Measure fiche

Investments in physical assets

Measure 4

Article 17 of Regulation (EU) No 1305/2013

This fiche is based on the text of Regulation (EU) No 1305/2013 [EAFRD] and, when relevant, on Regulation (EU) No 1303/2013 [CPR]. Since the Delegated and Implementing Acts supplementing these regulations have not yet been adopted, some modifications to this guidance fiche might be needed after their adoption.

This guidance does not represent a binding legal interpretation of Regulation (EU) No 1305/2013. It is therefore essentially non-binding in nature and complements the related legal acts.

1. Rationale of the measure

Under the measure "Investments in physical assets", physical investments should be carried out in order to improve the economic and environmental performance of agricultural holdings and rural enterprises, improve the efficiency of the agricultural products marketing and processing sector, provide infrastructure needed for the development of agriculture and forestry and support non-remunerative investments necessary to achieve environmental aims.

In order to allocate available Union resources in an efficient and effective way, it is important to ensure appropriate targeting while prioritising sectors and beneficiaries in most need.

Investment support is one of main instruments of the EU's rural development policy and has been used by all Member States in the programming period 2007-2013. Investment measures have been highly relevant in meeting the needs of agriculture via improving competitiveness and contributing to the maintenance of sustainable agricultural structures, and have served multiple economic, social and environmental priorities at once. Evaluation reports have generally observed positive results in terms of uptake, high leverage effect and financial execution. In most cases across the EU, there is strong evidence of a positive contribution to reducing production costs and improving quality, thus having a positive impact on income – as well as on job creation and maintenance. There is also a positive environmental impact deriving from investments in greener technologies and new equipment – for instance, new irrigation infrastructures, manure management, waste treatment and storage, renewable energy.

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Investment measures have been especially useful when appropriately targeted to meet the needs of specific sectors, beneficiaries or rural area. For example, various evaluation reports (e.g. Synthesis of Mid-Term Evaluations of Rural Development Programmes 2007-2013[1]) have shown that in the Member States who joined the EU in 2004 and after, the investment measure has helped the process of consolidation and adjustment of their agri-food sector. Investments on farm addressed restructuring needs - in terms of both farm size and sectoral orientation - and contributed to the availability of local jobs. In regions with small or medium-sized farms with low productivity, investments have helped foster modernisation, increase efficiency of production factors and add value to products. In regions with highly productive farms, challenges related to the environment, climate change and animal welfare have been addressed.

2. WHAT'S NEW IN COMPARISON TO THE PERIOD 2007-2013

During the 2007-2013 programming period a variety of measures covered different areas of intervention. In the interest of simplification but also of allowing beneficiaries to design and realise integrated projects with increased added value, in the period 2014-2020 a single measure covers a wide range of physical investments.

Investments can be supported in four key areas:

a) improving the overall performance of the farm

b) processing, marketing, development of Annex I farm products and cotton (the output of the process can be a non-Annex-I product)

c) infrastructure related to the development of agriculture and forestry

d) purely environmental improvements ("non-productive" investments) linked to the achievement of agri-environment-climate objectives.

Member States should define a threshold for agricultural holdings eligible for aid for investments related to restructuring based on the results of the strengths, weaknesses, opportunities and threats ("SWOT") analysis as means to better target the aid.

Besides the re-grouping of investment measures under a single title, novelties also concern the fact that, in case of processing, marketing & development of products, cotton is now covered and it has been clearly spelled out that the output of the production process may be non-Annex-I product. In this framework, the scope has been enlarged to cover all types of farmers and business, not only SMEs as it was the case in the period 2007-2013[2]. Should it be justified on the basis of the SWOT analysis and needs assessment, Member States can always introduce further limitations in terms of beneficiaries via eligibility and selection criteria.

Moreover, higher support rates can be accorded to young farmers, collective investments, integrated projects, investments in areas facing natural constraints and investments in framework of European Innovation Partnership.

[1] http://ec.europa.eu/agriculture/evaluation/rural-development-reports/synthesis-mte-2007-2013_en.htm

[2] Currently, "intermediate" enterprises with less than 750 employees or with a turnover of less than EUR 200 million may also be supported, but the maximum public aid intensity is halved in comparison to SMEs.

3. CONTRIBUTION TO FOCUS AREAS AND CROSS-CUTTING OBJECTIVES

In the context of strategic programming, investment support is a key multi-purpose measure to help the farming sector respond to old and new challenges, notably sharpening the competitive edge of European farms in a global market; fostering innovation; coupling economic gains with a sound environmental dimension, e.g. by introducing climate-friendly technology; the maintenance and creation of new job opportunities in rural areas.

Therefore, the investment measure is important to serve several Union priorities, but it is most relevant to address:

- Priority 2: "Enhancing farm viability and competitiveness of all types of agriculture in all regions and promoting innovative farm technologies and the sustainable management of forests", and

- Priority 3: "Promoting food chain organisation, including processing and marketing of agricultural products, animal welfare and risk management in agriculture", and

- Priority 5: "Promoting resource efficiency and supporting the shift towards a low carbon and climate resilient economy in agriculture, food and forestry sectors".

4. SCOPE, TYPE AND LEVEL OF SUPPORT

4.1. Definitions which may be relevant for implementation purposes

For the purpose of this measure, certain definitions provided under the Union guidelines for state aid in the agriculture and forestry sector should be considered[3]:

- 'Processing of an agricultural product' means any operation on an agricultural product resulting in a product which is also an agricultural product, except on-farm activities necessary for preparing an animal or plant product for the first sale. On the other hand, the processing of agricultural products falling within the scope of Annex I of the Treaty into non-Annex I products falls under the scope of the general rules on State aid.

- 'Marketing of an agricultural product' means holding or displaying with a view to sale, offering for sale, delivery or any other manner of placing on the market, except the first sale by a primary producer to resellers or processors and any activity preparing a product for such first sale; a sale by a primary producer to final consumers shall be considered as marketing if it takes place in separate premises reserved for that purpose.

For the purpose of this measure, certain definitions provided under the Direct Payments (DP) Regulation should be used:

[3] Legal reference […]

- 'Short rotation coppice" (Article 4(1)(k) of DP Regulation) means areas planted with tree species of CN code 06029041 to be defined by Member States, that consist of woody, perennial crops, the rootstock or stools of which remain in the ground after harvesting, with new shoots emerging in the following season and with a maximum harvest cycle to be determined by the Member States.

Based on best practice from implementation in previous programming periods, other definitions that can be used as reference by Member States are the following:

- Within the meaning of Annex II to the EAFRD Regulation, which allows providing higher support rates for, inter alia, 'integrated projects', these should be defined as projects combining at least two operations falling under at least two different measures or sub-measures, including one under art. 17, provided that the same beneficiary is concerned and the implementation of the operations together brings a better result that if they were done in a separate way. Further information on combination of measures and integrated projects can be found in the Working Paper "Guidelines for Strategic Programming for the period 2014-2020" (p. 11/12).

- 'Non productive investments' shall mean investments that do not lead to any significant increase in the value or profitability of the agricultural or forestry holding (Article 29 of R. 1974/2006).

4.2. Types of operation

Support can be provided for tangible and/or intangible investments which:

(a) improve the overall performance of the agricultural holding;

(b) concern the processing, marketing and/or development of agricultural products covered by Annex I to the Treaty (i.e. agricultural products) or cotton, except fishery products. The output of the production process may be a product not covered by that Annex;

(c) concern infrastructure related to the development and adaptation of agriculture and forestry, including access to farm and forest land, land consolidation and improvement, energy supply and, water management; or

(d) are non-productive investments [linked to the achievement of agri-environment-climate objectives as pursued under this regulation], including biodiversity conservation status of species and habitat as well as enhancing the public amenity value of a Natura 2000 area or other high nature value systems to be defined in the programme.

(NB. Non productive investments in forestry shall be supported under article 25 "Investments in improving the resilience and environmental value of forest ecosystems").

The programme objectives can best be achieved by capitalising on the synergies that exist between rural development tools: therefore, the investment measure should be used in combination with other complementary measures (e.g. knowledge transfer, co-operation, support for setting up of young farmers).

Attention should also be paid to creating the right conditions to stimulate investments. This can be achieved by:

- Ensuring that relevant knowledge, skills and innovative practices are transferred to farmers;

- Fostering cooperation between producers to carry out more efficient and profitable collective investments, e.g. in shared facilities, infrastructures, etc.

- Delivering sound administrative capacity of the public authorities to assess and select best projects with most value added;

- Providing financial instruments where necessary, which have the potential to:

  - Improve access to capital (e.g. guarantee funds, risk capital);

  - Foster the measure's leverage effect not only in terms of take up, but also of volume and value of investments.

By way of example, the following types of operation may be supported:

4.2.1. *Investments in agricultural holdings*

- Improve efficiency of fertilizer use (e.g. reduced use, equipment, precision agriculture);

- Improvement of manure storage structures;

- Restructuring and construction of buildings for livestock rearing with new and effective technologies to reduce GHG emissions;

- Purchase of machinery to, e.g. reduce soil erosion;

- Improving crop storage in order to improve the quality of the product (e.g. specialized storage and handling buildings, provision of ventilation, insulation and refrigeration);

- Reduction of energy consumption through, e.g. refurbishing electrical installations or better insulation of buildings;

- Short rotation coppice;

- Production of bioenergy for on-farm use;

- Modernisation and mechanisation, i.e. investment in physical capital with a view to reducing the direct costs of production and making labour more productive in small-scale agriculture.

- Investments in order to comply with Union standard that will become compulsory for the holding in the near future;

- Irrigation (see separate specific guidance).

4.2.2. *Investments in processing/marketing/development*

- Introduction of technologies and procedures in order to develop new or higher quality products and open up new markets, especially in the context of short supply chains;

- Creation and/or modernization of local collecting networks, reception, storage, conditioning, sorting and packing capacities;
- Installations for waste water treatment in processing and marketing;
- Organization and implementation of quality and food safety management systems, if related to the tangible investments of the project;
- Processing of agricultural biomass for renewable energy by actors other than agricultural holdings;
- Investments in order to comply with Union standard that will become compulsory for the holding in the near future.

4.2.3. Investments in infrastructure

- Access to farm and forest land, e.g. construction or improvement of access roads, bridges and footbridges; forestry railway and cable way infrastructure for forest management purposes; protection and consolidation works, tunnels, marking and warning systems;
- Land consolidation and improvement;
- Energy supply, e.g. installations/infrastructure for distribution of renewable energy (to and from the holding) using biomass and other renewable energy sources (solar and wind power, geothermal);
- Water management, e.g. water recycling, water collection and treatment.

4.2.4. Non productive investments

- Capital works in the framework of an agri-environment-climate commitment, e.g. restoration of habitats and landscapes, including setting up or re-instating the infrastructure needed to allow appropriate management of habitats;
- Fencing and other works needed to facilitate conservation management, including protection of water and soil;
- Restoration of wetlands and moorland;
- Restoration of landscapes and features;
- Dry stone walls.

4.3. Beneficiaries

4.3.1. Investments in agricultural holdings

- Farmers or groups of farmers, whether natural or legal persons.

For reasons of concentration of limited available resources and in order to avoid deadweight, in the case of investments to support farm restructuring, Member States have to explain in the programme how the support is targeted based on the SWOT analysis and needs assessment carried out in relation to the Union priority for rural development “enhancing farm viability and competitiveness of all types of agriculture in all regions and promoting innovative farm technologies and sustainable management of forests”, shall be eligible.

Restructuring operations should address farms that are in need of support to overcome structural adjustment challenges and become economically sustainable in the long run. These may include farms that, due to their limited physical size and financial assets, have only a low degree of market participation, market-orientated farms in particular sectors, and/or farms which could enhance their competitiveness through agricultural diversification (pluriactivity).

Support to farm restructuring should be targeted by Member States according to their specific situation in terms of structural and territorial needs as identified by the SWOT. Usually two units of measurement are used: ESU, standard output or physical size, i.e. hectares (in the case of hectares, differentiating also between sectors in terms of size requirements may be needed). Given the purpose, it is recommended to use ESU as a measurement unit.

To be noted is that investments serving other focus areas / priorities (e.g. in energy / water efficiency) are not subject to this limitation: therefore, farms of all sizes are eligible for support.

4.3.2. *Investments in processing/marketing/development*

No specific types of beneficiaries are defined in the Regulation, but can include:

- Farmers or groups of farmers, whether natural or legal persons;
- Other businesses / public entities / land managers active in the processing/marketing/development of Annex I products as an input.

4.3.3. *Investments in infrastructure*

No specific beneficiaries are defined in the Regulation in order to also allow e.g. integrated projects such as land consolidation.

4.3.4. *Non productive investments*

No specific types of beneficiaries are defined in the Regulation, but can include:

- Farmers or groups of farmers, whether natural or legal persons;
- Other businesses / public entities / land managers.

4.4. Eligible expenditure and remarks on administrative/financial management

4.4.1. *Eligible expenditure*

a) The construction, acquisition, including through leasing, or improvement of immovable property;

b) The purchase or lease-purchase of new machinery and equipment, including computer software up to the market value of the asset. Other costs connected with the leasing contract, such as lessor's margin, interest refinancing costs, overheads and insurance charges, shall not be eligible expenditure;

c) General costs linked to expenditure referred to in the previous two points, such as architects, engineers and consultation fees, feasibility studies, the acquisition of patent rights and licences. [Feasibility studies shall remain eligible expenditure even where, based on their results, no expenditure under points (a) and (b) is made;

d) Intangible investments such as copyrights, trademarks or processes;

(da) the costs of establishing forest management plans and their equivalent.]

4.4.2. Other eligibility issues (see fiche on eligibility of expenditure for general eligibility rules applicable to the EAFRD and other ESI Funds)

- As any other operation financed by the ESI Funds, investments shall comply with applicable Union and national law (Article 6 of the Common Provisions Regulation (CPR)).

- Other costs connected with the leasing contract, such as lessor's margin, interest refinancing costs, overheads and insurance charges, shall not be eligible expenditure. (Delegated act, Article 13)

- Member States may establish the conditions under which the purchase of second-hand equipment may be regarded as eligible expenditure. These have to be included in the Rural Development Programmes (Delegated act, Article 13)

- Contributions in kind in the form of provision of works, goods, services, land and real estate for which no cash payment supported by invoices or documents of equivalent probative value has been made, may be eligible provided that the eligibility rules of the ESI Funds and the programme allow for it and that all the conditions set out in article 69 of CPR are fulfilled (see fiche on eligibility of expenditure for general eligibility rules applicable to the EAFRD and other ESI Funds) (Article 69 CPR).

- In the case of agricultural investments, the purchase of agricultural production rights, payment entitlements, animals, annual plants and their planting shall not be eligible for investment support. However, in case of restoration of agricultural production potential damaged by natural disasters [or catastrophic events] in accordance with Article 18(1)(b), expenditure for the purchase of animals may be eligible expenditure. (Article 45 EAFRD)

- Where the investment is likely to have negative effects on the environment, investment operations shall be preceded by an assessment of the expected environmental impact in accordance with legislation specific to that kind of investment(Article 45 EAFRD)

- Support should not be granted to holdings or enterprises in difficulty within the meaning of the Union guidelines for state aid in the agriculture and forestry sector and the Union guidelines on State aid for rescuing and restructuring firms in difficulty. (Current article 51 of R. 1974/2006).

4.4.3. Remarks on administrative/financial management

- MS are also encouraged to make use of financial instruments to foster the uptake of investment operations, e.g. public funding can be used to set up credit funds and/or guarantee funds to facilitate project financing.

- Alongside the use of receipts and invoices, Member States are also encouraged to make use of standard costs where appropriate (see *Guidelines on standard costs (to be provided at a later stage)*).

- Experience of MS in previous programming periods has shown that, even though schemes are actually administered on the basis of receipts and invoices, the system can be combined with the use of standard costs where these are used as a check / limit to ensure that expenditure claimed on foot of invoices is in line with what is regarded as reasonable expenditure. If the cost on the invoice exceeds the amount laid down in the standard costs, it is accepted up to the amount of the standard costs only. Receipts/invoices below the standard costs are paid in full assuming everything is in order.

4.4.4. Durability of investment operations (Article 71 of CPR)

An operation comprising investment in infrastructure or productive investment shall repay the contribution from the EAFRD if within five years from the final payment to the beneficiary or within the period of time set out in the State aid rules, where applicable, it is subject to:

- a cessation or relocation of a productive activity;

- a change in ownership of an item of infrastructure which gives to a firm or a public body an undue advantage; or

- a substantial change affecting its nature, objectives or implementation conditions which would result in undermining its original objectives.

Sums unduly paid in respect of the operation shall be recovered by the Member State.

4.4.5. Revenue-generating operations (Article 64 of CPR)

Nota Bene: the following requirements regarding revenue-generating operations shall apply only to operations whose total cost exceeds EUR 1 000 000, while they do not apply to operations subject to the rules on State aid or to support to or from financial instruments.

Net revenue generated after completion of an operation over a specific reference period shall be determined in advance by one of the following methods:

(a) application of a flat rate revenue percentage for the type of operation concerned;

(b) calculation of the current value of the net revenue of the operation, taking into account the application of the polluter-pays principle and, if appropriate, considerations of equity linked to the relative prosperity of the Member State concerned.

The eligible expenditure of the operation to be co-financed shall not exceed the current value of the investment cost of the operation less the current value of the net revenue, determined according to one of these methods.

Where it is objectively not possible to determine the revenue in advance according to the methods set out above, the net revenue generated within three years of the completion of an operation or by 30 September 2023, whichever is earlier, shall be deducted from the expenditure declared to the Commission.

4.5. Targeting and principles with regard to the setting of selection criteria

In this section a reference should be made to the European Commission document *"Guidelines on eligibility and selection criteria" (to be provided at a later stage).*

- In general terms, Managing Authorities should pay particular attention to minimise the risk of deadweight.

- The investment measure under the EU's rural development policy qualifies as WTO green box-compatible (Point 11 of Agreement on Agriculture). In accordance with WTO requirements, it has to be ensured that support is targeted on clearly defined objectives reflecting identified structural and territorial needs and structural disadvantages. Member States are responsible for prioritizing investment projects depending on the SWOT analysis and the identification of the needs of a given rural area. Targeting can include ggeographical targeting (e.g. areas of economic underperformance), sectorial targeting on certain types of activity (e.g. food chains), or thematic targeting (e.g. requiring projects to have features such as knowledge and technology transfer).

- Of particular importance in this context is that account is taken of the principle of proportionality in the application of selection criteria in what concerns small grants.

- In the case of infrastructure, support has not to be used to cover ordinary maintenance interventions.

- At the policy delivery level, it is important to avoid inappropriate selection of beneficiaries which occurs when schemes are so complex, expensive or long to access that only those who least need the aid can afford the effort of submitting a successful application.

4.6. Links to other legislation

Particular attention should be paid to avoid the risk of overcompensation or double financing where similar or identical investment measures can be supported under the CAP's first pillar, especially in the fruit & vegetables and wine sectors (Article 4 of the CPR). A minimum requirement is that Member States have to ensure that appropriate systems are in place to ensure that double funding under the ESI Funds is excluded (Article 65.11 CPR)

4.7. Aid intensity/amount of support[4]

Support under this measure shall be limited to the maximum support rates laid down in Annex I to the RD Regulation.

- The aid intensity rates that apply in the agricultural sector and to investments in processing/marketing/development where both input and output are Annex I products are the following:
  - 50% of the amount of eligible investment in less developed regions;
  - 75% in outermost regions;
  - 75% in Croatia for the implementation of Council Directive 91/676EEC
  - 75% in the smaller Aegean islands;
  - 40% in other regions.
- In the agricultural sector, these rates may be increased by 20%, provided that maximum combined support does not exceed 90%, for:
  - young farmers as defined by the EAFRD Regulation or who have already set up during the five years preceding the application for support;
  - collective investments and integrated projects including those linked to a merger of producer organisations;
  - areas facing natural and other specific constraints;
  - operations supported in the framework of the European Innovation Partnership: in this case, the possibility to increase rates up to 20% is not limited to the agricultural sector, but extended to investments in processing/marketing/development
  - investments linked to operations under Articles 28 and 29
- For processing and marketing of Annex I products, these rates may also be increased by 20%, provided that maximum combined support does not exceed 90%, for:
  - for operations supported in the framework of the EIP
  - for operations linked to a merger of producer organisations.
- General state aid rules shall apply to investments in processing/marketing/development of Annex I products into non-Annex I products, i.e. the output is outside the agricultural sector.
- In case of investments concerning agricultural and forestry infrastructure and non-productive investments, the maximum aid intensity rate is 100%.

[4] Subject to final MFF decision.

Beneficiaries of investment related support may request the payment of an advance of up to 50% of the public aid related to the investment from the competent paying agencies if that option is included in the rural development programme (Article 46 EAFRD). When paying advances MS should take into account the principles of sound financial management and should avoid situations where the majority of the declared to the Commission expenditure under a measure relates to advances paid out for projects that have not even started. Over-contracting and payment of advances based on it should be avoided.

4.8. Focus on specific issues

<u>Renewable energy production</u>

Investments in renewable energy plants:

Different support possibilities exist under the rural development Regulation as regards production of bioenergy on farm.

Under "Investments in physical assets" (Article 17), two possibilities can be foreseen:

<u>1. Energy produced for self-consumption</u>

If the bioenergy produced is for **self-consumption**, the investment in a renewable energy plant on farm can be supported under the aid intensity rates applicable to article 18 as stipulated by Annex II to the Regulation.

In fact, since such an amount of energy can be considered as an intermediate product of the agricultural production cycle, it can therefore be considered an Annex I product (i.e. agricultural product).

As for electricity, the selling of electricity into the grid is allowed as far as the self-consumption limit is respected (i.e. electricity sold into the grid equals on average the electricity taken out of it over one year). This is justified by the fact that, as electricity cannot be stored, it must, unless wasted, be sold into the grid; the electricity grid can be conceived as a storage place for electricity where it is introduced and withdrawn during the year in the same amount and at a different rhythm.

<u>2. Energy sold outside the farm holding</u>

In case of investment support for on-farm renewable energy plants with a capacity of production exceeding the annual self-consumption of the beneficiary, general state aid rules (e.g. De minimis, Environmental state aid rules, Block Exemption Regulation) shall apply as this constitutes processing of agricultural products into non-Annex I products.

To be noted is that support possibilities for renewable energy production also exist under the measure "Farm and business development" (Article 19) in terms of start up aid for non-agricultural activities in rural areas, as well as diversification into non-agricultural activities. (Under this measure, support can be accorded also for investments in the production of other types of renewable energy besides biomass, i.e. wind, solar, hydraulic, geothermal etc).

The main difference between the two measures is that under Article 17 the input of the energy production shall always be an Annex I product. On the other hand, under Article

19, there is no such requirement. Nonetheless, if energy is sold outside the farm, the same support rates apply under both Articles 17 and 19, i.e. general state aid rules.

In this context, it is up to the MS to decide which instrument to activate.

In this context, it is worth noting that the EAFRD can also support small-scale renewable energy infrastructure under Article 20 "Basic services and village renewal in rural areas".

Energy efficiency requirements:

Member States shall establish minimum criteria for energy efficiency for supported investments.

Investments in installations for the primary purpose of electricity production from biomass are excluded from support if they do not utilize a minimum percentage of heat energy, to be determined by the Member States. This is in line with the objectives of the EU to improve energy efficiency and to promote combined heat and power. In fact, the energy efficiency of combined heat and power plants (co-generation) or of those for heat only is higher than the efficiency of those plants generating power only.

Member States shall establish thresholds for the maximum proportions of food and feed crops (excluding waste, residues and by-products) used for bioenergy production, including biofuels, for different types of installations. This requirement is aimed to incentivise the utilisation of non-food and feed crop-based biomass, such as waste and residues, as well as ligno-cellulosic biomass. This should limit negative implications on food and feed prices and indirect land use changes associated with bioenergy production, thereby also enhancing the environmental performance of bioenergy production.

The limitation on the use of food and feed crops for bioenergy production should apply to individual installations. Member States should consider the overall contribution of bioenergy derived from food and feed crops to their national renewable energy targets when setting these limitations. The Commission recently proposed changes to the Renewable Energy Directive (2009/28/EC) and the Fuel Quality Directive (98/70/EC), which limit the contribution of biofuels produced from food and feed crops to the renewable energy targets. Practical examples concern the utilisation of feed stocks in biogas installations, where a maximum percentage of silage maize or other food and feed crops shall be set. Member States shall also utilise this provision in order to regulate, for instance, the utilisation of edible plant oil for the on-farm production of biodiesel.

Demarcation with Article 19

The main difference between operations that can be supported under Article 17 and Article 19 lays in the fact that under Article 17 the input of the processing/marketing/development shall always be an Annex I product, i.e. agricultural product. Nonetheless, even though the same type of operations may be financed under both instruments, the same support rates under non-agricultural state aid rules apply in case the output is a non-Annex I product.

It should also be noted that the scope of Article 19 is broader in that it also covers any diversification activity, while, under Article 17, support is limited to processing/marketing/development of agricultural products.

In the specific case of on-farm shops, if sales are totally limited to agricultural produce, support for their setting up shall be provided only under Article 17(1)(b), with support rates subject to the maximum amounts fixed in Annex I to the rural development Regulation.

On the other hand, if other non-Annex I products are also sold in the farm shop to be co-financed – even if they account for a little amount of total sales, support for their setting up could be provided either under Article 17(1)(b) or under Article 19(1)(b): in both cases, general State aid rules would apply in terms of aid ceilings.

Demarcation with Article 20

As roads to a certain extend can be financed under Art. 17 (c) "infrastructure related to the development, modernisation or adaptation of agriculture and forestry" or Art. 20 "basic services", there is a need to reflect about the scope of the different measures.

Article 20 "Basic services" should be applied to support investment in physical roads as part of the general road network serving general circulation regardless whether they pas forest areas.

Article 17 (c) is more related to specific forest infrastructure. The scope of this article is determined by nature of the use of the infrastructure not by the nature of the beneficiary. Even if the beneficiary is a public body, support of a forest road is possible under Art. 17 (c).

Demarcation with Article 35

Development of agricultural products mainly refers to adding value to agricultural products, improving quality beyond standards, applying innovative technologies, improving product presentation, etc.

While under Article 17 product development can be supported at the level of the individual holding or enterprise, Article 35 mainly concerns co-operation activities.

Processing with non-Annex I products

While processing of non-Annex 1 products, as input products to be processed, is not eligible under Article 17, it is however admissible to support processing with non-Annex I products to the extent that they constitute a minor component of the output within the processing operation and are necessary for processing reasons, e.g. small percentages of additives.

In order to establish whether the non-Annex I product utilized only accounts for a negligible part, it is necessary for the national/regional competent authority to carry out an individual assessment of the project in question.

5. OUTPUT INDICATORS

– Total expenditure (public + private) (€) for the whole measure

– Total public expenditure (€) for the whole measure (broken down by type of area facing natural and other specific constraints)

– Number of projects supported for (i.e. breakdown by sub-measure):

  - Investments in agricultural holdings

- Investments in processing/marketing/development
- Investment in agricultural and forestry infrastructure
- Non productive investments

– Number of holdings supported for investments in agricultural holdings (broken down by age and gender)

– Total public expenditure for investments in infrastructure (€)

– Area (ha) concerned by investments for water saving (e.g. more efficient irrigation systems)

– Number of LU supported concerned by investments in livestock management in view of reducing the N2O and methane emissions

6. VERIFIABILITY AND CONTROLLABILITY

Reference should be made to the *"Guidelines on verifiability and prevention of errors" (to be provided at a later stage).*

7. TRANSITIONAL ARRANGEMENTS

In this section the transitional arrangements relevant to this specific measure should be detailed.

8. BEST PRACTISES

Examples can be found on the ENRD website http://enrd.ec.europa.eu/policy-in-action/rdp_view/en/view_projects_en.cfm