

# **European and External Affairs Committee**

EUR(3) 05-08 (p2) : 19 June 2008

## **Minister's Report**

### **Purpose**

1. This report is provided in response to an invitation from the Committee Chair to present an update on a range of issues and specifically, at the Chair's request, information on the consultation on the EU budget; the consultation on the future of regional policy, the European Commission's proposals on the CAP Health Check (including an update on the outcome of the Assembly Government's consultation) and the Lisbon Strategy (including an update on the visit to Whitehall by officials of the European Commission).

### **Recommendation**

2. That members note the content of the report.

### **Background**

3. I last addressed the Committee on 28 February 2008. This paper provides an update.

## **First Minister's International Activities**

- **27 February 2008 - Reception for International Students**

I was delighted to be able to host a reception, with my colleague the Minister for Children, Education and Lifelong Learning and Skills, for 160 international students studying in universities and colleges all over Wales. The reception was an opportunity for me to hear first hand how the students are enjoying their time in Wales, for me personally to thank them for choosing to study in Wales and for my staff to gather contact details for the students for their return to their home countries to enable us to keep them informed of developments in Wales so that they can act as informal ambassadors on our behalf.

- **15 March 2008 Speaker & Clerk, New South Wales Parliament**

I met with Richard Torbay, Speaker of the New South Wales Legislative Assembly in the New South Wales Parliament, and Russell Groves, Clerk of the Legislative Assembly. This was a courtesy call in the margins of plenary

and we spoke briefly about the different procedures in the legislatures in Wales and New South Wales and for an update on the incoming Australian Federal Labor Government, including Barry-born Julia Goddard as Australia's first woman Deputy Prime Minister.

- **6 May 2008 - Europe Day Celebration held at the European Commission Office in Wales, Cardiff Bay**

I attended a reception at the European Commission Office in Cardiff Bay to celebrate Europe Day where I made a brief speech to over 100 attendees.

- **12 May 2008 - Bertrand Cochery, Consul General, French Embassy London**

I met briefly with M. Cochery about the proposed visit to Wales later in the year of His Excellency M. Maurice Gourdault-Montagne, Ambassador of France to the United Kingdom. We also took the opportunity to discuss the large number of French companies operating in Wales.

- **28 May 2008 Xiamen Seminar on Urban & Rural Planning**

I was pleased to have the opportunity to open this seminar which highlighted the collaboration between Cardiff and Xiamen Universities and formed part of the 25th anniversary celebrations of the twinning of the City of Cardiff and the Municipality of Xiamen.

## **Other Issues**

### **CAP Health Check**

The Health Check is not a fundamental review of the direction of the Common Agricultural Policy (CAP) but an evaluation of how the last reforms in 2003 are operating and whether certain aspects need adjusting. The current structure of the CAP is in place until 2013.

The process of reform is continuing with the expansion of the EU from 15 to 27 countries. The CAP Health Check deals with the period 2009-2013. Longer-term reform of the CAP is first and foremost the subject matter of the EU Budget Review.

The Health Check review began with publication of the Commission's proposals on the scope and nature of possible changes in November 2007. Draft regulations were published by the Commission 20 May 2008 and political agreement at EU level is planned by October 2008. Legislation is expected to be in place 1 January 2009. The approval of all 27 Member States and the European Parliament is required.

There will need to be intense negotiation between Member States on some issues – for example the detail on possible adjustment, or retargeting, of the cross compliance requirements, setting minimum and maximum levels for payments and confirming the arrangements for directing modulated funds raised by increases in compulsory EU modulation.

There will be no additional funds for the CAP – the current budget set for the CAP is not increasing under the Health Check.

A summary of the proposals published on 20 May are at **Annex A**.

### **EU Budget Review Consultation**

The Welsh Assembly Government has submitted its response to the EU Budget Review consultation and this can be viewed on the European Commission's web site [ec.europa.eu](http://ec.europa.eu). The response considers the challenges for future EU spending and articulates our view on managing EU funding, drawing upon our experiences. The general direction of the response is to call for continued financial support for achieving the goals of the EU's Lisbon Strategy for growth and jobs, for transitional funding for regions moving out of convergence funding and for further simplification in the management of EU funds.

Due to the volume of contributions and interest in the consultation the European Commission extended the consultation deadline to 15 June 2008.

### **Future of the Cohesion Policy Consultation**

The European Commission's consultation ended on 31 January 2008. The Welsh Assembly Government was actively involved in developing the UK Government's response to the consultation. The consultation report, together with the Fifth Progress Report on Economic and Social Cohesion is due to be published in June.

The Slovenian Presidency of the EU held a conference on the future of Cohesion Policy on 7 and 8 April 2008, to make the debate more structured, focused and concrete. Officials from Member States (including the Welsh Assembly Government), representatives from European institutions and regional associations participated. The main conclusions included the following: that Cohesion Policy is important, convergence should be the primary focus for the policy and simplification proposals should be further explored.

The French Presidency will take forward the debate on the future of Cohesion Policy.

### **French EU Presidency Priorities**

France assumes the EU Presidency on 1 July, succeeding Slovenia. This is the start of the next Trio Presidency, consisting of France, the Czech Republic and Sweden. A joint Presidency work programme is expected in June. Early indications are that French Presidency's priorities will be energy and climate change (taking forward the energy and climate change package, the internal energy market and energy security), migration (the European immigration pact) and defence (instruments to help resolve crises). They will also discuss the future of common policies following the end of the current Financial Perspective in 2013, particularly the Common Agricultural Policy. This is likely to feature at the informal Council in September.

### **Treaty of Lisbon**

The UK Government is ratifying the Treaty through a Parliamentary Bill. The European Union (Amendment) Bill was approved by the House of Commons on 11 March and was passed to the House of Lords. As of 2 June, 15 Member States had ratified the Treaty by parliamentary votes. Ireland is the only country that will hold a referendum on ratification and this will take place on 12 June. The Treaty has to be ratified by all Member States before it can come into effect.

### **Lisbon Strategy**

The Spring European Council in March launched the start of a new three-year (2008-2010) cycle for the Lisbon Strategy for growth and jobs. The Council confirmed that the existing guidelines for economic and employment policies will remain in place and endorsed the country-specific recommendations made by the European Commission regarding the policies of the Member States.

The work on this year's update to the UK National Reform Programme (NRP), which details the policies that support the Lisbon Strategy, has started. A Welsh Assembly Government official participated in a meeting on 4 April, at BERR, to discuss policies with European Commission officials. This was to prepare for the full Technical Visit to the Treasury by a team from the Commission on 23 June. This meeting will discuss this year's NRP update. We will again be represented by an official who will contribute to the NRP update report, due for publication in September.

### **EU Audiovisual and Culture Council, 21 May**

Rhodri Glyn Thomas, Minister for Heritage, represented the UK at the Council. "Creative Content Online" was discussed in advance of a Commission proposal and Ministers agreed Council Conclusions on the 3<sup>rd</sup> Work Plan for Culture 2008-10

### **JESSICA**

The Committee has previously received information on the European Commission's JESSICA (Joint European Support for Sustainable Investment in City Areas) initiative. The European Investment Bank has now awarded the contract to undertake the scoping study for Wales to King Sturge. The results of the study are expected in around 4 months.

## **Education and Training**

Following policy that I approved in September 2006, and through the Welsh Assembly Government's membership of EARLALL (the European Association for Regional and Local Authorities for Lifelong Learning), we are currently developing Memoranda of Understanding (MoUs) in the field of educational mobility with a number of European partner regions. These build on work already shared with partner regions, such as the European Scheme for Validation of Competences (ESVaC) project, now successfully concluded, which focused on developing common approaches to the assessment of competencies for vocational qualifications.

The first of the Memoranda **[subject to agreement]** were signed with Catalonia and Tuscany by the Minister for Children, Education, Lifelong Learning and Skills at the recent EARLALL Board meeting in Cardiff on 6 June. Further educational mobility MoUs are currently being developed with the Balearic Islands, the Basque Country, Andalusia and Brittany. I expect these MoUs to underpin both the development and the operation of enhanced opportunities for student and practitioner work and training placement, and the sharing of best practice.

Positive feedback on student development has already been received following the piloting of exchanges between Welsh FE colleges and partner institutions in the Balearic Islands over the last 18 months, with active assistance from the Balearic Islands Government. Practitioners from the region are planning to visit Wales in the autumn to investigate further opportunities for collaborative working with our Further and Higher Education institutions, and to review Welsh Assembly Government lifelong learning policies and programmes.

Indeed, we have already seen the deepening of relationships between Wales and Catalonia following a similar inward study visit by the Generalitat de Catalunya's Education Department in November last year. Catalan officials were highly impressed by the quality of training provision being made available through our Further Education colleges, and were particularly interested in how we were making best use of ICT to enhance access and learning opportunities. They were equally impressed by the breadth of support available through Careers Wales, and the enthusiasm and professionalism of our careers guidance staff.

## **6-9 March 2008 - Visit to Chongqing**

I visited Chongqing during 'Wales Week' in early March to sign a formal Co-operation Agreement between Wales and Chongqing and to participate in a number of functions to raise the profile of Wales in South West China.

The formal Co-operation Agreement replaces the Memorandum of Understanding signed in 2006 and covers co-operation in the fields of science and technology, culture, health, education, agriculture, economic development, forestry management, environment, governance, tourism and land use planning. The relationship with Chongqing has developed at a remarkable pace over the last two years and promises to continue to do so. The signing ceremony was held in the prestigious Three Gorges Museum, which was also the location for a week-long Discover Wales exhibition which received extensive media coverage. I hosted a reception at the Museum, launched the first book in Mandarin exclusively about Wales, and attended the signing ceremony of a joint venture agreement between Swansea-based Enfis and Chongqing TianHai Medical Equipment Co Ltd.

My visit also included a meeting with the Vice Mayor of Chongqing Municipal Government to discuss our relationship, visits to a community health care clinic, a children's/youth education and training centre, a school twinned with a school in Cardiff and to the British Consulate and British Council offices. I also visited the "Discover Wales Arena" at the international education exhibition in Chongqing (which was touring four other cities), and gave a number of media interviews.

A trade mission visited Chongqing during the Wales Week, as did representatives of Welsh schools and local educational authorities to develop further the school links that have been established.

Following the earthquake in Sichuan Province on May 12 I wrote to the Mayor and people of Chongqing, and also to the Chinese Ambassador to the UK, to express condolences.

### **Champions for Wales**

To coincide with this year's St David's Day celebrations the Deputy First Minister and I announced 5 new Champions for Wales – Sir Martin Evans; Sir John Houghton; Sir Terry Matthews; Alderman David Lewis and Henry Engelhardt - in recognition of their contribution to the promotion of Wales in the world. Champions for Wales are leaders in their chosen field who can make a huge difference in the way that Wales is seen by the outside world.

### **Festival Interceltique Lorient**

On 13 May, the Festival Interceltique Lorient's Year of Wales was launched to the French media in Paris. The Festival is the biggest cultural festival in France and takes place in the first week of August. With around 200 Welsh artists performing it will be a great European showcase for the wealth of Welsh talent. The Lorient Festival coincides with the dates of the Eisteddfod

and we are looking at how links can be made between these two major cultural events during the Year of Wales.

The Year of Wales at Lorient was launched by me and the Culture Minister at the Wales Millennium Centre on June 5<sup>th</sup> - with the Director General and his predecessor present. The success of Lorient reflects first how big and mainstream Celtic or Breton music has become in the French music scene, representing 8.5% of all French CD or DVD sales.

**Rhodri Morgan AM**  
**First Minister**

## EEAC FIRST MINISTER'S REPORT

Date	Assembly Minister/Official/ Division	Event	Objectives	Outcomes
4 <sup>th</sup> February 2008	Jane Hutt AM, Minister for Children, Education, Lifelong Learning and Skills	Meeting with Brazilian delegation regarding Children's Rights  Cardiff	The British Council were hosting a delegation from Brazil over two days. The aim of the visit is to introduce Mr Molon, Professor Sussekind and Professor Mello Neto to a variety of approaches used in the UK for the formulation and implementation of policies which address similar social problems to those of Rio. These include human rights led approaches, scrutiny mechanisms and multi-agency working, especially in the areas of child protection and policing. They are also interested in mechanisms for improving general public awareness and understanding of the problems such as the media and the implementation of freedom of information laws.	The insights gained from the UK meetings, such as the meeting with the minister will inform future policy research by the Instituto Carioca de Ideias, and the development of models for action which could be applied elsewhere in Brazil.
10 <sup>th</sup> February 2008	Jane Hutt AM, Minister for Children, Education, Lifelong	HSBC Chinese New Year Celebratory Event	Minister opened the celebratory event on behalf of the First Minister in celebration of the Chinese New Year. The event was sponsored by HSBC Bank and was	Minister addressed the event regarding the celebration of the fusion of culture through mainstream education.



	Learning and Skills	Cardiff	organised by Chinese community organisations in Cardiff, to include traditional celebrations of the start of the lunar new year.	
18 <sup>th</sup> February 2008	Jane Hutt AM, Minister for Children, Education, Lifelong Learning and Skills	During a personal visit to Africa, the Minister took the opportunity to meet with <ul style="list-style-type: none"> <li>- Francois Gordon - High Commissioner</li> <li>- John Hamilton HM Consul at British High Commission</li> </ul> Kampala, Uganda.	To discuss education matters	The meeting took place as described
18 <sup>th</sup> February 2008	Jane Hutt AM, Minister for Children, Education, Lifelong Learning and Skills	During the Minister's personal visit she also met with: <ul style="list-style-type: none"> <li>Richard Weyers - Director of the British Council.</li> </ul> Kampala, Uganda	To discuss Education Matters	The meeting took place as described
23 <sup>rd</sup> February 2008 to	Elin Jones AM, Minister for Rural Affairs	Dubai Visit Gulfood Show	UAE lifting ban on import of Welsh Lamb	The ban has been lifted on all imports of Sheep, Lamb & Goats from Wales

25 <sup>th</sup> February 2008				
27 <sup>th</sup> February 2008	Jane Hutt AM, Minister for Children, Education, Lifelong Learning and Skills	Meeting with Mr Kent Johansson from Region Västra Götaland (Sweden) - President of European Association of Regional and Local Authorities for Lifelong Learning / EARLALL, Cardiff	To discuss the last board meeting and future board meetings	The meeting took place as described
27 <sup>th</sup> February 2008	First Minister & Jane Hutt AM, Minister for Children, Education, Lifelong Learning and Skills	Reception for international students studying in Wales	<ol style="list-style-type: none"> <li>1. To raise the profile of Wales overseas</li> <li>2. To encourage the students to become future unofficial ambassadors for Wales</li> <li>3. Enable the compilation of a contact list of Welsh alumni for future use.</li> </ol>	160 students from all Welsh institutions of higher education attended this event from 50 different countries. Many provided their home contact details so that they can be kept informed of developments in Wales.
5 <sup>th</sup> March 2008 – 9 <sup>th</sup> March 2008	First Minister	Visit to Chongqing	Visit to Chongqing during ‘Wales Week’ in early March to sign a formal Co-Operation Agreement between Wales and Chongqing and to participate in a number of functions to raise the profile of Wales in South West	Details of the visit are included this report.

			China.	
6 <sup>th</sup> March 2008	Rhodri Glyn Thomas, AM, Minister for Heritage	Photograph exhibition of the Xiamen Province of China hosted by Cardiff University	To formally open the photo exhibition, which formed part of the 25 <sup>th</sup> anniversary celebrations of the twinning of the City of Cardiff and Xiamen.	The Xiamen delegation was flattered that the Minister was present. Opportunity used to highlight the Cardiff University and Xiamen University collaboration on the development of a Masters programme to enables students from Cardiff and Xiamen to study for qualifications in both cities.
13 <sup>th</sup> March 2008	Andrew Davies, AM, Minister for Finance and Public Service Delivery & Rhodri Glyn Thomas, AM, Minister for Heritage	Visit of His Excellency Mr Herbert Wurth Ambassador for Luxembourg	New Ambassador wishing to make contacts in Wales Opportunity to attend the opening reception for Artes Mundi.	Ambassador: <ul style="list-style-type: none"> <li>introduced himself to 2 Assembly Government Ministers</li> <li>attended the launch of Artes Mundi</li> <li>discussed issues around devolution and globalisation</li> </ul>
15 <sup>th</sup> March 2008	First Minister	Visit of the Speaker and Clerk of the New South Wales Parliament	Assembly Commission hosted visit – courtesy call on First Minister	Opportunity to discuss the different practices and procedures in the two organisations and the progress of Wales (Barry) born Deputy Prime Minister Julia Gillard MP
26 <sup>th</sup> March	Jane Hutt AM, Minister for	Meeting with - Kristin Schreiber,	Items discussed - European Social Fund	Meeting took place as described

2008	Children, Education, Lifelong Learning and Skills	<p>Head of Cabinet (private office) for Commissioner Spidla (Commissioner for Employment, Social Affairs and Equal Opportunities)</p> <ul style="list-style-type: none"> <li>- Stéphane Ouaki, the deputy head of cabinet;</li> <li>- Michael Ralph, cabinet member responsible for ESF and</li> <li>- David Dion, DG Employment (policy co-ordinator for European Employment Strategy and ex-DG Education where he was responsible for the economics of education).</li> <li>- Commissioner Spidal also</li> </ul>	<ul style="list-style-type: none"> <li>- Mobility</li> <li>- European Skills Review</li> </ul>	
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		dropped into the meeting for a short period Brussels		
26 <sup>th</sup> March 2008	Jane Hutt AM, Minister for Children, Education, Lifelong Learning and Skills	EARLALL / European Association of Regional and Local Authorities for Lifelong Learning Board Meeting, Brussels	To introduce Minister to EARLALL (Wales has been member since 2001); to agree work plan for 2008; to progress mobility arrangements between members regions and Wales  Agenda - Work plan 2008-2009 - Policy Update - Discussion of Presentations - Mapping: - Bilateral agreements - Competences of members - Project updates - Budget and 2007 Final financial report - Website and brochure - AOB	Successful first meeting and progress made towards MoUs with member regions.
6 <sup>th</sup> April 2008	Jane Hutt AM, Minister for Children, Education, Lifelong Learning and Skills	Attend Outstanding Achievement Awards for British Bangladeshi Students (GCSE&GCE 2006/07) - Bangladesh	The event will celebrate the 37 <sup>th</sup> anniversary of Bangladeshi Independence and student achievements in 2007 GCSE and GCE examinations.	Minister addressed the gathering

		Association Cardiff Event, Cardiff		
6 <sup>th</sup> May 2008	First Minister	Europe Day Celebration held at the European Commission Office in Wales, Cardiff	To celebrate Europe Day. 9 May marks the anniversary of the day in 1950 when the European Union was conceived.	First Minister and Andy Klom, Head of the European Commission Office made brief speeches to over 100 attendees to mark Europe Day.
12 <sup>th</sup> May 2008	First Minister	Visit of the French Consul General, French Embassy London	Familiarisation visit, recce for proposed visit by French Ambassador later in the year and opportunity to meet French inward investors	Visit yet to take place
13 <sup>th</sup> May 2008	Andrew Carter (Children's Programs Officer - CFOG & Childcare, DCELLS, Welsh Assembly Government) attended on behalf of Minister	Join Welsh students on the one day visit to Auschwitz-Birkenau  Cost of flight covered by The Holocaust Educational Trust	Visit took place as part of students 'Lessons from Auschwitz' Project.	Visit took place as outlined
18 <sup>th</sup> May 2008	First Minister	Xiamen seminar on urban and rural development and planning hosted by Cardiff university	First Minister invited to open the seminar	Event yet to take place
21 <sup>st</sup> May 2008	John Griffiths AM, Deputy Minister for	Dinner with delegation from	The purpose of the visit is to strengthen and build on the significant education links that	

	Skills	Shaanxi Province, hosted by British Council Wales	have been established over the past year between Wales and China.	
22 <sup>nd</sup> May 2008	First Minister	Czech TV Interview re. Wales from your Perspective	KMB International, a documentary film maker from Prague has a contract with Czech TV for a documentary film about Wales to be shown later this year. The First Minister will give a short interview about on issues such as language, housing and the future of Wales.	As described.
5 <sup>th</sup> June 2008	First Minister	Hosting of reception/launch of Lesotho Exhibition in the National Museum of Wales, Cardiff by First Minister and Minister of Foreign Affairs in Lesotho. Prince Harry also in attendance as Patron of Dolen Cymru.	The event is part of a Lesotho Conference 2008, celebrating the relationship between Wales and Lesotho and exploring ways to support development in Lesotho – through the Welsh charity Dolen Cymru. An exhibition of Basotho art is also being displayed at the museum.	Event yet to take place.
5 <sup>th</sup> June 2008	Jane Hutt AM, Minister for Children, Education, Lifelong Learning and Skills	Dinner on eve of EARLALL Board Meeting, Cardiff	Brief bilateral meet and greet with Catalan delegation (2/3 people) (venue: Minister's office) Dinner - to include all visitors (around 15 people)	
6 <sup>th</sup> June 2007	Jane Hutt AM, Minister for Children,	EARLALL Board Meeting, Cardiff	Hosting of quarterly EARLALL Board meeting in Cardiff, to discuss student and practitioner mobility, the outcome of recent	Signing of educational mobility MoUs with Catalonia and Tuscany.

	Education, Lifelong Learning and Skills		EARLALL events on ESF and transregional cooperation, and interaction with the European Commission on education and training issues.	
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## **CAP Health Check**

### **Summary of proposals**

The proposals were published on 20 May. This is an initial summary.

### **Key issues**

Dairy quotas increase by 5 x 1% from 2010/11 to 2013/14 in addition to the 2% increase from April 2008 – in advance of the end of milk quotas on 31 March 2015.

The compulsory set-aside mechanism (for arable producers) and the €45/ha energy crop premium scrapped.

Compulsory modulation increased each year by 2% from 2010 to reach 13 per cent by 2013. Additional percentage reduction (3%, 6% & 9%) applicable to Single Payment amounts over €100 000, €200 000 & €300 000 respectively. All receipts from the additional modulation retained by the Member State/region. (Consultative proposals on reduction in the value of higher Single Payment receipts dropped).

The immediate and/or transitional removal of all remaining “coupled” payments, except for suckler cows and sheep/goats where the current “coupled” option will continue to apply. (Wales fully decoupled in 2005)

Option to move the Single Payment model away from a historical base towards a regional (“flatter rate”) model, and the SAPS option for New Member States will be extended until 2013.

Payment via the “National Envelope” provision made more flexible, with new options introduced which include a 40% EU contribution towards part of a farmer’s risk assurance premium. The option is for a deduction of up to 10 per cent from the total value of Single Payments to be targeted to provide specific support in any sector deemed in need.

The ending of public intervention measures for rice, pig meat and all cereals except bread wheat. Cheese Private Storage Aid abolished and other dairy disposal mechanisms will be given less emphasis.

Rural Development Plans and National Strategies to be modified to reflect the “new challenges” of climate change mitigation, renewable energies, water management & biodiversity – to be funded from additional compulsory modulation.

### **Changes to the Single Payment Scheme**

#### **Decoupling**

Immediate removal of the “coupled” payment options for durum wheat, hops,

seeds, hemp, dried fodder, protein crops, olive oil, & nuts, i.e. without a transition period. (For nuts, the national aid may continue in “coupled” form). For rice, potato starch, & long-fibre flax, a 2-year transition period is provided i.e. the current rate will be halved for 2 years before being removed.

In the beef sector, a transition period for removing the coupled option for the male beef premium, adult slaughter premium and calf slaughter premium. For the suckler cow premium (up to 100% “coupled”) and for the ewe/goat premium (50%), the “coupled” option can be retained (to 2013) in its current form (but only for those MS/regions that already apply it).

### **Energy crop premium**

Due to the strong demand for bio-fuels, linked to the binding 10% target for the share in overall transport fuel consumption by 2020, the current €45 /ha premium is to be abolished.

### **Adapting the Single Payment Scheme (SPS) model to “flatter rate”:**

An option for Member States/regions to adjust their SP model from the “historic” model towards a regional, area-based payment. Member States/regions notify the Commission by August 2009 whether to apply from 2010 onwards.

### **National Envelope**

The measures foreseen under the current Article 69 should become more flexible, and the menu of options for spending this aid expanded. Member States provided with an option to deduct up to 10 per cent (from the Single Payment). This deduction would no longer need to be sector specific as is the current position. In addition to the existing possibility to target specific types of farming with extra environmental benefits and for improving quality and marketing, 4 new options provided aimed at avoiding land abandonment and/or supporting risk management:

- (i) an annual payment targeting specific regional production disadvantages in the dairy, beef and sheep sectors (and environmental problems for rice);
- (ii) supporting farmers in areas subject to restructuring/development programmes (by boosting entitlements or raising the unit value);
- (iii) as an annual contribution to crop insurance premiums, and
- (iv) as mutual funds for animal diseases (compensation payment).

To avoid potential difficulties with WTO requirements, there is a stipulation that any potentially non-Green Box measures (i.e. trade distorting) must be limited to 2.5 per cent of the overall aid envelope (i.e. to minimise scope for re-coupling payment to production).

For both the crop insurance scheme to cover “losses from adverse climatic events” and the mutual funds, the text suggests the level of public funding should be no more than 60 per cent of the farmer premium/contribution (or 70 per cent for special reasons) – and this part should be [only] 40 per cent EU-funded.

### **Compulsory Modulation (CM)**

The proposal is to increase rates of compulsory modulation by 2 per cent annually from 2010 to reach 13 per cent by 2013. The €5,000 franchise (the first €5,000 of the SP is “modulation free”) is retained.

A further 3 per cent rate would apply for individual SP amounts above €100 000, 6 per cent above €200 000 and 9 per cent above €300 000. Some 290 farmers in Wales affected and estimated to generate some €500,000 annually in additional CM receipts.

All receipts from additional CM would transfer for spend under the RDP – and retained in full by the Member State/region to help fund the “new challenges” agenda. Those Member States applying voluntary modulation will be required to reduce the rate for each percentage increase under CM.

### **Minimum SPS limit**

Member States must introduce either a €250 minimum SP limit and/or apply a minimum size for eligible holdings of 1 hectare. This may affect a maximum of 380 cases in Wales.

### **Cross compliance**

The Statutory Management Requirements would be amended so as to remove rules that are “not sufficiently relevant to farming activity” or are issues for national authorities rather than for farmers – notably the link to sewage sludge rules (Directive 86/278), which is deleted, and a number of other references are reduced to only the relevant aspects of particular Articles, rather than the regulation or Directive, for example on disease control.

The Good Agricultural and Environmental Condition (GAEC) framework is adjusted to mention specifically the retention of landscape features including hedges, ditches and trees in line, and the establishment of buffer strips along water courses.

### **Simplification**

The Commission proposes more flexibility on the national reserve, transferring payment entitlements, modifying entitlements (possibly moving from 4 separate categories to one with the abolition of set-aside entitlements) and provision for the SP to be released in 2 parts.

## **Compulsory set-aside abolished**

The current rate of 10 per cent compulsory set-aside for all arable producers would be abolished.

## **Changes to the Common Market Organisation rules**

### **Dairy quotas expiry**

In the context of ending the quota regime in 2015, a smooth transition would be provided through a phased increase in quotas of 1 per cent increase for each of 5 years – starting in 2010/11 – coming in addition to the 2 per cent increase from April 2008.

In addition, the Commission will present a report to the Council & EP before the end of 2012 on other potential measures for a “soft landing” to a non-quota regime.

### **Public Intervention**

An end to public intervention for durum wheat & feed grains (barley & sorghum), leaving just bread wheat subject to intervention. Technically speaking, the proposal would retain the mechanism for barley and sorghum (but not durum) but at a ceiling of zero – as has been done for maize. Rice and pig meat intervention will also be abolished. Other intervention limits remain in place for butter (30 000t), skimmed milk powder (SMP) (109 000t) and sugar (600 000t until 2009/10). Another change is that wheat and butter and SMP intervention will be managed via a tendering system, so that volumes will not automatically be bought up by the Commission.

### **Potato starch quotas**

The Potato starch quota will be extended for a further 2 years, but then abolished in tandem with the move to remove the “coupled” payment. The processing aid in 2009/10 & 2010/11 will be 22.25 €/t of starch, and the minimum price for the same period set at 178.31 €/t of potato. Production refunds will be abolished.

### **Other dairy aid schemes**

Private Storage Aid for cheese and the butter aid schemes (for pastries & ice cream and direct consumption) are to be abolished, and the rules will change for butter PSA – and the “disposal” tools of aid for using SMP in feed and in casein/caseinates – such that it will be up to the Commission to open these instruments on the basis of market prices, rather than see an automatic opening of the schemes.

## **Rural Development**

The main element relates to Member States reviewing RDPs in order to address the 4 new challenges identified - climate change mitigation, renewable energies, water management & biodiversity - from 2010 onwards, using the funds provided by the new compulsory modulation mechanism.

Member States are to submit revised RDP within 3 months of the adoption of the revised Community Strategic Guidelines i.e. we would modify the Wales RDP in the light of Commission clearance to the UK Strategic Plan (with separate Welsh section).