



*EU Environmental Policy Briefing\**

**Commission Communication (COM(2007)722) on ‘Preparing for the Health Check of the CAP Reform’ is Published**

26 November 2007

The CAP Health Check was formally launched by the European Commission on 20 November 2007, with the publication of Communication (2007) 722 ‘Preparing for the Health Check of the CAP Reform’<sup>1</sup>. Mariann Fischer Boel outlined the contents of the document to the Agriculture Committee of the European Parliament, and then to the media, highlighting the importance of cementing the direction of the 2003 reforms, making the policy simpler, more efficient and ultimately more justifiable to the taxpayer, and reorienting it in line with emergent challenges so that it is more responsive to rural needs in the period post 2013.

The document is eminently recognisable as, in spite of quite intensive lobbying on the part of DG Environment and environmental NGOs, it does not differ significantly from the leaked drafts that have been in circulation since September (see IEEP Briefing Notes: 21 September 2007 and 5 October 2007). That said, some progress has been made in relation to environmental issues, including the proposed addition of cross compliance standards to address climate and water issues; the inclusion of a reference to environmental set-aside; the switch in focus away from climate change mitigation as delivered through first generation biofuels towards climate change adaptation; and the identification of biodiversity loss as a key challenge to be addressed under the CAP. Of greater concern perhaps is that in spite of a recognition that the policy needs to tackle a broad spectrum of environmental issues, the Health Check is not underpinned by a long-term, sustainable vision for European farming and land management.

In her presentations on the Health Check proposals over the last 12 months, Commissioner Fischer Boel has consistently portrayed the Health Check as discrete from the European Budget Review, although in the final document, the intertwined nature of the two exercises is acknowledged. This is to be welcomed, as this is the last opportunity to adjust the CAP prior to the Budget Review process during which the CAP is expected to come under sustained critique. As such, it is important that the

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proposals serve to strengthen the credibility and legitimacy of EU expenditure on farm subsidies.

### ***Next Steps***

Following the publication of the Commission's Communication, a six-month period of debate and reflection is likely to ensue during which common positions and irreconcilable differences are likely to emerge. This will involve the Commission, in dialogue with stakeholders, the Member States and the European Parliament, prior to the tabling of formal legislative proposals by the Commission in May 2008. The views of stakeholders will be solicited through two stakeholder conferences to be held on 6 December 2007 and 11 January 2008. It is understood that participants representing a wide range of interests have been invited to the first conference, whereas the second event will focus on issues relating to the dairy sector.

EU Agriculture Ministers will provide their initial reactions to the proposals in the Agriculture Council meeting on Monday 26 November. The Agriculture Committee of the European Parliament will prepare an 'own initiative report' to be written by the Committee's Rapporteur, German MEP Lutz Goepel. The report will be informed by a hearing of experts on 27 November, and two subsequent technical studies on the two Pillars of the CAP, to be presented at the Committee's meeting on 17 and 18 December. The report is scheduled for adoption by the Committee in February 2008, with a plenary vote pencilled in for March. Following the publication of the Commission's draft legislative proposals in May 2008, a second report will be drafted by the Committee under the consultation procedure. This report will provide the Committee's Opinion on the legislative proposal and will be voted on at the Parliament's Plenary. However, under the consultation procedure the Agriculture Council will not have to take account of the Opinion when it comes to adopt the legislation.

The work of the Commission is not finished, and an internal impact assessment of the proposals is currently underway. Working Groups within DG Agriculture will begin drafting the Regulations in early 2008, which will be circulated through the inter-service consultation process. Formal legislative proposals are expected in May 2008, with a view to reaching agreement within the Council before the end of 2008, during the French Presidency. A number of measures would then apply from 2009.

Whilst some of the proposals are fairly well developed, in particular those which serve to tie up the loose ends of the 2003 reforms, those relating to a revised Article 69, set aside replacement, risk management and how to take account of climate change, are less so. The direction of travel is clear, but concrete proposals are currently lacking and as a result, there are still plenty of opportunities to influence Commission thinking as the detail of the proposals and accompanying legislation is worked out.

### ***The Key Elements***

The Communication sets out three key objectives:

- To improve the Single Payment scheme (SPS), to make it more effective, efficient and simple;
- To modernise agricultural market management tools; and

- To address new challenges as presented by climate change, bioenergy production, water management and biodiversity decline.

### ***Simplifying the Single Payment Scheme***

The paper encourages Member States to make the transition towards a 'flatter rate' of support from 2009 – 2013, in recognition of the increasing difficulty in justifying a historic model with the passing of time. In her accompanying presentation to the European Parliament, Fischer Boel expressed her personal preference for a regional, flat rate payment. This is one element in a broader move to simplify the implementation of the scheme, in part in the wake of concerns over the large number of small claims with disproportional administrative costs. The paper questions the future of the SAPS, and whether those new Member States which currently operate this scheme should be allowed to do so until 2013.

Proposals to improve the controls and sanctions of cross compliance are expected to enter into force in 2008-2009, following the recommendations of a Commission report on cross compliance published earlier this year. Therefore, rather than dealing with issues of implementation, the Health Check instead focuses on the scope of cross compliance. The proposals call for a re-examination of the present list of SMR and GAEC, and suggest removing or amending certain standards so that they are aligned more closely to the policy's objectives. Additional standards relating to water management and climate change are suggested, on condition that the burden for the Member States and farmers is not increased, although the rules and how they may work are not elaborated.

The paper highlights the advantages conferred by decoupling, including production flexibility, income gains and risk management, and full decoupling is clearly articulated as a medium term goal, albeit with certain exceptions. All remaining coupled payments are to be reviewed, and coupled payments in the arable sector, as currently applied in France and Spain, will be phased out. The paper recognises however that in exceptional cases, partially coupled support may continue to be relevant. This may be the case in those regions where the level of production is small, but important in economic or environmental terms, for example, suckler cows in mountain regions. At the same time, however, the paper states that rural development measures should be used to assist the adjustment of these more marginal farms to market conditions.

The paper acknowledges the difficulty of justifying very high Single Payments and on this point the Commission seems to have been influenced by the transparency lobby. Whilst a concrete proposal is lacking, a commitment is made to consider a cap in payments, both at the bottom and top end of the scale. It is proposed that any savings resulting from capping would be retained within the individual Member States and could be channelled into a revised Article 69 of Regulation (EC) No 1782/2003 or into the rural development budget. This is a sweetener for those Member States, including the UK and Germany, which are most resistant to the capping of payments. Analysis indicates that the money saved would amount to a modest €0.5 billion, significantly less than that generated from the modulation proposals, and thus, this proposal would not significantly disrupt the current spending pattern, which heavily favours the largest farmers. Of all the proposals, the capping of direct payments is the one which has captured the media's attention, serving to stimulate questions about the

purpose of the single payment and whether it is, in effect, an income support or a payment for looking after the land. This fundamental issue is not addressed in the Commission's paper.

### ***Modernising Market Management Tools***

In an era of favourable market conditions, particularly for cereals and dairy, and in the context of a more market-oriented CAP of 27 Member States, the paper calls for a review of the anachronistic instruments of the 'Old CAP', including public intervention, export refunds, quotas and price support. Speaking to the European Parliament, Fischer Boel was insistent that export refunds would not be extended beyond 2013 'with or without a Doha agreement'. On market support, the Commission is seeking to apply the maize model to barley and sorghum, which imposes a ceiling on intervention and can be raised in times of over supply. Intervention would be retained for just one type of grain – bread-making wheat – to provide a safety net, whilst other cereals would be allowed to find their natural price level.

As expected, and following the announcement at the end of September of a zero per cent rate for 2008, the paper indicates that compulsory set-aside will be 'permanently abolished', and that concomitantly, steps to preserve the environmental benefits delivered from the present scheme would be introduced. Compared to earlier drafts of the paper, more detail on a set-aside replacement is included, perhaps reflecting the efforts of DG Environment and environmental NGOs on this issue. It is proposed that locally targeted rural development measures could be used to deliver these benefits, although in the accompanying question and answer paper, delivering the environmental benefits through cross compliance is still retained as an option. The paper identifies the strengthening of rural development support to land, water and ecosystem management, such as environmentally managed set-aside, the protection of riparian strips, afforestation and biodiversity corridors, as an important objective.

The milk quota system will be terminated on 31 March 2015, and the Commission is committed to ensuring that the transition to a market-oriented dairy sector is smooth. The paper identifies three constituent steps which will be elaborated in a Commission report, due in late 2007, examining the potential impacts on the sector of the abolition of quotas. These steps include, first, a gradual increase in the level of quotas to facilitate restructuring, and to allow more efficient farmers to take advantage of market opportunities. Without referring to the draft proposal for a two per cent quota increase, Fischer Boel signalled her preference for a flat rate increase for all Member States, rather than a greater increase for selected Member States. She talked about a possible increase from April 2008 if market conditions are favourable and the European Parliament gives an accelerated Opinion.

Second, an assessment of whether changes to other policy measures, such as adjustments to the intervention rules or to the superlevy would help to ease the transition. Third, the establishment of accompanying measures to mitigate the negative impacts of liberalisation in marginal regions, including a revised Article 69 of Regulation (EC) 1782/2003, or the use of rural development measures aimed at adding value to dairy products. As a result, the Communication offers the prospect of greater flexibility in the design of Article 69 and improved targeting, and yet at present, there is very limited understanding of how this instrument has been applied

and what its impacts have been. Over the next couple of months, research effort is required in this area.

### ***Addressing New Challenges***

With the transition to greater market integration, coupled with the threat of climate change, the Communication recognises that in the future, farmers are likely to be exposed to greater risks. It argues that the flexibility afforded by decoupling means that farmers will be better able to adjust to expected risks and to mitigate unexpected risks. In addition, however, it encourages Member States to take advantage of rural development instruments, drawing on some of the money generated from increased modulation to finance risk management measures. A more comprehensive review of risk management is promised for the period post 2013.

Climate change, bioenergy and water management are identified as the crucial new challenges of the future. A welcome addition in this section is the recognition of the threats posed by biodiversity loss. The paper highlights a number of mechanisms to address these issues, including incentives for mitigation and adaptation to climate change, for improved water management and for enhanced biodiversity protection, all of which may be provided through the strengthening of existing rural development measures. The paper questions the cost effectiveness of the energy crop scheme in light of incentives for biomass production and Fischer Boel went one step further in her presentation to the European Parliament, recommending that the scheme is abolished. Given the questionable benefits of first generation biofuels, this proposal is to be welcomed. Identifying the need for research and innovation in addressing new environmental challenges, the paper suggests, however, that support for the development of second generation biofuels could be provided through rural development measures.

### ***Strengthening the Second Pillar***

With the CAP Budget fixed until 2013, the sole mechanism for strengthening the Pillar Two budget is through an increase in the rate of compulsory modulation, whilst respecting current rules. It is recommended that compulsory modulation rises to 13 per cent by 2013, achieved through a two per cent annual increase, from 2010, from the current five per cent rate. New Member States would continue to be exempted from this requirement until direct aids have been fully phased in, although the implied increase in rural development spending in the new Member States will need to be addressed. The agriculture newsletter *Agra Facts* (no. 94-07) reports that with the existing five per cent rate of compulsory modulation generating a transfer of €1.24 billion from the first to the second Pillar, the additional eight per cent would see a shift of €2.07 billion to rural development, meaning that by 2013, the total level of rural development spending will be €3.3 billion higher than that agreed in the Financial Perspectives. There is no mention of voluntary modulation in the paper although Fischer Boel told MEPs that ‘it goes without saying’ that those Member States applying voluntary modulation – the UK and Portugal – would need to reduce the applied rate of this mechanism as the rate of compulsory modulation increases.

### ***Initial Reactions***

At the time of writing, the proposals have stimulated a range of reactions, and the positions of stakeholders are likely to coalesce over the coming months as more concrete proposals emerge. The initial reactions of farming representatives and the

Member States have been broadly positive; however environmental NGOs, including Birdlife International and the European Environmental Bureau, have articulated their concerns.

The French Government has been positive in its provisional response, whereas the UK and Germany, perhaps predictably, have been critical of the capping proposal. Farming organisations have broadly welcomed moves towards simplifying the Single Farm Payment and abolishing the set-aside requirement. In contrast, the call for an increase in compulsory modulation is clearly less popular, the future of dairy quota is a sensitive issue, and many groups have expressed concerns about the suggested changes to market support and export refunds. The NFU has endorsed almost all of the proposals, with the exception of the imposition of upper limits on the Single Payment, and in addition is calling for a complete end to partial coupling.

In an entry on the EU Health Check blog<sup>2</sup>, Birdlife International has scored the environmental performance of the proposals, concluding that they are strongly lacking in environmental ambition. They are critical of the fact that the Commission is proposing that measures to replace set-aside are voluntary, indicating that in a period of high commodity prices, agri-environment schemes will be uncompetitive in the most intensively cropped regions, which are the same areas where refuges for wildlife are desperately needed. Instead they propose the introduction of Environmental Compensation Areas as a GAEC standard. The European Environmental Bureau has also criticised the Commission for missing an opportunity to radically reshape the CAP into a more effective instrument for improving the environmental performance of farming.

### ***References***

1. Communication from the Commission to the Council and the European Parliament Preparing for the 'Health Check' of the CAP Reform (COM (2007) 722), 20.11.2007
2. CAP Health Check blog, [www.caphealthcheck.eu](http://www.caphealthcheck.eu)

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