (EEC) No 2080/92 indicates also that concerning the contribution of the regulation to rural development 'Overall this contribution appears to us to be significant and positive, and Regulation (EEC) No 2080/92 has fully played its role accompanying the reform of the common agricultural policy'. On top of the overall impact account should be taken on the significant effect in certain specific regions (like the planting of 100 000 hectares of cork oaks in Spain and Portugal).

71. A recent survey carried out by the Commission services in the context of the preparation of the implementation report of the EU Forestry Strategy indicates that forestry measures co-financed under Regulation (EC) No 1257/1999 have led to positive results in terms of contributing to enhance forestry resources.

Moreover, the benefits of the extension of woodland areas are not limited to the increase of forest resources. Extension of woodland areas promotes the diversification of activities in rural areas, as well as the protection of the environment. This measure may have very positive effects in some specific regions or areas.

73. In its working papers distributed at the Salzburg conference, the Commission services raised the question of explicitly retargeting the afforestation policy more towards environmental objectives.

The conclusions of the Salzburg conference have been used as an input for the extended impact assessment on rural development which accompanied the Commission's proposal for a new regulation for the next programming period. The legislative proposals themselves reflect this retargeting (recital 37, Article 47(5) with requirement to designate areas suitable for afforestation for environmental reasons).

74. The proposals for the post 2006 rural development framework provide for a better targeting and articulation of the entire bundle of forestry measures. The current Article 32 of Council Regulation (EC) No 1257/1999 is to be split. Investment aids are better specified.

In addition, the co-financing levels are to be reduced for afforestation (income loss) and for the successors of Article 32 to be increased.

Furthermore, the envisaged EU strategy guidelines will articulate the entire range of objectives for the forestry sector.

75. The objective to enhance forest resources, also with a reinforced targeting on environmental issues as proposed for the period post-2006, cannot be completely isolated from the general objective of rural development policy to accompany the Common Agricultural Policy; thus the farming community remains the main target group of this policy. The importance of afforestation of agricultural land reflects this.

Nevertheless, the proposals for the post-2006 rural development framework do not exclude the possibility for Member States to focus on afforestation of agricultural land owned by public authorities. In addition, the afforestation of other than agricultural land is to be continued to be eligible (private holders and municipalities and their respective associations).

In addition the proposal provides for the designation of the areas suitable for afforestation for environmental reasons. This will be independent from the type of ownership.

76. There are several intrinsic factors that explain this varying uptake which also stems from the fact that the implementation decisions are, to a large extent, made in respect of the principle of subsidiarity by the Member States. Firstly, it depends largely on the individual situation (structure of the holding, age of the farmer, personal preferences etc). Afforestation of leased land normally is difficult. In several regions the share of leased land in the holdings' UAA is relatively high.

Secondly, in this context it should be taken into account that the measure is of a long term nature. Farmers' areas afforested are definitively out of agricultural production for decades. Therefore, such decisions are considered very carefully, if not reluctantly, by the farmer.

In some regions and countries the measure is also conditioned by the very small average size of farms and the need to not discriminate small farmers.

In terms of the impact of the measure, it should be noted that programmes are still half way in their implementation, so it is difficult to draw conclusions at this stage. The latest reports provided by the Member States show in some countries a gradual increase in uptake of the measure during the most recent years, for example in Spain.

## IMPACT OF OTHER FORESTRY MEASURES

77. Some countries, however, considered the scope of the eligible measures satisfactory with regard to their added value (Austria, Ireland, Spain and United Kingdom). Others would prefer that the scope of the measures or the type of activities would be expanded (Belgium, France and Germany).

78. Article 32 of Regulation (EC) No 1257/1999 has proven difficult to implement. Nevertheless, support for maintaining the ecological role of forests continues to be justified in the general public's interest. Therefore the proposals for the post 2006 rural development framework contain a revision of and a more targeted approach to the current Article 32 measures. There will be a clear split between mandatory obligations to be compensated (Natura 2000 payments) and voluntary commitments (in analogy to agri-environment). The ceilings, which may be co-financed, are also to be increased to facilitate the uptake.

## CONCLUSION AND RECOMMENDATIONS

79. The approach adopted since 2000 following the rural development Regulation (EC) No 1257/1999 is consistent with the EU forestry strategy, which provides the overall reference framework for forestry actions in the EU. The overall principles of the EU forestry strategy (sustainability and multifunctionality) are reflected in the rural development policy, which aims to transform the three dimensions (economical, social and environmental) of sustainability into a coherent package of measures. These measures facilitate and support the implementation of national forest programmes or equivalent instruments in areas where there is a synergy with the objectives of rural development.

- The legal basis of EU forestry action stems from the Treaty. The EU forestry strategy provides the reference framework for forestry actions at EU level, including but not limited to rural development. The definition of forest is within the competence of the Member States. At EU level, forest data are made comparable with regard to forest area and stand volume.

80. The link between the forestry strategy and the individual projects co-financed by the EAGGF funds is ensured via the rural development programmes. The Commission verifies that programmes are in line with the forestry strategy. The national or regional authorities approve the individual projects on basis of the programme.

- The Commission foresees, in the proposal for the future rural development framework, a clearer demarcation of responsibilities between the Commission and Member States.

81. At the beginning of the present programming period only few Member States had developed national forest programmes. In the absence of such programmes, it seemed justified to accept RDPs or OPs as equivalent instruments, a possibility which was provided for in Regulation (EC) No 1257/1999. However, Member States made progress over the last years in the formulation and implementation of their national forest programmes.

82. At the start of the programming period all proposals for programmes were submitted to the Commission services within a short period of time. Member States are interested in a rapid Commission approval to start programme implementation. The Commission examined thoroughly all proposals in the shortest time possible. Nevertheless, the analysis had to include all information available on forestry actions, the *ex ante* evaluation, and involved a number of Commission services with DG AGRI being the lead service.

- The proposals for post 2006 rural development framework contain as an essential feature a requirement for strategic planning and monitoring. EU strategic guidelines will be proposed by the Commission to be adopted by the Council. National strategy plans will be elaborated on this basis. The rural development plans will implement the measures to achieve the objectives of the strategies.

The EU forestry strategy will be an integral part of these strategies.

The clearer target setting and well-defined strategies linking objectives and means to achieve them will allow a better assessment of policy outcomes and efficiency of the EU-funds used.

- The qualitative assessment is currently based on the various evaluations (including *ex-ante*) and material submitted by the Member States.

The proposals for post 2006 rural development framework will strengthen the strategy aspect of this assessment (including forestry), reinforce evaluation and focus clearly on the results achieved in relation to the strategic objectives.

83. A long-term compensation is necessary for afforestation of agricultural land to be attractive to farmers and will inevitably go over a number of programming periods. Nevertheless, the proposals for post 2006 rural development framework will provide to limit the compensation for income loss to 10 years and a reduction in the aid ceiling.

84. The Commission shares the opinion that the current financing arrangements are complex.

- For the period post 2006 significant simplifications are proposed. A single funding and programming system will remove the need to comply with different rules for different funds. The responsibilities of the Member States and the Commission will be more clearly defined.

85. Member States indicate in their programmes the land to be afforested and specific priorities to be addressed. This is subject to examination by the Commission services.

Non-transparency or non-objectivity of selection systems are subject to recommendations and may be taken into account for the proposal of financial corrections.

The current legislation requires the definition of eligible land and of a 'farmer' to be made by the Member State.

For the next programming period the Commission has the intention to provide more specific implementing rules and/or guidelines.

Where audits by the Commission services detect weak and insufficient control systems, financial corrections are applied.

- The implementation of the strategic, result-oriented approach for post 2006 period will contribute to a thorough selection of individual projects against efficiency criteria.

- The Commission will take account of the Court's observations in the risk analyses covering all CAP aid schemes and leading to its audit work programme. Where non-compliance with Community rules is established financial corrections will be imposed.

86. There is a certain responsibility of municipalities to maintain their own forests. The authorities approving projects should require sufficient evidence from the municipalities that the maintenance work is ensured.

- Based in particular on the mid-term evaluations of the rural development programmes the Commission services will analyse the extent and reasons for non-sustained projects and propose, where necessary, appropriate actions.

87. It is worth noting that the evaluation report of Regulation (EEC) No 2080/92 also indicates that concerning the contribution of the regulation to rural development 'Overall this contribution appears to us to be significant and positive'.

The farming community is the main target group of rural development. The implementation of voluntary measures depends also on the personal situation of the individual farmer. Against this

background the results achieved can be considered reasonable. However, several elements of the current objectives and design of the measure deserve improvements.

- The proposals for the post 2006 rural development framework contain several provisions for better targeting of the measure (e.g. strategy, designation of areas) and cost-efficiency (e.g. reduced aid ceilings, shorter duration).
-