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Subject : Proposal for a Council regulation on support for rural development by the  
European Agricultural Fund for Rural Development (EAFRD)  
- Consolidated text of the Presidency final compromise (in agreement with the  
Commission)

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Delegations will find attached the consolidated text of the Presidency final compromise <sup>1</sup> (Annex I)  
and declarations to be included in the minutes of the Council (Annex II).

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<sup>1</sup> Distributed in Luxembourg on 20 June 2005 with reference DS 320/2/05 REV2. The current document contains the modifications agreed during the session of the Council.

**Consolidated text of the Presidency final compromise – proposal for a Council Regulation on support for rural development by the EAFRD**

The presidency compromise text (8481/05 of 27.4.05) is amended on the following points:

**1. STRATEGIC MONITORING (ART 12, 13)**

The frequency of reporting will be limited to once every two years, starting in 2010. The 3<sup>rd</sup> and last report will be due in 2014.

**2. BALANCE BETWEEN OBJECTIVES (ART 16)**

To provide more flexibility to Member States article 16 is adapted in the following way:

*The Community financial contribution to each of the three objectives referred to in Article 4 shall cover at least 10% of the Fund's total contribution to the programme for axis 1 and 3 referred to in Sections 1 and 3 respectively of Chapter I of Title IV and 25% of the Fund's total contribution to the programme for axis 2 referred to in Section 2 of Chapter I of Title IV. [25% axis 1 and 3 combined is deleted] For the programmes of the French Overseas Departments, the minimum Community financial contribution for axis 2 shall be 10%.*

*An amount of 5% at least of the Fund's total contribution to the programme must be reserved for axis 4 referred to in Section 4, of Chapter I of Title IV. This amount contributes to the percentages laid down in the first subparagraph. For the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia, the minimum Community financial contribution for axis 4 of 5% can be phased in over the programming period in such a way that on average at least 2,5% of the Fund's total contribution is reserved for axis 4. [minimum 15% axis 3 deleted]*

### 3. YOUNG FARMERS (ART 21, 25 AND 48)

For young farmers taking over holdings not completely up to norm or wishing to change the management plan, the following sub-paragraph is added to article 25(1)(b):

*In the case of young farmers receiving support provided for in article 19(a)(ii), support may be granted for investments to comply with existing Community standards, when identified in the business plan referred to in article 21(1)(c). The period of grace within which the standard needs to be met, may not exceed 36 months from the date of setting up.*

To article 48(1) the following sub-paragraph is added:

*The reduction or cancellation of payments shall not apply for standards for which a grace period has been granted in accordance with article 25(1)(b) during the grace period.*

### 4. ADDING VALUE TO AGRICULTURAL AND FORESTRY PRODUCTS (ART 27)

To provide further flexibility in the size of enterprises that can be supported, article 27(2) first sub-paragraph is changed in the following way:

*Support under paragraph 1 at its maximum rate shall be limited to micro, small and medium sized enterprises within the meaning of Commission Recommendation 2003/361/EC<sup>1</sup>. For the territories of Açores, Madeira and the Canary islands, the French Overseas Departments and the smaller islands of the Aegean Sea no size limits apply for the maximum rate. For enterprises that are not covered by Article 2(1) of that Recommendation with less than 750 employees or with a turn over of less than 200 million EUR the maximum aid intensity is halved. In the case of forestry, support shall be limited to micro-enterprises.*

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<sup>1</sup> OJ L 124, 20.5.2003, p. 36.

**5. COOPERATION FOR THE DEVELOPMENT OF NEW PRODUCTS, PROCESSES AND TECHNOLOGIES (ART 19 AND 27 A)**

The scope of the cooperation article is extended to include the forestry sector. Article 19(b)(iiia) and article 27a are adjusted accordingly.

*Article 19(b)(iiia) cooperation for development of new products, processes and technologies in the agriculture and food sector and in the forestry sector,*

*Article 27a*

***Cooperation for development of new products, processes and technologies in the agriculture and food sector and in the forestry sector***

*1. Support provided for in Article 19 (b)(iiia) shall be granted to promote the cooperation between primary producers in agriculture and forestry, the processing industry and/or third parties.*

*2. Support shall contribute to cover costs incurred for the cooperation.*

**6. TRANSITIONAL MEASURES (ART 32 AND 33)**

The application for support for semi-subsistence farming and for the setting up of producer groups is prolonged till the end of 2013.

In Articles 32(4) and 33(3) the year 2010 is replaced by 2013.

## **7. LESS FAVOURED AREAS (ART 35, 47, 98 AND 99)**

The Commission will present a report and proposals concerning the future payment system and designation of LFAs for a Council decision. Subject to this review article 35 (payment system) and article 47(2)-(4) (designation of LFAs) will enter into force starting with the 4<sup>th</sup> programming year. Until 2010 the relevant provisions of Council Regulation 1257/99 will remain in force. Articles 98 and 99 are adjusted accordingly:

*Article 98*

### ***Repeal***

*1. Regulation (EC) No 1257/1999 is repealed with effect from 1 January 2007 with exception of articles 13(a), 14(1) and (2) first two indents, 15, 17 to 21, 51(3) and 55(4). These articles will be repealed with effect from 1 January 2010, subject to an act of the Council adopted in accordance with the procedure laid down in Article 37 of the Treaty.*

*References to the repealed Regulation shall be understood as being to this Regulation.*

*The repealed Regulation shall continue to apply to actions approved by the Commission under that Regulation before 1 January 2007.*

*2. Council Directives and Decisions laying down and amending the lists of less-favoured areas adopted pursuant to Article 21(2) of Regulation (EC) No 950/97 are repealed with effect from 1 January 2010, subject to an act of the Council adopted in accordance with the procedure laid down in Article 37 of the Treaty.*

## *Article 99*

### ***Entry into force***

*This Regulation shall enter into force on the day following that of its publication in the Official Journal of the European Union.*

*It shall apply to Community support concerning the programming period starting from 1 January 2007, with the exception of Articles 35, 47 (2) to 47 (4) and 93 (3) which shall apply from 1 January 2010, subject to an act of the Council adopted in accordance with the procedure laid down in Article 37 of the Treaty.*

*This Regulation shall be binding in its entirety and directly applicable in all Member States*

## **8. AFFORESTATION (ART 40, 41 AND 42 AND ANNEX I)**

The aid intensity for establishment costs in annex I is set at 70% outside LFAs, at 80% in LFAs and at 85% in the Outermost Regions.

The maximum amount for income loss is increased to 700 EUR/ha for farmers or associations thereof and 150 EUR/ha for any other natural persons or private law corporations.

## **9. BASIC SERVICES**

Support for cultural and leisure activities is added to basic services in article 54:

### **Basic services for the economy and rural population**

The support referred to in Article 49(b)(i) shall cover the setting up of basic services, including cultural and leisure activities, concerning a village or group of villages, and related small-scale infrastructure.

**10. RURAL HERITAGE/NATURE DEVELOPMENT (ART 55)**

Article 55(a) is supplemented in the following way:

*The support referred to in Article 49(b)(iii) shall cover:*

*(a) the drawing-up of protection and management plans relating to Natura 2000 sites and other places of high natural value, environmental awareness actions and investments associated with maintenance, restoration and upgrading of the natural heritage and with the development of high nature value sites.*

**11. LOCAL DEVELOPMENT STRATEGIES OTHER THAN LEADER**

Article 57 is supplemented in the following way:

***Skills acquisition, animation and implementation***

*The support referred to in Article 49(d) shall cover:*

*(a) studies of the area concerned;*

*(b) measures to provide information about the area and the local development strategy;*

*(c) the training of staff involved in the preparation and implementation of a local development strategy;*

*(d) promotional events and the training of leaders;*

*(e) implementation by public-private partnerships other than those defined by article 61(1)(b) of the local development strategy encompassing one or more of the measures under article 49(a), (b) and (c).*

## 12. FINANCIAL RESOURCES (ART 70)

Article 70 is changed and supplemented in the following way:

*1. The resources available for commitment from the Fund for the period 2007 to 2013 shall be EUR 88.75 billion at 2004 prices. The annual breakdown is shown in Annex II. Of these resources, at least EUR 31.3 billion at 2004 prices shall be concentrated in regions eligible for the Convergence Objective. These amounts shall be reviewed if they are not consistent with the financial perspective for the period 2007 to 2013. The appropriations shall be authorised by the budgetary authority within the limits of the financial perspective.*  
*[brackets deleted]*

*(paragraph 2, Leader reserve, deleted)*

*3. 0.25% of the resources referred to in paragraph 1, for an amount of EUR 0.22 billion at 2004 prices, shall be devoted to technical assistance for the Commission as referred to in Article 67(1).*

*4. For the purpose of their programming and subsequent inclusion in the general budget of the European Communities, the sums referred to in paragraph 1 shall be indexed at 2% per year.*

*5. The Commission shall make an annual breakdown by Member State of the amounts indicated in paragraph 1, after deduction of the amounts referred to in paragraph 3 (paragraph 2 deleted), taking into account the following elements:*

*(a) the amounts reserved for regions eligible to the Convergence Objective;*

*(b) past performance, and*

*(c) particular situations and needs based on objective criteria.*

*(last sub-paragraph, distribution of the Leader reserve, deleted)*



*6. In addition to the amounts indicated in paragraph 5, the Member States shall take into account for the purpose of programming the amounts resulting from modulation as provided for in Article 12(2) of Regulation (EC) No.../...[financing of the CAP].*

*7. The Commission shall ensure that total annual allocations from the Fund originating from the EAGGF Guidance section for any Member State pursuant to this Regulation, and from the ERDF, the CF and the ESF pursuant to Regulation (EC) No.../...[including the contribution of the ERDF to the financing of the cross-border strand of the European Neighbourhood Instrument pursuant to Regulation (EC) No.../...and of the Instrument for Pre-Accession pursuant to Regulation (EC) No.../...], and from the part of the Financial Instrument for Fisheries Guidance contributing to the Convergence objective, shall not exceed 4% of that Member State's GDP as estimated at the time of the adoption of the interinstitutional agreement.*

### **13. COFINANCING RATE OUTERMOST REGIONS**

Article 71(4) is adapted in the following way:

*Notwithstanding the ceilings set out in paragraph 3, the Fund contribution may be increased to 85% for the programmes of the outermost regions and the smaller islands of the Aegean Sea.*

### **14. ELIGIBILITY OF EXPENDITURE (ART 72)**

Article 72(3)(c) is adapted in the following way:

*3. The rules on eligibility of expenditure shall be set at national level, subject to the special conditions laid down by this Regulation for certain rural development measures.*

*The following costs are not eligible for a Fund contribution:*

*(a) VAT, except non-recoverable VAT when it is genuinely and definitively borne by beneficiaries other than non taxable persons foreseen in Article 4(5), 1st subparagraph of the 6th Council VAT Directive,*

*(b) interest on debt, without prejudice to paragraph 5,*

*(c) the purchase of land costing more than 10% of the eligible expenditure on the operation concerned. In exceptional and duly justified cases, a higher percentage can be fixed for operations concerning environmental conservation.*

#### **15. NATIONAL COORDINATION FOR REGIONALISED MS (ART 81)**

To article 81 (monitoring committee) the following paragraph is added:

*3. Member States with regionalised programming may establish a national monitoring committee to coordinate the implementation of the regional programmes in relation to the national strategy and the uptake of financial resources.*

#### **16. LEADER RESERVE (ART 92)**

Article 92 is deleted as is the last sentence of article 18(1) and article 86(2)(f).

#### **17. RECITALS**

As a consequence of the changes in the final compromise text the following amendments are introduced in the recitals.

Due to changes in Articles 27 and 27a recitals (20), (23) and 23(a) read as follows:

- (20) *With regard to physical capital, a set of measures on the modernisation of farms, improvement of the economic value of forests, adding value to agricultural and forestry products, promoting the development of new products, processes and technologies in the agricultural and food sector and in the forestry sector, improvement and development of agricultural and forestry infrastructure, restoring agricultural production potential damaged by natural disasters and introduction of appropriate prevention measures should be made available.*
- (23) *Improvements in the processing and marketing of primary agricultural and forestry products should be encouraged by means of support for investments aimed at improving efficiency in the processing and marketing sector, promoting the processing of agricultural and forestry production for renewable energy, introducing new technologies and innovation, opening new market opportunities for agricultural and forestry products, putting emphasis on quality, improving performance in the environmental protection, occupational safety, hygiene and animal welfare fields, as appropriate, by targeting as a general rule micro, small and medium-sized enterprises and other enterprises under a certain size, which are better placed to add value to local products, while simplifying the conditions for investment aid as compared with those laid down in Regulation (EC) No 1257/1999.*
- (23a) *In a context of increased competition it is important to ensure that agricultural and food sectors and the forestry sector can take advantage of market opportunities through widespread innovative approaches in developing new products, processes and technologies. For this purpose cooperation between farmers, the food and the raw materials processing industry and other parties should be encouraged.*

Due to changes in Articles 32 and 33 recital (29) reads as follows:

- (29) *There is a need to ensure the smooth transition of a set of individual measures introduced through the Treaty of Accession of 2003, namely the measure on semi-subsistence farming and the measure on producer groups. [the rest is deleted]*

Due to changes in Articles 98 and 99 as regards the delayed implementation of the new payment system and the new designation of LFAs, recitals (32), (43) and (70) are amended as follows:

At the end of recital (32) the following sentence is added:

*Certain provisions of Regulation (EC) No 1257/1999 concerning support for less favoured areas should remain in force for a period of time.*

The second sentence of recital (43) reads as follows:

*Therefore, Council Directives and Decisions adopting lists of less-favoured areas or amending such lists in accordance with Article 21(2) and (3) of Council Regulation (EC) No 950/97 of 20 May 1997 on improving the efficiency of agricultural structures<sup>1</sup> should be repealed with effect at a later date.*

The second sentence of recital (70) reads as follows:

*Therefore, Regulation (EC) No 1257/1999 should be repealed from 1 January 2007 with the exception of certain provisions concerning less-favoured areas which should be repealed at a later date,*

In case of changes in Article 70(1) depending on the decision on the next financial perspectives recital (52) reads as follows (text in brackets):

(52) *Provisions on the allocation of the available resources should be introduced. These resources should be consistent with the financial perspective for the period 2007 to 2013. [brackets dropped] The overall amount for rural development should be allocated annually. Significant concentration on the regions eligible under the Convergence Objective should be allowed.*

Recitals (55) and (66) on the Leader reserve are deleted.

In the light of an amendment proposed by the EP the second sentence of recital (16) is changed as follows:

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<sup>1</sup> OJ L 142, 2.6.1997, p. 1.

*The setting-up measure should be made conditional on the establishment of a business plan as an instrument to ensure over time the development of the activities of the new undertaking.*

Annex II of the original Commission proposal COM(490) 2004 is added to document 8481/05:

## **ANNEX II**

### **Annual breakdown of commitment appropriations for 2007–2013**

(referred to in Article 70(1))

*EUR million – 2004 prices)*

<b>Year</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
	11 759	12 235	12 700	12 825	12 952	13 077	13 205

## **Declaration of the Commission concerning the relationship between the Paying Agency and the Managing Authority**

The Managing Authority is responsible in particular for ensuring that operations are selected for funding in accordance with the criteria applicable to the programme (art. 77 RD-regulation). The Paying Agency will, in particular based on information from the Managing Authority, have to take the necessary measures in order to provide sufficient guarantees that the procedures for allocating aid have been respected before payment is authorised (art. 6 Financing Regulation).

For several RD measures, a specific selection process has to be put into place by the Managing Authority (or by the body to which this activity was delegated). For others, no specific selection process is required as unequivocal eligibility criteria are fixed in advance. The eligibility of these requests is checked by the paying agencies (or the body to which this activity was delegated in conformity with art. 6 of the Financing Regulation).

## **Declaration of the Commission with regard to financial programming**

For Member States with regionalized programming a facility in the implementing regulation will be introduced to allow for a certain flexibility in the uptake of financial resources. By simple notification to the Commission, Member States will have the possibility to adjust in the year “n” the financial tables of regional programmes for the year “n” and following years, including transfers between programmes, as long as the total Community contribution for each programme is not affected and the annual rural development allocation of the Member State is respected.

## **Declaration of the Commission with regard to interest rate subsidies for the modernisation of farms**

Based on article 72(5) the Commission will examine in the context of the implementing regulation the modalities under which interest rate subsidies as another form of support for farm investments can be accepted.



## **Declaration of the Commission concerning controls**

In addition to the orientations set out in the working document of the Commission in Council document n°7975/05, the Commission will, in view of limiting controls to the strict necessary, take into account, when preparing the detailed rules, the following points:

- The multi-annual nature of commitments under certain measures;
- To limit the number of visits to beneficiaries in the measure possible;
- The specificities of forestry area compared to agricultural area.

## **Declaration of the Council and the Commission regarding voluntary modulation**

In the context of the discussions on the Financial Perspectives for the period 2007-2013, the issue of voluntary modulation will be examined together with the question of the overall rural development funding. It relates to the capacity of Member States which have applied in 2006 reductions of direct payments as provided for in Regulation (EC) No 1655/2004, to apply an additional reduction up to the rate estimated each year to be required to cover the difference between the amount available as a result of the reductions under that Article 10 of Regulation (EC) No 1782/2003 and the amount necessary to finance the expenditure for accompanying measures decided before the end of 2005 and continued under axis 2 of the rural development regulation. The amounts resulting from these additional reductions would be transferred to the EAFRD and allocated to the Member State concerned for the purpose of programming under the rules for rural development support.

## **Declaration of the Council and the Commission regarding Bulgaria and Romania**

For Bulgaria and Romania the same facilities will be offered for the programming period 2007-2013 upon their accession as for the Member States which joined in May 2004. For the contribution in the cost of advisory services for farmers receiving semi-subsistence support an increase in the aid intensity to 100% will be considered.

## **Declaration of the Commission regarding state aids for enterprises**

Enterprises not covered by article 27(2) of the Regulation can receive state aid support in accordance with articles 87, 88 and 89 of the Treaty.

## **Declaration of the Commission regarding article 37 on agri-environment**

In the implementing regulation the Commission will introduce detailed rules for the calculation of agri-environment payments, which will be granted annually, including the transaction cost element.

## **Declaration of Finland and Sweden on art. 70(5)c**

In allocation of the resources on the basis of art. 70(5)c, the particular situations and needs of the current Objective 1 areas situated in the northern and eastern parts of Finland and northern parts of Sweden shall be taken into account, if these areas would no longer qualify as Convergence areas, and taking into account respective Accession Treaties.

## Statement by Portugal

In a desire to send a clear signal at this time to European agriculture of its confidence in the European institutions and to contribute towards a more stable and predictable agricultural sector, the Portuguese delegation supports the compromise proposal by the Presidency and the Commission.

It hopes that, when the financial perspective is approved, due account will be taken of the report on Portuguese agriculture drawn up by the Commission and submitted to the European Council in 2003 which recognises the importance of pursuing a policy of rural development for restructuring the sector in Portugal.

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