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*Committee on Agriculture and Rural Development*

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## **WORKING DOCUMENT**

on the proposal for a Council regulation establishing common rules for direct support schemes for farmers under the common agricultural policy and establishing certain support schemes for farmers

Committee on Agriculture and Rural Development

Rapporteur: Luis Manuel Capoulas Santos

# Explanatory Statement

## 1. THE ORIGINS OF THE 'HEALTH CHECK'

The 2003 reform (which was dictated essentially by the inevitability of eastward enlargement and by the WTO) was the most thorough one to which the CAP has so far been subjected.

The reform was originally intended merely as a mid-term review of the existing mechanisms for public intervention in agriculture but it ended up as an in-depth reform involving the introduction of a set of new principles:

- the principle of decoupling aid from the quantity produced with a view to improving market guidance for farmers and reducing distortions in agricultural production and trade;
- the principle of conditionality, pursuant to which the coupled payments must comply with a list of requirements relating to the environment, public health, animal welfare and so on;
- the principle of compatibility with the WTO, insofar as the ultimate objective of aid-decoupling was to ensure that it was included in the Agricultural Agreement's 'green box';
- the principle of public redistribution of payment entitlements, which has effects at two levels: within decoupled single payments and as a transfer between the two pillars of the CAP (aid and the markets, first pillar, covered by the EAGGF; rural development, second pillar, covered by the EAFRD);
- the principle of flexibility in the running of the CAP, whereby the Member State are able to vary the way in which a set of parameters relating to the new CAP are applied;
- the principle of financial discipline (subsequently enshrined by means of the 2007-2013 Financial Perspective), pursuant to which – in response to the challenge of enlargement – the agricultural budget was frozen and annual ceilings were imposed, with the possibility of linear reductions in grant aid with a view to meeting that challenge;
- finally, the principle of progressivity: 2003 constituted the first decision concerning an open reform in stages, since once the basic principles had been launched (decoupling, financial discipline and the application of management flexibility) it provided reference for further sectoral changes (from the reforms to the so-called Mediterranean package to the reform of the wine sector and more recently the cotton sector).

The 'Health Check' constitutes the final stage in the reform process.

## 2. THE NEED FOR A COMMON AGRICULTURAL POLICY

The CAP is paradoxically the most durable, probably the most successful and certainly the most criticised of European policies. It was devised almost half a century ago and more than

any other policy it has been able to pursue the objectives which it was intended to meet. However, on account of the successive social, economic, political and environmental changes which have occurred in Europe and the world, the policy has had to adapt to new circumstances and it has become increasingly misunderstood by certain sectors of society, particularly in view of the injustices to which it has given rise amongst farmers, regions and Member States as the EU has progressively expanded and encompassed increasing heterogeneous agricultural and rural areas.

The rapporteur takes the view that the continuation of a common agricultural policy is not only desirable; it is also a necessary condition for safeguarding the competitiveness of European agriculture on the global market, maintaining security of supply and food quality, achieving environmental sustainability, responding to new challenges (in particular those relating to climate change and renewable energy sources) and supporting a dynamic, diversified economy in rural areas, in line with the objectives restated in the Lisbon Treaty.

The ‘Health Check’ could (and, in the rapporteur’s view, should) have dwelt more on the debate concerning the drawing up of an agricultural-policy model for the post-2013 period. The waste of such an opportunity is to be regretted.

The boundary which the commission wished to place around the debate on the ‘health check’ (leaving out in particular topics such as the legitimacy of aid and the setting of parameters for as common a model as possible of decoupled payments, the degree of management flexibility which should be granted to the Member States, modulation *vs* co-financing, the possibility of a ‘single pillar’ and the role of market regulation within the new CAP) will complicate the debate and the decisions concerning the 2013 reform, discussions on which will have to begin in 2010/2011.

This is particularly true in view of the fact that the debate on the re-evaluation of the Community budget (including own resources) which was agreed under the 17 May 2006 Interinstitutional Agreement, the revision of the Kyoto Protocol, the discussion of the Financial Perspective for the post-2013 period and a probable agreement within the WTO will all coincide within the same timeframe beginning in 2009.

### **3. THE RAPPORTEUR’S PROPOSALS**

The European Parliament has over time devoted particular attention to matters relating to agriculture and rural development, the outcome being countless initiatives and a multitude of proposals (many of which have very recently been adopted) which the rapporteur has the ethical duty to honour in essence.

Prominent amongst the most recent expressions of the European Parliament’s views concerning matters directly related to the ‘health check’ are the Goepel report on the same topic<sup>1</sup>, the Jeggle report on milk<sup>2</sup>, the Veraldi report on young farmers<sup>3</sup>, the Aylward report on the sheep and goat sector<sup>4</sup> and the Berlato report on the Community Tobacco Fund<sup>1</sup>.

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<sup>1</sup> P6\_TA(2008) 093

<sup>2</sup> P6\_TA(2008) 092

<sup>3</sup> P6\_TA(2008) 258

<sup>4</sup> P6\_TA(2008) 310

In this connection the rapporteur is proposing that the European Parliament should adopt the following main amendments to the Commission proposals relating to:

***I. COUNCIL REGULATION ESTABLISHING COMMON RULES FOR DIRECT SUPPORT SCHEMES FOR FARMERS UNDER THE COMMON AGRICULTURAL POLICY AND ESTABLISHING CERTAIN SUPPORT SCHEMES FOR FARMERS***

**(a) Conditionality**

The rapporteur welcomes the efforts at simplification which have been made in this area. For the purpose of giving adequate prominence to the Work and Employment factors the rapporteur considers that Safety at Work should be added to the legal management requirements which have already been laid down.

**(b) Modulation**

Modulation is justifiable as a second-pillar financing instrument. Progressive modulation is also fully justified on the grounds that it is right that the beneficiaries who receive most should contribute most to that objective. For the same reasons it is justified that EUR 5000 should be retained and that a large number of small beneficiaries (over 80% of the total number thereof) should be exempted from application of this measure. Despite the fact that the rapporteur is personally in favour of a higher modulation percentage, he considers that he should abide by the decision approved by Parliament in March 2008 in connection with the Goepel report (5% of compulsory modulation for all beneficiaries above EUR 5000 + 1% for those between EUR 10 000 and EUR 99 999, + 2% for the EUR 100 000-199 999 bracket, + 3% for the EUR 200 000-299 999 bracket and + 4% for amounts in excess of EUR 300 000).

Furthermore, he does not consider that application of this measure to the new Member States should be proposed, on the grounds that until 2013 they will be in a phasing-in period as regards first-pillar payments.

As regards redistribution (Rule 80-20), it is not considered justifiable that the amounts governed by the new progressive modulation should be subject to a different rule from the one which is already applied to compulsory modulation.

In opting (for the reasons described) for a smaller modulation percentage the rapporteur is aware that the amounts to be transferred to the second pillar by means of this mechanism are significantly smaller than would be the case if the modulation percentage proposed by the Commission were to be applied. Hence he will propose complementary mechanisms with a view to obtaining an approximate result either on the basis of Article 68 (on a voluntary basis) or through the introduction of a new ceiling mechanism, for the reasons set out below.

**(c) Maximum ceiling**

In order to compensate for the reduction in the transfer of financial resources to the second

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<sup>1</sup> P6\_TA(2008) 204

pillar (which stems from the low rates of modulation proposed) and for reasons of fairness and justice, it is considered that a ceiling for the allocation of direct aid should be set at EUR 500 000.

In view of the boost which is to be given to agricultural and rural employment and the important role which many agricultural businesses play in this area (in particular cooperatives), it is proposed that the maximum ceiling to be applied to each of these major beneficiaries should be EUR 500 000, increased by the total amount spent each year on wages.

In view of the fact that these major beneficiaries are very unevenly distributed amongst the Member States, it is proposed that the amounts stemming from this measure should be paid to the Member State concerned.

#### **(d) Minimum limits**

The Commission is proposing to establish a minimum limit of EUR 250 per year or of one hectare, under which small farmers will be prevented from receiving direct support on account of the high cost and the bureaucracy associated with the processing of support.

In the rapporteur's view, such a proposal reveals a woeful lack of social sensitivity. If it were to be applied it would contribute not only to turning many farmers against the CAP, it would also cancel out the positive effects of the contribution made by those farmers (allies who should not be underestimated for the purpose of achieving the objectives of applying good agricultural and environmental practices). It should be borne in mind that farmers who receive up to EUR 250 represent nearly 31% of the total but receive a mere 0.84% of payments.

On these grounds the rapporteur is recommending rejection of the Commission proposal.

However, being sensitive to the arguments relating to the need for the bureaucracy associated with the payment of such aid to be reduced, the rapporteur is proposing that amounts of EUR 500 per year or less may be paid every two years, starting in the first year.

#### **(e) Additional payments (Article 68)**

Article 68 is being proposed by the Commission in the context of the proposals relating to the abolition of partial decoupling and to the transition towards a land-based model for the allocation of aid and the impact which that will have on certain sectors and regions. The Member States will be allowed to use up to 10% of their national ceilings for the purpose of financing a set of measures designed to cushion the likely impact.

With a view to making better use of the potential offered by this policy instrument, the rapporteur is proposing;

- to withdraw funding for the Article 68 system for risk- and crisis-management, thereby releasing more funding for the other measures envisaged;
- to create a new Article 68a allowing the Member States to use up to 5% of their national ceilings in order to finance crop insurance and mutual funds, so as to ensure that the risk and

crisis system is adequately funded; since these are matters relating to the management and organisation of markets, these instruments should be brought into use within the single COM and not in the framework of the rules relating to schemes providing direct support for farmers;

- to allow the possibility (for Member States which so desire) to transfer unused amounts relating to Articles 68 and 68a to the second pillar, in which case the Member States would be able to use those amounts (without resorting to co-financing) in order to strengthen their rural-development programmes, thereby compensating for the reduction in transfers to the second pillar which stems from the reduction in the modulation rate proposed as an alternative to the Commission proposal;
- to abolish the 2.5% ceiling which will subsequently be determined objectively on the basis of the proposals adopted in this context and in accordance with the *de minimis* clause and the Agricultural Agreement's 'blue' box, as accepted by the EU within the WTO and in accordance with the Doha negotiating mandate.

#### **(f) Decoupled aid**

The rapporteur welcomes the Commission proposal concerning the progressive introduction of land-based criteria for the allocation of aid to farmers. However, he is also aware that, since the opportunity for a more detailed debate on the topic has been wasted, the flexibility granted to the Member States is a possible solution but one which will ultimately result in 27 different models.

Given the current state of the markets and in particular the implications thereof as regards farm production, the following action should be taken:

- in the case of the slaughter of calves, coupled aid should be maintained
- in the case of the sheep and goat sector, retaining up to 100% coupled aid should be permitted;
- for crops more closely related to animal production and in order to encourage a greater supply of animal feed against a background of high demand and high prices, coupled aid for dry forage and protein crops should be maintained;
- for small COMs the current scheme should remain in force until 2012/2013;
- in the case of tobacco and in accordance with the European Parliament's majority decision, the current scheme should remain in force until 2012/2013.

## ***II. COUNCIL REGULATION ON MODIFICATIONS TO THE COMMON AGRICULTURAL POLICY BY AMENDING REGULATIONS (EC) NO 320/2006, (EC) NO 1234/2007, (EC) NO 3/2008 AND (EC) NO [...] /2008***

#### **(a) Risk- and crisis-management**

The risk and crisis scheme proposed by the Commission on the basis of crop insurance and mutual funds is important on account of its preventive nature in response to individual risks but it is insufficient as a response to major systemic crises such as some which have occurred in the recent past (BSE, for example). Consequently it is proposed that Article 44 should remain.

It is also proposed that the Community share should be increased to 70% (+ 30% more than what is proposed for the old Member States) in the case of the new Member States once they enter a transitional stage and have problems with the co-financing of the risk- and crisis-management scheme.

Furthermore, it is considered that a more active role should be conferred on farmers' organisations and/or interbranch organisations as regards the prevention of risks and crises, in view of the fact that such organisations have the potential to promote a better knowledge of the markets.

#### **(b) Market-intervention mechanisms**

- Soft wheat

It is proposed that the intervention mechanism should continue to operate, although the timetable for the last three months of the marketing year should be shortened so that it can perform its role as a safety net and prevent speculation. On the other hand the award mechanism proposed by the Commission is rejected on the grounds that it would cause prices to enter a downward spiral.

- Pigmeat sector

Pursuant to the precautionary principle it is proposed that the zero-quantity intervention mechanism should continue to operate.

- Dairy sector

It is proposed that aid for the relief of surpluses should be retained, although exclusively for non-profit-making organisations.

#### **(c) Private storage**

It is proposed that veal should be included in the private-storage mechanism, since it is exposed to the same uncertainties as other kinds of meat.

#### **(d) Export refunds for cereals**

The Commission has given an undertaking that this mechanism will be abolished when the WTO Doha Round is concluded. In view of the current state of the market and all the forecasts, this mechanism should be abolished unilaterally. This will give a clear political signal of solidarity with developing countries and at the same time will increase Europe's supply, especially for animal production.

### **(e) Dairy sector**

Reform of the dairy sector is one of the most sensitive aspects of the ‘health check’ and the one which give rise to the widest variety of opinions, in view of the huge differences in production conditions throughout the EU.

In the search for a satisfactory compromise and in view of the price fluctuations which have characterised the dairy market in the recent past, it is proposed that a rather more cautious approach should be adopted than the one contained in the Commission proposal, on the following terms:

- 15% increase in dairy quotas for the 2009/10 and 2010/11 marketing years;
- Decisions concerning the future of the sector to be brought forward to 2010, taking into account an adequate assessment of the period corresponding to the three previous marketing years;
- Establishment of the ‘Dairy Fund’ financed by the amounts corresponding to application of the super tax and to the savings stemming from the dismantling of the market instruments. The Fund cannot be used to finance actions which could be paid for by means of some other instrument (in particular Article 68).

### ***III. COUNCIL REGULATION AMENDING REGULATION (EC) NO 1698/2005 ON SUPPORT FOR RURAL DEVELOPMENT BY THE EUROPEAN AGRICULTURAL FUND FOR RURAL DEVELOPMENT (EAFRD) AND COUNCIL DECISION AMENDING DECISION 2006/144/EC ON THE COMMUNITY STRATEGIC GUIDELINES FOR RURAL DEVELOPMENT (PROGRAMMING (period 2007 to 2013))***

- The rapporteur agrees with the Commission’s analysis as regards the need for new challenges to be included in rural-development programmes with particular reference to climate change, renewable energy sources, water management and the protection of biodiversity, although he considers that the Member States should be allowed greater flexibility. Although on the one hand the Commission – in order to take such challenges into account – opts for a flexible approach when drawing up a non-exhaustive list of possible measures to be applied by the Member States, it stipulates on the other hand that such measures must be fully financed from the additional funds stemming from the new modulation.

The rapporteur suggests that this obligation should be restricted to 50% of the additional funds, which will allow the Member States greater flexibility as regards the use of the financial resources transferred to the second pillar and stemming from the new modulation, the ceiling and the new *passerelle* mechanism incorporated into Article 68, both for actions to be implemented in the context of the ‘new challenges’ and for the purpose of strengthening the Member States’ rural-development programmes.

Also proposed are additional measures relating to:



- the use of solar, wind and geothermic energy,
- improved management of waste and the recycling of materials,
- flood-risk management.

- It is proposed that the scope for this instrument should be enlarged in order to extend eligibility to expenditure relating to specific measures intended to promote innovation and knowledge-transfer, not only as a contribution to agriculture and rural development under the Lisbon Strategy but also in order to enable a more effective response to be made to the new challenges, in particular matters relating to new energy sources and action to combat climate change, biodiversity and the management of water resources.

In view of the pre-existing problem of an ageing agricultural workforce and rural exodus, greater support should be provided for the initial establishment of young farmers, with the payment being increased from EUR 55 000 to EUR 75 000.