



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

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

**Dydd Iau, 17 Gorffennaf 2008
Thursday, 17 July 2008**

Cynnwys
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Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal, cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg. Mae hon yn fersiwn ddrafft o'r cofnod. Cyhoeddir fersiwn derfynol ymhen pum diwrnod gwaith.

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. This is a draft version of the record. The final version will be published within five working days.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Christine Chapman	Llafur (yn dirprwyo ar ran Sandy Mewies) Labour (substitute for Sandy Mewies)
Jeff Cuthbert	Llafur Labour
Nerys Evans	Plaid Cymru The Party of Wales
Michael German	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
William Graham	Ceidwadwyr Cymreig Welsh Conservatives

Eraill yn bresennol
Others in attendance

Rosemary Butler	Aelod Cynulliad, Llafur (y Dirprwy Lywydd) Assembly Member, Labour (the Deputy Presiding Officer)
Andy Klom	Pennaeth, Swyddfa Comisiwn Ewrop yng Nghymru Head, European Commission Office in Wales
Elin Jones	Aelod Cynulliad, Plaid Cymru (y Gweinidog dros Faterion Gwledig) Assembly Member, The Party of Wales (the Minister for Rural Affairs)
Gretel Leeb	Cyfarwyddwr Rheoli Rhaglenni, Swyddfa Cyllid Ewropeaidd Cymru Director of Programme Management, Welsh European Funding Office
Rory O'Sullivan	Pennaeth yr Is-adran Polisi Gwledig, Llywodraeth Cynulliad Cymru Head of Countryside Policy Division, Welsh Assembly Government
Cathy Presland	Cyfarwyddwr Cynllunio a Strategaeth, Swyddfa Cyllid Ewropeaidd Cymru Director of Planning and Strategy, Welsh European Funding Office

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

Gwyn Griffiths	Cynghorydd Cyfreithiol Legal Adviser
Dr Kathryn Jenkins	Clerc Clerk
Michael Lewis	Dirprwy Glerc Deputy Clerk
Robert Lloyd-Williams	Swyddog Cysylltiadau Rhyngwladol International Relations Officer

Dechreuodd y cyfarfod am 9 a.m.
The meeting began at 9 a.m.

Ethol Cadeirydd Pwyllgor Dros Dro Election of Temporary Committee Chair

[1] **Dr Jenkins:** Good morning. In the absence of Sandy Mewies, the Chair of the committee, under Standing Order No. 10.19, I call for nominations for a temporary Chair.

[2] **William Graham:** I nominate Christine Chapman.

[3] **Dr Jenkins:** Is the nomination seconded?

[4] **Jeff Cuthbert:** I second it.

*Penodwyd Christine Chapman yn Gadeirydd dros dro.
Christine Chapman was appointed temporary Chair.*

9.01 a.m.

Cyflwyniad, Ymddiheuriadau a Dirprwyon Introduction, Apologies and Substitutions

[5] **Christine Chapman:** Bore da, and welcome to everyone. Thank you for electing me as temporary chair. I welcome you all to the last meeting of the term. Sandy Mewies has sent apologies for her absence today. I welcome everyone in the public gallery in particular, and also we have Greg Jones with us today, who will be working in the Assembly's Brussels office. He is starting in September, and I am sure that we will see a lot more of Greg as time goes on.

[6] I remind you that headsets are available for translation and sound amplification. Please ensure that all mobile phones and other electronic devices are switched off completely, as they can interfere with the sound equipment. In the event of an emergency, an alarm will sound, and ushers will direct everyone to the nearest safe exit and assembly point, but I am sure that that will not happen today. In terms of apologies, as you know, Sandy is not with us today, and I am substituting for her. I also welcome Andy Klom, who is with us today.

9.02 a.m.

Y Pwyllgor Monitro Rhaglenni Cymru Gyfan The All-Wales Programme Monitoring Committee

[7] **Christine Chapman:** This is this committee's first opportunity to discuss the work of the all-Wales programme monitoring committee for the European structural funds 2007 to 2013. As you know, the programme monitoring committee is responsible for monitoring the implementation of the convergence and regional competitiveness, employment and European regional development fund and European social fund programmes in Wales from 2007 to 2013. The committee is chaired by Jeff Cuthbert, who is also a member of this committee, and Jeff will give us an update. So, I welcome Jeff, and also Gretel Leeb, who is the director of programme management at the Welsh European Funding Office, and Cathy Presland, who is the director of planning and strategy for WEFO.

[8] **Jeff Cuthbert:** As you have just said, Chair, I am joined today by Gretel Leeb and Cathy Presland from WEFO. The purpose of the session is to talk about the work of the programme monitoring committee, but we thought that it would be reasonable and helpful to have appropriate WEFO officers present, should there be any questions of a more detailed nature relating to individual projects and technical issues, such as match funding. For a few

minutes, I will set out the work of the PMC and list some of our key activities and aims. Every Member should have received a detailed briefing on the work of the PMC and its relationship with WEFO, which I trust was helpful.

[9] The programme monitoring committee for the current round of projects was set up in the early part of 2007, but existed in shadow form only until it was legally constituted by the European Commission in October 2007. It is a single programme monitoring committee for the four domestic programmes. That is in contrast to the previous round, when there was a PMC for each of the objectives. It has been considered by the commission to be an example of good practice to bring the projects together in a joined up way so that there is consistency, continuity and co-ordination between the main projects.

[10] The programme monitoring committee is made up of members from the various sectors, including the voluntary sector, local government, the private sector and individuals appointed through the public appointments process. It works this time around on the basis of a strategic approach, where the purposes of the expenditure of this round of funds has been set by the Welsh Assembly Government, particularly on issues such as the Lisbon strategy for employment and growth, but is locally delivered through the partnerships that will be working with the Welsh Assembly Government as the managing agent, such as local government and the voluntary sector. 'Strategically led, locally delivered' is the motto that we seek to work to.

[11] The programme monitoring committee does not concern itself with individual projects or with the provision of match funding. It is, obviously, concerned that match funding should be available for the projects as a whole, but not with how that may be allocated, because that is a matter for the project sponsors.

[12] We receive regular reports from WEFO on a range of issues and at our most recent meeting, held in Carmarthen, we approved the annual implementation reports for the last 12 months, which tell us how WEFO's work has been carried out in relation to the projects and the moneys that are available. The programme monitoring committee is a genuinely all-Wales committee. It is not centric to south-east Wales; the three meetings that I have chaired have been held respectively in Aberystwyth, Newport, and more recently in Carmarthen, and the next meeting in September will be in Rhyl. That is a clear gesture of support to project deliverers across Wales—we will go to them and we will take the opportunity, where possible, to visit projects following the PMC meetings so that local people have the opportunity to attend meetings, which are fully open to the public, and to engage with us on ideas and keep us informed on how projects are benefiting their areas.

[13] On implementation, as of this moment, just over 15 per cent of total project funding has been committed. At this time during the previous round of funds, only 9 per cent had been committed. So there is no dragging of feet; we are getting under way in terms of committing moneys. That is commitment as opposed to spend. Spend will follow. This is where project providers commit themselves through their programme to spend whatever money they bid for.

[14] After each programme monitoring committee meeting, I report, together with officials from WEFO, to a ministerial group set up by the First Minister to ensure that there is joined-up thinking and that Ministers with responsibility for the spend of European structural funds are aware of issues that have been raised by members of the programme monitoring committee and that there is a two-way process of discussion that is then fed back into the next programme monitoring committee meeting. Indeed, Ministers can then make it their business to see whether there are any blockages in the system that they need to be aware of and that they can deal with.

[15] The European Commission attends the programme monitoring committee meetings. Normally, there are two, sometimes three, representatives from DG Regio and DG

Employment and they actively participate in our discussions. They are always positive discussions, but those representatives would not hesitate to raise concerns should they feel that there was anything wrong in how the programme was being managed overall.

9.10 a.m.

[16] Partnership is considered to be critical by the European Commission, and that is why the programme monitoring committee is designed in the way that it is, because the European Commission can refuse to accept programme documentation from the region concerned—Wales in this case—if there is any doubt as to the correct and appropriate partnership involvement and input. Ultimately, this can affect payments to the region. Partnership is a regulatory requirement that is policed by the European Commission, and therefore it is significant that it is particularly positive about the Welsh arrangements. Partnership does not just refer to key individuals making decisions behind closed doors. Nominated PMC members are expected to consult widely within their respective sectors and to provide feedback to their constituents. PMC papers are made available on the WEFO website in advance of the meeting, which are public and open for all to attend, as I have said.

[17] In terms of projects in the pipeline—and Gretel will be able to deal with figures if required—as I mentioned, just over 15 per cent of the total programme funding has been committed, which represents 27 projects as of 30 June, but Gretel may have more up-to-date figures. That represents a total investment of around £527 million with an EU grant contribution of about £251 million. A further 141 potential projects are currently moving through the project assessment process; 42 of those are close to a funding decision, and further project approval announcements are expected shortly.

[18] The final point that I wish to make is that it is crucial that these projects support the Lisbon agenda. Indeed, 80 per cent of convergence funds and 86 per cent of competitiveness funds must clearly support projects that support job security, research and development and employment and training issues. I will leave it there, and I or my colleagues will deal with the questions.

[19] **Christine Chapman:** Thank you, Jeff. Cathy and Gretel can come in later if they wish. Nerys has the first question.

[20] **Nerys Evans:** Diolch yn fawr am eich cyflwyniad ac am y papur. Yr ydych yn sôn yn y papur bod elfen bwysig o ran hyrwyddo cydraddoldeb a diogelu'r amgylchedd. Sut yr ydych yn gwneud hynny drwy eich gwaith? Mae'r papur hefyd yn sôn eich bod yn gweithio i 20 fframwaith strategol. Sut yr ydych yn blaenoriaethu'r rheiny? **Nerys Evans:** Thank you for the presentation and for the paper. You mention in the paper that that there is an important element of promoting equality and safeguarding the environment. How do you achieve this through your work? The paper also mentions that you are working to 20 strategic frameworks. How do you prioritise those?

[21] **Ms Presland:** I will pick up the first point, and Gretel can pick up the second point. In terms of the commitment to equality and environmental sustainability, these are written in thoroughly throughout the programmes. The PMC has specific members from each of those sectors. We have a representative from the Equality and Human Rights Commission—the representative is actually the director of that body, so the representation is at a very senior level. We also have a representative from the environment sector, who is from the Environment Agency, but who represents the sector more widely. So, those are specific members of the PMC who are designed to represent those sectors and show our commitment to equality and environmental sustainability.

[22] In the programme documents, we outline how we will take this forward in the delivery of the programmes. In WEFO, we have specific advisers on those subject areas, and we have specific objectives and targets for each of those subject areas. So, we expect all projects coming forward to make a contribution that is relevant to that project and to go as far as is relevant within that project. Our advisers see the project applications at an early stage, and will advise on whether or not the approach is satisfactory or whether more can be done, and this is taken forward in a dialogue with the project. As projects move forward, their commitments will be monitored and the PMC will receive annual reports on those areas.

[23] **Jeff Cuthbert:** Those cross-cutting themes that you referred to are regarded seriously by the programme monitoring committee, and, as Cathy said, reports will be given and, invariably, questions will be asked by the representatives from the relevant bodies. It is critical. We received a paper on the cross-cutting themes. That is quite normal for the programme monitoring committee. Those are the issues that will be raised. In fact, at the last two meetings of the PMC, we had representatives from key Welsh Assembly Government departments who outlined their broad approach to the projects that they intend to pursue. Those issues are part of that discussion.

[24] I believe that your second question related to prioritising project applications. Perhaps I could ask Gretel to answer that point.

[25] **Ms Leeb:** On the point about the cross-cutting themes, that is one criterion that we apply when we select and prioritise projects. The first job of the programme monitoring committee was to approve some criteria by which we would select and prioritise the projects that would be supported. That was a very important first job to be done, because, had that not been done, we would have been unable to progress with the programmes. A paper was published on the website as part of the PMC papers for that particular decision.

[26] The criteria that we apply when selecting projects fall into two categories: contribution factors and certainty factors. In other words, this is about what a project offers in delivering the programmes, and how secure and certain we can be that that project will deliver. Some of the contribution factors that we apply fit with a contribution to an agreed strategy. It is important that the projects that come forward can be shown to be aligning themselves with what is set out in the strategic frameworks that have been established to help to deliver the programmes. Partnership engagement is also considered to be important. We need to see that a project has genuinely consulted and worked with other interested stakeholders to ensure that it is accepted and that people are buying into it. The project needs to meet market needs; there needs to be a demonstrable need for the project. We will look closely at that. As I have said, we will consider the contribution to cross-cutting themes. We also consider what added value the project brings: what is the return on the investment of European money? That, too, is considered carefully. Finally, but probably most importantly, we consider the legacy contribution of the project. That is, the extent to which the project will deliver real structural change and/or sustained impact beyond the funding period. This is the last time that we will have these moneys, and we need to ensure that we invest in something that will be there for the future.

[27] **Nerys Evans:** Bu ichi ddweud mai swydd gyntaf pwyllgor monitro'r rhaglen oedd dewis blaenoriaethau. Beth oedd rôl Llywodraeth y Cynulliad yn y broses honno? Onid y Llywodraeth sy'n gosod y blaenoriaethau ar gyfer gwario arian Ewropeaidd?

Nerys Evans: You said that the first job of the programme monitoring committee was to decide on the priorities. What was the role of the Assembly Government in that process? Should it not be the Government that chooses the priorities for the spending of European money?

[28] **Ms Leeb:** I am very sorry, but I missed the first part of your question.

[29] **Nerys Evans:** You mentioned that the first job of the PMC was to choose priorities. I asked what the role of the Welsh Assembly Government was in identifying priorities for the funding.

[30] **Ms Leeb:** That process took place by consulting on the strategic framework set up by the Welsh European Funding Office, the purpose of which was to align what was in the operational programme with Welsh Assembly Government policy and strategy. Those frameworks were co-ordinated by the various policy departments that had an interest in the programmes and in delivering on their own strategies in alignment with the programmes. So, those strategic frameworks have been extremely important. They set out a guide for prospective sponsors on the kind of projects that we are looking for, and on how we expect those projects to be integrated and to contribute in a spatial sense to the various regions of Wales. Having given that guidance to project sponsors, we, at WEFO, use those to judge whether a project fits with agreed strategy. As I said, Assembly Government departments are co-ordinating the use of those strategic frameworks.

9.20 a.m.

[31] **Jeff Cuthbert:** The PMC is a requirement of the European Union with regard to the spending of these funds. As I mentioned in my introduction, it is a partnership approach, so it is crucial to ensuring proper local delivery that the priorities be agreed and sanctioned by the programme monitoring committee. It is, in that sense, representing the management agency, which is the Welsh Assembly Government, but it also liaises very closely with it.

[32] **William Graham:** I thank Jeff for the presentation, which was very helpful in setting out how the PMC will work. I have three questions really, but they are on one theme. You will recall that the First Minister was quite emphatic this week that the private sector should be involved as much as possible, so my questions are on that. How can that sector be reflected adequately in the work that the committee monitors? Could you outline the procedure for engaging with the private sector? If it is not possible to do so today, you could do so by writing to the members of the committee. Could you also outline the involvement of the private and lifelong learning sectors in developing the strategic framework?

[33] **Jeff Cuthbert:** Thank you for that, William. The private sector is fully involved. It is represented on the PMC and a significant number of projects that are in the pipeline are now private sector projects. I will let Gretel or Cathy deal with the particular figures, but the issue of private sector engagement is crucial. For the previous programme, which is not really the subject of this discussion, we were applauded by Commissioner Hübner for the level of engagement that we had with the private sector. We intend that to continue. You can have some more details in a moment.

[34] On the lifelong learning sector, the higher and further education sectors are represented on the programme monitoring committee and many projects in the higher education sector have already been approved, with more in the pipeline. You referred to the private sector and to lifelong learning in your question, but could you expand a little bit on what you meant by that?

[35] **William Graham:** Separately, but together. If you have any specific examples, they would be helpful.

[36] **Jeff Cuthbert:** I will turn to my colleagues to give specific examples on that. The reason I am doing that is that project approval is not a matter for the programme monitoring committee; it is a matter for WEFO.

[37] **William Graham:** I understand that.

[38] **Ms Leeb:** Among the very first projects that we approved was a straightforward private sector project that came in in the normal way. There is nothing peculiar about the way in which the private sector needs to engage with the programmes. The application process is the same, whatever the sector. That particular sponsor had no difficulty in negotiating our procedures. I think it important to say that it is quite possible for private sector projects to come in and for them to invest their own money—within the bounds of state aid rules, of course. State aid is always a consideration where private sector organisations are concerned, and it is a consideration, not a barrier. It is also important to say that there are many ways in which the private sector has engaged in the development of the programmes. They have engaged as strategic stakeholders, because, in the first instance, they clearly have an interest in what the programmes can deliver, secondly, because they have engaged as sponsors themselves, and I have just cited one example of that, and, thirdly, because, on occasion, they may be joint sponsors with public sector bodies. That, too, is possible. Probably most important of all is how the private sector—particularly the small and medium-sized enterprise sector—will benefit from the programmes that are approved to deliver support to businesses and to enhance their bottom line. So, the private sector will benefit at all of those different levels within the programmes.

[39] **Jeff Cuthbert:** On expressions of interests and project approvals, William, I can tell you that 13 per cent of the expressions of interest—and 172 had been made as at the end of June—came from the private sector. That represents, according to my mathematics, 22 or 23 projects. Seven per cent of all projects approved are currently from the private sector, but we intend to see that figure grow.

[40] **Michael German:** I want to start by clarifying the figures for the 27 projects that have been approved. How many of them are from direct Government departments, such as the Department for Children, Education, Lifelong Learning and Skills, and how many are from associated Government-supported bodies, such as the higher education sector, where most of the funding comes from, or associated bodies such as the Arts Council of Wales? Can you identify the parts of the criteria that you have set that have led to such a high number of early winners from the Government? Was it the ‘certainty element’, as you put it, or the contribution element?

[41] My second question relates to innovation. A big criticism of the current regime by project sponsors is that, in the last round of programmes, people were able to investigate and interpret new ideas and new methods of doing things. I am not debating whether that is the right or wrong thing to do, but this programme is very much Government directed, as you have outlined, in relation to the strategic policies that are to be followed. In other words, it is the Government’s direction that is being adhered to. Therefore, it is reasonable to expect that the best-placed people to implement Government policy would be those working in Government departments. What is the role of innovation in your criteria, and how do you define it? It is a difficult word, but it is important, if Wales is to have added value, that innovation be a part of that.

[42] My third question is on match funding. How many of the current projects that have been committed have made a call on the Welsh Assembly Government’s targeted match funding programme, and what percentage of that match funding programme would be committed to the 42 projects that are close to decision?

[43] My final question is whether you wish to hazard a guess at when JESSICA, joint European support for sustainable investment in city areas, and JEREMIE, joint European resources for micro to medium enterprises, are likely to gain approval, and when the first project approvals are likely to go ahead?

[44] **Christine Chapman:** Thank you, Mike. Jeff, before you come in on that, I want to ask a supplementary question to Mike's second question on innovation. Mike talked a little about people who may have innovative ideas, and we know that the programme has changed since the first structural funds. How content are you that people outside the system will find a way in, and that they will have enough information about the programme?

[45] **Jeff Cuthbert:** I will call upon my colleagues to answer that in detail, but, in general terms, it is right that the majority of projects approved—it is 55 per cent at the moment—be Welsh Assembly Government projects. However, for the reasons that you have outlined, Mike, that is not surprising. They are strategically led but locally delivered, and will involve our partners throughout Wales, but they will follow the main thrust of the Lisbon agenda especially.

[46] The targeted match funding of £350 million throughout the programme period is the same amount as that provided for the previous programme, and the main beneficiaries are expected to be local government, the third sector and the private sector. Having given those general points, I now ask Gretel to deal with some of the detailed issues.

9.30 a.m.

[47] **Ms Leeb:** I will start with the figures. Of the projects approved, 15 are Assembly Government projects, two are for local authorities, two are for Jobcentre Plus, two are from the private sector, and six are from the third sector. It is important to point out that we have been asked consistently by prospective sponsors out there and people with an interest in delivering projects under the programmes to actively encourage the Assembly Government to come forward quickly with its projects so that the bedrock of the programmes is established, and other organisations can see, in strategic terms, how they can work with those projects and complement them. Having those projects in place should help them to get their bearings, if you like. So, although there have been questions asked about the numbers of Assembly Government projects coming through, the majority of people are pleased to see this and have been waiting for that kind of strategic steer so that they can understand the bedrock of the programmes.

[48] On the second question, about innovation, that is one of the major priorities within the programme. We are also encouraging innovation through the procurement route—and this will partly answer Christine Chapman's question. There will be fewer projects in this next round. We had around 3,000 projects in the last round of programmes, and that cost the Assembly Government and the project sponsors a great deal of money in administration costs. It took up a lot of time that could have been better used in delivering benefits to any beneficiaries in Wales. So, the decision was taken a long time ago that these new programmes would be more strategic and hence there would be fewer projects operating.

[49] That being the case, we have broadly the same amount of money, and we cannot reduce the amount of activity necessary to deliver the programmes effectively. So, the proper approach is to encourage more procurement among the smaller organisations that previously made bids to WEFO for their own bits of delivery activity. They can still do that, but they do so via the procurement route and under contract to the major project sponsors. It has been said, or suggested, that that procurement route might in some way stifle innovation, and that is absolutely not the case. With an open, output-based approach to procurement, sponsors can ask smaller organisations to come forward with their best ideas—ideas that are finely tuned to local needs and will deliver the kind of results that they want to achieve. So, there is no reason whatsoever why innovation should decline. Wales is very good at innovation—in the last round, small sponsors across Wales came up with many innovative approaches to delivering results, and I have no reason to suppose that they will not do so in the future.

[50] **Jeff Cuthbert:** Before I bring Cathy in to deal with some of the other points, I would like to say that, in terms of engagement, all organisations are encouraged to access the WEFO website. They can look at project ideas that have been posted on the website rather than reinvent the wheel. They can work in partnership with others, or indeed post their own ideas, if they are not there already. They will then find out whether their ideas interest other potential project providers, and in due course, with the support of other organisations, they can turn them into expressions of interest. Ultimately, through the assessment process, those ideas can be developed into projects. So, within all practical constraints, full engagement is very much encouraged.

[51] **Ms Presland:** I will just come in briefly on the innovation question, Chair, just to add to what Gretel said. Then I will say a few words on JESSICA and JEREMIE. Under the last round of structural funds, the commission had a family of specific innovation programmes—namely, the INTERREG suite of programmes, the EQUAL programme, the URBAN programme and the LEADER programme, which is now under the agriculture pillar—it is not a cohesion programme. In this round of programmes, there are not specific, separate programmes set up to stimulate innovation, but innovation will be mainstreamed into the main programmes and, in order to encourage, facilitate and monitor the kind of activity that Gretel has spoken about, we will be appointing an adviser in a similar way to the way in which we approached the cross-cutting themes. We hope to bring someone into post. That will not be someone who will come up with ideas themselves, clearly, as this is about innovation, but it will be someone who can encourage this to happen by a whole range of mechanisms and will direct parts of the programme or projects in which there is scope to explore pilot or innovative elements of that activity

[52] That also applies in a similar way to the transnational activity, where we expect that some projects would want to engage in work with other regions of the EU where there are lessons to be learned in both directions, again building on the activity that is being taken forward under the previous round of programmes, such as the INTERREG and EQUAL programmes, which both have transnational elements.

[53] In terms of JESSICA and JEREMIE, we have already, from a structural funds perspective, given an in-principle agreement to an ERDF contribution to a JEREMIE scheme in Wales. That will be matched with a European Investment Bank loan, which has also been agreed in principle. We are in the final stages of answering some of the commission's state aid questions around the JEREMIE scheme, so we expect that to go ahead as soon as is feasible. There is a great deal of will on all sides. JEREMIE will specifically provide finance for the small and medium-sized enterprise sector in terms of venture capital, loans, and equity finance for small and medium-sized enterprises for innovation, activity and growth.

[54] JESSICA is running at a slightly slower pace, primarily due to the fact that it has emerged more slowly from the commission. We have asked the European Investment Bank to carry out a scoping study for Wales, which it has commissioned consultants to do, and that is currently part-way through. We expect the scoping study to report by September, at which point Ministers will be in a position to make final decisions on whether or not to go ahead with the JESSICA scheme. In that context, we have provided information to the programme monitoring committee about the initiative and the likely scope of any activity that may take place in Wales. As we have previously reported to the committee, JESSICA is an initiative to support urban regeneration and regeneration activity, and we have had discussions about what that means in the context of Wales. Hopefully, we will be in a position for Minister to come forward with final decisions in September. There is a great deal of commitment all round to using these initiatives to provide a long-term legacy of funding beyond the timescale of the current programmes, so it is a question of exploring which options work at this stage.

[55] **Michael German:** The part of the question about match funding was not answered, so I will come back to that. How much commitment from the Welsh Assembly Government's match funding pot has been taken up by those 27 projects that you have talked about? In other words, what percentage of the Government's match funding pot is being taken, if any? Perhaps it would be useful to match the figure for the 15 WAG projects with the other figures for the other projects that have been approved to see how much projects—and there are 12 remaining projects—have picked up in match funding from the Welsh Assembly Government's £350 million pot, and what those sums are. That is a factual question, and I happy to have it in writing to the committee afterwards, if it is not readily to hand.

9.40 a.m.

[56] I want to pursue the issue of innovation. One issue that is clear from the answers that you have given is that we are not seeing immediately innovative ideas. When I asked the question about where to find innovation in the programmes, you did not refer to the criteria. Do the criteria say anything about innovation anywhere, about how important it is, where it comes from and about what weighting it has in the criteria? It is crucial to know that. One measurement of that would be the number of subcontracts that have been issued by the current project holders for work that is innovative in its nature. In order to be able to understand that, we ought to have some form of definition of innovation, and I presume that you already have that, so perhaps you could let us know what it is.

[57] The other thing that arises from what you said about the other innovative aspect, which is mainly transnational—the part that used to be covered by EQUAL, URBAN, LEADER and INTERREG and so on—is whether or not there is anything in your criteria that encourages transnational activity. Is there anything in the criteria that encourages submissions that include an element of establishing best practice from other European countries? I am wary of the tone of the words, 'mainstreaming innovation'—although I do not think that you meant that—because, in my book, innovation does not fit with mainstreaming, because what you do with innovation is create new ideas and mainstream them afterwards, so, it is a double-staged process. I would be grateful if you could give us more of a feel for how this will happen, because it seems to me that the whole nature of European funding is to give added value, and that added value is being able to experiment with new ideas.

[58] **Christine Chapman:** Are you happy to reply to that now or would you prefer to give a written reply?

[59] **Jeff Cuthbert:** Gretel will say some words on that, as far she can, although I remind the committee that the issue of match funding is not a matter for the PMC; it is a matter for the project providers. Likewise, transnational issues are not within the remit of this programme monitoring committee, which is for the four domestic ones. However, I take your point, Mike. You are asking whether consideration might be given to transnational issues in those projects. I will ask Gretel to come in on the issue of management.

[60] **Ms Leeb:** Targeted match funding arrangements have only just become live, as you will no doubt be aware. My understanding—and it is an understanding, because, as Jeff said, this is not a matter that falls to WEFO—is that Assembly Government departments cannot access the targeted match funding pot unless it is in collaboration with external partners. Cathy Presland may be able to add to that, because she is involved with the panel.

[61] **Ms Presland:** I am aware that there are currently three applications for the match funding pot. This is a matter for the Finance Department of the Assembly Government, so it is not specifically a matter for WEFO or for the PMC, but my understanding is that there are three applications, none of which are from Assembly Government departments. In terms of percentages, we would have to request information from the Finance Department.

[62] To come back briefly on innovation, in terms of mainstreaming, what I meant was that there are now no separate programmes; I see that you know that. As there are no separate programmes, mainstreaming means that things will be taken forward in the main programmes, namely the two convergence and the two competitiveness programmes in Wales. We expect innovation activity and transnational activity within the mainstream programmes to be taken forward on a small scale, whether it is by separate projects or by elements of larger projects. For example, something that is taking forward activity in any sector could have an innovative element that is about experimentation and learning, perhaps across other regions of Europe, and integrating those lessons where they are relevant. So, I think that we have the same understanding, namely that it is about experimental activity, it is about learning and it is about taking forward new practice from elsewhere. There is a separate suite of transnational programmes, for which this PMC does not have responsibility, but there are transnational elements to the main programmes.

[63] **Michael German:** Thank you for answering about the experimental, learning and other aspects of innovation. Where is that encouraged in the criteria?

[64] **Ms Leeb:** The PMC discussed innovation when it discussed the selection and prioritisation criteria. It felt that it should be manifesting itself under the value contribution element, but that it would also manifest itself in other parts of the criteria. However, it was felt that innovation for its own sake should not drive the selection of projects, because there would be projects, for example, that were essential to the delivery of the programme objectives that were not, necessarily, cutting new ground or doing something particularly novel. There was some discussion, as you suggested, about what was meant by innovation. Clearly, we are looking for innovative projects, because the belief is that innovative projects will deliver the best value.

[65] **Michael German:** You said, and I am paraphrasing, that you would expect innovation to be seen as a sub-contract within big projects. That is how I interpreted what you said.

[66] **Ms Leeb:** That is one manifestation of it.

[67] **Michael German:** If it is not promoted in the headline criteria for the main projects, you would expect to see some sub-contracts that are innovative, if you wanted that to happen. So, how many sub-contracts have been signed for such innovative projects that meet the criteria that Cathy raised on experimental learning.

[68] **Ms Leeb:** It is early days to be monitoring the kind of sub-contracts that are coming in.

[69] **Michael German:** How are you promoting it?

[70] **Ms Leeb:** One aspect of programme management that we have not yet mentioned, and that is a very important feature, is that WEFO will adopt a much more hands-on performance management approach to our handling of approved projects. We expect to have regular performance reviews with project sponsors. It is at those performance reviews that we will scrutinise how they deliver their projects. We will hold them to account in terms of what they have proposed and we will be interested in watching the performance of any sub-contracting arrangements that they have in place. So, there will be an ongoing arrangement to examine the extent to which the projects are delivering added value in terms of innovation, where needed and where appropriate and also in terms of efficiency and effectiveness of delivery.

[71] **Christine Chapman:** I want to draw this discussion to a close. You have a brief point, Jeff.

[72] **Jeff Cuthbert:** On this point, innovation is a key aspect of projects under theme 1 of the ERDF priorities. However, it is difficult to define what we mean by innovation—it can mean new projects and new ways of doing things, but that certainly is an issue.

[73] **Christine Chapman:** I apologise to Members, but we need to move on. I thank you all for attending and making contributions today and outlining the work of the PMC. I am sure that the committee will look forward to future updates.

9.50 a.m.

Yr Wybodaeth Ddiweddaraf am y Corff Rhyng-seneddol Prydeinig-Gwyddelig Update on the British-Irish Inter-Parliamentary Body

[74] **Christine Chapman:** I welcome Rosemary Butler, the Deputy Presiding Officer, and Robert Lloyd-Williams, international relations officer in the Assembly Parliamentary Service. I invite Rosemary to make a presentation.

[75] **The Deputy Presiding Officer (Rosemary Butler):** Good morning, Chair. We have a very good report on the work of the British-Irish Inter-Parliamentary Body, which is very concise. In case I forget to say at the end, I would like to say how well served the delegation was by Robert and Peter Kellam, who has now moved on. It is known that we are better briefed than any other members who turn up at the British-Irish Inter-Parliamentary Body. So, I wish to make that point and say a personal thank you.

[76] This body was set up in 1990 during the height of the troubles, and now that the troubles have almost been resolved, the reason for the British-Irish Inter-Parliamentary Body has changed and it is trying to see how it can be adapted. It is now much broader, as you will see in paragraph 5—there are now delegates from the Isle of Man, Guernsey, Jersey, Wales, Scotland and Northern Ireland. So, it is a much broader body altogether, and instead of looking at south-north issues, it is now beginning to look at east-west issues, and it is very interesting.

[77] The thing that is tasking people at the moment is the wish to change the name, because we need to make sure that the unionists from Northern Ireland take part if it is to be a complete body. So, we have to make sure that we get the right name and that they are involved with the body. It is probably just about there, and it is looking to change the name to the British-Irish Parliamentary Assembly, which makes it quite different.

[78] In the past, it has been a body between the two sovereign Parliaments, namely Ireland and Westminster, so when you have Ministers speaking they tend to be the Irish Minister or the Minister in Westminster. However, now that the role of the body has been expanded with different members, we need Ministers from the devolved institutions at the body, and we are working on that.

[79] As I said, we receive excellent briefings, and our Members play a very full part in committees and also in the Plenary debates. So, it is good that Wales has very good representation on the body. We recently had a meeting in Cardiff of committee D, which Dai Lloyd sits on, and it is looking at the integration of immigrant workers. The evidence-gathering sessions that were held in Cardiff were the best that the committee had undertaken, and it has been around the other home nations, and it was very impressed with that. Ann Jones, the Chair of the Committee on Equality of Opportunity, was granted observer status, so she was able to sit in on all of the sessions, and she was very impressed with what was

happening. So, we should get quite a good report from that committee.

[80] The main emphasis at the moment is getting away from the north-south divide, looking at east-west and seeing how we can help each other with tourism, drugs issues and environmental issues. I find it fascinating—it is a really interesting body to be on. So, I invite Members to ask questions.

[81] **William Graham:** Thank you for your presentation, Rosemary. As a former member of the body in the early days of the Assembly, I endorse your description of the way in which we were well served, even in those days. It was a remarkable gastronomic experience and the hospitality was of some repute. It was well worthwhile—I commend those who thought of the idea in the first place. It has developed remarkably well in the last few years.

[82] If I may stray slightly, with your indulgence, Chair, having represented the Assembly at the Tynwald, I know that representatives from the north and south of Ireland were have a meeting of a sub-committee of the body there, and it shows that, once again, the ideas were right, and it is now coming to fruition. We are now moving on from the political part to the economic and social part of the agenda, which is much more prominent. I am not sure whether or not you have answered my question—I am sure that you will write to me if need be—but what work has the committee done on drug offences and how that can be alleviated and controlled within the home nations? I do not know whether you are able to answer that or to comment on it.

[83] **Rosemary Butler:** It is interesting, because the problems are the same, but no-one can come up with the answer as to how to address the problem. There are cross-border issues of drugs moving between north and south. Because of the Irish sea, there are a number of ports; all of the nations represented have large sea ports, and the transport of drugs is an issue. The interesting point is the way in which different countries are trying to prevent drug abuse. Instead of putting people in young offenders' establishments, they try to help them within the community. However, you have to get in very early for that. That is probably the next stage for us to look at. It is a huge problem. The immigrant workers coming from eastern Europe have different customs and different ways of abusing alcohol, never mind about taking drugs. It is a matter of education and the way in which we tackle it. If I knew the answer to that, William, I would not be sitting here; I would be making a fortune somewhere. It is dreadful to see the lives of young people being ruined by drugs, but, hopefully, we will be able to bring back reports that we can then take through our committees, which is important. It is no good our doing work over there if we do not feed it into our committees in order that they can take it forward.

[84] **Christine Chapman:** That is an excellent idea, which we would like to take up.

[85] **Nerys Evans:** Diolch yn fawr am y papur. Yr ydych yn sôn yn y papur am newid yr enw a newid rôl strategol y corff. Yn amlwg, bydd hynny'n newid rôl Gweinidogion y Deyrnas Unedig a chryfhau rôl Gweinidogion Llywodraeth y Cynulliad. Beth yw barn Llywodraeth San Steffan am hynny? Yn amlwg, bydd y newid hwn yn effeithio ar Llywodraeth San Steffan.

Nerys Evans: Thank you for the paper. In the paper you mention the change of name and a change in the strategic role of the body. This will obviously change the role of United Kingdom Ministers and will strengthen that of Assembly Government Ministers. What is the Westminster Government's opinion on that? Obviously, this change will impact the Westminster Government.

[86] **Rosemary Butler:** The issue is that the chairs would still be from the Irish Parliament or Westminster, so they would be the co-chairs. However, they are looking to have Ministers from the devolved Governments to talk on particular issues. At the moment, while it is interesting to hear the Irish Government's view on a particular point, it is not possible to

influence it in any way. That is working. The Government would not like to think that is being diminished; we probably would not use that word—we would probably say that we were spreading it out somewhat. We will need to test it. The original reason for setting it up has now almost disappeared. I had not realised—Mike and William will know, as they have been members of this body—how useful it was to have this body during the troubles. They were talking to each other and it was not just the UK and Irish Governments talking without Northern Ireland being involved. I had not realised how important this body had been. People ask whether we should have this body now, but it is interesting to see how we can help each other. We hope that our first devolved Minister will attend the next session. I will let you know what happens.

[87] **Michael German:** As a full member of the body, it would be inappropriate for me to scrutinise Rosemary on this too much. I would like to comment on what I see as the future for the body, some of the problems in the past, and the way in which it might develop. I would also like to see if we can find a common purpose here with regard to the role of this committee. As you can see from the paper, I am the Assembly's member on the body's European affairs committee.

[88] As the focus in the past was on the problems in Northern Ireland, around half of the body's session time was spent trying to work out how to bring back a degree of normality. Now, the matter under consideration is how normal political activity, such as scrutiny and the development of common ideas, can emerge from the work of the association, or the assembly, when its name is changed. That is very good. However, the hangover from the past is that, in the past, members of devolved administration were excluded from committee A, and no member of a devolved administration was allowed to chair committees B, C, or D.

10.00 a.m.

[89] In fact, Committee B, which is the one that I know most about, spent a great deal of its time over the last three and a half years on its review of European security, which it saw as its primary purpose, and still has not concluded it. I went along to one of the meetings in order to try to get on the agenda an issue that I thought that was much more relevant, namely how the European programmes that are currently being used by the constituent parts of the body are carried out and how cross-border issues are developed. However, I could not chair the committee—I had to chair a sub-committee, which then reported to the body, and then I had to speak to it—it was a very quaint and antiquated process. It does seem to me that one way in which the body in its new format could work fairly well, from this committee's perspective, would be to consider the sorts of issues that we ought to debate and discuss. Obviously, we could discuss other matters as well, but in the European context, it could well be developed.

[90] One discussion that that sub-committee had was on the use of the INTERREG programme, and it produced a range of recommendations about the work. There are other transnational programmes that we have heard about just now that could also involve parts of the body. It seems to me that the body, in its new format, should be about the normal business of the administrations of the various parts of the British and Irish isles.

[91] The issue that also raises its head is that there is still the British-Irish Council, which is a ministerial body. If it were any other parliamentary body, you would expect that the scrutiny part, which is the parliamentary part, would scrutinise the Ministers on their work in the British-Irish Council, but that aspect has been very weak, largely because it has not been seen as an appropriate role for the body by the Ministers themselves. I know that the body, over a number of years, has been trying to get proper scrutiny of the British-Irish Council Ministers. There have been all sorts of sensitivities. It does seem to me that that is now being thrown much more into relief and that there ought to be the sense that another of the body's

roles is to see what the British-Irish Council is up to and to try to marry some of its agenda with BIIPB's agenda. It is doing a lot of project work, a lot of developmental work, which are things that we, as an Assembly, are engaged in. In conclusion, I think that the way in which this committee could help would be to try to think what sort of issues we would like to see being developed and discussed. We could then attempt to get them through Committee B, the European Affairs Committee, of the body itself. There is great potential here, providing that we can move its agenda along towards being a much more inclusive body.

[92] **Rosemary Butler:** Mike has been a member much longer than I have; I have only been there for a year. It is quite obvious to me that it is difficult to try to change the direction that it takes—it is this business of the tanker of state, you know. I think that people are paying lip service to wanting change, but it is about getting the mindset in some cases. On the issue about the British-Irish Council, which is a meeting of Government Ministers, we are trying to co-ordinate our meetings so that they coincide with their meetings, but, of course, their meetings are not regular or frequent. We do not quite know when they happen, and they seem to arrange them at short notice. As Mike has said, we would like to complement the work that they are doing with the work that the British-Irish Assembly, hopefully, will be doing. It is about trying to get everything co-ordinated so that we can move forward. I think that getting it in sync with the BIC is going to be difficult; it will be much easier to get our committees to work on issues or reports that are coming from the body. I think that we would really get great value from that. There is the issue of being there and making sure that we are seen and heard. As well as the issues that we are talking about, it is about the way in which we can actually change it. I think that, perhaps, in another year, we might be there.

[93] **Christine Chapman:** I thank Members for their questions and I thank the Deputy Presiding Officer and Robert Lloyd-Williams. I am sure that there will be some very interesting further updates on this body.

10.05 a.m.

Archwiliad Iechyd y Polisi Amaethyddol Cyffredin Common Agricultural Policy Health Check

[94] **Christine Chapman:** I welcome Elin Jones, the Minister for Rural Affairs, and Rory O'Sullivan, who is head of the Countryside Policy Division.

[95] I will just recap quickly that, as you know, the committee is considering the European Commission's draft legislative proposals on the CAP health check, which were published on 20 May. You have already heard from Klaus Dieter Borchardt, of Commissioner Fischer Boel's cabinet, and have received an update on the Welsh Assembly's Government's position from the First Minister. I know that the committee has also scrutinised the Wales Environment Link. Today, we will be speaking to Elin Jones and Rory on this issue.

[96] **The Minister for Rural Affairs (Elin Jones):** Thank you for the welcome and for the opportunity to come before the committee. I am sure that you meant no pun when you said that you wanted to 'recap' on the health check. [*Laughter.*]

[97] Dywedaf ychydig eiriau o gyflwyniad am archwiliad iechyd y polisi amaethyddol cyffredin. Mae'n bwysig cofio nad adolygiad cynhwysfawr yw hwn o'r polisi amaethyddol cyffredin; adolygiad hanner tymor ydyw, sy'n edrych ar fanylion y polisi a'i weithredu. Bwriad y comisiwn yw edrych ar symleiddio'r polisi drwy'r broses I will say a few words by way of introduction regarding the common agricultural policy health check. It is important to bear in mind that this is not a comprehensive review of the common agricultural policy; it is a half-term review, looking at the details of the agricultural policy and its implementation. It is the commission's intention to look at

hon.

simplifying the agricultural policy through this process.

[98] Cyhoeddwyd y manylion deddfwriaethol, fel y gwyddoch, ym mis Mai, ac yr ydym, fel Llywodraeth, ar hyn o bryd, yn ymgynghori ar y manylion hynny yng Nghymru, ond nid ydym wedi cael ymateb llawn eto i'r ymgynghoriad hwnnw. Yn gyffredinol, mae cyfeiriad yr archwiliad iechyd i'w gymeradwyo, ond, wrth gwrs, y manylion sy'n bwysig o ran yr hyn y byddwn yn ei wneud yng Nghymru. Cyn penderfynu'n derfynol, byddaf yn edrych ar sylwadau'r ymgynghoriad. Bydd newidiadau pellach i'r manylion deddfwriaethol yn cael eu cyhoeddi ym mis Medi, a bydd y trafod presennol ar lefel Ewropeaidd—y trafod gwleidyddol yn Nghyngor y Gweinidogion a'r trafod gan swyddogion—o bosibl yn achosi rhywfaint o newid eto. Daw hynny'n amlwg ym mis Medi, cyn y penderfyniad terfynol ym mis Tachwedd, siŵr o fod, gan y cyngor Gweinidogion amaeth ar yr union fanylion.

The legislative details, as you are aware, were published in May, and we, as a Government, are currently consulting on those details in Wales, but we have not received all of the responses to that consultation as of yet. Generally speaking, the direction of the health check is to be applauded, but, of course, it is the details that are important in terms of what we will do in Wales. Before we make a final decision, I will be looking at all of the consultation comments. Further changes to the legislative details will be made available in September, and the current discussions on a European level—politically in the Council of Ministers and the discussions ongoing between officials—will also possibly cause some further changes. That will become apparent in September, before a final decision is made in November, probably, by the council of agricultural Ministers on the exact details.

[99] Felly, mae'r sefyllfa'n newid gyda'r trafodaethau gwleidyddol sy'n digwydd ar hyn o bryd o fewn gwledydd Prydain a hefyd ar lefel Ewrop. Mae'n bosibl nad yr hyn sydd o'n blaenau heddiw fydd o'n blaenau ym mis Medi ac wedyn yn cael ei benderfynu arno ym mis Tachwedd.

So, the situation is fluid, with political discussions ongoing within the nations of Britain and at a European level. It is possible that what is before us today may not be what will be before us in September and what is decided upon in November.

[100] **Nerys Evans:** O ran y trafodaethau ar lefel Brydeinig, pa faterion sy'n debygol o greu anawsterau? O ran y taliadau hanesyddol, beth yw sefyllfa gwledydd eraill y Deyrnas Unedig? A oes cytundeb ar lefel Brydeinig ar hynny?

Nerys Evans: With regard to the discussions on a British level, what issues are likely to cause difficulties? On the historic payments, what is the position of the other nations of Britain? Is there agreement at a British level on that?

[101] **Elin Jones:** Ar hyn o bryd, o ran y polisiau a'r cynigion deddfwriaethol, nid wyf yn rhagweld unrhyw anghydweld rhwng gwledydd Prydain ynglŷn â'n safbwynt ni o ran yr hyn yr ydym ei eisiau o'r trafodaethau. Credaf fod rhywfaint o gonsensws yn datblygu, yn sicr o'n safbwynt ni yng Nghymru, gyda'r farn mewn gwledydd eraill, felly nid wyf yn rhagweld unrhyw broblemau.

Elin Jones: At present, in terms of the policies and legislative proposals, I do not foresee any disagreement between the nations of Britain as to our view of what we want from the discussions. I believe that a consensus is developing, certainly from our point of view in Wales, with the views of other countries, so I do not foresee any problems.

[102] O ran y taliadau hanesyddol, nid oes taliadau hanesyddol yn Lloegr, ond mae taliadau hanesyddol yn yr Alban ac yng

In terms of the historic payments, there are no historic payments in England, but they do exist in Scotland and in Northern Ireland. So,

Ngogledd Iwerddon. Felly, yr hyn sydd wedi bod yn bwysig i ni yng Nghymru yw diogelu'n hawl i benderfynu ar lefel ranbarthol, o fewn aelod wladwriaeth, fel ein bod yn gallu, drwy'r broses hon, barhau i dalu yn hanesyddol, ac ni fyddai gorfodaeth ar yr aelod wladwriaeth i ddilyn yr un trywydd, a bod y penderfyniad yn gallu gorwedd gyda'r rhanbarth yn y cyd-destun hwn, sef gyda Chymru. Mae consensws o fewn gwledydd Prydain ac yn y drafodaeth gyda'r Adran dros yr Amgylchedd, Bwyd a Materion Gwledig fod hynny i'w gymeradwyo.

what has been important to us in Wales is to safeguard our right to make a decision at a regional level, within a member state, so that we can, through this process, continue to make historic payments, and that there should not be a requirement on the member state to follow the same path, and that the decision can lie with the region in this context, namely with Wales. There is a consensus within the nations of Britain and in the discussion with Department for Environment, Food and Rural Affairs that that should be applauded.

[103] Cefais y cyfle ym mis Ebrill pan oedd y comisiynydd amaeth yma yng Nghymru i ddweud mai un o'r materion pwysicaf i ni yng Nghymru oedd cadw'r hawl i benderfynu ar lefel Cymru a fyddai taliadau hanesyddol yn parhau hyd at 2013 ai peidio. Yr wyf yn falch bod y manylion deddfwriaethol sydd wedi dod allan ers hynny yn cydnabod hynny.

I had an opportunity in April when the commissioner was here in Wales to say that one of the most important issues for us in Wales was for us to retain the right to make decisions on a Wales level whether historic payments should be retained up until 2013 or not. I am pleased that the legislative detail that we have received since then acknowledges that.

[104] **Michael German:** I want to ask you about modulation, First Minister, and then I want to ask you about the rural development plan changes—

[105] **Elin Jones:** Sorry, did you say, 'First Minister'?

[106] **Michael German:** Sorry, I meant to say 'Minister'.

[107] At our last meeting, your official was present and said that the current estimate is that between 2010 and 2013 we will be generating a net increase of £5 million-worth of additional modulation funding for use under the rural development plan during that period. The position in respect of compulsory and voluntary modulation in the health check is still unclear, but the UK Government has still taken on this issue. Can you tell us what your current negotiation position is in respect of the UK Government's position and the commission's position, and, if your position wins out, what would you expect to be the outcome in terms of the amount of modulation that would be paid towards the RDP?

[108] **Elin Jones:** I will ask Rory to come in on some of the detail and the current thinking on modulation, because it has been discussed this week at the Council of Ministers in Brussels and at official level as well.

[109] The replacement of voluntary modulation with compulsory modulation presents some problems in the requirement to match exactly our funding proposals within the RDP. One of the issues that we are discussing, within the UK, and with the UK influencing the European position, is that the compulsory modulation will bring additional funding to a number of RDPs in Europe, but will not bring significant additional funding to our RDP. What we are then challenged with, of course, is that we have an RDP that is set, understood and which is going in a particular direction. With regard to the challenge agenda of the European Commission's proposals on how the compulsory modulation could be used, we need to ensure that we have a degree of flexibility to maintain the funding within the RDP on the priorities that we have set out. As it happens, I do not see that this will be a particularly major

problem for us, because we are very much in line with the European thinking on the challenge agenda, for example our axis 2 agri-environment schemes are already reasonably closely aligned to that agenda, and also our axis 2 review, which we will be progressing in the autumn of this year, allows us to get in early on the challenge agenda of the European Commission. So, I do not think that it poses us any significant problems.

[110] One issue that is appearing now, as part of the discussion at the European level, is that there are member states that are not particularly keen on compulsory modulation of the level put forward by the commission, of up to 13 per cent, and it is likely, given how the negotiations seem to be progressing, that that 2 per cent annual increase could be decreased. So, that is an issue that is currently being put forward by a number of member states. I do not know whether you want to update the committee further, Rory.

[111] **Mr O’Sullivan:** As the Minister has indicated, at the European level, we are dealing with a quickly moving agenda. We will have a much better feel for what the new rates of compulsory modulation will be when we see revised legislation in September. The discussion that took place at council on Tuesday indicated clearly that the 2 per cent annual increase will be difficult for the commission to negotiate through the council, so it is likely that there will have to be a change. We have made certain projections in Wales on the basis of the current proposals; however, as I said at the committee’s last meeting, we estimate that that would give us a net amount of about £5 million. Bearing in mind that, within the RDP, we are spending £795 million, some £600 million of that is from the Welsh Assembly Government, and we are already match funding compulsory and voluntary modulation. As the Minister has indicated, at this stage, we do not anticipate any difficulty in dealing with a net increase in funding for the RDP arising from whatever rate of compulsory modulation emerges.

[112] **Michael German:** The Minister mentioned that the challenge agenda largely matched what you wanted to do in the RDP. Can you indicate what sort of things you would like to fund under the challenge agenda? The Wales Environment Link gave evidence at our last meeting, and said that the RDP ought to be rewritten to develop landscape and catchment-scale operations—in other words, to go beyond a single farm and to create much wider landscape potential. Given that the challenge agenda would allow you to do that, and that there is movement on the environment agenda, do you think that these are issues that you are likely to want to fund, and will that bring us into any form of constructive dialogue with the farming community about things not being based on farm-level payments?

[113] **Elin Jones:** The axis 2 review provides an opportunity to have this dialogue with the farming and environmental communities and that will happen in the autumn. Axis 2 includes the largely agri-environment schemes in Wales, namely Tir Gofal, Tir Cynnal, Tir Mynydd, organic conversion, and better woodlands for Wales. In that review, I will be looking for the discussion that you have alluded to on the future of agri-environment schemes. We have a budget for axis 2, putting aside the compulsory modulation issue for a second, and that additional funding is not that significant. Even if it stays at the 13 per cent compulsory modulation by 2013 level, that will not bring significant additional funding into axis 2. Therefore, everyone wants a piece of that axis 2 money as part of this review, wherever they are coming from, and it will be challenging for the Government and for us in Wales as we look to see how we want our land managed. However, our alignment with European Commission thinking on the challenge agenda, and issues around climate change, carbon storage and water management will feature in the axis 2 review.

10.20 a.m.

[114] **Michael German:** You said that you were looking for collaborative action from land managers at a landscape and catchment area, but collaborative action is not always easy to achieve.

[115] Your last point on carbon capture and storage is interesting, because the sites available for carbon storage in Wales are largely old coal mines, out at sea or underground, where available. Do you envisage that the RDP could be used for carbon storage?

[116] **Elin Jones:** When I say carbon storage, I refer to the 400 million tonnes of carbon that is stored in the uplands of Wales. If that land were improved suddenly, all that carbon could be released, which would significantly increase Wales's carbon emissions. Furthermore, there is the ability to store more carbon in the uplands of Wales, with different land management practices. So, there is the ability to look constructively at that in land management schemes, which we could undertake in Wales. That will feature as part of the challenges posed under the axis 2 review.

[117] **William Graham:** On the single payment scheme, you have to move from the historic model to this flatter area scheme. You suggest that, in Wales, you will maintain the historic scheme at least until 2013, which is the last permitted date under current legislation. Could you explain why you think it will still be of benefit to farmers in Wales for that period? Bearing in mind what happened in England when farmers were fined a substantial sum, could you assure me that that will certainly not happen in Wales, given that it would reduce your budget even further?

[118] **Elin Jones:** With the single payment scheme, and based on an historic rather than an area view, as I suggested, I have been keen to maintain the flexibility in the legislation at a European level for Wales to make its own decision now as to whether to move to area-based payments. I am still of the view that we should not undertake a significant change at this stage. I have posed that question in my consultation, to see whether there is a groundswell of opinion in favour of Wales and the Government moving to area-based payments at an early stage, but I am not picking up on that kind of desire for major change at this stage.

[119] The primary reason I am of this view is that it would be considerable change, upheaval and uncertainty for the farmers receiving the payment, and for the Government undertaking the change, and that would come only a few years after we introduced the significant change of historic payments. However, I recognise that, as we move further away from the historic reference period of the early 2000s, we cannot justify that into the long term. The European Commission and the European Union have already indicated that moving to area-based payments needs to happen post 2013 at some point. So, we will have to do that. However, that could be quite a substantial change in Wales and could be redistributive in its impact on farming payments. I am keen for us to prepare the way for that change at an early stage, and to model how we see that change happening within Government and what would be the redistribution effects of the different models. That way, we would not be allowing it to be a last-minute change that catches everyone out. We recognise that this is very likely to happen and that we need to prepare for it well in advance.

[120] **Nerys Evans:** Dywedasoeh fod y comisiwn yn derbyn y dylem benderfynu ar ba system o daliadau y dylem ei defnyddio yng Nghymru. Gan fod y diwydiant yn wahanol yng Nghymru, a oes unrhyw faterion eraill o dan yr archwiliad iechyd y bydd angen mwy o rym ar Gymru i benderfynu pa drywydd i'w gymryd, neu a oes consensws digon clir ar lefel Brydeinig?

Nerys Evans: You stated that the European Commission accepts that we in Wales should get to decide which system of payments we should use in Wales. Given that the industry is very different in Wales, are there any other issues under the health check for which we will need more power in Wales to decide which direction to take, or is there a clear enough consensus on a British level?

[121] **Elin Jones:** Ar y cyfan, mae'r hyblygrwydd a geir yn yr archwiliad iechyd i

Elin Jones: On the whole, the flexibility in the health check to take decisions on a Wales

gymryd penderfyniadau ar lefel Cymru yn ddigonol i ddatrys y materion sy'n codi. Nid yw'r materion sy'n codi yn yr archwiliad iechyd yn gynhwysfawr iawn; dim ond ar rai agweddau y maent yn fanwl. Felly, nid ydym o'r farn bod diffyg hawl i ni benderfynu ynghylch rhywbeth a fyddai'n gweddu yn well i ni, na bod yr hawl yn cael ei gwrthod i ni. Nid wyf o'r farn fod hynny'n wir am yr archwiliad iechyd.

level is sufficient to solve the issues that arise. The issues that do arise in the health check are not very comprehensive; they are detailed only in some respects. Therefore, we do not believe that we lack the right to decide on something that would suit us better, or that a right is being denied to us. I do not think that that is currently the case regarding the health check.

[122] **William Graham:** I have a supplementary question along the lines of Mike German's question about the funds to abolish set-aside. Do you think that it will have much of an impact on farming practices and wildlife habitats in Wales?

[123] **Elin Jones:** I do not foresee its impact in Wales being as large as it will be in England, and there is a proposal to look at changes to the cross-compliance on the single farm payment, which would allow Wales—if we decided to—to introduce borders along water courses to mitigate the effect of the abolition of set-aside. However, as far as I am aware, it would be an issue for Wales to decide whether to introduce it as an additional part of our cross-compliance, but I have not taken a view on that at the moment.

[124] **Mr O'Sullivan:** All that I would say about set-aside is that it is not a big issue in Wales, given the size of our arable sector. Other member states and other parts of the UK have certain concerns about losing the environmental benefits associated with set-aside, which is why the commission has come up with a proposal to amend certain parts of keeping land in good agricultural and environmental condition. More generally from a Wales position, whatever losses emerge from the abolition of set-aside on an environmental basis, we would far prefer to use activity under pillar 2—that is, the rural development plan—than try to increase statutory requirements on farmers in respect of the single payment.

[125] **Christine Chapman:** Before I bring in Jeff for the final question, Mike has a quick supplementary question.

[126] **Michael German:** On that point, could you refresh my memory on current expenditure on pillar 1 and pillar 2, so that we can get the balance right? The environmental groups who have given evidence suggest that, taking the set-aside issue to one side and moving to other things, if we continue as we are, we will get only modest environmental benefit from pillar 1. Do you think that there is a case for improving and extending the cross-compliance in pillar 1 to get a bigger set of environmental benefits, given what you have just said, that you think that it should come from pillar 2? It is important to know the figures for the balance.

10.30 a.m.

[127] **Mr O'Sullivan:** The single payment in Wales is worth around £220 million a year. You are talking about spending, in total, just over £100 million a year on the rural development plan, and about £70 million of that on access to land management, principally Tir Gofal, Tir Cynnal and Tir Mynydd. The thing about the single payment is that the common agricultural policy reform process of 2003 merely established a minimum requirement with regard to environmental benefit from the single payment. The purpose of the single payment is not principally about delivering environmental benefit. It is about where you use the measures under the rural development plan, and axis 2 in particular, to deliver more than the minimum standard that we have set out under the single payment. The final point that I would make is that, under the RDP, there is a deliberate expansion of activity for

Tir Gofal, Tir Cynnal and organic farming. How things unfold in the future will depend very much on the outcomes of the axis 2 review.

[128] **Elin Jones:** Of course, the greater the number of cross-compliance issues that we introduce into the single payment, the greater the amount of checking that Government needs to do, on farm, with regard to those cross-compliance requirements being met. I am also undertaking a red tape review with regard to farm bureaucracy and, therefore, there is a balance to be struck in terms of how much you can achieve through cross-compliance, given the amount of Government auditing that has to happen, on farm, to ensure that the cross-compliance requirements are adhered to.

[129] **Mr O'Sullivan:** On the health check, it is about simplification, and the commission has recognised that, in terms of cross-compliance, particularly on the statutory management side, there are requirements that have nothing to do with farming. The commission is proposing to take out certain requirements because they are not relevant to farming.

[130] **Christine Chapman:** I will now bring Jeff in to ask a final question.

[131] **Jeff Cuthbert:** Minister, as we know, the commission is proposing that milk quotas rise by 1 per cent from 2009 to 2013. Do you support that? How might that affect your priorities for the dairy industry?

[132] **Elin Jones:** I do not think that it has come as a great shock to anybody that the milk quota regime is coming to an end. I think that the in-principle decision was probably taken before the health check was undertaken; it was probably decided a few years ago that milk quotas would disappear. The health check proposal is that increasing the amount of quota year on year will introduce what the commissioner has called a 'soft landing' for the abolition of milk quotas. Milk quotas were introduced originally because of over-supply. We are no longer in that position, and quotas are no longer really relevant to the global market position of milk production and the European context on that. Introducing the annual increase will allow the market and individual farmers within that market to adjust over time, rather than the quotas just being abolished at one particular point, namely 2015. I think that it is to be welcomed from that respect. It will make dairy farmers in Wales more connected to the market, because there will be no intervention in place. I think that that is a good thing, because they will then respond to market conditions and other conditions, but market conditions primarily, and that is what agricultural production should really be about. It is an opportunity for dairy farmers to connect more strongly with the market, and I think that, on the whole, that is to be welcomed.

[133] **Christine Chapman:** I will now bring this item to a close. I thank you, Minister, for attending, and I thank Rory O'Sullivan for assisting the committee with its work on the CAP health check. Thank you very much.

[134] We have some final papers to note. The first one is the scoping paper and the terms of reference for the committee's forthcoming inquiry into subsidiarity. As you know, subsidiarity has been identified as one of the main priorities for further work by the committee over the coming months. I ask the committee to agree to proceeding with the inquiry in the autumn. I see that Members are happy with that. The next paper to note, paper 5, is the report on the meeting of the forum of UK European chairs and clerks in the Scottish Parliament in June.

[135] There is also a written report by the Welsh Local Government Association on the Committee of the Regions. I think that Nerys requested that, and I am pleased to see it. I would like to say something about the Committee of the Regions. I am no longer a member of this committee, but Nerys and I are both members of the Committee of the Regions. We

would be happy to give a formal update in the autumn, if you are happy with that.

[136] **Michael German:** Has there been any change to the WLGA's membership of the Committee of the Regions since the local elections in May?

[137] **Nerys Evans:** Yes, the information is in the paper.

[138] **Christine Chapman:** Councillor Williams has finished.

[139] Finally, I thank everyone for attending. The next meeting will be on the first Thursday next term. I wish you all a pleasant recess. I am sure that we will all be very busy. I thank you for your co-operation and support this morning and for your work on the committee over the last year. I now declare the meeting closed. Thank you very much.

*Daeth y cyfarfod i ben am 10.36 a.m.
The meeting ended at 10.36 a.m.*