



*EU Environmental Policy Briefing**

Package of CAP Health Check Proposals Leaked

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Following on from its Communication on the CAP Health Check in November 2007, the European Commission has prepared a package of documents outlining its draft proposals. The proposals are currently subject to inter-service consultation within the Commission but have been widely leaked through the press and other channels. Following the internal consultation procedure, the Commission is expected to publish legislative proposals for the Health Check on 20 May 2008 and plans to approve the proposals during the French Presidency of the EU later this year.

Modulation Proposals Including Progressive Capping

Despite vociferous opposition to an increase in compulsory modulation from the majority of Member States with the principal exceptions of the UK and Portugal, proposals to increase the rate of compulsory modulation, by an additional 8 per cent on top of the current 5 per cent, phased in over four years from 2009, have been retained. Under the draft proposals, the €5,000 franchise and the requirement for national co-financing would remain. However, all new modulation receipts would remain in the Member State where they were generated. Under current arrangements the money generated by compulsory modulation is re-distributed between Member States, with a requirement that a minimum of 80 per cent of funds must return to the Member State from which they were raised. This would remain the case for current modulation receipts.

Commission proposals to cap direct payments greater than €100,000 through the application of progressively higher rates of compulsory modulation have been retained, although the suggested reductions have been reduced somewhat. The proposals combine the concept of 'progressive modulation' outlined in the Goepel proposal put forward to the European Parliament with the Commission's original plans to cap direct payments. The draft proposals now indicate that payments above €100,000 would be subject to an additional 3 per cent rate of modulation, payments above €200,000 to a 6 per cent rate, and payments above €300,000 to a 9 per cent rate. This compares with rates set out in the November Communication on the Health Check of 10 per cent, 25 per cent and 45 per cent respectively. The rates are, however, greater than those proposed by the European Parliament's Agriculture Committee (1

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per cent cut on payments between €10,000 and €100,000, 2 per cent cut on payments between €100,000 and €200,000, 3 per cent until €300,000 and 4 per cent above this). Additional rates of compulsory modulation (to the current 5 per cent rate) as set out above are shown in the table below:

Direct payment threshold (Euro)	Year			
	2009	2010	2011	2012
€1 to €5,000	0	0	0	0
€5,000 to €99,999	2%	4%	6%	8%
€100,000 to €199,999	5%	7%	9%	11%
€200,000 to €299,999	8%	10%	12%	14%
Above €300,000	11%	13%	15%	17%

The payment rates outlined above apply only to the EU 15. Modulation would continue not to be applied in the new Member States until 2012 at the earliest, and then at a proposed rate of 3 per cent (compared to a combined minimum rate of 13 per cent in the EU 15). The Commission's draft proposals suggest that modulation would result in an average increase of 18 per cent in Pillar 2 funding. However, in the UK the increase is assumed to be balanced by a compensatory reduction in voluntary modulation. This could effectively mean that the UK could end up with no additional Pillar 2 funds to meet the 'new challenges' outlined in the draft proposals. Another potential issue for the UK is the fact that different rates in voluntary modulation are currently applied in the devolved administrations. If these rates were to be replaced with a uniform rate of compulsory modulation, then this could potentially lead to rural development budgetary shortfalls in some parts of the UK and additional funds in others.

Article 69

The Commission's draft proposals call for increased flexibility in the use of Article 69, which currently allows Member States to retain up to 10 per cent of a sector's national budget ceiling for direct payments for redistribution within that sector, through measures with environmental objectives or for marketing purposes. In order to broaden the scope of Article 69 five proposals are put forward:

- Removal of restrictions linking both payment reductions and allocations to a specific sector;
- Introduction of measures to address disadvantage in certain regions, including mountain areas, linked to the dairy, beef, sheep and goat sectors;
- Possibility of using retained amounts to top up support in areas subject to restructuring or development programmes;
- Possibility of using the payments to contribute to crop insurance or animal disease compensation schemes in the event of natural disasters;
- Possibility for Member States applying SAPS to use Article 69.

The main justification for these measures is to enable Member States to respond to potential problems in the dairy sector due to the abolition of milk quotas, further decoupling, and risk management issues which may arise in the context of extreme weather events. The draft proposals outline options for a 'targeted' revision and an 'extended' revision of Article 69, seemingly with a preference for the former. The two

main options outlined for targeted Article 69 support are in relation to more extensive forms of livestock production and involve either (a) an increase in decoupled payments in regions adversely affected by the removal of milk quotas or (b) through a coupled payment linked to production either by area or per cow (with WTO Blue Box implications).

It is clear, however, that the Commission has concerns about a general extension to all sectors as a result of the potential for re-coupling and potential WTO Green Box compatibility issues (measures would be limited to 2.5 per cent of budget ceilings if not proven to be Green Box compatible). The proposals suggest that a 'targeted' revision would mitigate negative impacts on income, whilst contributing to the vitality of rural areas and to the promotion of environmentally sensitive farming practices. It remains unclear however to what extent the proposed revisions to Article 69 would result in environmental benefits. Certainly the proposals to contribute to insurance schemes or restructuring programmes would seem to have limited potential to deliver environmental goods, whilst the selection of disadvantaged regions would appear to allow scope for interpretation, which may or may not be based on objective environmental criteria.

Decoupling

Under the 2003 CAP reforms, Member States had been able to relation partially coupled support in certain sectors. The draft proposals, however, make it clear that the Commission's preference would be to phase out coupled support to all sectors, with the exception of suckler cow premium, and sheep and goat meat premium (where these have already been retained). The draft proposals suggest that such an approach would maximise the benefits of full decoupling (ie market orientation and improved competitiveness), whilst maintaining environmental and social benefits linked to extensive livestock production which could potentially be abandoned without coupled support. As part of the decoupling process, the Commission has retained plans to abolish set aside as well as the €45 per hectare energy crop premium.

Cross Compliance and Potential Set Aside Replacement Measures

The main proposals concerning cross compliance involve better targeting of standards and, on the other hand, the potential to broaden the scope of standards to address issues of water management and climate change, and to retain the environmental benefits of set aside. Better targeting of standards is likely to see the removal of certain Statutory Management Requirements (SMRs) which are not directly linked to agricultural land or which cannot be directly attributed to an individual farmer, such as the Sewage Sludge Directive.

Proposed changes to standards of Good Agricultural and Environmental Condition (GAEC) to broaden the scope of cross compliance include an expansion of Annex IV of Regulation 1782/2003 to include specific reference to landscape features such as hedges, ponds, ditches and trees and the establishment of buffer strips along watercourses. Whilst such an inclusion would be welcome, on its own it would only provide a partial solution in terms of retaining the environmental benefits of set aside. The area of land in buffer strips under this proposal is likely to be significantly less than the 10 per cent of IACS-registered arable land covered by set aside, with the loss of benefits gained from larger areas in both rotational and non-rotational management. It is also worth noting that Member States have considerable discretion about how

they implement Annex IV measures. There is, for example, nothing preventing the implementation of buffer strips under current legislation.

The possibility of introducing percentage-based 'environmental priority areas' as a direct replacement for set aside does not appear to have been taken forward in the draft proposals. The main argument for this would appear to be that such a percentage could be arbitrary and would not necessarily compensate for environmental losses in the place where they had occurred. In addition to GAEC, the proposals also make reference to the use of unspecified rural development measures as a means of retaining the environmental benefits of set aside.

Single Payment Scheme (SPS) and Single Area Payment Scheme (SAPS)

Member States which have applied a historic model to distribute SPS entitlements will be given the opportunity to switch to a regional model under the draft proposals for the Health Check. The draft proposals suggest that it will become increasingly difficult to justify historic payments on the basis of the 2002 reference period. At the same time the proposals maintain that the regional model provides for more equitable support to farmers, despite some initial redistribution. Under the proposals, Member States or regional administrations, where the historic model has been applied, would not have to switch to a regional or hybrid model for the SPS, but it is clear that this is the Commission's longer term objective. Nine Member States, including France, Italy and Spain plus the devolved administrations in Scotland and Wales, currently apply the historic SPS model. The proposals would also allow new Member States, where the SAPS is applied, to extend the scheme until 2013 rather than move to the SPS in 2010 as originally planned.

The draft proposals suggest that Member States should apply a limit to SPS and SAPS payments either through the application of a minimum payment (€250) or minimum eligible area (one hectare), or both. The main rationale for this measure is to reduce administrative costs. The proposals note that almost 50 per cent of payment beneficiaries in the EU 25 receive less than €500, with many payments being worth less than the costs of administering them. Calculations suggest that approximately 31 per cent of payment beneficiaries would be excluded by a €250 minimum, mainly small farms in the EU 10, whilst only 13 per cent would become ineligible with a €100 minimum.

Milk Quotas

The need for a 'soft landing' in the dairy sector, following the expiry of the milk quota regime in 2015, is again stressed in the Commission's draft proposals. Two scenarios involving annual increases in milk quotas from 2009 are proposed in the package: 1 per cent and 2 per cent. Under the former, milk production is predicted to increase by 1.3 per cent with a price decrease of 2.7 per cent following the abolition of quotas. A 2 per cent quota increase is predicted to result in production increases of 0.6 per cent and price decreases of 0.9 per cent. Whilst the Commission expresses a preference for a gradual annual increase it is not clear whether this would exclude a 2 per cent increase. In addition, the option of using Article 69 to support dairy production in less competitive regions, including mountain regions, where the maintenance of minimum levels of production would be beneficial, is explicitly referred to.

'New Challenges'

The draft proposals make reference to the 'new challenges' faced by the CAP of climate change, renewable energy, water management and biodiversity losses. The need for additional rural development funding to address these challenges is identified. Reference is made to agriculture's potential contribution to the EU's 20 per cent targets for CO₂ emission reductions and renewable energy, implementation of the Water Framework Directive and the commitment to halt biodiversity loss by 2010. Under proposals to amend the EAFRD Regulation, Member States will be encouraged to make full use of additional funds raised by compulsory modulation to address these challenges through the four Rural Development Axes. This would entail modifying Rural Development Plans. In the UK it is unclear to what extent additional funds would be made available to fund such measures given reductions in voluntary modulation that it is assumed would take place.

References

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