



**Cynulliad Cenedlaethol Cymru
The National Assembly for Wales**

**Y Pwyllgor Materion Ewropeaidd ac Allanol
The Committee on European and External Affairs**

**Dydd Iau, 19 Mehefin 2008
Thursday, 19 June 2008**

Cynnwys
Contents

- 3 Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introduction, Apologies and Substitutions
- 7 Sesiwn Fideo Gynadledda—Cynigion y Comisiwn Ewropeaidd ar Archwiliad Iechyd
y Polisi Amaethyddol Cyffredin
Video Conference Session—European Commission proposals on the Common
Agricultural Policy Health Check
- 12 Craffu ar Waith y Prif Weinidog
Scrutiny of the First Minister
- 25 Tystiolaeth am Gynigion Comisiwn Ewrop ar Archwiliad Iechyd y Polisi
Amaethyddol Cyffredin: Cyswllt Amgylchedd Cymru
Evidence on the European Commission Proposals on the Common Agricultural
Policy Health Check: Wales Environment Link

Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal,
cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg.

These proceedings are reported in the language in which they were spoken in the committee.
In addition, an English translation of Welsh speeches is included.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Jeff Cuthbert	Llafur Labour
Nerys Evans	Plaid Cymru The Party of Wales
Mike German	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
William Graham	Ceidwadwyr Cymreig Welsh Conservatives
Sandy Mewies	Llafur (Cadeirydd y Pwyllgor) Labour (Committee Chair)

Eraill yn bresennol
Others in attendance

Michele Aitchison	Swyddog Eiriolaeth, Cyswllt Amgylchedd Cymru Advocacy Officer, Wales Environment Link
Philip Bird	Pennaeth yr Ysgrifenyddiaeth Polisi Ewropeaidd Head of European Policy Secretariat
Dr Klaus-Dieter Borchardt	Cyfarwyddiaeth Gyffredinol Amaethyddiaeth a Datblygu Gwledig, Comisiwn Ewrop, Brwsel DG Agriculture and Rural Development, European Commission, Brussels
Gary Davies	Pennaeth Materion Ewropeaidd ac Allanol Head of European and External Affairs
Jeff Davies	Cadeirydd, Gweithgor Defnyddio'r Tir, Cyswllt Amgylchedd Cymru Chair, Land Use Working Group, Wales Environment Link
Rhodri Morgan	Aelod Cynulliad, Llafur (y Prif Weinidog) Assembly Member, Labour (First Minister)
Rory O'Sullivan	Pennaeth yr Is-adran Polisi Gwledig Head of Countryside Policy Division

Swyddogion Gwasanaeth Seneddol y Cynulliad yn bresennol
Assembly Parliamentary Service officials in attendance

Dan Collier	Clerc Clerk
Dr Kathryn Jenkins	Dirprwy Glerc Deputy Clerk

Dechreuodd y cyfarfod am 9.01 a.m.
The meeting began at 9.01 a.m.

Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introduction, Apologies and Substitutions

[1] **Sandy Mewies:** Good morning. I welcome everybody, including officials and anyone who may be in the public gallery, to the meeting. The first thing that I need to say is that we had a motion in Plenary this week that reconstituted the committee from nine members to five. I would like to thank Nick Bourne, Chris Chapman, Val Lloyd and Gareth Jones for the

work that they have done. It has been a pleasure to work with everyone on this committee. I think that it is one of the most pleasant committees to be on, because everybody seems to be pursuing the same objective and in a constructive way. I ask that we put on record our thanks to those people. Also, thank you to everyone who stayed.

[2] Headsets are available for translation and for sound amplification should you need it. The translation is on channel 1 and the amplification is on channel 0. Can you all ensure that your mobile phones, BlackBerrys and any other electronic devices are switched off, because they can interfere with the sound equipment? I understand that Mike may be using his laptop. Are you using your laptop, Mike?

[3] **Michael German:** Not today. It is difficult to carry on the bicycle.

[4] **Sandy Mewies:** In the event of an emergency, an alarm will sound and we will follow the ushers out as quickly as possible. I have received apologies from the Members of the European Parliament and that is it, I think. Is there anything else that anybody would like to declare? I see that there is not. Shall we move on? I do not think that we are quite ready for the video link yet.

[5] I think that one of the things that we are doing today is quite interesting: we are looking at the health check on the common agricultural policy. This is going to be a theme throughout the meeting. The good thing, at the end of this, is that we hope to be able to give our views on the evidence that we receive today to the Minister for Rural Affairs, who will then pass it on to the Welsh Assembly Government and thus to the UK Government. We have a clear pathway today, and will have in the future, from the evidence that we are scrutinising to the outcome. It should be interesting.

[6] Nerys, how long will it take you to do your report on the Committee of the Regions? Would you like to do that now?

[7] **Nerys Evans:** Dyma'r adroddiad o Bwyllgor y Rhanbarthau. Cynhaliwyd cyfarfod dirprwyaeth Prydain o Bwyllgor y Rhanbarthau ar 5 Mehefin, yn Llundain, i drafod blaenoriaethau a'r cynllun gwaith ar gyfer y flwyddyn nesaf. Anerchodd y Gweinidog Gwladol dros Ewrop, Jim Murphy, y cyfarfod hefyd.

Nerys Evans: This is the report from the Committee of the Regions. A meeting of the British delegation to the Committee of the Regions was held on 5 June, in London, to discuss priorities and the work programme for the next year. The Minister of State for Europe, Jim Murphy, addressed the meeting as well.

[8] Mae datblygiadau diddorol gyda chyfundrefn yr Alban. Mae corff llywodraeth leol yr Alban, COSLA, wedi penderfynu peidio â phrynu mewn i waith y Gymdeithas Llywodraeth Leol, sef gwaith gweinyddol dirprwyaeth y Deyrnas Unedig ar gyfer Pwyllgor y Rhanbarthau. Tynnodd COSLA allan o dermau gwaith yr ysgrifenyddiaeth ond mae dal am fod yn rhan o waith gweinyddol yr LGA. Dadl COSLA yw nad yw'r LGA yn cynrychioli'r Deyrnas Unedig i gyd, ac yr wyf yn deall y bydd Cymdeithas Llywodraeth Leol Cymru yn trafod ei gytundeb lefel gwasanaeth a pherthynas y ddwy gymdeithas gyda'r LGA ar ddiwedd y mis.

There are interesting developments with the Scottish regime. The Convention of Scottish Local Authorities, COSLA, has decided not to buy into the work of the Local Government Association, namely the administrative work for the United Kingdom delegation to the Committee of the Regions. COSLA has withdrawn from the secretariat's terms of work, but still wants to be part of the administrative work of the LGA. COSLA's argument is that the LGA does not represent the entire United Kingdom, and I understand that the Welsh Local Government Association will discuss its service level agreement and the relationship of both associations with the LGA at the end of the

month.

[9] O ran y cynllun gwaith, trafodwyd pwysigrwydd cynrychiolwyr yn cyfrannu blaenoriaethau'r sefydliadau y maent yn eu cynrychioli i broses Pwyllgor y Rhanbarthau, ac nid yn unig barn pobl Prydain, ond cyfrannu i'r system pan fo pobl o wledydd eraill yn mynegi eu barn, a sut i wneud hynny. Cawsom anerchiad diddorol oddi wrth Weinidog Ewrop, Jim Murphy. Soniodd am Lisbon—yr oedd hyn cyn penderfyniad Iwerddon—gan ddweud na fyddai angen cyfamodau a chytundebau yn y dyfodol os byddai cytundeb Lisbon yn cael ei dderbyn, oherwydd byddai'n galluogi Ewrop i weithredu ar ei ben ei hun. Dywedodd bod angen symud y drafodaeth ar Ewrop oddi wrth weithdrefnau a strwythurau i weithredu a pholisi. Gofynnwyd cwestiynau i Jim Murphy ar fiwrocratiaeth. Dywedodd fod ymholiad gan San Steffan wedi dyfarnu nad yw San Steffan yn cymeradwyo yn unig nac yn ychwanegu at fiwrocratiaeth; ond dyna fyddai adroddiad gan San Steffan yn ei ddweud. Bydd asesiad o effaith yn cael ei wneud ar bob rheoliad newydd o Ewrop.

In terms of the work programme, we discussed the importance of representatives feeding in the priorities of the institutions that they represent to the Committee of the Regions process, and not just the opinions of the British people, but that they also feed into the system when people from other nations express their opinions, and how to do that. We had an interesting address from the Minister for Europe, Jim Murphy. He talked about Lisbon—this was before the Irish referendum—saying that there would be no need for treaties and agreements in the future if the Lisbon treaty was ratified, because it would enable Europe to act for itself. He said that it was necessary to move the discussion on Europe from structures and procedures to policy delivery. A few questions were put to Jim Murphy regarding bureaucracy. He said that a Westminster inquiry has concluded that Westminster does not just approve and add to bureaucracy; but that is what a Westminster report would say. An impact assessment will be undertaken on all new regulations that come from Europe.

[10] O ran cyfrifiolaeth, soniodd fod traean o seneddau gwledydd Ewrop yn anghytuno gyda rhywbeth sydd yn dod o Ewrop, a bod y comisiwn yn gorfod edrych arno wedyn. Dywedodd fod y comisiwn yn gorfod tynnu hanner y penderfyniadau hynny yn ôl, oherwydd bod Senedd Ewrop yn anghytuno hefyd. Dywedodd fod gan San Steffan ddwy bleidlais ar gyfrifolaeth: un yn Nhŷ'r Arglwyddi ac un yn Nhŷ'r Cyffredin, a'i bod yn debygol y byddai un bleidlais o blaid ac un yn erbyn. Ond dywedodd ei bod yn broses newydd a bod angen dialog i geisio gwneud iddi weithio. Dywedodd yn hollol onest nad oedd yn gwybod sut y byddai'n gweithio yn y dyfodol a bod angen mewnbwn eithaf clir oddi wrth aelodau Pwyllgor y Rhanbarthau am sut y byddai'n effeithio ar y Cynulliad, y Senedd ac awdurdodau lleol. Felly, yr oedd yn eithaf diddorol.

In terms of subsidiarity, he mentioned that the parliaments of a third of the nations of Europe disagreed with some things that came out of Europe, and that the commission has to reconsider. He said that the commission has to withdraw half of those decisions, because the European Parliament also disagreed with them. He said that Westminster had two votes on subsidiarity: one in the House of Lords and one in the House of Commons, and that it is likely that one vote would be in favour and one against. He said that it was a new process, however, and that there needed to be dialogue in order to make it work. He said quite honestly that he did not know how it would work in the future and that there was a need for clear input from the members of the Committee of the Regions on how it would impact on the Assembly, Parliament and local authorities. So, it was quite interesting.

[11] **Sandy Mewies:** On the last point, I am wondering how we would input any information to you. One thing that has sometimes been missing is that representatives are here to represent views—you are giving us excellent feedback of what you are doing—but I am not clear that we are giving our opinions on some of the things that are being discussed. I do not know what other Members think about that.

[12] **Jeff Cuthbert:** It is important for the future. I would agree with you that what Nerys has reported is very detailed and gives us a clear idea of what is happening, but, presumably, it will be our duty in the future to give Nerys a clear steer about our opinion on some of these key matters. So, we need to discuss this.

[13] **Sandy Mewies:** Perhaps we should think about that. The feedback was excellent, and I know that you get briefings before you go, or at least you should be briefed—is that correct?

[14] **Nerys Evans:** Yes. However, there has been a change of personnel on the Assembly side.

[15] **William Graham:** On that point, in order to give proper consideration to these matters, could you share with us some of the briefings that you have had that are particularly relevant or where you want some more support?

[16] **Sandy Mewies:** That is why you would want it, is it not? In addition, I would be interested to know when this service level agreement with the WLGA comes into being and what it means. It is an interesting point, is it not?

[17] **Nerys Evans:** I think that the WLGA's service level agreement with the LGA is being discussed on 27 June, because it provides the secretariat support for the entire UK delegation to the Committee of the Regions. Scotland has now partly pulled out of that arrangement, because the Scots did not feel that their briefings reflected the devolved situation in Scotland. So, it will be interesting to see what the WLGA's opinion is on that.

[18] **Sandy Mewies:** Perhaps we can ask the clerk to look at that.

[19] **William Graham:** For clarification, who pays for all of this? Is it the Assembly Government or is it the Assembly Commission?

[20] **Sandy Mewies:** We will find that out.

[21] **William Graham:** It is a simple question.

[22] **Sandy Mewies:** Yes, it is.

[23] **Jeff Cuthbert:** There is no simple answer, though.

9.10 a.m.

[24] **Michael German:** Who buys the tickets for you? Is it the fees office here?

[25] **Nerys Evans:** No, it is—*[Inaudible.]*

[26] **Sandy Mewies:** Does anyone else have a question for Nerys on that? I believe that the Dr Borchardt is stuck in traffic. I wonder if we can move on to anything else. We will work backwards, because there is no point sitting here and doing nothing.

[27] First of all, I refer you to paper 4, which is a paper to note. It was written by Graham Winter and Richard Stokes of the Members' research service after they attended a conference in Brussels last month on the principle of subsidiarity. We will have a scoping paper at the next committee meeting, but I would like to thank them for the work that they have done. Their report is clear and succinct. It seems to emphasise the need for regional Governments to have a protocol. We can come back to that.

[28] Is the video link ready? Then we will move on.

9.11 a.m.

**Sesiwn Fideo Gynadledda—Cynigion y Comisiwn Ewropeaidd ar Archwiliad
Iechyd y Polisi Amaethyddol Cyffredin
Video Conference Session—European Commission proposals on the Common
Agricultural Policy Health Check**

[29] **Sandy Mewies:** Good morning. Can you hear and see us?

[30] **Dr Borchardt:** I can hear you perfectly. The image is a bit strange, but it does not matter.

[31] **Sandy Mewies:** A lot of people tell me that. [*Laughter.*]

[32] I welcome Klaus-Dieter Borchardt, who is the deputy Chef de Cabinet for the directorate-general agriculture and rural development at the European Commission in Brussels. I am pleased that we have another video-conference session with you. You have previously taken part in video-conferencing with the former Environment, Planning and Countryside Committee. We are scrutinising what is happening on the common agricultural policy health check. This is an ongoing theme for our committee, and the results of our scrutiny will go to our Minister for Rural Affairs to inform the Welsh Assembly Government, which will take its views forward to the UK Government.

[33] I ask you to give us the commission's perspective on the health check, and the draft legislative proposals that were announced on 20 May. If you could speak for about five minutes, I will then invite Members to ask questions.

[34] **Dr Borchardt:** The whole health check in five minutes—that is quite a challenge, but I will do my best. First, it is important to underline that the health check is not about a new reform, but is a process that started back in 2003, when we tried to modernise the common agricultural policy. What we are doing in the health check is building on the 2003 reform. We want to simplify the policy as far as possible, especially regarding the single payment scheme, and we want to orientate European agriculture more towards the market, and to tackle new challenges.

[35] I will briefly go into the three areas of the health check, beginning with our simplification of the single payments scheme. Here we have identified a number of areas where we can simplify. We are going for more decoupling, because that is all about simplification—full decoupling would mean one rather simple scheme being applied, but partial coupling involves running two systems in parallel.

[36] We propose to abolish the mandatory set-aside, which is also a huge simplification. We will continue with the sub-systems, so that new member states are not forced to move into the single payment scheme before 2013. We have also set out the mandatory standards for cross-compliance, and now you only find standards directly related to farm activity. We have also made a number of technical changes, on which I will not focus now. On the whole, the health check contains a considerable package of measurable simplifications that will have a concrete effect on farmers and the administration.

[37] The second objective is that we want to move further towards market orientation and strengthening the competitiveness of European agriculture. Here, again, decoupling plays a major role, because all the economic analyses prove that decoupling gives our farmers the

best opportunity, because they have to produce, and they can produce, according to market signals; they can realise fully their farms' potential; and last, but not least, decoupling also means, in terms of international trade, that we are working according to international trade rules.

[38] Besides decoupling, we want to convert the classical, traditional market instruments, such as intervention, private storage and the quota regime, into a genuine safety net. What does that mean? In future, we do not want to use, as in the past, these instruments as price-setters in the market, to influence the setting of the market price. We want to use these instruments as a safety net for farmers so that, in cases of dramatic market crisis, they are not pushed out of production.

[39] Of course, all this movement towards more market orientation is not just because we want to liberalise European agriculture. We know that we have to build in some safety features—I have spoken about the safety net—but we are going further, because we know that agriculture is also facing climatic risks and sanitary risks from animal and plant diseases. Against these risks, we now provide crop insurance for climatic risks and a mutual fund that can take up the financial losses resulting from outbreaks of animal and plant diseases. You see, we are not liberalising just to get a liberal model of agriculture. No, we want a combination that will free the farmer's mind for the markets while providing him with a safety net on three levels: on the market level with decoupling; on climatic risk with crop insurance; and on sanitary risks with the mutual fund.

[40] Last but not least, the third area is that of the new challenges. We have identified climate change, bio-energy, water management, and the maintenance of biodiversity. For us, it is clear that European agriculture is part of the problem facing us in these areas, but agriculture can also be part of the solution. European agriculture has a huge responsibility for these challenges because our farmers are the main users of our natural resources, and so they have a particular responsibility in that regard. We now want to give European farmers the financial means of addressing these new challenges. We will organise these financial means via more modulation, which means that we want to transfer more money from the first pillar of direct payments into the second pillar. However, we are not just leaving the money in the second pillar as we have established a kind of menu so that member states can choose which measures they want to address in a particular way using the new money.

[41] The rate of new modulation in our proposal is 8 per cent, phased in over four years with two percentage point steps. We then foresee a progressive element, in that the bigger guys have to contribute a bit more to these challenges. Above €100,000, we add another 3 per cent to the aid, and above €200,000, we add another 3 per cent, and above €300,000, we add another 3 per cent.

9.20 a.m.

[42] For those that receive more than €300,000 a year, it amounts to 17 per cent of new modulation plus the 5 per cent that is currently in place. We think that this is absolutely necessary; we have to play a more active role in the areas that I have mentioned. We know that there will be no fresh money available for European agriculture, so we have to shift the money to where the biggest need is and we think that that is a good thing to do.

[43] **Sandy Mewies:** Thank you very much. We now turn to Members' questions.

[44] **Michael German:** Thank you very much for your presentation—it is hard work to do in five minutes. I have a broad question about the reaction of the member states to the proposals that the commission is making. Which are the most difficult areas for member states, and if you were rolling your diary forward a year or two from now, what are the main

arguments that you think you will be having?

[45] **Dr Borchardt:** The reaction of the member states is fairly positive in general. We had a number of table rounds in the agriculture council, and when the commissioner presented in the informal council last month in Slovenia, the reaction was generally very positive. However, that does not mean that there are no differences in detail. You asked me quite rightly where I see the most potential for negotiations and differences; it is quite clear that it will be on modulation, where you have many specific questions, some of which are also coming from your country, particularly about the relationship between the new comparison modulation and the voluntary modulation that is currently applied in the UK and also in Wales. You have the question of co-financing, the question of the rate of modulation, and you have the question of whether the menu that we have put to the member states is the best one in the eyes of the member states.

[46] So, modulation will certainly be one of the big issues. Another big issue—which I did not mention in my introductory remarks—will be milk. We know that we will end the quota system by 31 March 2015, and we are proposing a soft landing so that we can get there in a rather smooth way so that the changes for our milk farmers do not come overnight. There are very different views on how to tackle this issue. It starts with such questions as, ‘By how much do we have to increase the quota over the time?’ and ‘Is that the right instrument?’. Other member states want to have an EU-wide functioning milk farm and things such as this, so milk is the second huge issue.

[47] The third big issue is decoupling, because there are still some member states that are rather reluctant to decouple; they have not yet understood that decoupling is not something that does harm to farmers. On the contrary, it gives freedom back to farmers to farm.

[48] **Michael German:** I have two questions about the issues that you have just raised. On modulation, we are talking about 18 per cent modulation, which would be compulsory by the beginning of the period. Is it the expectation that the UK’s position will be that it will roll what it is currently seeking through voluntary modulation into the compulsory modulation, or would you expect member states to continue to add that on top?

[49] On decoupling, there is clearly a sense of direction in the world that we have to meet our international trade obligations, particularly with regard to the poorer nations of the world that have difficulties in feeding themselves. Without decoupling, you are putting up a tariff barrier and reducing the cost of food to those in developing countries. Is there any sense of different strengths of opinion between those member states that have a strong interest in meeting our world trade obligations, and those countries that have a strong interest in retaining the level of coupling that they currently have? I am sorry—there were several questions there rolled into one.

[50] **Dr Borchardt:** No problem. On modulation, it is not left to the member states, so the UK and Portugal are currently applying the voluntary modulation, but, in our proposal, we clearly say that the new mandatory compulsory modulation must be counted against the actual voluntary modulation rate. So, the voluntary modulation must be replaced by the new compulsory modulation, and here you have the practical problems that we have not solved today. The compulsory modulation has a €5,000 franchise and the voluntary modulation does not. The compulsory modulation has an obligatory, at least 50 per cent core financing rate; the voluntary modulation does not. So, how do those play together and how can we manage these two systems now with different conditions; how can they be put together? Our intention—and I say this clearly in the name of the commissioner—is to get rid of voluntary modulation, because we think that it is the wrong path to take, and to replace, to the greatest extent possible, the voluntary modulation rate with the compulsory modulation rate.

[51] On decoupling, first, I would like to stress that decoupling is not what we are proposing; it is not about complying with our international rules. We have already done enough; in the current Doha talks, we are on a very safe side. Most of our domestic support is already green box-compatible, and we would not therefore need to do any further decoupling to meet the international trade obligations. We see the need for more decoupling from the perspective of our development of our own policy internally, because we think that farmers have more to gain if they get full freedom to decide what they want to produce and when. Here I think that the market signals are very positive, and, for example, if a farmer nowadays has to calculate only on the basis of the premiums, he will disconnect himself from the markets. Now, he can decide where he can gain the most from the markets, and we should give this freedom to farmers. So, it is less an issue for the developing countries whether we decouple a bit more or a bit less; it is more of an internal policy issue.

[52] **William Graham:** I also wish to thank you for your remarkable précis, which you delivered in less than five minutes. I wish to ask in particular about the criticisms that the commission has faced, first, that the health check does not deal with the issue of food security in the European Union and, secondly, that the increasing demand for food can go against environmental issues.

[53] **Dr Borchardt:** We do not yet see the issue of food security. We have no empty shelves; what we have is a price problem—a social problem. No-one for the moment is starving, so it is not an issue of food security, but it is an issue that fewer and fewer people can afford to buy the necessary food, and, of course, we must do something about that. There are many reasons why there were rocketing prices that went completely through the roof last year. It is now for us to safeguard our having the necessary production capacities in the long term. Here again, our health check is not blind; we have, for example, introduced many concrete instruments. For example, the abolition of the mandatory set-aside will free up a great deal of agricultural land that will go into serious production, and we expect already, from the measure that we have anticipated—setting the set-aside rate to 0—that we will have between 14 and 16 million more tonnes of cereals, provided the weather conditions stay favourable. On decoupling, we are giving incentives to farmers to go into production where they can and gain something from the prices.

9.30 a.m.

[54] Finally, we are abolishing the energy crop premium of €45 per hectare. So, we are taking some pressure out of the competition between using the agricultural land for food and heat production and for energy production. There is no longer a justification for giving agricultural support to bio-energy or energy crop production. So, we are addressing this issue. On the developing countries, it is not our protection that is causing problems there, and it is not the common agricultural policy with its instruments, but our development policy in the past.

[55] It is necessary to focus more on giving farmers in those regions the possibility to produce, and Commissioner Fischer Boel asked why not get one part of agriculture to help the other. For example, we could take the savings that we will have at the end of this year in our common agricultural policy budget and use them in a one-off initiative to provide loans to farmers in these regions to buy fertilisers and seeds. That would give them the chance to develop their own agricultural industry so that they can feed themselves. In the long run, that should be the policy, and we should not focus on the one or the other instrument of EU policy. That would have a minor effect, if any, in this whole debate.

[56] **William Graham:** Could I come in?

[57] **Sandy Mewies:** Time is quite limited, sorry, but I will come back to you if there is

time.

[58] **Nerys Evans:** Thank you for your presentation. How much additional money has the commission estimated would be available as a result of compulsory modulation? How much of that would be available for rural development initiatives at the UK and Wales levels?

[59] **Dr Borchardt:** I have only the overall figure with me—I should have brought the UK figures—but overall €3.8 billion is available. You asked what was available for rural development. I said that this money has to be spent on the four following areas: measures to tackle climate change, bio-energy, water management and bio-diversity. So, the axes I and II measures are the main focus here. We wanted that because we want this money to go back mainly to the farmers.

[60] **Jeff Cuthbert:** Building on the question that my colleague William Graham raised on food security, some argue that food prices and food security could result in the greater liberalisation of agricultural production while others believe that certain market tools should be maintained for that reason. What is your view?

[61] Following on from that, it is argued that some of the health-check proposals do not go far enough to remove market distortions while others say that they do not protect landscapes and biodiversity. How do you balance those views?

[62] **Dr Borchardt:** The voices on both those issues are right. However, I must remind everyone that we are not going into a new reform; we are adjusting, where necessary. So, on liberalisation versus reinforcing the traditional market forces, you have that, and a big important member state in the European Union might be tempted to use that discussion to do it, and some public speeches go in that direction. My view on that is that the common agricultural policy has a future only if we go further towards markets with the security nets that I have indicated. Prices and markets will have a higher volatility in future, and we have to put some breaks in there to act as a safety net. However, that is not the case when you start to influence the price setting in the market or, even worse, like the American system, when you introduce to Europe a kind of counter-cyclical payment system where you guarantee farmers an individual income. That is not how we see it. So, yes, there should be more liberalisation and, yes, there should be more movement towards markets. That is our only chance in Europe to compete better in the world markets. We are strong, and we forget that liberalisation is not a one-way street that ends in the European market; it also has a direction in world markets, which we can benefit from if we start to take the opportunities that lie ahead of us.

[63] On rural development, we have just started the new rural development programmes; we are in the first year, so it would have been counter-productive to rethink the whole programme, which runs to 2013. Therefore, we have opted for a more targeted approach, identifying more concrete measures that should be taken up by the member states in their programmes.

[64] **Sandy Mewies:** William, do you want to come back with a quick question?

[65] **William Graham:** Yes, please. In your introduction, you mentioned crop insurance and a mutual fund for that. I presume that there would also be one for some animals that are currently not covered. You will know that the spread of bluetongue is particularly worrying the United Kingdom, and now I note that it has also been reported in Sweden. Dates are given in the brief, but that funding will not help us for a while. Do you have any comment on that?

[66] **Dr Borchardt:** We are looking into the issue and we have a request from the United Kingdom. Saying that there will be a mutual fund in future does not mean that we cannot take ad hoc measures whenever necessary, such as when there is a deep problem or crisis; we will

do so.

[67] **Sandy Mewies:** Everyone seems to have asked their questions now. Thank you very much for speaking to us today and for putting things so clearly. You have given us an excellent start to our scrutiny on the CAP health check. We have all benefited from what we have heard today, so thank you very much indeed.

[68] **Dr Borchardt:** It was my pleasure. I wish you all the best in your very important work. I hope to see you in a different setting next time—face-to-face rather than face-via-screen.

[69] **Sandy Mewies:** We are planning a visit to Brussels some time in the not too distant future.

[70] **Dr Borchardt:** You are welcome to come along.

[71] **Sandy Mewies:** Thank you.

[72] That was very interesting, was it not? That introduction could be a model paper.

9.38 a.m.

Craffu ar Waith y Prif Weinidog Scrutiny of the First Minister

[73] **Sandy Mewies:** I am sorry that this item is starting a bit late, but we were delayed from starting our video conference. However, it was very worthwhile. The purpose of this item is for the First Minister and other Welsh Ministers to provide an update to the committee on many issues that concern Europe and external affairs. We have asked for priority areas to include consultation on the EU budget, consultation on the future of regional policy, the CAP health check, including an update on the outcome of the Welsh Assembly Government's consultation, and the strategy on the Lisbon agenda, including an update on the European Commission officials' visit to Whitehall. I welcome the First Minister, Rory O'Sullivan, Philip Bird and Gary Davies.

[74] **The First Minister (Rhodri Morgan):** I wish to make a few points in addition to what is in the paper. Excuse my croaky voice; it was caused by going to Rodney Parade in Newport last night in an unavailing effort to cheer the Welsh team into the final of the under-21s Rugby World Cup.

[75] Recently, there have been huge, earthquake-standard developments on the European front following the Irish 'no' vote in the referendum—and I shall come to the implications of that in a minute—and the windfall gains to Wales from the devaluation of sterling and its impact on the close-out of the 2000-06 European structural funds, and also, prospectively, more funding available from Europe because the euro is worth more when converted to sterling for the 2007-13 European programmes.

9.40 a.m.

[76] Let us deal with the vexed subject of the Lisbon treaty. Everything has had to be thrown out of the window because of the Irish 'no' vote. There is a specific issue for Wales, namely the subsidiarity provisions that were built into the proposals, which have now been ratified in the UK, given that I understand that the House of Lords completed its procedures last night, and voted positively for the Third Reading of the European Union (Amendment) Bill. It therefore requires only Royal Assent. You might say, 'It may well have Royal Assent, but that does not mean very much because the Irish 'no' vote means that it is impossible for

Ireland to ratify it, and if Ireland does not ratify it, you might as well not have UK ratification either, because it has to be ratified by all 27 countries’.

[77] This all comes at the end of Slovenia’s presidency of the EU, just as the French presidency is about to begin. France had been preparing the ground for a big bash of the European Council of Ministers during its presidency, pushing strongly on a big French agenda—French presidencies always have a particular flavour, as they are one of the founding six members, and they had a big agenda ready. However, that has been knocked askew by the Irish ‘no’ vote.

[78] On the Welsh, National Assembly for Wales and Welsh Assembly Government aspects, namely the subsidiarity provisions, they could be achieved without the great five-act play of the Lisbon treaty. So, if the 27 EU Governments, in responding to the Irish ‘no’ vote, go for plan C—although they say that there is no plan C, and no doubt there was no plan C, but there will have to be one now—they could say, ‘Can you take the bits out of the treaty that do not require the big five-act play, and simply implement it without those?’. At least then, we would get something out of this huge process of trying to make the European Commission, council, parliament, and so on, work more efficiently. Probably about 30 or 40 per cent of what was in the treaty that was rejected by the Irish people could be implemented without having to have these big treaty negotiations. We think that subsidiarity could be part of such a package, if that is the strategy that they go for.

[79] If they do not go for that strategy, we do not know quite how they are going to work it. This is a big blow for Brian Cowen, the incoming Irish Taoiseach. It is not what you want when you have just started as Taoiseach—to have to go to your 26 fellow prime ministers or presidents at dinner Friday night, and say, ‘Sorry, chaps and chapesses, we seem to have let the side down here, so what do we do now?’. I am not sure, but gimlet eyes will all be looking at him, asking, ‘What are you going to do, sunshine?’. It will be very much seen as an Irish obligation to come up with an answer to the problem that Ireland has caused the other 26 countries. That is how we understand it.

[80] It will not be quick, and it will be done informally to begin with, at dinner tomorrow night—not in the formal session. By the next summit of prime ministers, presidents and heads of Government in October, they may have thought of a strategy that does not involve having another Irish vote—I cannot see that happening again, as happened to the Nice treaty in 2004—and does not involve changing the treaty. Changing the treaty to make it less likely to create a ‘no’ vote, and then resubmitting the whole thing for ratification all around Europe, would take three or four years, and that is not on either. So, plan C seems more likely to me, but who knows? The 27 sets of brains of the 27 chancelleries and prime ministers’ offices of Europe may be able to come up with something that I just cannot predict.

[81] To go back to the other more domestic issue of European funding following the devaluation of sterling against the euro last autumn, we have had several exchanges about this in Plenary, but it is perhaps a matter for more detailed exchanges and scrutiny here. There is a windfall gain to Wales in the final stages of the 2000-06 programmes. They all have to be finished and expended—any money expended to meet the windfall has to be done by 2008. There is an extra £40 million in the kitty from the re-evaluation of the euro upwards and sterling downwards; that is a good thing, but there are some stresses and strains on the match funding kitty. It means that Wales, as a whole, has to find an extra £40 million, some of which will come from us and some which will be from project sponsors, with Europe providing the other £40 million, which is the windfall part of it. However, we must get our skates on, because of the pressure of not wanting to decommit. We always overprogramme European structural funds by about 10 per cent on the basis that some programmes always fall out, but we could have done with 20 per cent this time rather than 10 per cent. However, no-one anticipated sterling not exactly falling off a cliff, but devaluing quite so substantially, or

the euro shooting up, as it did last autumn. You cannot decide to extend previous programmes just because they will help you spend the money; they must also be good value-for-money programmes, and that is the reason for a lot of frantic negotiating now.

[82] It is about picking high-priority programmes and those programmes where there is still a structure—those that have not closed down and dispersed to the four winds. Quite a lot of programmes have not closed down, because they were hoping for follow-on programmes from the 2007-13 programmes anyway; they are asking for a bridge to using more of the old programme money, because they have more of it to spend, before getting stuck into the new convergence programmes. So, that is quite handy. However, it is also about looking for good value for money where there is minimal risk of not being able to get the money out of the door by 31 December. Those are our key priorities at the moment.

[83] On the wider issue, finally, in terms of Wales's place and promotion overseas, you will know that the Lorient Interceltic Music Festival will be held in the same week as the national eisteddfod, which I am pleased to say is in my constituency this year—not that I had anything to do with the choice of site. In a way, it is a pity that they are both held the same week, because they present an amazing contrast of how you present and promote Celtic-rooted culture. The Breton language is now probably weaker than the Welsh language, but the amazing counterpoint to that is that Celtic music in France has become mainstream—8.5 per cent of all music sales in France are now of Celtic music, which is astonishing. As they have found their language weakening, they have witnessed the phenomenal popularity of Celtic music. It is big business, and that is why the Lorient festival is very important to us. We have not managed to mainstream Celtic music, partially because we have not managed to modernise it. As Ireland and Brittany perhaps show, when you find your language starting to weaken, you find another way of promoting your heritage. That can be very big business; the Celtic music business in France is enormous. I am not recommending that we should weaken the Welsh language in order to strengthen Welsh music; I am asking why can we not do both. Why can we not have a strong Welsh language and mainstream Celtic music? However, to do that, you must find a way of modernising it. That is why it is such big business in France. There will be an enormous learning process for all of the Welsh participants in the Lorient festival.

[84] We are also preparing for 2009, when we will have the Ashes test match, again in my constituency—again, that is not down to me—and the Venice Biennale, where we will be a major participant. Then, there is the Ryder Cup in 2010.

[85] **Nerys Evans:** Mae tair elfen yr hoffwn ofyn amdanynt, a'r cyntaf yw elfen cyfrifiolaeth cytundeb Lisbon. Yr ydych wedi sôn y bydd hynny'n parhau, beth bynnag a ddigwydd i'r cytundeb. Mynychais gyfarfod o ddirprwyaeth Brydeinig Pwyllgor y Rhanbarthau ddechrau'r mis, lle dywedodd Jim Murphy, y Gweinidog dros Ewrop, nad oedd yn gwybod sut y bydd cyfrifiolaeth yn gweithio ym Mhrydain. Dywedodd ei fod yn dal i geisio meddwl am y peth a'i fod eisiau clywed beth oedd gan awdurdodau lleol a'r Cynulliad i'w ddweud ar y pwnc. Synnais ei glywed yn dweud hynny. A oes mecanwaith swyddogol rhwng San Steffan a'r Cynulliad ar yr elfennau hyn?

Nerys Evans: There are three elements that I would like to ask you about, the first of which is the subsidiarity element of the Lisbon treaty. You mentioned that that would continue, whatever happened to the treaty. I attended a meeting of the British delegation to the Committee of the Regions at the beginning of the month, where Jim Murphy, the Minister for Europe, said that he did not know how the subsidiarity element would work in the United Kingdom. He said that he was still trying to work it out and that he wanted to hear what local authorities and the Assembly had to say on the issue. I was surprised to hear him say that. Is there an official mechanism between Westminster and the Assembly on these elements?

[86] Yr wyf hefyd eisiau gofyn am arian cydgyfeiriant. Mae 144 o brosiectau ar y gweill, a gwn fod rhai wedi cael arian yn barod, ond a allech ein diweddarau ar hynny? Hefyd, yr wyf yn sylwi yn eich papur eich bod yn sôn am ‘Bencampwyr Cymru’—

I also want to ask about convergence funding. There are 144 projects in the pipeline, and I know that some have already received funding, but could you give us an update on those? Also, I note from your paper that you mentioned ‘Champions for Wales’—

[87] **Y Prif Weinidog:** Ar ba dudalen mae hynny?

The First Minister: On what page is that?

9.50 a.m.

[88] **Nerys Evans:** Yr wyf yn edrych ar y dudalen olaf a’r pwynt olaf ond un, bod pump pencampwr i Gymru wedi’u penodi. Yr wyf am wybod mwy am eu rôl.

Nerys Evans: I am looking at the last page and the penultimate point, that five Welsh champions have been appointed. I want to know more about that role.

[89] **Y Prif Weinidog:** Nid wyf yn siŵr beth oedd yn eich synnu ynglŷn â sylwadau Jim Murphy, Gweinidog Ewrop yn y Swyddfa Dramor a Chymanwlad—ef yw’r Rhif 2 yn y swyddfa dramor. Yr oedd ef a David Miliband yn bresennol yn y Cydbwyllgor Gweinidogion ar Ewrop, a gadeirir gan y swyddfa dramor ond sydd hefyd yn cynnwys cynrychiolaeth o Gymru, yr Alban a Gogledd Iwerddon. Credaf mai hwnnw oedd y cyfarfod y cymerais i ran ynddo drwy gyswllt fideo—yn union fel y gwnaethoch chi gynnu. Yr oedd y cyfeiriad hwnnw at y Cydbwyllgor Gweinidogion ar Ewrop bore ddoe, a chymerais i gymaint o ran ynddo ag y gallwch ei gymryd drwy gyswllt fideo.

The First Minister: I am not sure what surprised you about the comments made by Jim Murphy, the Minister for Europe in the Foreign and Commonwealth Office—he is the No. 2 in the foreign office. David Miliband and he were present in the Joint Ministerial Committee on Europe, which is chaired by the foreign office, but which also includes representation from Wales, Scotland and Northern Ireland. I think that that was the meeting in which I took part via video link—just as you did earlier. That reference was to the Joint Ministerial Committee on Europe that was held yesterday morning, in which I took as much of a part as you can through a video link.

[90] Nododd David Miliband a Jim Murphy yn hollol glir nad oes ganddynt ymateb hyd yn hyn ynglŷn â’r hyn y dylid ei wneud i ymateb i’r bleidlais ‘na’ gan bobl Gweriniaeth Iwerddon. Nid oes ymateb hyd yn hyn ychwaith o ran y syniadau sy’n eithaf pwysig i ni o’r ochr ymarferol ynglŷn â sybsidiaredd a’r gallu a fyddai gennym ni, ac awdurdodau lleol pan mai hwy yw’r cyrff perthnasol, i gael mwy o graffu. Ar ôl cnoc pleidlais ‘na’ Iwerddon, mae’n llawer rhy gynnar i roi unrhyw fath o ymateb synhwyrol. Cyn y drafodaeth anffurfiol yn y cinio nos yfory ar gyfer holl Brif Weinidogion ac Arlywyddion Llywodraethau 27 gwlad Ewrop, ni fydd unrhyw un yn gallu ymateb o gwbl. Nid oes gan unrhyw un syniad, i ddweud y gwir, beth i’w wneud. Maent i gyd yn hanner boddi yn y môr ar ôl i’r don fawr eu bwrw oddi ar y traeth. Nid

David Miliband and Jim Murphy made it perfectly clear that they do not have a response as yet on what should be done to respond to the ‘no’ vote by the people of the Republic of Ireland. There has also not been a response so far about the ideas that are quite important to us on the practical side about subsidiarity and our ability, and the ability of local authorities when they are the relevant bodies, to have more scrutiny. After the knock of the ‘no’ vote in Ireland, it is much too early to give any sort of sensible response. Before the informal discussion takes place at tomorrow night’s dinner for all the Prime Ministers and Presidents of Europe’s 27 countries, no-one will be able to respond at all. No-one has any idea, to be honest, what to do. They are all half drowning in the sea after the large wave hit them off the beach. I do not think that anyone

wyf yn meddwl y gall unrhyw un ragweld ble y byddwn mewn blwyddyn o ran beth fydd y strategaeth i ymateb i'r bleidlais 'na'.

can foresee where we will be in a year in terms of what the strategy will be to respond to the 'no' vote.

[91] Yr wyf wedi anghofio yn awr beth oedd eich ail gwestiwn.

I have now forgotten what your second question was.

[92] **Nerys Evans:** Yr oedd yn ymwneud â'r arian cydgyfeiriant.

Nerys Evans: It was about convergence funding.

[93] **Y Prif Weinidog:** Credaf fod pawb yn derbyn fod ambell i brosiect yn methu, am resymau amrywiol—gall y corff ei hun benderfynu peidio â bwrw ymlaen â'r prosiect neu gall fod problem ynglŷn ag a yw'r prosiect yn hollol deilwng yn yr ystyr archwilio. Ambell i waith, telir arian yn ôl am fod problemau o'r fath. Nid wyf yn credu bod unrhyw wlad yn ystod unrhyw gyfnod o dderbyn cronfeydd strwythurol wedi llwyddo 100 y cant i gyflawni pob prosiect ar amser ac ar y botwm o ran cyllid ac yn y blaen. Mae bob amser rhai prosiectau sy'n methu. Dyna pam yr ydym yn defnyddio'r hen reol o orraglennu gan 10 y cant, sef ariannu prosiectau hyd at ryw 10 y cant dros y swm sydd ar gael i'w wario. Mae'n fath o reol anffurfiol. Byddwn yn dechrau petruso pe bai'r cyfran sy'n rhaid ei ad-dalu am resymau archwilio neu oherwydd methiant y prosiect i sefydlu ei hun yn mynd ymhell dros 10 y cant. Fodd bynnag, mae'n rhaid i chi dderbyn y bydd rhai prosiectau yn methu.

The First Minister: I think that everyone accepts that some projects will fail for various reasons—the organisation itself may decide not to go ahead with the project or there could be a problem in terms of whether the project is completely meritorious in the audit sense. Occasionally, money is paid back because of such problems. I do not think that any country during any period of being in receipt of structural funds has succeeded 100 per cent in delivering every single project on time and on the button in terms of funding and so on. Some projects will always fail. That is why we use the old rule of 10 per cent of overprogramming, in that we fund some 10 per cent above the amount of money that we have available to spend. It is some sort of informal rule. I would start to worry if the portion that had to be repaid for audit reasons or because of the failure of the project to establish itself went way above 10 per cent. However, you must accept that some projects will fail.

[94] Wrth i'r rhaglen gydgyfeiriant ddod i mewn, mae llawer mwy o bwyslais yn awr ar brosiectau sy'n seiliedig ar refeniw yn hytrach na chyfalaf, gyda llawer mwy o ganran ariannol yn mynd iddynt. Mae'n symlach gyda chyfalaf, mewn ffordd—er enghraifft, os ydych yn adeiladu ffordd—ond o ran prosiectau sy'n seiliedig ar bobl a refeniw, mae'n llawer anos cadw rheolaeth ar bob un o'r prosiectau gwahanol a cheisio sicrhau nad ydynt yn methu a'u bod yn dod i mewn ar y botwm o ran cost ac yn y blaen. Hyd yn hyn, nid ydym wedi torri'r rheol n+2 o ran gorfod talu arian yn ôl. Yr ydym wedi llwyddo drwy ddefnyddio'r 10 y cant ychwanegol ac wedyn mae'r 10 y cant yn disgyn i'w le. Gan ein bod wedi cael arian ychwanegol, mae'n drueni mawr nad oeddem wedi rhagweld y byddai gwerth sterling yn cwmpo a gwerth yr ewro yn codi ac y dylem fod wedi dyblu'r 10 y cant hwnnw i 20 y cant

As the convergence programme comes in, there is now much more emphasis on, and a much greater percentage of the funding going to, projects that are based on revenue rather than capital. It is simpler with capital, in a way—if you are building a road, for example—but in terms of projects that are based on people and revenue, it is much more difficult to manage all of the different projects and to try to ensure that they do not fail and that they come in on the button in terms of cost and so on. So far, we have not broken the n+2 rule in terms of having to repay money. We have succeeded by using the additional 10 per cent, and then that 10 per cent falls into place. As we have had additional money, it is a great shame that we could not have predicted that the value of sterling would fall and that the value of the euro would rise and that we could have doubled that 10 per cent to 20 per cent of

o or-raglennu er mwyn llwyddo.

[95] Fodd bynnag, ni allai neb fod wedi rhagweld y byddai sterling yn colli ei werth tra byddai gwerth yr ewro yn codi, felly yr ydym wedi cadw at 10 y cant. Yr ydym yn awr yn ceisio cael y gorau o werth ychwanegol yr ewro, drwy edrych ar ymestyn prosiectau sydd yn dal i fodoli ac yn rhoi gwerth da am arian, a lle mae'r strwythur yn dal i fodoli, fel ein bod yn gallu dweud wrth bobl, 'Beth am ymestyn eich prosiectau?'. Felly, yr wyf yn meddwl ein bod wedi ymdopi yn rhesymol o dda, gan ystyried mai yn hydref y llynedd y daeth y newyddion cyntaf bod gwerth sterling yn cwmpo a bod gwerth yr ewro yn codi ac felly y byddem yn gorfod ceisio defnyddio ein dyfeisgarwch i sicrhau nad oedd yr arian hwnnw yn cael ei dalu yn ôl.

[96] O ran y trydydd cwestiwn, yr ydym wedi penderfynu enwebu ychydig o bobl sydd yn flaenllaw yn eu meysydd, am eu bod yn ddigon blaenllaw ac enwog ar draws y byd yn eu meysydd, neu yn fwy cyffredinol na hynny, i fod yn hyrwyddwyr dros Gymru ac i werthu'r syniad fod Cymru yn wlad sydd yn gallu magu pobl flaenllaw. Mewn ffordd, mae'n anrhydedd iddynt i gael y statws hwnnw, ond yr ydym hefyd yn disgwyl iddynt wneud gwaith drosom ni a dros Gymru yn gyffredinol.

[97] **Nerys Evans:** A allwch chi rannu'r wybodaeth ddiweddaraf am faint o brosiectau sydd wedi cael arian cydgyfeiriant a faint fydd yn cael arian dros y misoedd nesaf?

[98] **Y Prif Weinidog:** Mae gwaith ehangu'r prosiectau hyn yn digwydd yn eithaf cyflym yn awr. Yr wyf yn meddwl ein bod wedi gallu talu rhyw 15 y cant o gyfanswm arian y saith mlynedd yn ystod y flwyddyn gyntaf hon o gydgyfeiriant. Mae prosiect mawr JEREMIE yn cael ei ddal i fyny gan ei fod yn weddol newydd ac mae goblygiadau iddo ar ochr cymorth y wladwriaeth. Mae cyfreithwyr y Comisiwn Ewropeaidd yn dal i betruso a yw'n hollol deg. Ym mhob biwrocratiaeth ceir pobl y byddech yn eu disgrifio fel hebogau a cholomennod. Mae rhai pobl yn ansicr a yw rhywbeth yn cyd-fynd â rheolau cymorth y wladwriaeth, a hynny er mwyn osgoi

over-programming and succeeded.

However, no-one could have predicted that sterling would lose its value while the value of the euro would increase, so we have stuck to 10 per cent. We are trying to get the best out of the additional value of the euro by looking at extending existing projects that provide good value for money and where the structure remains in place, so that we ask people, 'Why don't you extend your projects?'. So, I think that we have managed to cope reasonably well, bearing in mind that it was only last autumn that we first heard the news that the value of sterling was decreasing and that the value of the euro was increasing and that, therefore, we would have to try to use our initiative to avoid having to pay back that money.

On the third question, we decided to nominate a few people who are prominent in their fields, because they are prominent and well known enough throughout the world in their fields or even more generally, to be champions for Wales and to sell the idea that Wales is a nation that can produce eminent people. In a way, it is a privilege for them to be afforded that status, but we also expect them to work for us and for Wales in general.

Nerys Evans: Can you give us an update on how many projects have received convergence funding and how many will receive funding in the coming months?

The First Minister: The roll-out of these projects is now taking place relatively quickly. I think that we have been able to pay out some 15 per cent of the total funding for the seven years during the first year of convergence funding. The big JEREMIE project is being held up, because it is relatively new, and there are implications in terms of state aids. European Commission lawyers are still trying to decide whether it is entirely fair and fitting. In every bureaucracy there will be people whom you would describe as hawks and doves. Some people are unsure sure whether things fit in with state aids rules, in order to avoid distortion in the market and so on. Therefore, the

ystumio'r farchnad ac yn y blaen. Felly, mae'r comision yn dal i ystyried JEREMIE, ond yr ydym yn obeithiol y byddant yn rhoi caniatâd inni fwrw ymlaen. Mae Banc Buddsoddi Ewrop yn awyddus i symud ymlaen, fel yr ydym ni. Mae pethau wedi cymryd ychydig yn hwy na'r disgwyl, ond pan ydych yn gwneud rhywbeth newydd, ac mae hwn yn newydd, a bydd yn rhyddhau £150 miliwn i'w fuddsoddi mewn cwmnïau bach a chymedrol yng Nghymru, yr ydych yn gorfod derbyn ei fod yn werth parhau gyda'r gwaith, er ei fod yn cymryd dau neu dri mis yn fwy na'r disgwyl.

commission is still considering JEREMIE, but we are hopeful that it will give us clearance to go ahead. The European Investment Bank is eager to do so, as are we. Things have taken a little longer than expected, but when you are doing something new, and this is new, and it will free up £150 million to be invested in small and medium-sized enterprises in Wales, you must accept that it is worth continuing with the work, even though it takes two or three months longer than expected.

[99] **Jeff Cuthbert:** On Nerys's point about convergence, it is fair to say that Welsh European Funding Office expects that, over the next couple of months, there will be a tipping over the edge in terms of the numbers of projects that will be approved and will get under way. By the next programme monitoring committee meeting in September, we should be over that point. In terms of the £40 million windfall, it is the case that there must be quality projects. Among those that will be supported could be those that intend to evolve into convergence projects, provided that there is a proper plan in place for that, so that the money can be well spent before the end of this year.

10.00 a.m.

[100] My specific question is on the sub-section headed 'Education and Training' in your report, which is on page 5 in my papers. I found this very interesting, because we had that debate yesterday in Plenary about the further education sector, but here, it seems quite clear that the European Association of Regional and Local Authorities for Lifelong Learning has considerable respect for the FE sector in Wales, and that the Balearic islands, the Basque country and, indeed, Catalonia are said to be impressed with what we are doing. I wonder if you could expand on that in terms of our links. I also note that practitioners from the Balearic islands will be coming here in the autumn. Will there be an opportunity—whether for this committee or for the Enterprise and Learning Committee—to talk to them about their impressions, so that we can learn from each other? Finally, the Catalan officials were impressed by the ICT provision—did they also look at Learn Direct, which offers access to learning through ICT?

[101] **The First Minister:** I cannot answer that last question, but, as a general observation, it is accepted in continental Europe that British and Welsh methods of delivering vocational education are a bit less restrictive, and a bit more dynamic and creative, than in continental Europe. In continental Europe, you tend to find fairly rigid structures; they are very good structures, but they can be quite rigid, and less open to new influences. If, at 16 years of age, you are allocated a place in vocational education, because you are not going into a job or to university, and so on, that then becomes your place in society, and you continue along the apprenticeship route. It is good, but rigid.

[102] Much of our traditional vocational training was dissipated in the 1980s, so we now have to do things in a more informal and creative way, on an all-age basis. So, countries in continental Europe come to us for new ideas, whereas we would sometimes look to them to find out how to persuade employers to continue with training during a downturn in their industry. We are currently trying to do that with the building industry; it is not a problem in Germany, but is a huge problem in the UK, and when we get a downturn, the building industry tends to stop training. On the continent, by and large, the state will take over, and

somehow preserve the ability to train. However, that is a formal approach, whereas we are better at the creative and innovative things; as a general rule, they find us pretty creative and pretty good.

[103] That raises the issue of whether their competences are, in the end, the same as our competences. People have gone to great lengths to try to ensure mutual recognition for doctors, lawyers, graduate engineers and so on, but that has not been extended to vocational education until recently. We very much welcome that kind of mutual recognition arrangement for graduate-type professions, to enable people with various degree qualifications to move freely, without losing the ability to practice their trade or profession. We are seeking similar arrangements for vocational education. That is the advantage of individual memoranda of understanding between us and countries or regions in continental Europe, like Catalonia, or the Balearic islands. It is also the main purpose of bodies like EARLALL. Best practice can be exchanged across different regions and countries, and so we have individual memoranda of understanding with the Basque country, Catalonia, Brittany, Tuscany, and so on—everyone can learn something from others in the field of vocational education. We can enhance the prestige of vocational education, so that there is not a disparity of esteem between people who have gone down the academic route and those who have gone down the vocational route.

[104] Could I just correct something that I said earlier? I think I said that 15 per cent of the convergence money had been paid. I should have used the expression ‘committed’ rather than ‘paid’. It has gone into a specific fund, but it has not yet been paid out to an individual recipient or company.

[105] **Sandy Mewies:** Thank you. Are there any more questions?

[106] **Michael German:** After your introduction, First Minister, I am tempted to ask you what lessons you have learned about fighting a referendum campaign, but I direct you to the comments of Brian Gibbons, who, to his credit, gave a useful account of what went wrong.

[107] I would like to take up two separate issues. One of those issues is the CAP—I will return to that in a minute—but I will begin with the £40 million of European money. If you over-programme, it is fine if you have a rolling programme, but you cannot roll any further than 31 December. What level of money has not been committed to date in the 2006 programmes, and what is the current level of underspend? I want to know not just how much money has not been committed, but also how much money has not been spent, because the bills have to be paid by 31 December. The other part of that question is on match funding. You must find an extra £40 million in match funding—or maybe a bit more, because the intervention rate is not always 50:50. Do you have a rough figure as to how much extra stress that will put on the pots of last resort that the Assembly uses, because they will have to be increased as well if the money cannot be found elsewhere?

[108] My second question is entirely separate and relates to the CAP. We have just heard from the deputy Chef de Cabinet about modulation. If the plan goes ahead, as proposed by the commission, and all of the modulation becomes compulsory rather than voluntary, we or the UK will have to find all the match funding for that. Traditionally, the UK has not provided all the match funding that it could have. Do we yet have a figure for how much money would have to be put in by UK plc or by the Welsh Assembly Government to match the 13 per cent modulation that the commission is proposing?

[109] **The First Minister:** I will ask Rory to answer the second question. On the first question, on where we think we will be by 31 December—the drop-dead date for spending the additional money available to us from Europe on the 2000-06 programmes, following the devaluation of sterling and the rise in the value of the euro last autumn—we get an extra £40 million from Europe, so we do not have to find that. That is the windfall gain from the

reevaluation of sterling. What Wales must find is the match funding requirement to go with that European windfall. We say that project sponsors will be responsible for finding the match funding—that is the rule—but we do not want to let a good project die for the want of match funding, which is why we have a last-resort attitude, not a first-resort attitude, to spending our match funding pots on assistance for projects.

[110] We are working hard to try to minimise the risk that any of this windfall gain is not spent by the end of the year, but it would be a miracle if we achieved the whole thing. As I mentioned in an earlier answer to Nerys, we always put in an extra 10 per cent of over-programming in case of either audit failures or the collapse of the party proposing the project—if they could not hack it in the end. In this case, we should have put in an extra 20 per cent, but we did not know that the value of sterling was going to go down and that the value of the euro was going to go up. So, we are trying to run very fast to catch up and find projects that can spend that money and provide good value for money. We do not want to do anything just because it spends the European money.

[111] So, if we manage to spend the additional money with no return to Europe, it will be a miracle. I do not think that we will be able to do it. If we do, it will be a huge pat on the back to our partners, because it would be almost miraculous. However, we are working as hard as possible to minimise the payback. Jeff could probably give you a better update on this, because of the papers that go through his hands as chair of the programme monitoring committee. When people come to us and ask, ‘Can we have some last-minute match funding?’, that is an overstretch on our budget. We have to try to be as helpful as we can; if they are good value for money, we do not want to see those projects die. They do not have any match funding because they never thought that they would need it, and we are asking them to hurry up and get some additional funding.

10.10 a.m.

[112] There will be obligations for us to be as helpful as we can, but it will be a miracle if we manage to spend all of it, and we are trying to minimise any shortfall on the spend. We may have to find an extra £20 million or £30 million in match funding, but not all of the £40 million, because projects are expected to be able to cough up their own match funding, and we are a pot of last resort. However, there will be some additional stress on us to find that additional money, to avoid having to return any of it, but it would be a miracle if we achieved 100 per cent spend. We will get back to you on that, but we are crossing every finger and toe that we can possibly find. It is going to be a very tough job in a relatively short space of time.

[113] **Michael German:** I asked you a very specific question, which you said that you could not answer at the moment. Can we ask for the current level of underspend within the convergence programmes, so that we know where we are now, where we have been and where we are going?

[114] **The First Minister:** Yes. Could I ask Jeff whether he has any more up-to-date information on that?

[115] **Jeff Cuthbert:** Not in front of me, but I will be appearing before this committee with the Welsh European Funding Office in July, and that type of detailed, up-to-date information could be provided at that time.

[116] **The First Minister:** In running totals terms, Jeff probably has better information than me.

[117] On the second question, I will ask Rory to come in on the common agriculture policy issue.

[118] **Mr O'Sullivan:** On modulation and how we use it under the rural development plan, it is very technical and very complex. The first point that I would make is that the health check is saying that the regime of compulsory and voluntary modulation is in place until 2013, although there is an issue for Wales that, in 2013, we will have a higher rate through compulsory modulation than we had proposed. In Wales, we are already match funding, from the Assembly Government, receipts from compulsory modulation and voluntary modulation. There is a technical issue that we are discussing directly with the commission, because for a member state such as the UK, we are in a different position to the rest of Europe, where they do not apply voluntary modulation. So, for the rest of Europe, their rates of compulsory modulation are going up, and that will be spent on the challenge agenda. In the UK, specifically in Wales, we are currently using voluntary modulation to fund across the rural development plan, so when we have compulsory modulation going up by 2 per cent a year, and, in theory, the voluntary rate comes down by 2 per cent, we will have to use some of those new compulsory modulation receipts to balance the displacement from the voluntary modulation that we have lost.

[119] We are getting into very technical issues with the commission, because it is only the UK and Portugal that are impacted upon. It has drafted a regulation that applies to EU 25, not EU 27, but in terms of the potential for match funding, under the rural development plan, there are very complex rules about co-financing and the Welsh Assembly Government has a wide degree of discretion in term of the degree of co-financing. We will have to make a major modification to the rural development plan to deliver the challenge agenda that Dr Borchardt mentioned to you, on climate change, water management and so on. When we are in a much clearer position, through the negotiation process, than we are now, it is likely that we will simply be reprofiling right across the rural development plan to make sure that, in terms of the new compulsory modulation, we do not have a problem with match funding. We might be in a position, when the Minister for Rural Affairs comes before this committee next month, to give you an update on that negotiating process.

[120] **Michael German:** I would also value having the actual figure that we are talking about, because the level of voluntary modulation will be slightly under the level of compulsory modulation that the commission is proposing by the time we get to 2013, so the question will not be just how you get the match funding but also the quantum, which is going to change.

[121] **Mr O'Sullivan:** The estimate at the moment—and it is a very early estimate because we are in the very early stages of detailed, technical negotiation with the commission—is that, between 2010 and 2013, we will be generating a net increase of £5 million over that four-year period for use under the rural development plan.

[122] **William Graham:** I have fairly similar questions to ask, First Minister. On the JESSICA project—joint European support for sustainable investment in city areas—I see that the scoping study has been awarded and that it will take about four months. What is the mechanism now for consultation on that after the scoping study has been received?

[123] My second question is slightly oblique with regard to the Interceltique festival. Is there any progress with regard to Welsh being made the twenty-fourth language?

[124] **The First Minister:** On JESSICA, a scoping study has been awarded to King Sturge to see what the potential is and what benefit it would bring to Wales. I will briefly explain what JESSICA is. These two names of JEREMIE and JESSICA have suddenly arisen from nowhere over the past 12 months, and I admit to very frequently having to check in my own mind which is JESSICA and which is JEREMIE. I wish they had chosen more distinct names, but they did not, so there we are. JESSICA is the urban regeneration project idea and

JEREMIE—joint European resources for micro to medium enterprises—is the loans schemes for small and medium-sized enterprises. They have both arisen from discussions that we had with the European Investment Bank last autumn, which spotted that Wales was keen on using some new ideas, new cash and new ways of stretching the old cash that we had much further. We have a lot of urban regeneration projects because, as we were the first industrial country in the world, we have more brownfield sites per acre than anywhere else in Europe, so there is a lot more urban regeneration potential in Wales. You will have probably read in the newspapers, as I did yesterday, that there is yet another one now in Merthyr, namely the Dowlais scheme, which has a potential completed value of £40 million and so on. You can find schemes like that all over former industrial Wales.

[125] The King Sturge study is meant to ask how, without breaching state aid rules, and by bringing in the private sector, the EIB money could make a difference to what we are seeking to do. What is the net value added that JESSICA could give us compared with not having it? Is it therefore worth doing? Is it worth battling your way through all those dead-keen hawkish lawyers and bureaucrats in directorate-general IV, the competition people, who are very anxious to prevent any distortion of the free market and so on? I do not know when those four months will be up, but it is a four-month study by King Sturge on the potential for bringing in a JESSICA scheme, using Wales as a pilot, in the same way as we want to be the subject of a pilot for JEREMIE, the support scheme for small and medium-sized enterprises, although we hope to have approval much earlier. It is purely a matter of getting state aid clearance now, and I think that we are fairly close.

[126] On the designation of Welsh as an official language, we are trying to establish a procedure whereby, provided we meet the costs by sending translators and interpreters over and so on, it becomes possible to use Welsh in fairly modest circumstances, such as in exchanges of letters, or by giving permission to speak in Welsh so long as the translation is available. However, it is not willing to do that; we have to send the people over and so they will be provided by us. If we want that done, we will have to meet the expense and the in-kind involvement. However, given the relatively infrequent purposes to which it would be put, the expense would be modest and we think that it would be worth it to put Wales and the Welsh language on the map.

[127] **Nerys Evans:** Yn dilyn hynny, a yw Llywodraeth y Cynulliad wedi gwneud cais i'r Gymraeg gael ei henwi fel iaith swyddogol yn Ewrop neu dim ond i gael gwneud defnydd cyfyngedig o'r iaith?

Nerys Evans: Following that, has the Assembly Government made a bid for the Welsh language to become an official language in Europe, or only to make a limited use of the language?

10.20 a.m.

[128] **Y Prif Weinidog:** Ein dealltwriaeth ni yw nad yw hi'n bosibl i'r Gymraeg gael ei henwi yn iaith swyddogol oherwydd dim ond ieithoedd swyddogol aelod wladwriaethau yr Undeb Ewropeaidd sy'n gallu cael eu henwi yn ieithoedd swyddogol. Er enghraifft, yn Iwerddon, mae'r Wyddeleg yn iaith swyddogol ochr wrth ochr â'r Saesneg, felly mae Iwerddon yn cael dweud ei bod eisiau cyfieithu pob dogfen gyfansoddiadol a'r hawl i siarad Gwyddeleg yn y Senedd—er ychydig iawn o ddefnydd a wneir ohoni er ei bod yn iaith swyddogol i'r aelod-wladwriaeth. Fodd bynnag, nid yw'r Gymraeg yn iaith

The First Minister: Our understanding is that it is not possible for the Welsh language to be given official status because it is only the official languages of the member states of the European Union that can be named as official languages. For example, in Ireland, Irish is an official language alongside English, so Ireland can say that it wants all constitutional documents to be translated and the right to speak Irish in the Parliament—although very little use is made of it, despite the fact that it is an official language. However, Welsh is not the official language of the member state of the United Kingdom,

swyddogol i aelod-wladwriaeth y Deyrnas Unedig, ond y mae'n iaith dra swyddogol o fewn un rhan ohoni, sef Cymru. Ni allwn ddefnyddio'r hawl hwnnw. Yr ydym yn ceisio cymryd camau ymarferol er mwyn sefydlu'r Gymraeg yn iaith a ddefnyddir o bryd i'w gilydd pan fo'n berthnasol yn Senedd Ewrop, Comisiwn Ewrop neu yng nghyfarfodydd Cyngor y Gweinidogion.

although it has quasi-official status in one part of it, namely Wales. Therefore, we cannot use that right. We are trying to take more practical steps to establish the Welsh language as one that could be used from time to time, whenever that would be relevant, in the European Parliament, European Commission or in meetings of the Council of Ministers.

[129] **Nerys Evans:** Mae gennyf gwestiwn am yr ardaloedd llai ffafriol. Deallaf fod Llys Archwilwyr Ewrop wedi beirniadu diffiniadau rhai gwledydd o'r ardaloedd llai ffafriol a'i fod yn ymgynghori ar hwnnw. Gan fod 80 y cant o Gymru wedi ei benodi'n ardal llai ffafriol o dan gynllun Tir Mynydd, beth yw ymateb Llywodraeth y Cynulliad i'r ymgynghoriad hwn?

Nerys Evans: I have one question on less-favoured areas. I understand that the European Court of Auditors has criticised some countries' definition of the less-favoured area and is now consulting on that. Given that 80 per cent of Wales is designated a less-favoured area under the Tir Mynydd scheme, what is the Welsh Assembly Government's response to that consultation?

[130] **Y Prif Weinidog:** Byddai'n well imi ofyn i Rory ymateb i'r cwestiwn technegol.

The First Minister: I had better ask Rory to respond to the technical question.

[131] **Mr O'Sullivan:** There was this criticism from the European Court of Auditors some years ago. In the light of the criticism, the commission has been working with member states to identify criteria for re-designating boundaries and currently—

[132] **The First Minister:** May I interrupt you there just for a second? Was that the criticism that our less-favoured areas had higher incomes than our more favoured areas?

[133] **Mr O'Sullivan:** No, that was related to the mid-term evaluation of the previous rural development plan.

[134] **The First Minister:** Okay. I always learn a lot at my own scrutiny sessions. *[Laughter.]*

[135] **Mr O'Sullivan:** In the light of these discussions with member states, the commission is going out to consultation on new criteria for re-designation. Essentially, the previous designations, which go back to 1975, were based on socioeconomics. They want criteria that are based on soil climatic topography. The consultation has come up with four options. I am afraid that I cannot recall all of them. At the moment, we are working with the other UK administrations on the possibility of making a UK response, although we are aware that respective farming unions in Wales will be making their views known. The commission will come up with final criteria in the light of this consultation, which will then be subject to the usual negotiation process at Brussels. The commission is still working to the timetable that re-designation will take effect from 2010. Our current assessment for Wales is that there is likely to be little change to the existing designation. However, designation is different from payment under Tir Mynydd.

[136] **The First Minister:** Am I right to assume that the broad principle of trying to reduce the incentives for over-grazing LFAs by a headage payment method will still be the main principle—it wants to get away from incentives for over-grazing?

[137] **Mr O'Sullivan:** That is part of it, but the map of the LFA in the EU 27 is quite extensive and inconsistent. Given the amount of money going into EU 27 LFAs, the European

auditors could not identify the benefits that were coming out of that.

[138] **Sandy Mewies:** Are there any further questions?

[139] **Jeff Cuthbert:** I have an observation on the earlier brief discussion on JESSICA and JEREMIE. I share the First Minister's concern, because I often get them the wrong way around, which is particularly awkward when you are the Chair of the programme monitoring committee. However, when we discussed those at the most recent meeting, there was warm support for the principles involved from our partners on that committee.

[140] **The First Minister:** We are hopeful that JEREMIE will be up and running before too long, because we are uniquely benefited in Wales from having a public sector merchant bank, as it were, in Finance Wales. Apart from Northern Rock, it is the only publicly owned bank in Britain—although I suppose that the Bank of England belongs to the UK Government. Now that Northern Rock also belongs to the Government and Finance Wales belongs to us, there are three public sector banks in Britain. The fortunate part of that is that, because there is a credit crunch going on and it is harder to get money, venture capital, and smaller-scale venture capital in particular—people are drawing their horns in—we have a vehicle available to team up with the European Investment Bank. Between the money that we allocate to Finance Wales and the money that the European Investment Bank will be putting in, there will be considerable leverage and sums of money will be available for small and medium-sized enterprises.

[141] I must emphasise that it is not free money. It is not money that a normal bank would turn down. It is not the case that Finance Wales with its JEREMIE money is some sort of slush fund for projects that will not make money and that are not really viable; it is for projects that are equally as viable as those that you would expect to take into HSBC, Lazard Brothers & Co. or whoever in London to ask whether they would put some money in. The answer of 'yes' or 'no' needs to be the same when you go to Finance Wales asking for some JEREMIE money. The same amount of paperwork is involved in a £100,000 project as is in a £10 million project. That is why Lazard Brothers and even 3i, which was originally a state-owned bank that was intended to carry out this function when it was established in 1948, will not have anything to do with seed capital or small-scale venture capital now.

[142] We hope that the JEREMIE deal will be up and running. It takes 100 projects of £100,000 to reach a project of £10 million and the amount of paperwork for each project is the same, so the big merchant banks want to deal only with £10 million projects because they have expensive staff. Therefore, what a publicly owned bank and the JEREMIE subsidy enable us to do is consider the 100 £100,000 projects without worrying about the fact that that means a great deal of paperwork and processing. We want to encourage small and medium-sized enterprises, and, if we get JEREMIE, we will be able to do that to an even greater extent than we can already through Finance Wales. However, it is not free money.

[143] **Sandy Mewies:** Is there such a thing as free money?

[144] **The First Minister:** No.

[145] **Sandy Mewies:** I was fascinated to see that one bank recently advertised that it was having a money sale. How do you do that?

[146] **The First Minister:** Quite.

[147] **Sandy Mewies:** I thank you once again, First Minister. It was a very interesting report, and we have covered a lot of ground. We are particularly interested in the CAP health check because we are scrutinising that in several areas now, and we hope that the results that we

come up with will feed into the Welsh Assembly Government's thinking, through the Minister for Rural Affairs.

10.28 a.m.

**Tystiolaeth am Gynigion Comisiwn Ewrop ar Archwiliad Iechyd y Polisi
Amaethyddol Cyffredin: Cyswllt Amgylchedd Cymru
Evidence on the European Commission Proposals on the Common Agricultural
Policy Health Check: Wales Environment Link**

[148] **Sandy Mewies:** I invite the witnesses from the Wales Environment Link to the table. However, we are having some technical issues, and we are trying to get some new headphones for you. As I am sure you are aware, we operate through the media of Welsh and English. You can hear the translation of the Welsh into English on channel 1, and channel 0 can be used to amplify the sound.

[149] **Mr J. Davies:** I am all right, as I operate in both languages.

10.30 a.m.

[150] **Sandy Mewies:** Okay, let us move on. You will know that the common agricultural policy health check has been a particular theme of today's meeting. I welcome Michele Aitchison, the advocacy officer, and Jeff Davies, the chair of the land use working group, from Wales Environment Link. Thank you for your written memorandum, which includes some interesting points. Perhaps you would like to make a brief, five-minute presentation, and I will then invite Members to ask questions.

[151] **Mr J. Davies:** As a quick introduction, Michele will give some background to Wales Environment Link and what we do.

[152] **Ms Aitchison:** I am Michele Aitchison, advocacy officer for Wales Environment Link. As Jeff said, I have accompanied him this morning to give you a brief introduction to our organisation and the work that we do.

[153] Wales Environment Link—or WEL, as we tend to call it—is a network for environmental and countryside non-governmental organisations in Wales. We currently have 29 member organisations, ranging from the Bat Conservation Trust and Keep Wales Tidy, to WWF Cymru and Groundwork in Wales. The majority of our members have an all-Wales remit and, together, they boast a wealth of knowledge and extensive experience in relation to environmental issues.

[154] The vision of the WEL network is to increase the effectiveness of the environmental sector in its ability to protect and improve the environment. WEL helps this by facilitating and articulating the voice of the sector. We do this by providing a mechanism and a framework, which allows the sharing of information and knowledge, facilitates the identification of shared interests and collective goals, encourages combined action and joint working, and reduces the overlap and duplication of efforts.

[155] We also facilitate the formation and promotion of joint policy positions, or consultation responses, and in this way we help to present to Government and other stakeholders a united front on key issues to our members. Consequently, WEL is officially designated the intermediary body between the Welsh Assembly Government and the environmental non-governmental organisations sector in Wales. One way in which we facilitate such joint working is through our thematic working groups, which develop policy positions,

consultation responses, and so on; it is an inclusive process.

[156] One of these working groups is the land use working group, which Jeff chairs. This group consists of six of our member organisations—the Royal Society for the Protection of Birds Cymru, which Jeff works for, National Trust in Wales, Coed Cadw, or the Woodland Trust, the Wildlife Trusts in Wales, and Butterfly Conservation Wales. It was this group of specialists that produced the response to the Welsh Assembly Government’s consultation on the European Union common agricultural policy health check, on which our submission to the committee is based.

[157] I would like to finish by thanking the committee for inviting WEL to give evidence this morning on the health check. Our members see CAP as a major influence on agriculture and land use in Wales, which, in turn, has an important human influence on the natural environment. Therefore, being no agricultural policy specialist myself, I will hand over to Jeff, who will summarise the paper.

[158] **Sandy Mewies:** Before you start, Jeff, we have all read the paper, so if you can just make some general points on it.

[159] **Mr J. Davies:** Fine. Wales Environment Link sees the CAP health check as an opportunity. We recognise that the CAP health check is, if you like, a tweaking of the current CAP system, but we still feel that there are opportunities in the health check that were not grasped. We also see the health check as part of the longer term process, moving towards a common agricultural policy, where the receipt of public money is clearly linked to the delivery of public and environmental benefits. That view is widely held among environmental groups across Europe.

[160] I wish to draw your attention to two documents that we have brought with us today, which you can take away to read. One is a document that is produced by Wildlife and Countryside Link, which is based in England but has a UK remit, and is entitled, ‘Beyond the Pillars: Wildlife and Countryside Link’s Policy Perspective on the Future of the CAP’. The other is from BirdLife International, and is entitled ‘New Challenges, New CAP’. That is something to look at. I think that we have a situation where the money that comes in through the single payment scheme is really not going to the farmers who are delivering public goods. In essence, we have to remember that this is public money and it is not being directed to the areas where it would produce the greatest public benefit.

[161] Modulation is a key area that has been dealt with by the CAP health check. The background to modulation is that, when the budget agreement was arrived at in 2005, when the budget was set for CAP for 2007-13, it left a shortfall in rural development funding. Therefore, the UK pushed for voluntary modulation, particularly to deliver agri-environment schemes that are important to address biodiversity declines in the UK, in order to fill the funding gap that was left. Although the proposal for increasing compulsory modulation across the EU 25 is welcomed, we feel that it does not go far enough and, as the gentleman from the commission mentioned earlier, if there is to be negotiation, it will be on modulation and, almost certainly, what will happen is that the modulation rate will go down. I cannot see the modulation rate being negotiated up. It will be negotiated down. That could leave the UK, and Wales in particular, in an awkward position in terms of funding the rural development programme and, particularly, agri-environment schemes.

[162] In conclusion, I would just like to say that the health check is an opportunity to establish the right direction of travel for the CAP, where European policy focuses on rewarding sustainable land management. We see the progressive movement of funds from pillar 1, support payments paid directly to farmers, into pillar 2, rural development, being a very important part of that process.

[163] **Jeff Cuthbert:** Thank you for your paper and for your oral presentation. I think that you have answered the first question, at least in part, but I will give you an opportunity to expand on your answer, if you should wish. You referred to the video conference that we had earlier and I noticed that you were in the public gallery at that point, so you heard the exchanges. In terms of the commission's proposals regarding the health check, I get the impression that you do not think that they go far enough. Would you like to expand on that and say why you think that that is the case? Specifically, there is clearly a balance to be struck between environmental issues and the growing demand for food. How do you see the health check relating to that?

[164] **Mr J. Davies:** In terms of not going far enough and what we would like to see happening, the key area, as we see it, is the movement of funds through modulation from pillar 1 into pillar 2 in order to fund agri-environment schemes and the rural development programme. It is not just the agri-environment schemes, although they are perhaps the most important part of the programme, as there are other measures as well to help farmers to adapt to the changing situation.

10.40 a.m.

[165] The reason why agri-environment schemes are important is that we have faced, and are still facing, a decline in biodiversity that has happened over decades. Agri-environment schemes are widely recognised, at Government level and by NGOs, as being a key part of addressing that issue. They are not the entire answer to the problem, but they can play a very important part in addressing the problem of decline in biodiversity.

[166] **Nerys Evans:** Yr ydych yn eithaf beirniadol o'r taliad sengl, gan ddweud nad oes cyfarwyddyd polisi clir a'i bod yn anodd cael pobl newydd i ffermio ac ati. A allwch ymhelaethu ar y diffygion? Hefyd, beth yw eich barn ar y cynllun lleiafswm tir sy'n gymwys am y taliad sengl?

Nerys Evans: You are fairly critical of the single payment, saying that there is no clear policy guidance and that it is difficult to get new people into farming and so on. Can you expand on the deficiencies? Also, what is your opinion of the planned minimum land area qualification for the single payment?

[167] **Mr J. Davies:** Nid oes rheswm cryf dros y taliad sengl yn awr. Ar un adeg, yr oedd y taliad yn gymorth i annog ffermwyr i gynhyrchu mwy o fwyd. Bellach, mae'r taliad wedi'i wahanu oddi wrth gynhyrchu bwyd. Wrth i'r blynyddoedd fynd heibio, nid oes rheswm clir dros y taliad. Mae'r Undeb Ewropeaidd eisiau symud ffermwyr mwy tuag at y farchnad ac, i wneud hynny, dylai mwy o arian gael ei symud i biler 2 y PAC i'w helpu i addasu ac i gynhyrchu i'r farchnad yn ogystal â'u helpu i addasu at weithio gyda'r elfennau o'r cynllun datblygu gwledig sy'n ymwneud â chadwraeth a rheolaeth tir.

Mr J. Davies: There is no longer a strong reason for the single payment. Once, the payment was a means of encouraging farmers to produce more food. Now, the payment has been separated from food production. With the passage of time, there is no clear reason for the payment. The European Union wants to move farmers more towards the market and, to do that, more funding should be moved to pillar 2 of the CAP to help them to adjust and produce for the market as well as helping them to adjust to working with the elements of the rural development plan that deal with conservation and land management.

[168] Beth oedd yr ail gwestiwn?

What was the second question?

[169] **Nerys Evans:** Yr oedd yn ymwneud â'r lleiafswm tir.

Nerys Evans: It dealt with the minimum land area.

[170] **Mr J. Davies:** Iawn. Nid oes gennym deimladau cryf am y peth. Gallai greu problemau, gan fod nifer o ffermydd bach yng Nghymru. Gallai beri i'r ffermydd hynny fod ar eu colled os nad ydynt yn manteisio ar yr arian sydd ar gael. Dyna'r unig beth sydd gennyf i'w ddweud am hynny.

Mr J. Davies: Right. We do not have any strong feelings about it. It could cause problems, as there are a number of small farms in Wales. Those farms could lose out if they do not take advantage of the available funding. That is the only thing that I have to say about that.

[171] **Sandy Mewies:** You say in your paper that it is about the outcome and the public benefit rather than the size.

[172] **Mr J. Davies:** That is right.

[173] **William Graham:** In your paper, you refer to a higher tier landscape scheme. Do you think that the additional moneys that might be available from modulation would be better targeted at landscape schemes, or should we still follow the Tir Gofal model?

[174] **Mr J. Davies:** I think that there is room for both. You can have a scheme such as Tir Gofal, which is based on a single farm, but Tir Gofal itself can be adapted and extended to operate on a landscape scale, or something like that could be based on Tir Gofal. We think that the landscape-scale schemes are important in addressing issues relating to water and carbon. You could be looking at large blocks of land—areas of upland, for example—and there are large areas of common land that may be suitable for such a scheme. With the Commons Act 2006 now being implemented progressively, there will be more opportunities to do that in future.

[175] **William Graham:** In your paper—[*Inaudible.*]. The commission promoted the abolition of the energy crops scheme, saying that it should be done fairly soon. The biofuels scheme is no longer as popular as it was, although so much of Wales is covered in bracken that it always amazes me that that amount of cellulose is not used. However, the biomass part of this seems to be a retrograde step.

[176] **Mr J. Davies:** What has been happening in Wales up to now is that funding has been provided to help build up the infrastructure as far as biomass is concerned. That is the right way forward, rather than some kind of support for growing a crop—to create a market, in a way, by developing the infrastructure for biomass.

[177] **Michael German:** Can I track down exactly where you are on what the level of modulation should be? By 2012 we will have 11.5 per cent voluntary modulation in Wales, and the commission is proposing 13 per cent compulsory modulation. Your view, which I do not disagree with, is that it is likely to be negotiated downwards. However, if it were negotiated down below 11.5 per cent, we would be worse off than we were. If you accept that 11.5 per cent, one way or another, will be the baseline that we will work from, do you believe that it should be significantly higher than that? You know that the record of match funding for these things is patchy. What level do you think the Welsh Assembly Government, and presumably UK plc, should hold out for? Is 13 per cent the right rate?

[178] On the back of that, you will have heard the First Minister's officials talking about a substantial rewrite of the rural development plan, which is what will have to happen with the changes from modulation. There are four key areas: climate change, renewable energy, water management and biodiversity. There is not much missing from that, but perhaps you could tell me if there is anything that is not covered by those four categories, although it seems to me that 'climate change' gives you a pretty wide scope, as does 'biodiversity'. What should the key elements be in the rewrite of the RDP? I am sorry—that is a whole set of questions.

[179] **Mr Davies:** I will start with what should come out of the RDP rewrite. Certainly, we need to come out with a stronger, better-funded set of agri-environment schemes, which are capable of addressing the challenges that you mentioned: climate change, water and biodiversity. It is similar to what I referred to earlier, in response to Mr Graham's question in that the landscape-scale operation is what we want to see. We want to see schemes that can tackle these key issues, and there should be sufficient funding to enable it to be done in a meaningful way, rather than just tinkering around at the edges.

10.50 a.m.

[180] On how much additional modulation would be needed ideally, it is difficult to say. Looking across the border, England has set its voluntary modulation rating at a top level of 18 per cent or 19 per cent, which I think is perhaps more like the level that would deliver schemes that would be able to meaningfully address the problems, particularly that of a decline in biodiversity.

[181] **Michael German:** Is there any way of shifting the area schemes? You used the word 'landscape', which is what I am talking about when I say 'area schemes'. The main thing about area schemes is that they will not all be on farms; some of the land will be in other ownership, perhaps in public ownership. Do you think that that element could be seen as part of the match funding needed to get schemes going and therefore a way of getting more money? Do you think that the landscape schemes should be more predominant than farm-based schemes? What is the balance between the two?

[182] **Mr J. Davies:** So much of Wales would lend itself to the landscape-scale approach. We could eventually be looking at landscape-scale schemes being the predominant type of scheme. There are many large upland areas and large areas of common land, unenclosed moorland and forest land in Wales. There could be a 50:50 balance or there could be even more landscape-scale schemes.

[183] **Sandy Mewies:** Are there any other questions? I have a point that I want you to clarify. The links do not seem to support the historic method of paying the single payment, but suggest that the regional approach should be used. Can you expand on that?

[184] **Mr J. Davies:** Yes. The historic basis for the method is the payments that farmers were receiving between 2000 and 2002. The further we get away from that period, the less relevant it seems to be. In a way, it is rewarding farmers who were farming more intensively during that period, and we do not think that that is an equitable situation. The area payment would be a fairer way of distributing the money. We know that there would be problems in doing that and that there would be inequities, but we can put systems in place in order to balance those out. There may have to be adjustments, but we should get away from the historic model and move towards an area model.

[185] **Sandy Mewies:** Thank you both for your valuable contributions today. As you have heard, the health check will be a theme and we hope to present our evidence to the Assembly Government and then the UK Government. Thank you for coming today and explaining so clearly the thoughts of so many organisations.

[186] **Mr J. Davies:** Thank you for the opportunity.

[187] **Sandy Mewies:** The clerk has just reminded me to make some closing remarks. The next meeting will be on 17 July. I must apologise to Members as I will not be here to chair that meeting because of family circumstances. The meeting will include, among other business, an update on the work of the Objective 1 programme monitoring committee. As the chair of that, Jeff will be dealing with that side as well as sitting as a committee member on

that day—I am not sure how he is going to divide himself.

[188] **Jeff Cuthbert:** I will clone myself.

[189] **Sandy Mewies:** There will also be scrutiny of the Minister for Rural Affairs on the CAP health check, which I am sorry to be missing.

[190] **Nerys Evans:** Are the farming unions coming in at any time to discuss the CAP health check?

[191] **Sandy Mewies:** Yes, at the beginning of next term. We are off on 30 June to Edinburgh to the forum of the UK chairs of European committees. You will not be surprised to learn that the issue of subsidiarity will be very high on the agenda. I think that we will be discussing some sort of protocol arrangement.

[192] I asked the Members' research service to write a briefing on European structural funds, which it has provided. Not everyone will want to see it, but it will be circulated. Thank you very much for the report, Nerys, which was excellent, and please pass on our thanks for the paper that we received from MRS. It was very succinct; if you can get the information on one side of a piece of A4 paper, that is enough for me. The clerk will draft a report on the forum's meeting in time for your next meeting.

[193] Thank you all for attending this meeting. The minutes of the previous meeting have been agreed, and so I bring the meeting to a close.

*Daeth y cyfarfod i ben am 10.57 a.m.
The meeting ended at 10.57 a.m.*