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SUPPORT FOR THE IMPROVEMENT OF THE  
**ECONOMIC VALUE OF FORESTS** FROM THE  
EUROPEAN AGRICULTURAL FUND FOR RURAL  
DEVELOPMENT





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# SUPPORT FOR THE IMPROVEMENT OF THE ECONOMIC VALUE OF FORESTS FROM THE EUROPEAN AGRICULTURAL FUND FOR RURAL DEVELOPMENT

(pursuant to Article 287(4), second subparagraph, TFEU)

EUROPEAN COURT OF AUDITORS  
12, rue Alcide De Gasperi  
1615 Luxembourg  
LUXEMBOURG

Tel. +352 4398-1  
Fax +352 4398-46410  
E-mail: [eca-info@eca.europa.eu](mailto:eca-info@eca.europa.eu)  
Internet: <http://eca.europa.eu>

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## **REPLY OF THE COMMISSION**

# GLOSSARY

**CAP:** Common agricultural policy

**CMEF:** Common monitoring and evaluation framework

**EAFRD:** European Agricultural Fund for Rural Development. The EAFRD is the main financial instrument of the RD policy. The EAFRD is, along with the EAGF (European Agricultural Guarantee Fund), one of the two financial instruments of the CAP.

**EU:** European Union

**Forestry holding:** One or more parcels of forest and other wooded land which constitutes a single unit from the point of view of management or utilisation.

**Industrial round wood:** All wood removed from the forest not used for fuel. It includes two main botanical types, namely coniferous and non-coniferous (broadleaved) species.

**Measure:** The basic unit of programme management, consisting of a set of similar operations and disposing of a precisely defined budget.

**Measure 122:** Rural development measure for the improvement of the economic value of forests

**Need:** An opportunity or difficulty relevant for concerned groups or regions, which the public intervention aims to address. *Ex ante* evaluation verifies whether the needs put forward to justify an intervention are genuine.

**Operation:** Investment project selected according to criteria and implemented by the beneficiary

**RDP:** Rural development programme. A document prepared by Member State or region, and approved by the Commission, to plan the implementation of the RD policy.

**RD policy:** Rural development policy

**SFC:** Standing forestry committee

**SWOT-analysis:** Analysis of strengths, weaknesses, opportunities and threats. It aims to develop, review and update strategy and planning taking into account the needs of stakeholders and available resources.

**Thematic axis:** A coherent group of measures with specific goals resulting directly from their implementation and contributing to one or more of the objectives of the support for rural development.

## EXECUTIVE SUMMARY

### I.

In the EU the total area of forests and other wooded land accounts for 177,8 million hectares, while forestry and downstream manufacturing activities provide employment to millions of people. In the period 2007–13, the European Agricultural Fund for Rural Development finances a series of measures to support the development and exploitation of forests.

### II.

The measure 'Improvement of the economic value of forests' (measure 122) grants financial aid for forests owned by private owners or their associations or by municipalities or their associations to support operations for the improvement of the economic value of forests concerning investments at the level of the forestry holding.

### III.

The total EAFRD support programmed for the measure amounts to 534,72 million euro in the period 2007–13. A similar support is proposed to be maintained for the next programming period 2014–20.

### IV.

The main objective of the audit was to assess whether rural development support for the improvement of the economic value of forests is managed efficiently and effectively. In doing so the Court assessed (a) whether the design of the measure is adequate, (b) whether the implementation process is appropriate and (c) whether the assessment of the effectiveness of the measure is satisfactory.

### V.

The audit covered both the Commission and selected Member States (Spain (Galicia), Italy (Tuscany), Hungary, Austria and Slovenia) accounting for more than 50 % of the total expenditure declared.

### VI.

The Court concludes that the Commission and the Member States did not manage the audited aspects of the support for the improvement of the economic value of forests efficiently and effectively.

### VII.

The Court's audit revealed weaknesses in the design of the measure which significantly hinders its successful implementation: at the Commission level, the situation in the forestry sector in the EU was not specifically analysed so as to justify the proposal of specific financial support for improving the economic value of forests of private owners or municipalities. Furthermore, key features of the measure were not defined in the legal provisions, particularly the meaning of 'economic value of forests' and what is a 'forestry holding'. Moreover, Member States set very different sizes of forest holdings above which a forest management plan was required.

### VIII.

At the Member States' level the needs were not adequately described in the RDPs and several Member States discontinued the measure or reallocated most of the allocated amounts in favour of other measures.

## EXECUTIVE SUMMARY

### IX.

The Court also found that, in certain respects, the implementation process was not appropriate: depending on the Member State approach, many of the projects subsequently funded are not in line with the measure's provisions. Moreover, Member States supported under measure 122 operations which do not correspond to the objectives of the measure and which would be more appropriately financed by other measures with different eligibility requirements and aid financing rates, usually lower. As not all the investments per se increase the economic value of forests, the inherent link between the aid granted and a possible improvement of the economic value of a forest varies depending on the typology of the investment.

### X.

The Court considers that the assessment of the effectiveness of the support was not satisfactory: Member States did not determine or require beneficiaries to determine the value of the forest areas prior to and after the investments.

### XI.

In terms of monitoring, the CMEF is inadequate to appraise the impact of the financial support under measure 122 because the performance indicators and evaluation questions included in the CMEF do not allow a determination of whether the funded investments resulted in an improvement of the economic value of the forests where they were carried out.

### XII.

The Court found that only a few of the audited projects improved significantly the economic value of the forests, either by improving the value of the land (building of forest tracks and roads) or the value of the stands (silvicultural operations like pruning or thinning).

### XIII.

With regard to the above conclusions and to the fact that the audited support is proposed to be maintained for the next programming period 2014–20, the Court recommends that:

- The Commission should:
  - (i) define and assess the EU needs for improving the economic value of the forests;
  - (ii) clearly define the key features that would ensure that the EU support is targeted to address those needs, and thus create EU added value.
- The Member States should:
  - (i) adequately describe in their RDPs the specific economic needs and opportunities of the different types of forest areas and beneficiaries;
  - (ii) enhance forest management by providing for the elaboration of forest management plans for the bulk of forest holdings and the promotion of certification of forest areas.
- The Member States should:
  - (i) set adequate requirements to ensure that forestry support within the rural development policy is consistent, in line with state aid provisions and maximises its effectiveness;
  - (ii) put in place adequate procedures to ensure that support is effective so as to actually increase the economic value of the forest areas where the investments take place.
- The Commission should improve its monitoring of the measure to ensure that the Member States implement it in line with the specific objectives set. In concrete terms, the Member States should require beneficiaries to provide details of the value of their forest areas both prior to and after the aided investments and managing bodies should be required to validate these values.

# INTRODUCTION

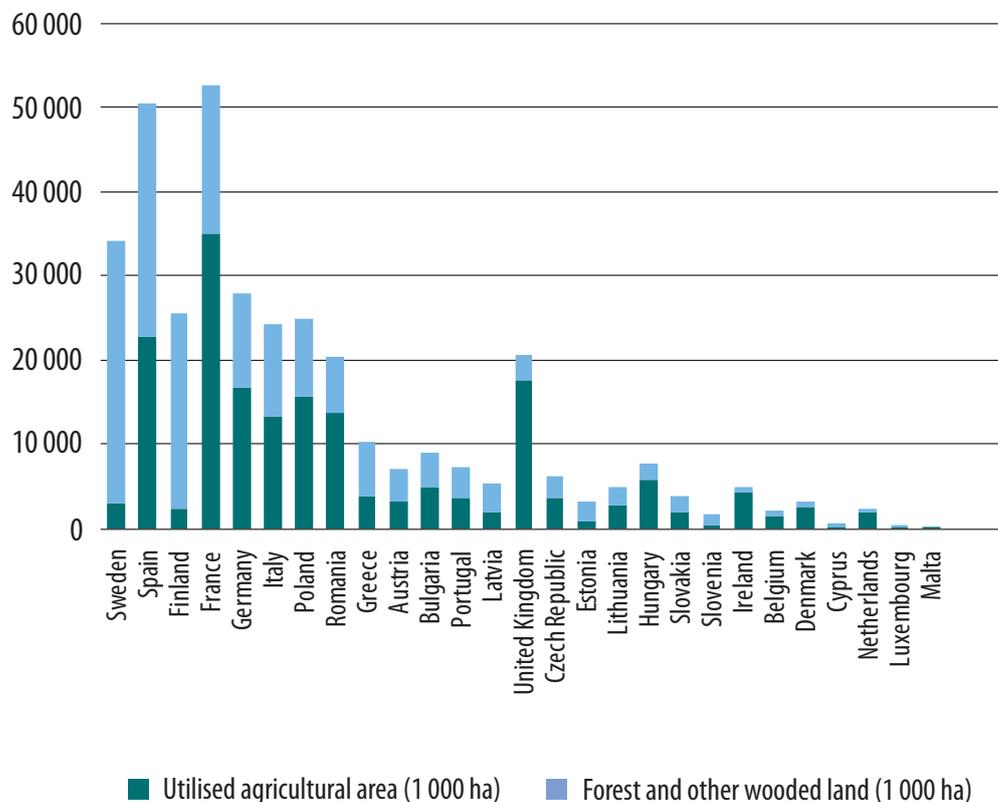
## FORESTRY IN THE EU

1. In the EU the total area of forests and other wooded land accounts for 177,8 million hectares which is about 40 % of the total EU land area and similar to the land area used for agricultural purposes<sup>1</sup> (183,9 million hectares). Germany, Spain, France, Finland and Sweden collectively accounted for more than three fifths of the wooded land in the EU. **Graph 1** shows the distribution of the wooded land in the EU and its importance compared to the agricultural land in each Member State.

<sup>1</sup> DG Agriculture and Rural Development, *Agriculture in the EU — Statistical and Economic information 2011*, March 2012.

GRAPH 1

### FOREST AND OTHER WOODED LAND VS AGRICULTURAL LAND IN THE EU-27



Source: Eurostat.

2. In 2009, the EU accounted for about 12 % of the world's wood production<sup>2</sup> with 392,9 million m<sup>3</sup> of wood removed from its forest and wooded areas. Forestry, logging and related service activities cover the production of timber, as well as the extraction and gathering of wild growing forest products. In addition to industrial roundwood<sup>3</sup>, forestry produces wood for fuel. In certain regions non-wood goods<sup>4</sup> can also be an important source of local income.

## FOREST OWNERSHIP

3. With some 16 million private forest owners, this category represents around 60 % of EU forestry ownership. Private forest holdings have an average size of 13 hectares, but the majority of privately owned forests are smaller than five hectares<sup>5</sup>. It is estimated that individuals and families own around 80 % of forest areas in private ownership and the rest is owned by private institutions and companies<sup>6</sup>. The area of privately owned forest has increased in recent years, and is still increasing, due principally to afforestation of agricultural land and, in eastern Europe, to privatisation of formerly nationalised forest land<sup>7</sup>.
4. On the other hand, around 40 % of the forest area in the EU is publicly owned. Public ownership of forests comprises national, regional or provincial bodies, state-owned enterprises and municipalities. It is estimated that municipal forests cover less than 15 % of the total area of publicly owned forests<sup>8</sup>. The overall publicly owned forest area decreased by around 3 % between 2000 and 2010. Around 75 % of forests in Bulgaria, Czech Republic, Greece and Poland are in public ownership. **Graph 2** shows the distribution between public and private ownership of forests in each Member State<sup>9</sup>.

<sup>2</sup> Removals is a common measure of the magnitude of the extraction of wood from forests.

<sup>3</sup> 'Industrial roundwood' is intended as all wood removed from the forest not used for fuel.

<sup>4</sup> Forests are a source for products extracted from forests, including resin, tannin, fodder, medical plants, berries, nuts, roots, mushrooms, seeds and honey.

<sup>5</sup> DG Agriculture and Rural Development H4, *Report on the implementation of forestry measures under the rural development Regulation 1698/2005 for the period 2007–13*, March 2009. Another source indicates that in nine surveyed Member States 61 % of all private forest holdings have an area of less than 1 hectare and 86 % of all holdings belong to the size classes up to 5 hectares (*Prospects for market supply of wood and other forest products from areas with fragmented forest-ownership structures — Final study report*, BOKU University, Vienna, 2010).

<sup>6</sup> MCPFE Liaison Unit Warsaw, UNECE, FAO, *State of Europe's forests 2007. The MCPFE report on sustainable forest management in Europe*, Warsaw, 2007, p. 81.

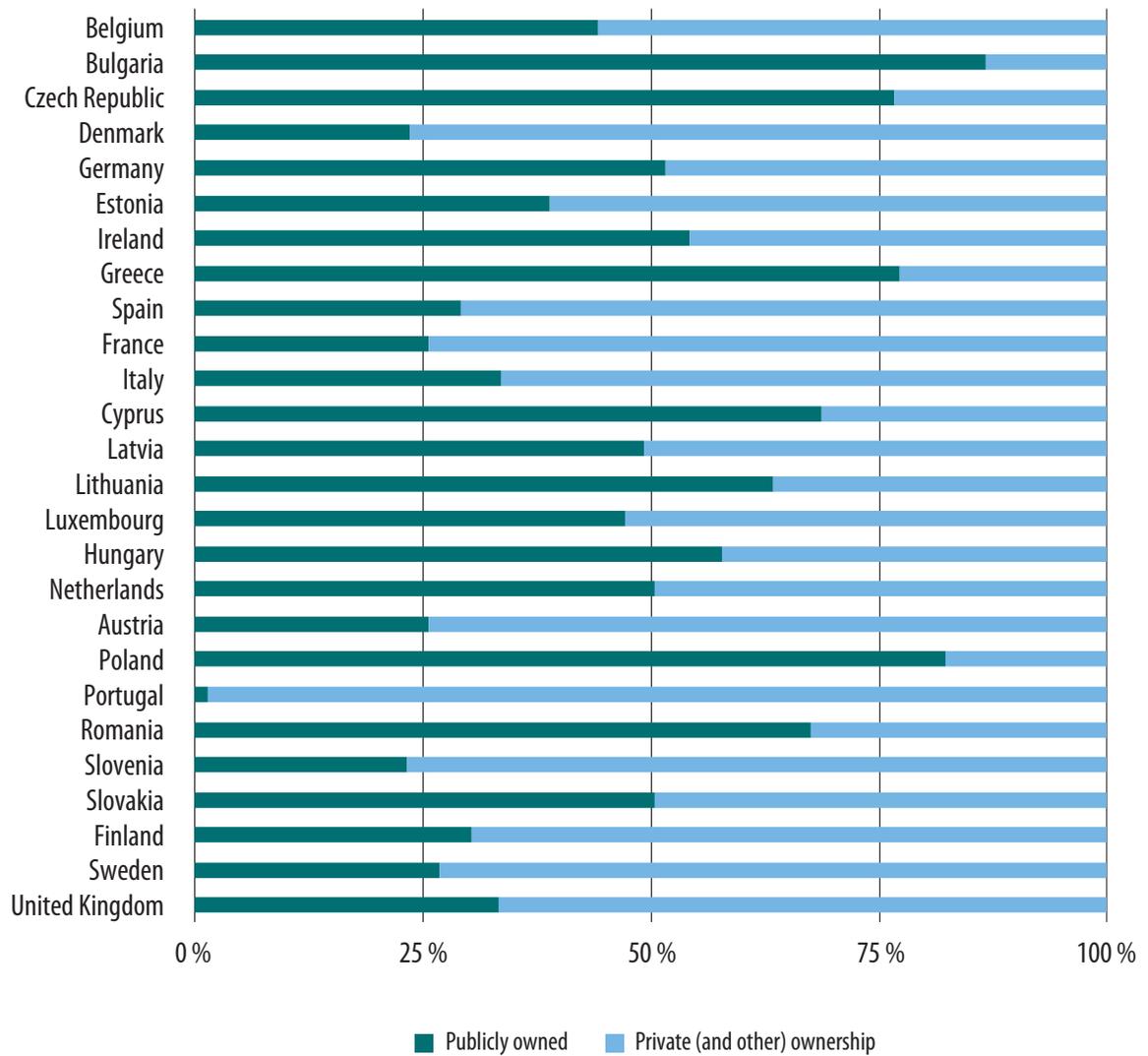
<sup>7</sup> UNECE, FAO, *Geneva timber and forest study paper 20. European forest sector outlook study*, Geneva, 2005), p. 115.

<sup>8</sup> MCPFE Liaison Unit Warsaw, UNICE, FAO, *State of Europe's forests 2007. The MCPFE report on sustainable forest management in Europe*, Warsaw, 2007, p. 81: 'The largest share of public forest is owned by the State (85 %), the rest mainly by cities, townships, municipalities and provincial governments.'

<sup>9</sup> Malta does not have wooded land.

GRAPH 2

## FOREST OWNERSHIP IN THE EU



Source: Eurostat.

## EU FORESTRY POLICY AND SUPPORT: HISTORICAL BACKGROUND

5. Until 1992, forestry-related EU actions were linked to agricultural policy. At that time, a key priority was the development and exploitation of forestry activities on farms so as to offer an alternative activity and income to those engaged in agriculture<sup>10</sup>. Since 1992, forestry support has been made available not only to farmers but also to other private persons and to local authorities<sup>11</sup>.
6. In 1998, a Council resolution on a 'Forestry Strategy for the European Union'<sup>12</sup> established a strategic framework for forest-related actions in support of sustainable forest management and the multifunctional role of forests based on the coordination of the forest policies of the Member States and the Union.
7. In 2006, the Commission in cooperation with the Member States prepared an 'EU Forest Action Plan'<sup>13</sup> aimed at providing a framework for the implementation of forest-related actions at Union and Member State level. In this plan, it is provided that the Member States may encourage investments to enhance the economic value of forests to strengthen the competitiveness and economic viability of forestry<sup>14</sup>.

## THE RURAL DEVELOPMENT POLICY 2007–13

8. The RD policy is implemented through multi-annual programming periods<sup>15</sup> and is focused on three core objectives<sup>16</sup>, known as 'thematic axes', to be achieved through a series of financial support measures:
  - o improving the competitiveness of the agricultural and forestry sector ('Axis 1');
  - o improving the environment and the countryside ('Axis 2');
  - o improving the quality of life in rural areas and encouraging diversification of the rural economy ('Axis 3').

The rural development measures applicable to the forestry sector are mainly under axis 1 and 2<sup>17</sup>.

<sup>10</sup> Council Regulation (ECC) No 4256/88 of 19 December 1988, laying down provisions for implementing Regulation (EEC) No 2052/88 as regards the EAGGF Guidance Section (OJ L 374, 31.12.1988, p. 25), Council Regulation (ECC) No 1610/89 of 29 May 1989 laying down provisions for implementing Regulation (EEC) No 4256/88 as regards the scheme to develop and optimally utilise woodlands in rural areas in the Community (OJ L 165, 15.6.1989, p. 3), Council Regulation (ECC) No 2328/91 of 15 July 1991 on improving the efficiency of agricultural structures (OJ L 218, 6.8.1991, p. 1).

<sup>11</sup> Council Regulation (ECC) No 2080/92 of 30 June 1992 instituting a Community aid scheme for forestry measures in agriculture (OJ L 215, 30.7.1992).

<sup>12</sup> Council Resolution of 15 December 1998 on a forestry strategy for the European Union (OJ C 56, 26.2.1999, p. 1).

<sup>13</sup> COM(2006) 302 final of 15 June 2006.

<sup>14</sup> COM(2006) 302 final, p. 6.

<sup>15</sup> The Member States are responsible for drawing up rural development programmes and submitting them to the Commission for approval. Member States are also responsible for managing each rural development programme in an efficient and effective way and in particular for selecting operations for funding. The Commission has to approve the RD programmes and check that management and control systems exist and function properly in the Member

## MEASURE 122: IMPROVEMENT OF THE ECONOMIC VALUE OF FORESTS

- 9.** Measure 122 '**Improvement of the economic value of forests**'<sup>18</sup> is the only forestry-specific measure defined under Axis 1 (improving the competitiveness of the agriculture and forestry sector). Measure 122 is included in 49 rural development programmes drawn up by 17 Member States<sup>19</sup>. The total EAFRD support programmed for actions under the measure amounts to 534,72 million euro in the period 2007–13 while EAFRD payments corresponded to 137,13 million euro (see **Annex I** for details on the allocation of financial resources for measure 122 and the amount of forest areas in private ownership by Member State).
- 10.** The responsibility for the sound financial management of the budgetary expenditure for the measure 'Improvement of the economic value of forests' is shared between the Commission and the Member States.
- 11.** In the framework of this measure, EAFRD financial investment support can be granted for forests owned by private owners or their associations or by municipalities or their associations<sup>20</sup>. Support is excluded for forests and other wooded land owned by central or regional governments, or by government-owned corporations, or owned by the Crown, or by legal persons at least 50 % of whose capital is held by those entities<sup>21</sup>. It is expected that around 88 000 private or municipal forest owners will benefit<sup>22</sup> from the measure. As of 31 December 2011, a total of 20 662 investment projects had been approved by 15 Member States.
- 12.** According to the legal basis, supported operations for the improvement of the 'economic value of forests' concern investments at the level of the 'forestry holding' and may include investments for 'harvesting equipment', while activities related to regeneration after final felling are excluded from support<sup>23</sup>. Investments have to be based on 'forest management plans' for forest holdings 'above a certain size' defined by the Member States in their programmes. The financial support is limited to 50 % of the amount of eligible investment, which is increased to 60 % in less-favoured areas<sup>24</sup>.

States (Article 75 of Council Regulation (EC) No 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) (OJ L 277, 21.10.2005, p. 1)).

<sup>16</sup> Article 4 of Regulation (EC) No 1698/2005.

<sup>17</sup> Measures No 122,123,124,125, 221, 222, 223, 224, 225, 226, 227, as codified in Annex II to Commission Regulation (EC) No 1974/2006 of 15 December 2006 laying down detailed rules for the application of Council Regulation (EC) No 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) (OJ L 368, 23.12.2006, p. 15).

<sup>18</sup> Article 27 of Regulation (EC) No 1698/2005.

<sup>19</sup> BG, CZ, DE(1), EE, ES(7), FR (5), IT(20), LV, LT, LU, HU, AT, PT(3), RO, SI, SK, UK(2).

<sup>20</sup> Article 27 of Regulation (EC) No 1698/2005.

<sup>21</sup> Article 30(4) of Regulation (EC) 1974/2006.

<sup>22</sup> DG Agriculture and Rural Development H4, *Report on the implementation of forestry measures under the rural development Regulation 1698/2005 for the period 2007–13*, March 2009.

<sup>23</sup> Article 18 of Regulation (EC) No 1974/2006.

<sup>24</sup> Annex I of Regulation (EC) No 1698/2005, 'amounts and rates of support'.

## AUDIT SCOPE AND APPROACH

- 13.** The audit focused on the design and implementation of rural development support under measure 122 'Improvement of the economic value of forests'. The main objective of the audit was to assess whether rural development support for the improvement of the economic value of forests is managed efficiently and effectively.
- 14.** More specifically, the audit focused on the following issues:

  - (a) Is the design of the measure adequate?
  - (b) Is the implementation process appropriate?
  - (c) Is the assessment of the effectiveness of the measure satisfactory?
- 15.** The audit covered both the Commission and selected Member States. At the level of the Commission the audit work covered the design of the measure and its management activities, including approval of the RDPs submitted by the Member States and monitoring of the financial support under the measure. At the level of Member States, the Court's audit included visits to Spain (Galicia), Italy (Tuscany), Hungary, Austria and Slovenia. These Member States accounted for more than 50 % of the total expenditure declared for measure 122 in the current programming period 2007–13.
- 16.** The audit work comprised interviews with the responsible managing authorities, a review of the RDPs and the relevant national or regional legislation and procedures, in particular those for selecting investment projects. A sample of 50 supported projects was visited on the spot to verify the effects of the investments (see **Annex II** for details).
- 17.** In addition, the Court sent questionnaires to two Member States that have opted not to implement the measure even though their forestry sector is very important (Finland and Sweden) and to three Member States that had declared no expenditure or a very limited one by the end of 2010 though they initially planned large amounts of expenditure under the measure (Bulgaria, Greece and Romania).

# OBSERVATIONS

## SIGNIFICANT WEAKNESSES IN THE DESIGN OF THE MEASURE

### WEAKNESSES IN THE OVERALL JUSTIFICATION OF THE MEASURE

- 18.** The audit examined whether there was adequate justification supporting the design of the measure and its proposal.
- 19.** In the preamble to the regulation<sup>25</sup> it is stated that private forests play an important role in economic activity in rural areas and, therefore, EU aid is important for improving and broadening their economic value, for increasing diversification of production and enhancing market opportunities, in sectors such as renewable energy, while maintaining the sustainable management and the multifunctional role of forests. The preamble to the regulation makes no explicit mention of forests owned by municipalities.
- 20.** The audit did not find any specific Commission SWOT analysis<sup>26</sup> of the situation in the forestry sector at EU level justifying the proposal of specific financial support for improving the economic value of forests of private owners and municipalities or defining the public interest to which such a support should respond.
- 21.** To justify measure 122 the Commission services subsequently referred to Standing Forestry Committee's opinions and reports,<sup>27</sup> which they considered would justify the proposal of measure 122. However none of these opinions was available to the Commission before the release of its proposal<sup>28</sup> to the Council on support for rural development by the EAFRD, which suggests a lack of due preparation.
- 22.** Municipalities may in some cases be responsible for the management of forests owned by other local authorities. For example, in Tuscany, the region delegated to the municipalities the management of regional forests. Although there was in practice no difference for a municipality between the management of its own forests and the management of entrusted regional forests measure 122 could not be applied in regional forests, which suggests some incoherence in the measure.

<sup>25</sup> Recital 22 of Regulation (EC) No 1698/2005.

<sup>26</sup> SWOT-analysis: analysis of strengths, weaknesses, opportunities and threats. It aims to develop, review and update strategy and planning taking into account the needs of stakeholders and available resources.

<sup>27</sup> SFCs opinions to justify the specific needs for investment support under measure 122: (a) SFC opinion on climate change and forestry; (b) SFC opinion on wood mobilisation; (c) SFC opinion on valuation and financing methods for non-wood forest woods and services and; (d) SFC opinion on forestry measures in rural development.

<sup>28</sup> COM(2004) 490 final of 14 July 2004.

## KEY FEATURES NOT SUFFICIENTLY DEFINED

### ECONOMIC VALUE OF FORESTS

- 23.** The regulations do not lay down a definition of ‘economic value of forests’ which the measure 122 is intended to improve, although a clear definition is essential in order to assess whether the projects funded have actually increased or not the economic value of the forests supported under the scheme<sup>29</sup> (see paragraph 49). According to Eurostat<sup>30</sup> the economic value of a forest comprises essentially the value of the land and the value of the stock of wood growing on it. However, as for both these values the most objective measurement tool is the market price, the market value of a plot of woodland may vary widely depending on factors such as growing capacity of the soil, the tree species composition, age of the stand, location, access and other factors. Furthermore, such values are not readily available.

<sup>29</sup> Additionally, there is an inherent complexity linked to the fact that the concrete outcomes of most forest investments can only be ascertained in the long term, at which time the value of the forests may depend less on any investments made than on other circumstances or market factors.

<sup>30</sup> Eurostat, *The European Framework for integrated Environmental and Economic Accounting for Forests — IEEAF*, Office for Official Publications of the European Communities, Luxembourg, 2002.

### SIZE OF FORESTRY HOLDING IN COMPARISON WITH THE SUPPORT RECEIVED

- 24.** According to the legal basis, operations for the improvement of the economic value of forests concern investments at the level of the forestry holding but the term ‘forestry holding’ is not further defined. Following the definition of the United Nations Economic Commission for Europe (UNECE) ‘holding’ means one or more parcels of forest and other wooded land which constitute a single unit from the point of view of management or utilisation<sup>31</sup>. In view of the above, the Court considers that support should be adjusted to the particular needs of a beneficiary taking into account the size of his/her forestry holding. The audit found several cases (Hungary and Slovenia) of support paid for the acquisition of new machinery and equipment which exceeded any possible utilisation the beneficiary could make of them in its forestry holding (e.g. see paragraph 33)<sup>32</sup>.

<sup>31</sup> Source: UNECE/FAO Temperate and Boreal Forest Resource Assessment 2000 (TBFRA-2000) Database.

<sup>32</sup> A number of separated properties managed under one corporate strategy could constitute a forestry holding according to UNECE definition and thus receive as such public support but this was not the case in the audited cases of Hungary and Slovenia.

### SIZE OF THE BENEFICIARY

25. According to the legal basis support in the forestry sector should avoid any negative effect on competition<sup>33</sup>. For other forestry measures (such as the forestry component of measure 123<sup>34</sup>) support is limited to microenterprises<sup>35</sup>. As such a condition is not foreseen for measure 122 the absence of any preventive restriction in terms of size, main economic activity or legal status of the beneficiary could reinforce the market position of large enterprises<sup>36</sup>.

### FOREST MANAGEMENT PLANS

26. According to the legal basis, investments shall be based on forest management plans for forest holdings above a certain size to be defined by the Member States in their programmes<sup>37</sup>. The audit found that Member States set very different sizes of forest holdings above which a forest management plan was required and that in a Member State (Austria) 99 % of private forest owners were exonerated from that obligation<sup>38</sup>.

### HARVESTING AND REGENERATION AFTER FINAL FELLING

27. According to the legal provisions<sup>39</sup>, supported operations for the improvement of the economic value of forests concern investments at the level of the forestry holding and may include investments for harvesting equipment, while activities related to regeneration after final felling are excluded from support. The Court considers that it does not seem coherent on the one hand to support investment in harvesting equipment and on the other to exclude support for regeneration after final felling.

<sup>33</sup> Preamble (32) of Regulation (EC) No 1698/2005: 'This support (in forestry) should avoid distorting competition and should be market-neutral'.

<sup>34</sup> Measure 'Adding value to agricultural and forestry products' (measure 123), Article 28(3) of Regulation (EC) No 1698/2005: 'In the case of forestry support shall be limited to micro-enterprises'.

<sup>35</sup> i.e. enterprises which employ fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed 2 million euro.

<sup>36</sup> In their reply to the Court, to the question why they didn't activate the measure Swedish authorities explained that support for the purpose of increasing production or the real estate value should not be given as it might distort competition between forest owners. By contrast, support is given only for environmental purposes.

<sup>37</sup> Article 27(2) of Regulation (EC) No 1698/2005. Forest management plans appropriate to the size and use of the forest area should be based on relevant national legislation as well as existing land use plans and they should adequately cover the forest resources (Article 18 of Regulation (EC) No 1974/2006).

<sup>38</sup> While in one Member State (Spain) a minimum size of 15 hectares was set so as to increase the forest areas under management plan, in another (Austria), the rural development programme set such a high threshold for a forest management plan to be compulsory, 1 000 ha, that in practice 99 % of private forest owners were exonerated from the obligation to produce a forest management plan when claiming aid under measure 122.

<sup>39</sup> Article 18 of Regulation (EC) No 1974/2006.

### FOR THE PROGRAMMES AUDITED, THE INITIAL ANALYSIS BEFORE ADOPTION WAS NOT ADEQUATE

- 28.** The EAFRD is implemented in the Member States through RDPs that should include an *ex ante* evaluation and an analysis of the situation in terms of strengths, weaknesses and identified needs, as well as the strategy chosen to meet them and optimise the allocation of resources.
- 29.** In the RDPs of the five Member **States<sup>40</sup> or regions visited**, the identification of needs, to the extent that it was undertaken, related to the forestry sector as a whole, which makes it difficult to establish links between particular needs and measures.
- 30.** The audit found that such needs were generally not adequately described in the RDPs (see **Box 1**). In particular, there was insufficient analysis and justification of priorities of the different types of forest areas and beneficiaries. Moreover, the required description of the economic opportunities was set out in general terms only or even had not been presented at all.

<sup>40</sup> Galicia (Spain), Tuscany (Italy), Hungary, Austria, and Slovenia.

#### BOX 1

### EXAMPLES OF UNCLEAR IDENTIFICATION OF NEEDS IN THE RDPs OF THE MEMBER STATES

In **Slovenia**, low investment capacity was identified as a weakness in the forestry sector, however there was not a separate analysis of needs in respect of type of beneficiaries, be these enterprises, legal entities or physical persons. As a consequence the Court found that also forestry enterprises with high investment capacity could benefit from significant amounts of public support.

In **Austria**, the RDP does not set out which weaknesses of the forest sector the measure is intended to redress. Although in the RDP there is a quantitative estimation of the areas targeted by the support, it is not explained why those areas require public funding.

- 31.** The Commission approved the rural development programmes although they did not define any specific need of any private forest owners of financial support to improve the economic value of their forests.
- 32.** Bulgaria, Romania and Greece, although they had planned large financial amounts, had not declared any expenditure by the end of 2011 (Greece and Romania) or very small amounts (Bulgaria). The Court was informed by these Member States that their managing authorities decided to transfer the amounts of financial resources planned for measure 122 to other measures (Bulgaria and Romania reallocated around 80 % and 33 % respectively of the amounts initially planned), to a later implementation of the measure within the programming period or even to discontinue the measure (Greece).

<sup>41</sup> 500 000 euro (SI);  
735 000 euro (HU — in 2008).

## **SIGNIFICANT WEAKNESSES IN THE IMPLEMENTATION HAVING REGARD TO THE OBJECTIVES SET**

### **CASES OF PUBLIC SUPPORT DISPROPORTIONATELY HIGH COMPARED TO REAL NEEDS**

- 33.** Regarding the relationship between the size of the forest areas declared by the applicants and the level of public support granted, the audit found that certain Member States (Hungary and Slovenia), while setting relatively high ceilings for public support<sup>41</sup> did not establish any proportionality between the size of the forest areas declared by the applicants and the level of public support which could be granted. In one Member State (Slovenia), a beneficiary having declared three hectares of forest areas was approved for an investment of 1,1 million euro in respect of harvesting and ancillary machinery and received 375 000 euro from the EAFRD. Another Member State (Austria) financed until 2009 beneficiaries who were not forest owners for biomass processing investments without requiring them to declare any specific forest area, for example a beneficiary, with no forest land declared was approved for a project of 132 000 euro and received 17 000 euro from the EAFRD.
- 34.** However in Hungary, the managing authorities changed the eligibility requirements in 2010 to make support proportional to the size of the registered forest areas and limited the aid to a maximum of 115 500 euro.

### INVESTMENTS NOT CONSIDERED IN LINE WITH THE PROVISIONS OF THE MEASURE

- 35.** Although support under measure 122 may only be provided for investments, the audit found cases of support granted for non-durable goods such as short-cycle consumables (Tuscany)<sup>42</sup> and operating production costs (Austria)<sup>43</sup>. The Court considers that, in general, the acquisition of such non-durable goods is not an investment. Similarly, operating costs cannot be considered as investments.
- 36.** In certain Member States (Hungary and Slovenia, see **Annex II**) there was no requirement for the beneficiaries to own or rent the forests where grant-aided machines can be used. Investments made by contractors/service providers cannot be considered as being exclusively for the purposes of a specific forest holding and, as such, cannot be considered as being eligible under the governing regulation (see paragraph 24).

### CERTAIN ACTIONS FINANCED UNDER MEASURE 122 WOULD BE BETTER GRANTED UNDER OTHER EAFRD MEASURES

- 37.** EAFRD support is implemented via a multiplicity of measures, amongst which consistency<sup>44</sup> shall be ensured. Given the difference in the maximum aid rate which can be granted depending on the different measures, financing an operation under one measure or another is not neutral in budgetary terms<sup>45</sup>. It should be noted that the audit did not find any case of double financing of the same operation.
- 38.** However, the audit found cases of investments supported by measure 122 which better correspond to the purpose of the measure 121 'Modernisation of agricultural holdings' which supports investments in agricultural holdings to improve their overall performance. For example, in Hungary, the acquisition of agricultural machinery was financed under measure 122. In Tuscany, measure 122 financed the purchase of drying machines for cultivated chestnuts, the renovation of farm buildings not located in woodlands and to be used during harvesting for sorting and temporary storage of chestnuts, as well as the refurbishment of farm premises for storing tools and machines.

<sup>42</sup> Personal protection equipment such as overalls, helmets, footwear, gloves, first-aid kits, etc.

<sup>43</sup> Support was granted for the partial reimbursement of operating costs for activities related to bio-mass preparation such as transportation, drying and storage.

<sup>44</sup> Article 2(1)(b) of Regulation (EC) No 1974/2006.

<sup>45</sup> For example the maximum aid rate for measure 122 is 10 % higher than the maximum aid rate for measure 121 (Modernisation of agricultural holdings) or measure 123 (Adding value to forest products), see Annex of Regulation (EC) No 1698/2005. The general rate for investments under measure 122 is 50 % while for measures 121 and 123 is only 40 %.

- 39.** In Italy, Hungary and Slovenia, forestry enterprises were granted support for the acquisition of machinery to perform operations which use the wood as a raw material prior to its industrial sawing at a sawing mill (felling, stripping, cutting up, transportation) or processing operations (chipping of wood, wood-splitting, production of planks and pallets). In Austria, the construction of warehouses and drying plants and the acquisition of transport containers were supported. The Court considers that these investments do not match so much the objectives of measure 122, but rather those of the measure 'adding value to forest products' (measure 123) as the investments concern the wood removed from the forest, not the forest, which is composed of living trees.

**NOT ALL THE INVESTMENTS PER SE INCREASE THE ECONOMIC VALUE OF FORESTS**

- 40.** The audit found that most of the investments supported by the measure can be grouped in two categories, forestry work and machinery. In the first case (thinning, pruning, etc.), the Court considers that, in general, such works improve the market value of the forest stands: the production of quality wood is strictly related to the density of trees which is improved by the thinning, while pruning is aimed at reducing the number of knots in the planks of timber, which increases its market value (see **Box 2**).

**BOX 2**

**EXAMPLE OF THE EFFECTS OF FORESTRY WORK FINANCED BY MEASURE 122 (LEFT) COMPARED TO FOREST AREAS WITHOUT ANY FORESTRY CARE (RIGHT)**



41. As to the investments in machinery, the Court considers that the mere fact of acquiring a machine, which can be used in a forest area but also in other areas such as agricultural ones, does not imply per se an increase of the value of any specific forest area belonging to the owner of the machinery. During its audit missions the Court found that many forest owners also have an agricultural activity and that in many cases measure 122 financed the acquisition of machinery which can equally be used for agricultural purposes such as trucks, agricultural tractors, ploughs, harrows, fertilizer spreaders, excavators, etc. (see **Box 3**).

## BOX 3

## EXAMPLES OF AGRICULTURAL MACHINERY FINANCED BY MEASURE 122



## THE ASSESSMENT OF THE EFFECTIVENESS OF THE SUPPORT WAS NOT SATISFACTORY

### INDICATORS NOT ADEQUATELY MEASURING THE ACHIEVEMENT OF OPERATIONAL OBJECTIVES

42. In accordance with the legislation<sup>46</sup>, a 'Common Monitoring and Evaluation Framework' (CMEF) has been drawn up in cooperation between the Commission and the Member States. The regulation sets out that the progress, efficiency and effectiveness of rural development programmes in relation to their objectives shall be measured by means of indicators relating to the baseline situation as well as to the financial execution, outputs, results and impact of the programmes<sup>47</sup>.
43. Concerning measure 122, the Commission issued guidelines setting as **output indicators** the 'number of forest holdings that received investment support' and the 'total volume of investment', and as **result indicators** the 'number of holdings introducing new products and/or techniques' and the 'increase in gross value added (GVA) in supported holdings'.
44. The Court notes that these output indicators do not measure the achievement of any operational objective, which is an inevitable consequence of the fact that the objectives had not been clearly defined for this measure.

### QUESTIONS TO ASSESS THE IMPROVEMENT OF THE ECONOMIC VALUE OF FORESTS SHOULD HAVE BEEN BETTER TARGETED

45. The CMEF also provides for a **mid-term evaluation** to be carried out in 2010 by independent evaluators. For measure 122 the evaluation questions relate to diversification of production<sup>48</sup>, enhancement of market access and market share, sustainable management of forests and competitiveness of forest holdings.

<sup>46</sup> Article 80 of Regulation (EC) No 1698/2005.

<sup>47</sup> Article 81 of Regulation (EC) No 1698/2005.

<sup>48</sup> One of the aims of measure 122 is to contribute to diversification (see Recital 22 of Regulation (EC) No 1698/2005). Diversification in forestry means the creation of new sources of income from forestry activity, including, in particular, production of non-wood goods, such as fruits, mushrooms, seeds, honey and so on, and delivery of marketed services such as hunting licences. The production of fuelwood may also be considered as a diversification in forests traditionally exploited for the production of industrial roundwood and vice versa.

- 46.** The Court considers that none of these questions allows for a comprehensive assessment of whether the measure resulted in any improvement of the economic value of the forest. The questions relating to market share and competitiveness of forest holdings are not relevant to assess the performance of the measure in those beneficiary holdings that do not carry out a commercial activity. Furthermore, the evaluation reports generally refer to replies from beneficiaries to evaluation questionnaires or reproduce global statistical data on the forestry sector, and do not furnish any concrete information on the effects of measure 122 on the economic value of forests.

**NO DETERMINATION OF THE VALUE OF THE FOREST AREAS PRIOR TO AND AFTER THE INVESTMENTS**

- 47.** The audit found that none of the Member States or regions visited during the audit had established adequate procedures to determine the effect of the actions co-financed by the EAFRD on the economic value of the forest areas (forest land and stands) involved, nor were the beneficiaries required to indicate this. The value of the forest areas prior to the investment was not determined and compared with the situation after the investments financed by the measure. In the absence of such valuations, which are not readily available, it is difficult to determine whether the objectives of the measure have been achieved.

**EFFECTIVENESS IN A LARGE NUMBER OF PROJECTS AUDITED IS POOR**

- 48.** The Court assessed for 50 projects audited during the audit visits whether they achieved the objectives set by the measure (to improve the economic value of forests).

- 49.** The Court found that only a few improved the economic value of the forests, either by improving the value of the land (building of forest tracks and roads) or the value of the stands (silvicultural operations like pruning or thinning). For the other projects the Court did not find sufficient evidence on their relevance or on their significant contribution to the improvement of the value of forests, as they concerned:
- (a) agriculture (fruit chestnuts<sup>49</sup>, pastures, short-rotation coppice, agricultural machinery, farm buildings);
  - (b) processing and marketing of wood (equipment for fuel wood chipping and subsequent drying, or sawing, storehouses, transport containers); and
  - (c) operating costs for wood production (harvesting, chipping and drying, consumables like overalls, footwear and gloves).

<sup>49</sup> See paragraph 38.

<sup>50</sup> COM(2011) 627 final/2 of 19 October 2011.

<sup>51</sup> Article 27 of COM(2011) 627 final of 12 October 2011, p. 50.

<sup>52</sup> Article 22.

## PROGRAMMING PERIOD 2014–20

- 50.** The Commission presented in October 2011 a proposal for a regulation on support for rural development for the programming period 2014–20<sup>50</sup>. The draft regulation proposes support for investments ‘related to the improvement of the economic value of forests’ to ‘be granted to private forest owners, municipalities and their associations’<sup>51</sup>. The investments shall be at the level of the forest holding and may include investments for soil and resource-friendly harvesting machinery and practices.
- 51.** In the proposal once again no indication is given why the provision addresses private owners in general, and not specific categories of owners or specific situations of certain private owners.
- 52.** In its Opinion No 1/2012, the Court noted that although in the draft regulation a single measure should cover all types of support for forestry investments, and all relevant sub-measures are mentioned in one single article<sup>52</sup>, each of them remains governed by specific requirements and provisions.
- 53.** The Court considers that if the Commission proposal is adopted without any change, the problems noted in this report are likely to persist in the next programming period.

## CONCLUSIONS AND RECOMMENDATIONS

- 54.** The specific measure 122 ‘improvement of the economic value of forests’ was introduced in the programming period 2007–13. The Court’s audit revealed deficiencies in terms of the design, implementation and monitoring of the measure. Consequently, the Court concludes that the Commission and the Member States did not manage the audited aspects of the support for the improvement of the economic value of forests efficiently and effectively. With particular regard to the fact that such a support is proposed to be maintained for the next programming period 2014–20, the Court makes the recommendations set out below.

### **SIGNIFICANT WEAKNESSES IN THE DESIGN OF THE MEASURE**

- 55.** The audit identified weaknesses in the design of the measure which significantly hinders its successful implementation, as explained hereunder.
- 56.** The Commission did not specifically analyse the situation in the forestry sector at EU level so as to justify the proposal of specific financial support for improving the economic value of forests of private owners and municipalities or defining the public interest to which such a support should respond (paragraphs 18 to 22).
- 57.** Key features of the measure were not defined in the legal provisions, namely the meaning of ‘economic value of forests’ and what is a ‘forestry holding’. Moreover, there were no particular conditions concerning the size, main economic activity or legal status of potential beneficiaries to avoid risks of potential distortion of competition (paragraphs 23 to 25).
- 58.** Member States set very different sizes of forest holdings above which a forest management plan was required, ranging from a minimum size set so as to increase the forest areas under management plan to such a high threshold that in practice in a Member State (Austria) 99 % of private forest owners were exonerated from that obligation (paragraph 26).

- 59.** Also the needs were not adequately described in the RDPs by the Member States. The audit found several instances of inadequate initial analysis of the specific needs regarding the measure or that the measure did not respond to any specific or urgent needs in Member States (paragraphs 28 to 31). Several Member States discontinued the measure or reallocated most of the allocated amounts in favour of other measures (paragraph 32).

#### RECOMMENDATION 1

**The Commission should:**

- define and assess the EU needs for improving the economic value of the forests;
- clearly define the key features that would ensure that the EU support is targeted to address those needs, and thus create EU added value.

#### RECOMMENDATION 2

**Member States should:**

- adequately describe in their RDPs the specific economic needs and opportunities of the different types of forest areas and beneficiaries;
- enhance forest management by providing for the elaboration of forest management plans for the bulk of forest holdings and the promotion of certification of forest areas.

## SIGNIFICANT WEAKNESSES IN THE IMPLEMENTATION HAVING REGARD TO THE OBJECTIVES SET

- 60.** The audit found numerous weaknesses in the implementation of the measure (paragraphs 33 to 41). Hence the Court concludes that, in certain respects, the implementation process was not appropriate.
- 61.** In particular, the Court found cases of public support which were disproportionately high compared to the real needs (paragraphs 33 to 34). Depending on the Member State approach, many of the projects subsequently funded are not in line with the measure's provisions, for instance cases were found of support granted for non-durable goods and operating production costs and of aid de facto supporting felling (paragraphs 35 to 36). Furthermore, Member States supported under measure 122 operations which do not correspond to the objectives of the measure and which would be more appropriately financed by other measures with different eligibility requirements and aid financing rates, usually lower (paragraphs 37 to 39).
- 62.** Not all the investments per se increase the economic value of forests. The inherent link between the aid granted and a possible improvement of the economic value of a forest varied depending on the typology of investment (paragraphs 40 to 41).

### RECOMMENDATION 3

#### Member States should:

- set adequate requirements to ensure that forestry support within the rural development policy is consistent, in line with state aid provisions and maximises its effectiveness,
- put in place adequate procedures to ensure that support is effective so as to actually increase the economic value of the forest areas where the investments take place.

## THE ASSESSMENT OF THE EFFECTIVENESS OF THE SUPPORT WAS NOT SATISFACTORY

- 63.** As a result of the audit, the Court considers that important shortcomings hindered the assessment of the effectiveness of the support.
- 64.** The CMEF is inadequate to appraise the impact of the financial support under measure 122 because the performance indicators and evaluation questions included in the CMEF do not allow determining whether the funded investments resulted in an improvement of the economic value of the forests where they were carried out (paragraphs 42 to 46).
- 65.** Member States did not determine or require beneficiaries to determine the value of the forest areas prior to and after the investments. The lack of assessments at Member State or regional level on the effective increase of the value of the forests where actions were supported hinders the assessment regarding the achievement of the main objective of the measure, and therefore also the assessment of the effectiveness of the support (paragraph 47).
- 66.** The Court found that only a few of the audited projects improved the economic value of the forests, either by improving the value of the land (building of forest tracks and roads) or the value of the stands (silvicultural operations like pruning or thinning).

### RECOMMENDATION 4

The Commission should improve its monitoring of the measure to ensure that the Member States implement it in line with the specific objectives set. In concrete terms, Member States should require beneficiaries to provide details of the value of their forest areas both prior to and after the aided investments and managing bodies should be required to validate these values.

This report was adopted by Chamber I, headed by Mr Ioannis SARMAS, Member of the Court of Auditors, in Luxembourg at its meeting of 12 June 2013.

*For the Court of Auditors*

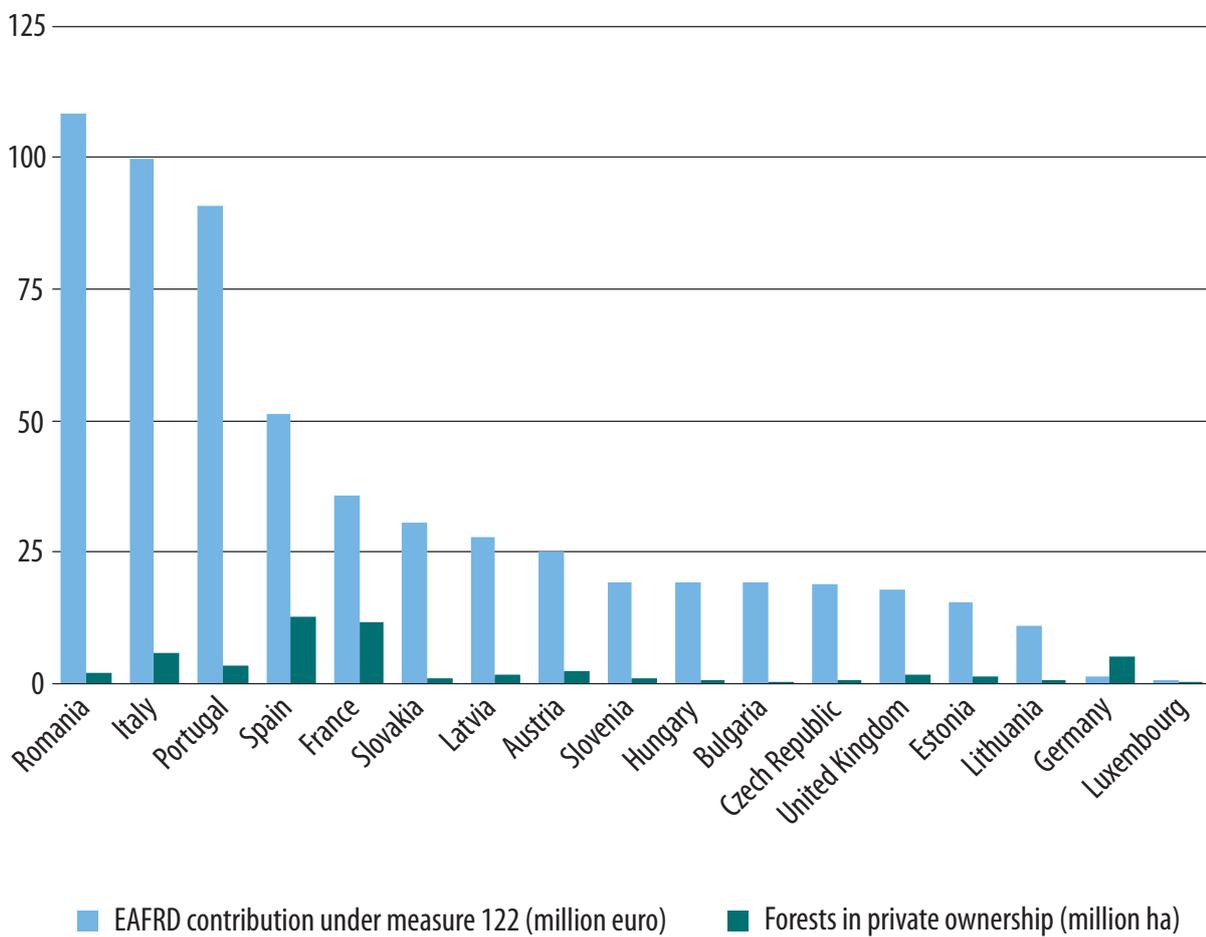


Vitor Manuel da SILVA CALDEIRA  
*President*

## ANNEX I

## ALLOCATION OF FINANCIAL RESOURCES FOR MEASURE 122 VS EXTENSION OF FOREST AREAS IN PRIVATE OWNERSHIP BY MEMBER STATE

### Programmed EAFRD contribution under measure 122 vs forests in private ownership per Member State



## ANNEX I

Member State	EAFRD contribution for M122 planned in the first version of the RDP 2007–13	EAFRD contribution for M122 planned in the RDP as of 31.12.2011	Total planned public expenditure for M122 as of 31.12.2011	EAFRD contribution as of 31.12.2011 for new applications in the 2007–13 programming period	Total public expenditure as of 31.12.2011 for new applications in the 2007–13 programming period	Forest and other wooded land	Forest in private ownership
	(1 000 euro)					(1 000 ha)	
Bulgaria	19 278	9 278	11 597	4 800	6 000	3 927	519
Czech Republic	19 158	20 658	27 543	11 438	15 250	2 697	616
Germany	1 400	635	847	236	315	11 076	5 368
Estonia	15 565	15 506	20 674	4 016	5 355	2 350	1 345
Greece	10 630	0	0	0	0	6 539	845
Spain	42 850	51 185	85 533	13 520	25 373	27 747	12 838
France	36 220	34 965	67 553	14 904	29 147	17 572	11 841
Italy	103 454	96 201	205 976	22 343	48 996	10 916	6 076
Latvia	34 066	14 395	19 431	2 169	2 762	3 467	1 696
Lithuania	15 375	11 031	14 708	4 276	5 702	2 240	784
Luxembourg	795	795	3 977	50	250	88	46
Hungary	8 831	19 289	27 125	9 472	12 806	2 029	861
Austria	26 222	19 817	38 726	14 955	31 693	4 006	2 482
Portugal	99 244	64 026	76 915	12 451	16 304	3 611	3 382
Romania	158 692	108 692	133 699	0	0	6 733	2 097
Slovenia	18 704	19 454	25 939	12 370	16 495	1 274	962
Slovakia	30 720	30 720	41 445	7 987	10 655	1 933	958
United Kingdom	11 683	18 081	25 136	2 149	4 118	2 901	1 922
<b>TOTAL</b>	<b>652 887</b>	<b>534 729</b>	<b>826 824</b>	<b>137 137</b>	<b>231 221</b>	<b>111 106</b>	<b>54 638</b>

Source: ECA own elaboration based on figures reported by DG Agriculture and Rural Development and forestry statistics reported by Eurostat in 2011.

## LIST OF INVESTMENT PROJECTS REVIEWED

Country	Number of project	Nature of project	Forest area declared/ managed (ha)	Total investment (euro)	Total public expenditure (euro)	Total EAFRD contribution (euro)	On-the-spot visit
ES	1	Silvicultural actions in broadleaves and others	50,00	104 524,44	56 726,18	32 651,59	Yes
	2	Silvicultural actions on eucalyptus stands	33,84	51 517,76	25 758,90	14 826,82	Yes
	3	Thinning and pruning of coniferous stands	50,00	92 384,00	55 430,40	31 905,74	Yes
	4	Thinning and pruning of coniferous stands	50,00	99 524,00	59 714,42	34 371,62	Yes
	5	Thinning in coniferous stands	50,00	87 584,00	52 550,40	30 248,01	Yes
	6	Programme for a comprehensive increase in value and promotion of multifunctionality	969,10	53 632,59	26 816,30	15 435,46	No
	7	Actions to value and promote the multi-functional role of forests	947,00	152 913,02	74 615,98	42 948,96	No
	8	Elaboration of technical plans for management of wooded land	3 555,06	90 000,00	60 000,00	34 536,00	No
	9	Elaboration of technical plans for management of wooded land	6 002,00	150 000,00	90 000,00	51 804,00	No
	10	Programme for a comprehensive increase in value and promotion of multifunctionality	1 410,00	112 916,76	70 150,06	40 378,37	No

Country	Number of project	Nature of project	Forest area declared/ managed (ha)	Total investment (euro)	Total public expenditure (euro)	Total EAFRD contribution (euro)	On-the-spot visit
IT	1	Pruning and grafting of chestnut trees for the production of chestnuts	20,57	159 785,99	95 871,59	42 183,5	Yes
	2	Cutting of brush, pruning and grafting of chestnuts for fruit production	1,36	5 066,64	3 039,98	1 337,59	Yes
	3	Cutting of brush, pruning and grafting of chestnuts for fruit production, acquisition of a brush cutter and a chainsaw	1,42	15 980,14	9 580,14	4 218,76	Yes
	4	Pruning and grafting of chestnuts for fruit production, acquisition of machines for forestry work and first processing of logs	5,81 fruit chestnut, 59,63 other trees	74 476,24	44 685,74	19 661,73	Yes
	5	Pruning and grafting of chestnuts for fruit production, acquisition of machines for forestry work	7,05 fruit chestnut, 59,63 other trees	132 117,05	79 270,23	34 878,9	Yes
	6	Refurbishing of a room on the farm premises to be used for sorting and temporary storing chestnuts; acquisition of implements and machines for tending fruit chestnuts.	3,54	58 184,32	34 910,59	15 360,66	Yes
	7	Acquisition of machinery for forestry work and first processing of wood (trailer, crane, tractor, excavator, shredder), as well as personal protection equipment (overalls, helmets, footwear, gloves, first-aid kits)	243,06	224 108,29	134 465,04	59 164,62	Yes
	8	Acquisition of a forestry tractor, pruning of pine trees ( <i>pinus pinea</i> )	32,88	286 439,11	171 862,75	75 619,361	Yes
	9	Restoring of cork oak groves (clearing of brush and trees, pruning)	94,00	389 568,91	230 103,57	101 246,27	Yes
	10	Restoring of cork oak groves (clearing of brush and trees, pruning), acquisition of machinery for forestry work (excavator, tractor, brush cutter, crane, chainsaws)	5,00 restored cork oaks, 931,00 other wooded land	331 348,17	198 808,90	43 737,96	Yes

Country	Number of project	Nature of project	Forest area declared/ managed (ha)	Total investment (euro)	Total public expenditure (euro)	Total EAFRD contribution (euro)	On-the-spot visit
IT	11	Thinning of artificial black pine groves of advanced age, in order to favour native silver firs and to promote the natural regeneration of the forest in its original mixed composition of conifers and hardwoods.	15,32	37 646,46	22 587,88	9 938,67	Yes
	12	Restoring of a fruit chestnut plantation (clearing, pruning, grafting), partial restoring of a farm building, acquisition and installation in the building of a chestnut dryer, establishment of a forest management plan.	5,00 fruit chestnuts, 64,00 other trees	19 603,65	10 835,57	4 767,65	Yes
	13	Thinning of black pine plantations about 50 years old to favour natural regeneration with broadleaved species; acquisition of machinery (excavator, shredder, wood splitter).	6,47	99 509,57	57 121,65	25 133,53	Yes
	14	Thinning of black pine plantations about 50 years old to favour natural regeneration with broadleaved species; acquisition of a trailer and a windlass.	5,52	47 698,00	28 618,80	12 592,27	Yes
	15	Building and equipment of a sawmill for the production of boards and pallets	20,00	182 854,26	109 712,57	48 273,53	Yes
	16	Acquisition of an excavator	105,33	104 950,00	62 970,00	27 706,80	Yes
	17	Acquisition of forestry crane and trailer	105,33	45 208,33	27 125,00	11 935,00	Yes
	18	Acquisition of a forestry tractor	105,33	35 500,00	21 300,00	9 372,00	Yes
	19	Acquisition of machinery (wood splitter, brush cutter, chainsaws, windlass) and personal protection equipment (overalls, helmets, footwear, gloves)	45,00	13 360,00	8 016,00	3 527,04	Yes

Country	Number of project	Nature of project	Forest area declared/ managed (ha)	Total investment (euro)	Total public expenditure (euro)	Total EAFRD contribution (euro)	On-the-spot visit
HU	1	Machinery — Tractor, Truck, Trailer, Plough, Fertilizer spreader	68,41	667 904,00	333 952,00	248 093,00	Yes
	2	Machinery — Tractor, Crane, Forwarder, Trailer	586,91	747 435,00	373 718,00	277 635,00	Yes
	3	Machinery — Wood chipper, Tractor, Crane, Forwarder, Trailer	868,03	1 424 309,00	712 154,00	529 059,00	Yes
	4	Machinery — Tractor, Trailer, Plough, Harrow	124,52	443 795,00	221 897,00	164 847,00	Yes
	5	Machinery — Tractor, Plough	94,30	183 007,00	91 504,00	45 423,00	Yes
	6	Machinery — Tractor, Harrow, Trailer	301,73	168 373,00	84 186,00	62 542,00	Yes
	7	Machinery — Tractor, Plough, Harrow	116,97	837 792,00	418 896,00	311 198,00	No
	8	Machinery — Tractor, Harrow, Plough, Trailer	51,60	429 535,00	214 768,00	159 551,00	No
	9	Machinery — Tractor, Crane, Forwarder	2 632,48	656 168,00	328 084,00	243 734,00	No
	10	Machinery — Tractor, Plough, Harrow	66,14	827 713,00	413 853,00	307 451,00	No
	11	Machinery — Tractor, Plough, Harrow, Trailer	107,75	220 776,00	110 388,00	82 007,00	No
	12	Machinery — Tractor, Harrow, Fertilizer spreader	625,30	268 519,00	134 259,00	99 741,00	No
	13	Machinery — Tractor, Wood chipper	89,68	430 259,00	215 129,00	159 819,00	No
	14	Machinery — Tractor, Plough, Harrow, Trailer	162,86	159 228,00	79 614,00	59 145,00	No

Country	Number of project	Nature of project	Forest area declared/ managed (ha)	Total investment (euro)	Total public expenditure (euro)	Total EAFRD contribution (euro)	On-the-spot visit
AT	1	Planting of willows and poplars on agricultural land for short rotation coppice (3–4 years rotation time)	0,39	1 170,00	585,00	284,84	Yes
	2	Planting of broadleaved species in conifer forests damaged by storm	10,40	62 400,00	31 200,00	15 150,72	Yes
	3	Thinning of conifer stands of up to 15 metres of height	7,90	7 260,00	3 630,00	1 767,45	Yes
	4	Planting of broadleaved species in conifer forests damaged by storm	17,47	53 077,59	26 536,00	12 889,84	Yes
	5	Acquisition of a towed crane	6 400,00	44 166,67	15 458,00	7 506,40	Yes
	6	Establishment of a forest management plan	1 000,00	36 667,67	18 333,00	8 902,50	Yes
	7	Thinning of up to 15 metre high conifer stands	20,00	30 000,00	15 000,00	7 303,50	Yes
	8	Drying equipment for wood-chips	N/A <sup>1</sup>	132 443,07	36 000,00	17 481,60	Yes
	9	Chipping and drying of poplars from short-rotation coppice established on agricultural land (3–4 years rotation time)	2,20	1 900,20	950,00	462,55	Yes

<sup>1</sup> Austria financed biomass processing investments without demanding beneficiaries to declare specific forest areas.

Country	Number of project	Nature of project	Forest area declared/managed (ha)	Total investment (euro)	Total public expenditure (euro)	Total EAFRD contribution (euro)	On-the-spot visit
AT	10	Planting of poplars on agricultural land for short rotation coppice (3–4 years rotation time)	0,62	1 560,00	780,00	379,78	Yes
	11	Acquisition of a transport container for wood chips	N/A <sup>1</sup>	19 600,00	3 920,00	1 908,65	Yes
	12	Thinning of up to 18 metres high broad-leaved stands	20,00	30 000,00	15 000,00	7 303,50	Yes
	13	Building of a storehouse for wood chips	N/A <sup>1</sup>	124 650,67	24 930,00	12 138,42	Yes
	14	Planting complementing natural regeneration, thinning of up to 18 metres high broadleaved stands as well as of up to 15 metres high conifer stands	26,50	22 419,40	11 209,00	5 443,09	Yes
	15	Harvesting and chipping of poplars and willows from short-rotation coppice established on agricultural land (3–4 years rotation time)	21,80	20 736,66	10 368,00	5 048,18	Yes

<sup>1</sup> Austria financed biomass processing investments without demanding beneficiaries to declare specific forest areas.

Country	Number of project	Nature of project	Forest area declared/ managed (ha)	Total investment (euro)	Total public expenditure (euro)	Total EAFRD contribution (euro)	On-the-spot visit
SI	1	Forest Track	38,15	15 641,00	7 965,00	5 973,00	Yes
	2	Machinery — Tractor	23,70	69 510,00	34 550,00	25 913,00	Yes
	3	Forest Road	19,82	66 170,00	31 521,00	23 641,00	Yes
	4	Forest Road	261,15	40 564,00	20 282,00	15 211,00	No
	5	Machinery — Tractor, Harvester	3,49	230 890,00	138 534,00	103 901,00	Yes
	6	Machinery — Trailer	45,63	45 449,00	5 500,00	4 125,00	No
	7	Forest Road	24,00	50 654,00	21 106,00	15 829,00	No
	8	Machinery — Harvester, Tractor, Forwarder, Truck with Crane/Cable-boom	3,30	1 157 730,00	500 000,00	375 000,00	Yes
	9	Forest Track	15 350,00	21 752,00	10 876,00	8 157,00	No
	10	Machinery — Tractor	1,70	79 099,00	39 550,00	-29 662,00	No

# REPLY OF THE COMMISSION

## EXECUTIVE SUMMARY

### VI.

Although some aspects of the measure could have been explained more clearly, implementation could have been improved and challenges needed to be overcome in monitoring and evaluation, implementation and results were stronger in some cases.

Moreover, lessons have been learned which will be applied for the coming period — especially through guidance and within the programming process.

### VII.

The Commission analysed the situation of the forest sector in the 2005 Commission Staff Working Document, which formed an annex to the Communication on the implementation of the EU Forestry Strategy (document reference SEC(2005) 333).

The term 'economic value' was indeed not defined in the legal provisions. However, it was regarded as a reasonably clear term, and for the purposes of monitoring/evaluation was captured by the result indicator of 'increase in gross value added'.

The term 'forestry holding' was indeed not defined. Additional guidance on this point may be needed in future. The Commission will also investigate with the Council and the European Parliament to what extent certain issues could be solved through a definition of 'forest' in the relevant legal acts.

Particular conditions concerning the size, main activity and legal status of beneficiaries are considered an issue to be addressed in individual rural development programmes (RDPs) on the basis of a SWOT<sup>1</sup> analysis.

The Commission will pay the necessary attention to the issue of forest management plans in the negotiation of future RDPs and will provide guidance as necessary.

<sup>1</sup> SWOT-analysis: analysis of strengths, weaknesses, opportunities and threats. Every RDP must contain a SWOT analysis as part of the basis for planning spending through the RDP.

## REPLY OF THE COMMISSION

### IX.

The Commission considers that measure 122 was used incorrectly in some but not all cases cited by the Court. Nevertheless, it will make the necessary efforts (including through initial guidance) to ensure that Member States/regions use the correct measure to support a given operation in the next period.

See also the replies to paragraphs 35, 36 and 37 for concrete examples with regard to correct implementation in general, and the replies to paragraphs 40 and 42 for examples with regard to use of the correct measure.

The Commission considers that where measure 122 was the correct measure to use, the economic value of forests was indeed increased — even if the exact nature of the link between the aid and the increase of value of the forest varied according to the type of investment.

The Commission will investigate with the Council and the European Parliament to what extent the desired relationship between investments in equipment and improvements to the economic value of forests could be clarified in the relevant legal acts.

### Common reply to paragraphs X and XI.

The indicators and the evaluation questions of the current CMEF are related to the rationale and the objectives of the measure and the axis in which it is included, and make a useful contribution to overall assessment of the measure.

The Commission considers that appropriate analysis of relevant data within the framework provided can illustrate the economic improvements generated through investments supported under this measure. It is recognised however, that Member States have experienced some difficulties in undertaking this economic analysis, and as a result the Commission has 1. issued additional guidance in relation to the current period, and 2. reviewed the situation in order to improve the effectiveness of monitoring and evaluation for the future period.

For the next programming period, together with the Member States the Commission is developing a CMEF which will allow the assessment, for each RDP, of progress in implementation against commonly defined target indicators for the priorities and focus areas selected for the programme. At the basis is an indicator plan which for each focus area sets the target and the planned outputs and expenditure for the measures that will be used to achieve the targets and objectives of the programme. The indicator plan represents more accurately the quantified intervention logic for each individual programme than does the current rigid axis structure.

The qualitative assessment of measure 122 plays an important role alongside quantitative assessment, as it sometimes takes more time for policy intervention to lead to a clearly measurable effect in the case of forestry than in the case of farming.

## REPLY OF THE COMMISSION

### XII.

The Commission considers that where measure 122 was the correct measure to use, the economic value of forests was indeed increased.

When assessing the contribution to improving the economic value of forests different factors such as multi-functionality and sustainability must also be taken into account.

### XIII.

As for the recommendation that the Commission should define and assess the EU needs for improving the economic value of the forests, as well as clearly define the key features, the Commission agrees that it should continue to define and assess the need to improve the economic value of forests in the EU, in such a way as to justify in general terms the inclusion of relevant support in rural development policy.

It considers that studies already available indicate needs in general terms at EU level.<sup>2</sup>

<sup>2</sup> These studies include (among others): 'Prospects for the market supply of wood and other forest products from areas with fragmented forest-ownership structures'; [http://ec.europa.eu/agriculture/analysis/external/supply-wood/index\\_en.htm](http://ec.europa.eu/agriculture/analysis/external/supply-wood/index_en.htm); 'Good practice guidance on the sustainable mobilisation of wood in Europe'; [http://ec.europa.eu/agriculture/fore/publi/forest\\_brochure\\_en.pdf](http://ec.europa.eu/agriculture/fore/publi/forest_brochure_en.pdf) and 'Study of the Effects of Globalization on the Economic Viability of EU Forestry'; [http://ec.europa.eu/agriculture/analysis/external/viability\\_forestry/index\\_en.htm](http://ec.europa.eu/agriculture/analysis/external/viability_forestry/index_en.htm)

The Commission considers that more specific needs should continue to be assessed and defined at national and programme level by the competent national and regional authorities.

The Commission believes it should continue to define basic eligibility conditions at EU level, but that more precise eligibility conditions and selection criteria should be set within individual RDPs. It believes that its proposals for a rural development policy for after 2013 follow this approach. However, the Commission should provide additional guidance in this matter.

The Commission will also investigate with the Council and the European Parliament to what extent the desired relationship between investments in equipment and improvements to the economic value of forests could be clarified in the relevant legal acts.

As for the recommendation that the Member States should describe in their RDPs the specific economic needs and opportunities of the different types of forest areas and beneficiaries, as well as enhance forest management, the Commission notes that the principle of subsidiarity hands considerable discretion to Member States and regions in respect of the points raised — in line, for example, with the European Parliament's 'Report on the implementation of a European Union Forestry Strategy' (A6-0015/2006).

The Commission agrees that adequate descriptions are needed. The level of detail required with regard to types of area and beneficiary may vary from one RDP territory to another.

The Commission considers that a reasonable proportion of forests supported through the measure should be subject to forest management plans. That 'reasonable proportion' should be set within the programming process.

## REPLY OF THE COMMISSION

As for the recommendation that the Member States should set requirements to ensure that forestry support is consistent, as well as put in place adequate procedures to ensure that support is effective in increasing the economic value of the forest areas, the Commission notes that the principle of subsidiarity hands considerable discretion to Member States and regions in respect of the points raised — in line, for example, with the European Parliament's 'Report on the implementation of a European Union Forestry Strategy' (A6-0015/2006).

For the next programming period, together with the Member States the Commission is developing a CMEF which will allow the assessment, for each RDP, of progress in implementation against commonly defined target indicators for the priorities and focus areas selected for the programme. At the basis is an indicator plan which for each focus area sets the target and the planned outputs and expenditure for the measures that will be used to achieve the targets and objectives of the programme. The indicator plan represents more accurately the quantified intervention logic for each individual programme than does the current rigid axis structure.

The qualitative assessment of measure 122 can play a valuable role alongside quantitative assessment, as it sometimes takes more time for policy intervention to lead to a clearly measurable effect in the case of forestry than in the case of farming.

As for the recommendation that the Commission should improve its monitoring of the measure, the Commission agrees that beneficiaries should be required to provide data. However, these data may be of a very basic nature and require significant processing to allow conclusions about increases in value.

To compile result indicators such as 'increase of gross value added (GVA)', MS have been invited<sup>3</sup> to capture relevant information on GVA from the supported holdings when the application is approved and 2 years after the investment completion in order to integrate as much as possible the long-term effect of the investments.

<sup>3</sup> Working document providing guidance to MS for the result indicator 'increase of GVA': [http://enrd.ec.europa.eu/app\\_templates/filedownload.cfm?id=84053593-C697-FF89-ED5C-51797D9754FD](http://enrd.ec.europa.eu/app_templates/filedownload.cfm?id=84053593-C697-FF89-ED5C-51797D9754FD)

In practice, it has been difficult for managing authorities (MAs) to compile the necessary data and conduct the analysis required to establish values for these types of result indicators as part of their regular monitoring activities. Therefore, for the next programming period, this task of the establishment of values for this indicator will rather be undertaken by the programme evaluators.

The Commission considers this a feasible and adequate approach.

### OBSERVATIONS

#### 20.

During the formulation of the forestry-related measures, the Commission used the analysis that was available.

One of the main sources was the Commission staff working document in annex to the Communication on the Implementation of the EU Forestry Strategy of 10.3.2005 (SEC(2005) 333), which identified needs and strategic objectives.

See paragraph 30 and the associated footnotes.

#### 21.

The opinions to which the Court refers were indeed not available in 2004. However, the main substance of the opinions in question was already contained in the EU Forestry Strategy (COM (1998) 649) and the subsequent related Council Resolution 99C56, which were available in 2004.

Among other things, the strategy sets out the extent of private forest ownership in the EU (accounting for 65 % of total forest), the number of private owners and the resultant level of fragmentation.

The Commission proposal for the post-2013 Rural Development Regulation took account of an SFC opinion from 2009 and the European Parliament's 'Report on the implementation of a European Union Forestry Strategy' (A6-0015/2006) of 2006.

## REPLY OF THE COMMISSION

### 22.

The RDP of Tuscany clearly states that support is available only in respect of forests owned by private owners or their associations, or by municipalities and their associations.

Eligibility for support in the case of forests owned by national or regional governments but managed by other entities is a subject of debate in the ongoing formal discussions about the future CAP.

### 23.

In forest science and practice the concept of 'economic value of forests' is well recognised, and a set of operations leading to a likely increase in value in the long term is also well recognised. MS can tailor this set of operations to their own circumstances.

Some indication as to the types of project that may be financed under the heading of improving the economic value of forests is suggested by the chapeau of Article 20(b) of Regulation 1698/2005 which refers to 'restructuring and developing physical potential and promoting innovation'.

The 'potential' economic value of a forest stand may depend on the possible use of a forest and its socio-economic and technological environment. This argues against defining 'economic value' too narrowly. Finally, the Common Monitoring and Evaluation Framework sets out a result indicator 'increase in gross value added in supported holdings'. This contributes to a notion of what the measure should achieve.

### 24.

Additional guidance on the term 'forestry holding' may be needed for the future.

To the extent that the equipment is used primarily for the purposes of managing the investor's holding and the excess capacity is not such as to imply a disproportionate purchase for this purpose this investment should be considered as being made at the level of the holding.

The Commission will also investigate with the Council and the European Parliament to what extent the desired relationship between investments in equipment and improvements to the economic value of forests could be clarified in the relevant legal acts.

See reply to paragraph 35 concerning HU.

### 25.

The Commission considers that measure 123 requires a different approach because well-run larger companies active in processing and marketing should not normally experience particular difficulties in raising the necessary capital to make useful investments in those activities.

The Commission takes the view that, by contrast, no direct limit is necessary on the size of beneficiaries to which support could be paid under measure 122.

With regard to increasing the economic value of forests, support is often needed for large beneficiaries as well as for small ones given that the relevant operations supported by measure 122 are often unprofitable in the short term, even in the case of large beneficiaries.

The economic value and performance of a holding depends on many factors besides size. Therefore, the assessment of which categories of forest should and should not be supported — including in terms of size — is best made at RDP level.

Member States and regions are indeed expected to set additional conditions for eligibility for support under this measure within their programmes as necessary, according to the circumstances of the programming area.

With regard to the particular case of SE, the Commission refers the Court to its reply to paragraph 24 — concerning the unusually favourable conditions enjoyed by the SE forestry sector.

## REPLY OF THE COMMISSION

### 27.

During the process of RDP negotiation, the Commission clarified the intended meaning of the relevant provision of Article 18 of Regulation (EC) 1974/2006.

The intended meaning is that replanting with the same tree species and the same structure cannot be supported. This is considered an aspect of normal practice in commercial forestry and does not lead to a sufficiently high increase in value of the forest compared to the situation before felling.

On the other hand, it is intended that a significant restructuring of a forest, or change of species composition — leading to an increase in value — should be eligible for support.

### 28.

The requirement of optimising the allocation of resources is not stated explicitly in the legislation, but is nonetheless implied.

Besides analysis provided in RDPs, MS provided analysis of their situation in their national strategy plans (NSPs). In several cases they referred in these to their national forest programmes/plans or equivalent instrument as the main basis of their forestry-related policies.

### 29.

The Commission notes that the principle of subsidiarity hands considerable discretion to Member States and regions in respect of the points raised — in line, for example, with the European Parliament's 'Report on the implementation of a European Union Forestry Strategy' (A6-0015/2006).

The authorities of Hungary<sup>4</sup>, Tuscany<sup>5</sup>, Slovenia<sup>6</sup>, Austria<sup>7</sup> and Galicia<sup>8</sup> all made reasonable attempts at a suitably specific identification of needs which allowed a link to be made to measure 122.

<sup>4</sup> As for Hungary, the NHRDP (New Hungary Rural Development Programme) reads: 'Because of recent privatisation of the forests (40 % of the forests have been privatised) the most urgent need is therefore the modernisation of machinery and equipment of the private forests.' Therefore the NHRDP identifies specific needs for private forests and targets the support to private forests of at least 50 ha where forest management based on a forest management plan is ensured.

<sup>5</sup> As for Italy (Tuscany), much of the relevant analysis is in fact contained in the related National Strategic Plan (NSP). The Italian NSP provides a clear SWOT analysis on forests and establishes a series of related objectives, e.g. promotion of energy saving; modernisation of machinery and equipment of the private forests — which have a clear link to measure 122.

<sup>6</sup> As for Slovenia, the RDP provides for a detailed 'analysis of the situation in the light of strengths and weaknesses' in respect of the forestry sector (chapter 3.1.2). It looks at specific features of the forestry sector in Slovenia and suggests improvements. Low labour performance characterises the sector and the situation of forests can be improved by better accessibility of forests, e.g. providing forest roads and trails. In addition, weak and inadequate infrastructure and insufficient equipment for forestry work are mentioned as reasons for high management costs.

<sup>7</sup> As for Austria, the RDP identifies the following needs: (a) to increase the economic and ecological value of forests by reinforcing a mixed stand composition (Chapter 3.1.3, p. 34); (b) to enhance the competitiveness of the forestry sector (Chapter 3.2.2.1, p. 63). This shall be achieved by increasing the availability of the raw material wood and, consequently, increasing the energy supply. It has been found that M 122 in the table on page 64 (SWOT) was omitted due to an editorial mistake. This will be corrected by introducing it in the frame of the next programme modification.

<sup>8</sup> As for Galicia, the specific needs for the forestry sector identified in the SWOT analysis, such as the small economic dimension of forest holdings (p. 45 RDP) are directly linked with and addressed by measure 122. The need to increase the economic dimension of forests is clearly recognised within the rationale for intervention of measure 122.

## REPLY OF THE COMMISSION

### 30.

The Commission takes the view that needs and opportunities were described with sufficient clarity to make programming measure 122 appropriate and possible in each case, even if the analyses in question could have been improved in some cases.

#### Box 1

With regard to Slovenia: its RDP clearly identifies a number of weaknesses in the forestry sector. For example, equipment of low technical standard and poor working techniques are listed as being among the causes of a low utilisation of forests' economic potential. Making forests more open/accessible is described as an opportunity to lower the cost of obtaining wood and therefore to help to increase income from forests.

However, with respect to a separate analysis of needs based on types of beneficiaries this was not a legal requirement and Slovenia did not provide such an analysis.

While the weaknesses were not explicitly mentioned in the Austrian RDP, these weaknesses were identified in the case of Austria as: limited profitability of small forests and small availability of biomass. As a consequence, the potential competitiveness is reduced. The experience gained during the previous programming period led the managing authority to expect that about 50 000 ha would be covered.

This omission will be corrected by including them in the next programme modification.

### 31.

The Commission considers that the information gained through the EU Forestry Strategy implementation report preparation, the continuous discussion with stakeholder representatives (e.g. through the Advisory group on Forestry and Cork) and the series of bilateral negotiations with Member States and regions provided an adequate basis for approving rural development programmes.

Please also see reply to paragraph 30.

### 32.

The Commission notes that the principle of subsidiarity hands considerable discretion to Member States and regions in respect of the points raised — in line, for example, with the European Parliament's 'Report on the implementation of a European Union Forestry Strategy' (A6-0015/2006).

Various points should be borne in mind with regard to the particular cases of Bulgaria<sup>9</sup> (which had in fact declared some expenditure), Romania<sup>10</sup> and Greece<sup>11</sup>.

<sup>9</sup> As for **Bulgaria**, there is an EAFRD expenditure of 4.8 million € in the 4th quarter of 2011, whose declaration was received by the Commission services on 10 January 2012 — deadline for submitting declaration was end of January. The BG authorities intend to transfer more than 80 % of M122 budget to other RDP measures (with the 7th RDP modification indeed some 50 % of M122 initial budget was transferred to other measures, but with the 8th modification of the BG RDP 6 M EUR public expenditure is reserved for the Guarantee Fund, which also covers M122, so stay within M122 and are not transferred to other measures). Despite the pressing need to improve the economic value of private and municipal forests in BG, measure 122 implementation has been difficult for the following reasons.

**First, nearly 80 % of BG forests are state-owned and therefore not eligible for support under M122.** Then, in the case of the remaining 20 %, the Bulgarian authorities indicate the following reasons for weak interest in this measure: (a) 90 % of forests restored to private owners are less than 1 ha in area and therefore only eligible for a very low level of support; (b) owners usually live far from their forests and as a result show little interest; (c) associations of forest owners covered their major needs when they received support under measure 1.4 of the BG SAPARD programme; (d) municipalities owning forests have a preference for preparing projects under MM 321 and 322; opportunities under M122 are therefore of less interest to them; (e) the length of time taken to process the few applications received has discouraged other potential beneficiaries from applying.

<sup>10</sup> **Romania** had indeed not declared any expenditure by the end of 2011. As it is implementing its first post-accession RDP there are several new measures to be implemented. It launched the first call for measure 122 in 2012.

<sup>11</sup> On 10 January 2011 a new modification of the **Greek** programme was adopted and Greece opted for not using EU support for measure 122.

## REPLY OF THE COMMISSION

### 33.

The Commission will further analyse the points raised by the Court.

Certain types of machinery are very expensive and provide a return on investment only in the long term — a fact accepted in the forest sector.

This makes it difficult to set rigid rules about proportionality at EU level. It should be decided in the programme negotiation process whether a limit on funding in proportion to holding size is appropriate, taking into account the characteristics of the programme area<sup>12</sup>.

Action was taken to rectify problems in the cases of Hungary and Austria.

See also comment on subsidiarity in the reply to paragraph 32.

### 34.

Indeed, this was the case in Hungary prior to 2010. The managing authority changed the eligibility requirements in 2010 to make support proportional to the size of the registered forest areas and decreased the maximum support per application.

<sup>12</sup> With regard to the particular case of Hungary, see reply to paragraph 37.

With regard to the particular case of Slovenia: the Slovenian RDP includes a requirement that the support to investments in construction or reconstruction of forest roads must comply with the applicable forest management plan and the support to investments in felling and extraction of wood and for forest tracks must comply with the silvicultural plan.

In Austria, beneficiaries of measure 122 are defined in the RDP as forest owners, their associations and communes. In case of support for associations of forest owners the association as such might not own any specific area of forest. However, each member of the association must be a forest owner as stipulated in Art. 27 of Reg. (EU) 1698/2005. The type of beneficiaries was further clarified, deleting 'other beneficiaries' at the occasion of the second programme modification. The COM notification on the approval of this programme amendment was sent to AT on 27 April 2009 (ARES (2009) 79362).

### 35.

IT (Tuscany): The observation has been taken into account. The Rural Development Programme for Tuscany 2007–13 has been modified accordingly on 11/12/2012.

### 36.

The Commission considers that investments need not serve exclusively the purposes of a specific forest holding in order to be eligible for support — though they would have to serve at least partly that holding.

See also reply to paragraph 24.

As for Hungary, M122 only supports the purchase of machinery to forest holders who run forestry activities on the basis of a forest management plan on at least 50 ha of forest. In the Commission's understanding the beneficiaries used the machines for their forest areas although maybe not exclusively, but there should be a link to a forest area.

## REPLY OF THE COMMISSION

### 38.

The Commission notes that many items of machinery can be used for both forestry and farming. The Commission considers that such items should not be excluded from investment support simply because they have an agricultural application beside a silvicultural application.

(On the other hand, investments in machines which can only be used for agriculture should not be supported through measure 122.)

With regard to the particular case of Hungary: in 2010 the Hungarian authorities decided to adjust the list of eligible machines, restricting them to items which are 'forestry-specific'.

With regard to the particular case of Tuscany, see reply to paragraph 50. The investments may be made at the level of forestry holdings and linked to forest areas because the chestnuts come from forest land. The investments are also contributing to the enhancement of the forest. The Commission considers that these investments can be eligible under measure 122. The Commission takes note of the Court's observation and will further clarify the situation.

### 39.

In general terms, the Commission notes that difficulties of legal interpretation have arisen regarding the demarcation between measures 122 and 123.

It has proposed that these two measures be merged in the post-2013 period.

### 41.

Some machinery can be used both for forestry and agriculture. The fact that a machine could also be used for agriculture should not make its purchase ineligible for support under measure 122 if it can be used in forestry work. Taking this approach could force some operators to buy two machines instead of one, which would be inefficient.

With regard to the particular case of Hungary: in 2010 the Hungarian authorities decided to adjust the list of eligible machines, restricting them to items which are 'forestry-specific'.

### 43.

The indicators are not established only through guidelines, but are included in the implementing regulation (Annex VIII of Regulation 1974/2006).

Result indicators are not set at measure level, but at axis level, reflecting the fact that it is the combined action of a range of measures which causes the result.

### 44.

The objectives are defined at axis level,<sup>13</sup> it is a combination of measures (including measure 122) which, *in fine*, will allow the achievement of the objectives set.

Output indicators are not meant to measure achievement of objectives. They are used to measure activities directly realised at measure level.

At axis level, result indicators measure the direct and immediate effects of interventions and are fed by several measures.

At RDP level, the objective achievements are measured by evaluators using notably the common impact indicators completed with a broad range of analysis and approaches (additional indicators, counterfactual methodologies, samples ...).

### 46.

The evaluation questions relate directly to the rationale and specific objectives of the measure, as set out in recital 22 of Regulation 1698/2005, and in Guidance Note E of the CMEF Handbook. Taken together they cover the scope of the measure and its activities.

It is noteworthy that the questions related to sustainable management of forests are relevant to all beneficiaries.

<sup>13</sup> The objective of axis 1 is 'competitiveness of agriculture and forestry by supporting restructuring, development and innovation'.

## REPLY OF THE COMMISSION

### 47.

MS or regions are supposed to track the increase in gross value added (GVA), and indeed, there have been difficulties in relation to this (e.g. in the collection of data).

The Commission has taken steps to address the problem and in a working paper of March 2010 provided guidance on the definition and the methodology to be used for measurement of this indicator. In addition, and as result of the lack of quantitative data available for carrying out the MTEs, the Commission sent a letter in 2011 inviting the MA of Galicia (and other programmes) to implement all necessary systems to collect monitoring information so that the results and impacts of the programme can be measured.

Such systems may involve approaches other than simply asking the beneficiaries the value of their forest before and after the investment, as it is often difficult for the beneficiaries to provide the relevant information in such a direct form.

The Commission also emphasises that, whatever difficulties may have been involved in assessing increases in GVA, *ex ante* judgements about what types of practice increase the value of a forest can be made on a very well-established foundation of experience in the domain of forest science.

In the context of the mid-term review, Slovenia and Austria established procedures intended to determine the effect of measure 122 on the economic value of forests.

### 49.

With regard to investments which supposedly concerned 'agriculture', the Commission is of the view that an investment related to chestnuts need not necessarily be considered 'agricultural' and may improve the value of a forest — as chestnuts grow on trees and these trees may form part of a forest. However, if the chestnuts in question come from an orchard rather than a forest, the investment would indeed be 'agricultural'.

The Commission will assess what additional guidance is needed on this and similar issues in future. It will also investigate with the Council and the European Parliament to what extent these issues could be solved through a definition of 'forest' in the relevant legal acts.

With regard to processing and marketing, the Commission notes that in some cases it is difficult to draw a clear dividing line between what activities related to thinning/felling and activities related to processing/marketing.

For example, the purchase and use of wood-chipping equipment can help to provide organic matter for the soil and reduce the risk of fire and pests which would increase the value of the forest. If the equipment is suited for these purposes, it is considered eligible. However, the purchase of equipment for the purpose of producing wood chips for fuel should not be supported under measure 122.

The Commission has proposed to combine the current measures 122 and 123 after 2013.

With regard to operating costs and consumables, the Commission refers the Court to its reply to paragraph 35.

When assessing the contribution to improving the economic value of forests different factors such as multi-functionality and sustainability must also be taken into account.

### 52.

Decisions about which specific categories of private owners to support belongs to the process of formulating/negotiating a given RDP, on the basis of a SWOT analysis related to the programme area in question.

### Common reply to paragraphs 52 and 53.

The combination of a number of measures from the current period into one measure — as proposed by the Commission — provides a clearer overview.

In particular, measures 122 and 123 from the current period will be combined into a single 'sub-measure' with one set of maximum aid intensities rather than two.

## REPLY OF THE COMMISSION

Nevertheless, it is not appropriate to set identical conditions for all of the forestry sub-measures: they are too different in terms of their content and the relevant categories of beneficiary.

Overall, the Commission considers that, where problems exist, they can be addressed essentially through guidance, through the combination of the current measures 122 and 123 and through greater attention to certain issues during the programming process.

### CONCLUSIONS AND RECOMMENDATIONS

#### 54.

Although some aspects of the measure could have been explained more clearly to the management authorities, implementation could be improved and challenges needed to be overcome in monitoring and evaluation, implementation and results were stronger in some cases.

Moreover, lessons have been learned which will be applied for the coming period — especially through guidance and within the programming process.

#### 55.

The Commission considers that, where problems exist, they can be addressed primarily through guidance, through the combination of the current measures 122 and 123 and through greater attention to certain issues during the programming process.

However, it will investigate with the Council and the European Parliament to what extent certain issues could be addressed in the relevant legal acts through a definition of 'forest' as well as a clearer explanation of the relationship between investments in equipment and improvements to the economic value of forests.

#### 56.

The Commission analysed the situation of the forest sector in the 2005 Commission Staff Working Document, which formed an annex to the Communication on the implementation of the EU Forestry Strategy (document reference SEC(2005) 333), which identified needs and strategic objectives.

The Commission is in the process of reviewing the 1998 EU Forestry Strategy. The adoption of the 'Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions; together with our forests: a new EU forest strategy' is intended for 2013 and the Communication and a Staff Working Document annexed to the Communication will provide an EU-level analysis of the EU forestry sector.

## REPLY OF THE COMMISSION

### 57.

In forest science and practice the concept of 'economic value of forests' is well recognised, and a set of operations leading to a likely increase in value in the long term is also well recognised. MS can tailor this set of operations to their own circumstances.

Some indication as to the types of project that may be financed under the heading of improving the economic value of forests is suggested by the chapeau of Article 20(b) of Regulation 1698/2005 which refers to 'restructuring and developing physical potential and promoting innovation'.

The 'potential' economic value of a forest stand may depend on the possible use of a forest and its socioeconomic and technological environment. This argues against defining 'economic value' too narrowly.

Finally, the Common Monitoring and Evaluation Framework sets out a result indicator 'increase in gross value added in supported holdings'. This contributes to a notion of what the measure should achieve.

Additional guidance on the term 'forestry holding' may be needed in future. The Commission will also investigate with the Council and the European Parliament to what extent certain issues could be solved through a definition of 'forest' in the relevant legal acts.

Particular conditions concerning the size, main activity and legal status of beneficiaries are considered an issue to be addressed in individual RDPs on the basis of a SWOT analysis.

### 58.

The Commission will pay the necessary attention to this issue in the negotiation of future RDPs and will provide guidance as necessary.

### 59.

The Commission notes that the principle of subsidiarity hands considerable discretion to Member States and regions in respect of the points raised — in line, for example, with the European Parliament's 'Report on the implementation of a European Union Forestry Strategy' (A6-0015/2006).

The quality of analysis varied from one MS/region to another. This point will be addressed in the next programming period.

### Recommendation 1

The Commission accepts that it should continue to define and assess the need to improve the economic value of forests in the EU, in such a way as to justify in general terms the inclusion of relevant support in rural development policy.

It considers that studies already available indicate needs in general terms at EU level. These studies include (among others):

- 'Prospects for the market supply of wood and other forest products from areas with fragmented forest-ownership structures';  
[http://ec.europa.eu/agriculture/analysis/external/supply-wood/index\\_en.htm](http://ec.europa.eu/agriculture/analysis/external/supply-wood/index_en.htm)
- 'Good practice guidance on the sustainable mobilisation of wood in Europe';  
[http://ec.europa.eu/agriculture/fore/publi/forest\\_brochure\\_en.pdf](http://ec.europa.eu/agriculture/fore/publi/forest_brochure_en.pdf)
- 'Study of the Effects of Globalisation on the Economic Viability of EU Forestry';  
[http://ec.europa.eu/agriculture/analysis/external/viability\\_forestry/index\\_en.htm](http://ec.europa.eu/agriculture/analysis/external/viability_forestry/index_en.htm)

The Commission considers that more specific needs should continue to be assessed and defined at national and programme level by the competent national and regional authorities.

The Commission believes it should continue to define basic eligibility conditions at EU level, but that more precise eligibility conditions and selection criteria should be set within individual RDPs. It believes that its proposals for a rural development policy for after 2013 follow this approach.

However, additional guidance in this matter should be provided. The Commission will also investigate with the Council and the European Parliament to what extent the desired relationship between investments in equipment and improvements to the economic value of forests could be clarified in the relevant legal acts.

## REPLY OF THE COMMISSION

### Recommendation 2

The Commission notes that the principle of subsidiarity hands considerable discretion to Member States and regions in respect of the points raised — in line, for example, with the European Parliament's 'Report on the implementation of a European Union Forestry Strategy' (A6-0015/2006).

However, the Commission agrees that adequate descriptions are needed. The level of detail required with regard to types of area and beneficiary may vary from one RDP territory to another.

In the period 2014–20, RDPs will be influenced by partnership agreements (PAs) at Member State level, which will contain analyses of development needs for the Member State concerned in relation to the thematic objectives of the European Structural and Investment (ESI) funds. The Commission has already provided an analytical position paper to each Member State to help guide the elaboration of the PAs, and will provide further input through dialogue once the legislative framework is in place.

The Commission considers that a reasonable proportion of forests supported through measure 122 should be subject to forest management plans. That 'reasonable proportion' should be set within the programming process.

The Commission also considers that forest certification is a market-based tool and that there is no reason for the EU to intervene in this field. The current and proposed future Rural Development Regulations offer support for the preparation of forest management plans and sustainable management of forests, which are the main prerequisites for receiving certification.

### 60.

The Commission notes that the principle of subsidiarity hands considerable discretion to Member States and regions in respect of the points raised — in line, for example, with the European Parliament's 'Report on the implementation of a European Union Forestry Strategy' (A6-0015/2006).

In any case, the Commission does not consider that weaknesses in implementation of measure 122 occurred in every case cited by the Court.

Nevertheless, it will make the necessary efforts (including through initial guidance) to ensure that Member States/regions use the correct measure to support a given operation in the next period.

It will also investigate with the Council and the European Parliament to what extent some of the issues in question could be solved through a definition of 'forest' in the relevant legal acts.

### 61.

With regard to 'disproportionately high' aid, it must be borne in mind that certain types of machinery are very expensive and provide a return on investment only in the long term — a fact accepted in the forest sector.

This makes it difficult to set rigid rules about proportionality at EU level. It should be decided in the programme negotiation process whether a limit on funding in proportion to holding size is appropriate, taking into account the characteristics of the programme area.

With regard to felling, because of the primarily economic nature of the operations referred to by the Court, state aid clearance in respect of measure 122 is sought not under the set of state aid guidelines cited by the Court but rather under the Guidelines on national regional aid (2006/C 54/08), Commission Regulation 800/2008 (the so-called 'Block exemption Regulation') or Commission Regulation 1998/2006 (the so-called 'De minimis Regulation').

Measure 122 permits investments in machinery for harvesting. The machinery also serves to eliminate certain trees for good forest management.

## REPLY OF THE COMMISSION

### 62.

The Commission considers that where measure 122 was the correct measure to use, the economic value of forests was indeed increased — even if the exact nature of the link between the aid and the increase of value of the forest varied according to the type of investment.

The Commission considers that the economic value of a forest is linked to its multifunctionality: it depends on various potential uses of the forest and not only on the single (though important) component that is wood.

In the case of a forest which is used commercially for recreation on the basis of entrance fees, thinning and pruning may increase the potential economic value of the trees as a source of wood, but the main value of the forest stand may come from the accessibility of the land and the forest structure.

### Recommendation 3

The Commission notes that the principle of subsidiarity hands considerable discretion to Member States and regions in respect of the points raised — in line, for example, with the European Parliament's 'Report on the implementation of a European Union Forestry Strategy' (A6-0015/2006).

The Commission notes that precisely measuring increases in the economic value of a given forest may continue to present challenges in some cases.

Nevertheless, the possibility of a certain level of measurement, combined with general expert knowledge about the benefits of certain types of investment for the value of a forest, constitute a valid basis for operating measure 122.

For the next programming period, together with the Member States the Commission is developing a CMEF which will allow the assessment, for each RDP, of progress in implementation against commonly defined target indicators for the priorities and focus areas selected for the programme. At the basis is an indicator plan which for each focus area sets the target and the planned outputs and expenditure for the measures that will be used to achieve the targets and objectives of the programme. The indicator plan represents more accurately the quantified intervention logic for each individual programme than does the current rigid axis structure.

### Common reply to paragraphs 63–64.

The indicators and the evaluation questions of the current CMEF are related to the rationale and the objectives of measure 122 and the axis in which it is included.

The Commission considers that appropriate analysis of relevant data within the framework provided can illustrate the economic improvements generated through investments supported under this measure. It is recognised however, that Member States have experienced some difficulties in undertaking this economic analysis, and as a result the Commission has 1. issued additional guidance in relation to the current period, and 2. reviewed the situation in order to improve the effectiveness of monitoring and evaluation for the future period.

For the next programming period, together with the Member States the Commission is developing a CMEF which will allow the assessment, for each RDP, of progress in implementation against commonly defined target indicators for the priorities and focus areas selected for the programme. At the basis is an indicator plan which for each focus area sets the target and the planned outputs and expenditure for the measures that will be used to achieve the targets and objectives of the programme. The indicator plan represents more accurately the quantified intervention logic for each individual programme than does the current rigid axis structure.

It should be understood that qualitative assessment of measure 122 can play a valuable role alongside quantitative assessment, as it sometimes takes more time for policy intervention to lead to a clearly measurable effect in the case of forestry than in the case of farming.

Slovenia and Austria established procedures intended to determine the effect of measure 122 on the economic value of forests.

### 66.

The Commission considers that where measure 122 was the correct measure to use, the economic value of forests was indeed increased.

## REPLY OF THE COMMISSION

### **Recommendation 4**

The Commission accepts that beneficiaries should be required to provide data. However, these data may be of a very basic nature and require significant processing to allow conclusions about increases in value.

To compile result indicators such as 'increase of GVA', MS have been invited<sup>14</sup> to capture relevant information on GVA from the supported holdings when the application is approved and 2 years after the investment completion in order to integrate as much as possible the long-term effect of the investments.

In practice, it has been difficult for MAs to compile the necessary data and conduct the analysis required to establish values for these types of result indicators as part of their regular monitoring activities. Therefore, for the next programming period, this task the establishment of values for this indicator will rather be undertaken by the programme evaluators.

The Commission considers this a feasible and adequate approach.

<sup>14</sup> Working document providing guidance to MS for the result indicator 'increase of GVA': [http://enrd.ec.europa.eu/app\\_templates/filedownload.cfm?id=84053593-C697-FF89-ED5C-51797D9754FD](http://enrd.ec.europa.eu/app_templates/filedownload.cfm?id=84053593-C697-FF89-ED5C-51797D9754FD)



European Court of Auditors

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IN 2007–13, EU BUDGET (MEASURE 122 OF THE EUROPEAN AGRICULTURAL FUND FOR RURAL DEVELOPMENT) SUPPORTED INVESTMENTS AIMED TO IMPROVE THE ECONOMIC VALUE OF FORESTS OWNED BY PRIVATE PERSONS OR MUNICIPALITIES. THE COURT'S AUDIT REVEALED THAT ONLY A FEW OF THE AUDITED PROJECTS SIGNIFICANTLY IMPROVED THE ECONOMIC VALUE OF FORESTS, EITHER BY IMPROVING THE VALUE OF THE LAND OR THE VALUE OF THE STANDS. WEAKNESSES IN THE DESIGN OF THE MEASURE AND ITS MONITORING MECHANISMS AFFECT ITS SUCCESSFUL IMPLEMENTATION. MANY OF THE AUDITED PROJECTS CONCERNED ACTIVITIES WHICH WOULD HAVE BEEN MORE APPROPRIATELY FINANCED USING OTHER SPECIFIC EAFRD MEASURES.



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