EUROPEAN PARLIAMENT

2004 *2009*

Committee on Agriculture and Rural Development

26.11.2007

WORKING DOCUMENT

on a communication to the Council and the European Parliament on 'Preparing for the "CAP health-check"'

Committee on Agriculture and Rural Development
(COM(2007)0722 - 2007/2195(INI))

Rapporteur: Lutz Goepel

MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on the CAP Health Check
(2007/2195(INI))

The European Parliament,

- having regard to Article 45 of its Rules of Procedure,

- having regard to the legislative resolution of the European Parliament of on the proposal for a Council regulation amending Regulation (EC) No 1782/2003 establishing common rules for direct payments under the common agricultural policy and establishing certain support schemes for farmers, and amending Regulation (EC) No 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) (COM(2007)0484),

- having regard to the resolution of the European Parliament of 25 October 2007 on rising feed and food prices (P6_TA-PROV(2007)0480),

- having regard to the legislative resolution of the European Parliament of 26 September 2007 on the proposal for a Council regulation derogating from Regulation (EC) No 1782/2003 establishing common rules for direct payments under the common agricultural policy and establishing certain support schemes for farmers as regards set aside for the year 2008 (COM(2007)0523) (P6_TA(2007)0411),

- having regard to the legislative resolution of the European Parliament of 14 February 2007 on the proposal for a Council regulation laying down rules for the voluntary modulation of direct support schemes provided for in Regulation (EC) No 1782/2003 establishing common rules for direct payments under the common agricultural policy and establishing certain support schemes for farmers, and amending Regulation (EC) No 1290/2005 (COM(2006)0241) (P6_TA(2007)0036),

- having regard to Article 33(2) of the EC Treaty, which was incorporated, unchanged, into the draft reform treaty,

- having regard to the communication to the Council and the European Parliament on ‘Preparing for the “CAP health-check”’ (COM (2007)722),

– having regard to the report of the Committee on Agriculture and Rural Development (A6-0000/2007),

A. whereas agriculture, together with the downstream food and drink industry, is still one of the biggest industries in the EU,

B. whereas a common European agricultural policy (CAP) will also be necessary in the future; whereas, however, the successful introduction of reforms must be continued, including further boosting rural development,

C. whereas a common European agricultural policy (CAP) must be prepared to face wide differences in agricultural and regional structure, at the same time responding to new challenges such as climate change, soil and water protection, greater openness to the world market and the provision of biomass and raw materials,

D. whereas the system of direct support has, largely successfully, undergone fundamental reform on three occasions since 1992, and all the major market organisations, with the exception of the dairy sector, have done so since 2004,

E. whereas the increasing world population, climate change, increasing demand for energy, a reduction in price support and greater openness to the world market will lead, on the one hand, to a gradual rise in market prices for agricultural products in the EU and, on the other hand, to considerably wider fluctuations in yields and prices,

F. whereas the question of food security will remain an important part of any CAP in the future,

G. whereas the share of the EU's total budget for agricultural expenditure will fall from almost 80% to around 33% by 2013,

H. recalling the commitments given by the Head of State and Government at the Berlin Summit regarding the guarantee of total expenditure for the first pillar of the CAP direct payments until 2013,

I. whereas there is, in some regions, no alternative to some traditional types of agricultural production and these must, in many cases, be maintained at all costs, for pressing reasons of environmental and regional policy,

J. whereas the European legislator must avoid discrimination against European farmers vis-a-vis competitors from third countries or use suitable instruments to create equal opportunities for European farmers (level playing-field),

K. having regard to the aims of the CAP as formulated in Article 33 of the EC Treaty and to the fact that, once the reform treaty is adopted, all essential legal and budgetary decisions concerning the CAP will require the approval of the European Parliament,

(II) Introduction

1. Upholds the concept of multifunctional, broad-based agriculture;

2. Believes that the 2003 CAP reform was, in key aspects, a great success as it markedly improved the transparency and efficiency of the CAP and the responsibility and market

orientation of farmers, and believes that this process must be continued; points out that, in return, the administration of the CAP must undergo further, significant simplification so as to relieve the burden on farmers;

3. Welcomes, therefore, the Commission's communication concerning a health-check of the agricultural policy;

4. Considers, however, that the European Union must still have sufficient instruments to be able to safeguard against market and supply crises in the agricultural sector in the future;

5. Supports, in principle, the integration of general aims into the CAP, in particular those of territorial coherence, the protection of consumers, the environment, the climate and animals; points out, however, that this must not endanger the competitiveness of European farmers, which is an important aim of the EC Treaty;

6. Rejects discussion of the total budget of the first pillar for the period until 2013, in the light of reductions in individual payments of 15 - 25% which have already been decided upon, and points out that, at a time of sudden upheavals in agricultural markets and with on-going reforms at their mid-term stage, reliability is a crucial concern for farmers;

7. Rejects all discrimination according to farm size and legal form in the direct payments;

8. Points out that the agricultural sector of the EU 12 faces great challenges and urges that this be taken into account in the forthcoming reforms;

(III) Direct payments

9. Considers that direct payments will remain vitally necessary in the future as a basic income guarantee in the event of market failures and as compensation for Europe's environmental, animal protection and social standards, which are extremely high in international comparison;

10. Welcomes the announced separation of direct payments from historical reference values and calls on the Commission to clarify, on submission of the legislative proposal, whether a faster transition to an area-based regional or national single premium of decoupled payments is feasible, where possible by 2013, in the light of positive experiences in Member States;

11. Considers that decoupling has essentially proved its worth, given the increased effect on income and greater autonomy in decision-making on the part of farmers and the associated simplification of the CAP, and calls on the Commission to push through the decoupling policy at a faster pace;

12. Considers, in view of the current market situation, that a far-reaching, short-term decoupling of crop-related premiums is possible, subject to the assurance that no structural breaks will occur;

13. Recognises that the situation regarding headage-based premiums is not comparable, in view of serious market distortions caused, inter alia, by rising feed prices;

14. Considers that, in certain regions such as mountain regions, where there are no alternatives to relatively labour-intensive livestock farming, completely decoupling headage-based premiums may be accompanied by considerable economic and environmental drawbacks which cannot be reconciled with the aims of the Treaty;

15. Is aware of the key role played by livestock farming in European agriculture and, as a result, considers that maintaining coupled animal premiums initially until 2013 would be reasonable;

16. Welcomes, as a first step in the right direction, the announced amendment to Article 69 of Regulation (EC) 1782/2003; calls for appropriations under Article 69 primarily to be allocated for measures to prevent agricultural production being wound up in areas where this would be significantly detrimental to nature, the countryside or regional development (in particular mountain areas, other especially disadvantaged areas and pastureland in extreme locations), or for measures serving to restructure and boost key agricultural areas (e.g. the dairy sector);

17. Calls on the Commission to submit, by 30 June 2011, a report setting out comprehensively how livestock farming in Europe can be safeguarded in the long term with regard to multifunctionality and regional aspects (such as mountain areas); the report should also deal with the question of how far the aims of the CAP can be realised in a more efficient, targeted way by means of decoupled, indirect support, e.g. premiums for extensive grassland or pasture land or a special milk payment;

18. Calls for those new Member States who so wish, to be permitted to apply the single area payment scheme (SAPS) until 2013;

19. Considers that direct payments will also be required after 2013 but that these should develop more markedly towards payment or compensation for certain services of general interest or specific standards;

(IV) Simplification/cross-compliance and market orientation

20. Supports the immediate integration of payment schemes based on production which are smaller and therefore very cumbersome to administer (dry feed, hemp, flax, potato starch) into the SAPS, with – if necessary for reasons of regional policy – accompanying measures provided for in accordance with Article 69;

21. Supports the immediate abolition of the set-aside obligation, a volume control instrument which has lost its significance in a decoupled direct payment system and is extremely cumbersome to administer;

22. Considers that any environmental advantages which were associated with set-aside can better and more directly be realised by Member States through measures under the second

pillar or changes in the definition of maintaining good agricultural and environmental condition (GAEC);

23. Calls for the abolition of the energy crop premium, which does not fit into the system, is very cumbersome to administer and has no recognisable energy policy advantages in the current market environment;

24. Calls for the appropriations not used as a result of abolishing the energy crop premium to be made available, in accordance with Article 69 and in the framework of the second pillar, specifically for accompanying measures arising from the organisation of the milk market (and especially in mountain areas and similar disadvantaged areas);

25. Considers that direct payments without cross-compliance (CC) can no longer be justified;

26. Rejects any widening of the scope of CC, in view of reductions in direct payments, as long as Member States and the Commission fail to make substantial progress in simplifying and harmonising monitoring rules and the Commission does not present an overview of the costs connected with CC to farmers; refers in this context to its requirement in the *Resolution of* (see above);

27. Considers that CC should be restricted to checks on essential standards and standards to which systematic checks can be applied;

28. Could envisage a modest adaptation of the requirements to maintain GAEC with regard to altered environmental and production conditions (climate change, biomass), if the introduction of the new requirements in a comparable way throughout Europe were guaranteed;

29. Calls on the Commission to press on with the simplification of the CAP and also to propose additional measures, such as simplified transfer rules for payment entitlements in the event of non-activation, merging of minimum payment entitlements for the introduction of a single premium in the case of small recipients, simplification, reduction or abolition of the rules governing the national reserve, depending on the transition to the regional/national SAPS, waiving the cancellation of payment entitlements in the event of non-use, abolition of handwritten cattle registries;

(V) Safety net

30. Considers that, in view of the anticipated increase in environmental and climate dangers, the risk of epidemics and considerable price fluctuations in the agricultural markets, additional risk prevention is of vital importance as a safety net;

31. Recalls that market-oriented production, appropriate crop rotation and direct payments are at the heart of any insurance against risk, and that, on principle, responsibility for appropriate risk prevention lies with farmers;

32. Considers that the form of intervention used thus far must be transformed into a genuine safety net for specific emergencies;

33. Supports, therefore, the Commission's proposal to lower the intervention thresholds for market crops to '0', maintaining a much reduced intervention only in the case of wheat;

34. Considers that private sector insurance schemes, such as multi-hazard insurance, must be developed as a matter of urgency, in view of increasing risks; is aware of the fact that this can only succeed with public contributions to the financing;

35. Recalls that almost all relevant third countries have this kind of state-aided system

36. Considers that, as a result, a first step should be the creation of sources of financing for the national or regional funding of risk insurance schemes starting in 2009, to take account of the various potential risks in Europe; the Commission should examine the extent to which producer groups and sectoral associations can be incorporated into the schemes;

37. Considers that these measures should be funded from resources in the second pillar or resources hitherto reserved for the national reserve;

38. Considers that the Commission must develop common rules for the funding of risk management systems by Member States, in order to exclude, as far as possible, effects that distort competition and trade; a report on this subject should be submitted with the legislative proposal;

39. Calls on the Commission to submit, by 30 June 2011, a comprehensive analysis of existing risk management systems and possibilities for their further development at Community level after 2013;

(VI) Modulation/capping ceiling/degression/minimum threshold

40. Points out that degression, modulation and budgetary discipline would, if the Commission's proposals were implemented, lead to a reduction in some regions of over 1/3 in payments effected thus far;

41. Points out that the proposed rates of reduction are justified only in a general political sense, with no impact assessment as yet regarding the effects of further modulation, degression and minimum thresholds on the labour market and regional cohesion;

42. Rejects the Commission proposal on degression (with a reduction of up to 45%) in its present form, as it discriminates between certain types of farm or legal forms, leads to a reduction in the workforce and the destruction of well-developed, competitive structures and would result in the splitting of farms purely for support-related reasons; this would cause structural fracturing in some regions of Europe; also points out that the proposal runs counter to the Commission's wish to see uniform regional payments by area;

43. Considers that a degression can only be acceptable on the basis of a comprehensive assessment of the consequences for the job market and regional policies, and only if it became possible for account to be taken of the number of full-time workers covered by social security or certain farm structures (farms run by several families, cooperative organisations, etc.) with a view to degression being reduced;

44. Calls for any funds resulting from degression to be kept in the region concerned where they will be used to finance measures in accordance with Article 69 (see above) or under the second pillar;

45. Supports the proposed raising of the minimum thresholds, also in the light of the 2006 annual report of the Court of Auditors, which could be set at 1 ha or the corresponding amount of 250 euros, and asks the Commission to assess whether Member States should be given the opportunity of individually fixing higher minimum thresholds, in view of the wide differences in the way agriculture in Europe is structured;

46. Does, however, support the efforts of the Commission to secure appropriate financing for a sustainable policy for rural areas under the second pillar of the CAP;

47. Points out that, in view of the already drastic nature of individual reductions, a further reduction in direct payments of 8 % cannot, in the absence of an impact assessment, be accepted;

48. Considers that, in the light of widespread calls for a reduction in large payments, a progressive modulation such as the following can be envisaged, on the basis of the available information and in the absence of an impact assessment:

Direct payments of 10 000 - 100 000 euros	- 1% (for the whole 2009 - 2013 period)
Direct payments of 100 000 - 200 000 euros	- 2% (for the whole 2009 - 2013 period)
Direct payments of 200 000 - 300 000 euros	- 3% (for the whole 2009 - 2013 period)
Direct payments of over 300 000 euros	- 4% (for the whole 2009 - 2013 period)

The funds from the basic amount of 1% are to be distributed in accordance with the prevailing rules governing modulation funds; the additional amounts are to remain in the regions in which they accrue;

49. Calls for voluntary modulation to be set off against compulsory modulation;

50. Considers that modulation funds should be made available primarily for Axis I and II and LEADER measures aimed at risk insurance, adapting to climate change, measures targeting the sustainable use of biomass, accompanying measures for structural reform (e.g. ending the milk quota), safeguarding production in mountainous regions and other similarly disadvantaged areas, quality assurance, organic farming, disposal measures and adapting to technical advances;

(VII) Milk quota

51. Rejects an extension of the milk quota beyond 2015, as it prevents European farmers from reinforcing their position in Europe and in world markets during periods of high demand;

52. Awaits a clear signal for ending the quota and calls on all participants to use the transition period to ensure a soft landing;

53. Calls, as a first step, for the milk quota to be substantially increased in April 2008, in order to satisfy the higher demand on world markets;

54. Calls, furthermore, for a substantial decrease in the superlevy for milk year 2009 and further decreases in subsequent years, in order to counterbalance the rise in quota prices;

55. Calls for specific accompanying measures to prevent the dairy industry in mountainous areas and other similarly disadvantaged regions from being abandoned in cases where there are no alternatives to the traditional dairy industry or where abandoning agricultural activity would lead to the loss of areas of natural importance;

56. Considers that sufficient funds to prepare a soft landing and maintain the dairy industry – especially in mountainous areas and other similarly disadvantaged regions – must be made available by means of Article 69 or in the framework of the second pillar, e.g. in the form of premiums for dairy cattle, for grassland or extensive grazing, of a specific milk payment or special regional programmes to reinforce or restructure the sector;

57. Considers that funds which will be freed by the removal of the energy crop premium and other organisations of the market, and savings in other areas of the organisation of the milk market, should also be used to finance these measures;

(VIII) Other matters

58. Points out that the strengths, and the future, of European agriculture are to be found in quality products and products for processing;

59. Calls, therefore, on the Commission to present a comprehensive plan for marketing quality European products domestically and abroad, e.g. by means of targeted campaigns, bolstering producer organisations or targeted labelling;

60. Considers that producer organisations must be bolstered and, concurrently, quality assurance systems in the food production chain should be promoted, including alternatives to existing manufacturing practices;

61. Calls on the Commission to develop a plan to push through European non-trade concerns in world trade talks, so as to prevent discrimination against European producers;

62. Points out that European agriculture will not be a going concern in the future without appropriate external protection; considers, however, that export subsidies should, as far as possible, be abolished;

63. Considers that European farmers have made a considerable contribution to climate protection, particularly by introducing European high technology into the use of renewable energy;

64. Calls on the Commission to examine the extent to which these achievements can be further improved by integrating agriculture into the Kyoto Mechanisms;

65. Considers that supplying renewable energy should not be pursued one-sidedly to the detriment of livestock farming, food security, sustainability and biodiversity; calls, therefore, for appropriate funding for research and the introduction of the most recent and efficient energy technologies (e.g. second generation biofuels) and forcefully reiterates the fact that, in the short term, biogas plants based on animal-origin residues have the largest, most sustainable potential for growth in terms of providing additional energy from biomass;

66. Considers that development of the system of agricultural payments must continue beyond 2013 and calls on the Commission to present, by 30 June 2011, a comprehensive analysis of possible new formulations of the system;

67. Considers especially that any future system must focus more strongly on aspects of the territorial coherence/integrated development of rural areas, reinforcing key agricultural sectors, rewarding effort and compensating for extra burdens, and risk management; considers that the relationship of the first to the second pillar must be entirely redefined for this purpose.

EXPLANATORY STATEMENT

Introduction

The Common Agricultural Policy (CAP) has undergone three fundamental reforms since 1992. The aim of all these reforms was:

- to improve the efficiency and transparency of the CAP,
- to increase the market orientation of farmers,
- to better integrate new elements – in particular environmental and animal protection aspects – into the general agricultural policy, and
- to boost rural areas.

The earlier system of price support, which was unable to solve the problem of farmers' low incomes and, moreover, led to large surpluses which could only be disposed of on world markets with the aid of further subsidies, has been gradually replaced by a system of direct payments.

At the heart of the current support for farmers is a direct payment, introduced in the 2003 Mid-Term Review Reform, which is granted independently of any stipulated production (decoupled direct payment). Individual claims are based on historical payments made to farmers during particular reference periods before the reform came into force. It was possible for these to be paid as a single payment for the period 2003 to 2013.
However, most Member States apply different models of payment by surface area which involve very different entitlements from those in the past. The latter are only relevant in determining the total amount available to a Member State or region.

Payments which are totally or partially coupled to production can also be maintained in the present system; Member States have made use of their margins to differing degrees in this matter.
Public funding was tied to the provision of proof that a farmer was adhering to essential Community and/or national requirements concerning good agricultural practice (cross-compliance (CC)). These standards cover essential aspects of agricultural practice undertaken with concern for the environment, health and animal welfare.

The new Member States will become completely integrated into the direct payments system by 2013 (2015 for RO and BU).

Extra resources have been made available for the second pillar – concerning rural development – through redeployment (max. 5% modulation). The overall financial framework of the second pillar has lagged behind the European Parliament's demands, and there have been repeated instances of Member States in great need of rural development measures having problems providing cofinancing resources.

Important market organisations such as sugar, bananas, fruit and vegetables and wine have been (or will be) reformed with the same objectives since 2004. The milk market organisation, with the milk quota as a prominent instrument, was left largely unchanged but will cease to exist in 2015.

As a result, spending this year within the CAP will be considerably below its initial budget, as market support measures such as intervention or the remaining export subsidies will not be employed because of trends in agricultural prices.

This means that, for the first time since the Community was founded, the agricultural budget is no longer the largest heading in the EU budget. Budgetary discipline and a limited increase in the agricultural budget mean that the relative share of Community spending on agriculture will be further reduced, with the direct payments per farmer showing a relative decrease of 10 - 20% (including modulation).

The Commission has now produced a communication in which it proposes, essentially, to continue in the direction adopted by the 2003 reform. This 'health check' is the Commission's way of responding to the call from heads of state and government in December 2005 to analyse all EU expenditure, with a special emphasis on agricultural spending. The total spending on the CAP is not, in fact, the subject of the communication but is restricted to the health check of the budget.

The main Commission proposals are:

- further decoupling,
- a faster move to an area-based flat rate for direct payments,
- the abolition of smaller, production-based measures or their integration into the system of decoupled direct payments,
- further modulation,
- degression of direct support and an increase in minimum thresholds for payments,
- a commitment to ending the milk quota and paving the way for a soft landing.

Evaluation

The rapporteur upholds the concept of multifunctional, broad-based agriculture.

He welcomes the path of reform which has thus far been embarked upon and considers that the process of opening up the market and simplifying the CAP by 2013 must be pursued with all haste.
The rapporteur considers that the EU will also need a CAP in the future, and that the CAP must make available a sufficient array of instruments to strengthen important key areas of the agricultural sector, intervene in a supportive way in the event of crises concerning yields, the environment and epidemics, ensure territorial coherence and continue to develop rural areas as a whole, in accordance with the Lisbon objectives.
The Commission’s approach, whereby the 2003 reforms would be completed before a revolutionary restructuring of the CAP or the payment systems was discussed, is endorsed.
The rapporteur does not consider that a radical restructuring of payments would be beneficial

at this point. One of the main functions of the present direct payments, by means of which a large number of aims – alongside that of income support – are pursued, is to help farmers with the transition from the old system to the new, markedly more market-oriented structure. It does not, therefore, seem sensible to review the size of individual payments or of the total budget every time agricultural prices rise. The 2003 reforms are a long way from being complete, and conditions in different parts of Europe are as yet not even partially comparable.

After 2013, the system of direct payments and of rural development policy will probably need to be comprehensively restructured on the basis of experience gained during the transition phase, whilst the time until then should be used to consolidate the successes of previous reforms and not be taken up with discussions on financing, which would in any case produce scant results. What farmers need, at this time of transformation and reorientation and in view of hefty price rises on world markets, is investment security and reliability rather than uncertainty. Consequently, the pledge made by heads of state and government to leave the total expenditure for market measures untouched until 2013 must be adhered to.

Decoupling/ending coupled payments/cross-compliance

At the moment, some direct payments are still coupled to production and, in Member States which employ the farm model, calculated on the basis of past reference amounts.
The rapporteur supports the Commission's plan to have a single payment by surface area at national or regional level in place as soon as possible, and preferably by 2013. The current system is difficult to justify to the general public, added to which most Member States have already decided to implement the system of payment by surface area and drop the system of historical payments. The annual report of the European Court of Auditors on spending in 2006 shows, moreover, that administering single payments by surface area is markedly less cumbersome and subject to error than the farm model. Maintaining the historical model would also make further reforms after 2013 much more difficult.

The rapporteur also supports further decoupling, in principle, particularly in the area of plant production, as this contributes to a simplification of agricultural policy and has not suffered from predicted negative consequences such as the loss of regionally or environmentally important crops.

The situation is very different, however, in the field of livestock farming, which is very susceptible to crises, as can be seen in the current price evolution of cereals and the resulting problems for feedstuffs. This is compounded by the European standards for precisely the fields of livestock farming and animal health being much higher than in other parts of the world, with European producers finding it extremely difficult to pass on the extra costs thus entailed. This situation cannot be maintained in the long term; it is already leading to a continuous reduction in herds.
Livestock farming is also relatively labour-intensive and is very important in many regions for regional development or the maintenance of important natural areas. Coupled payments may be a way of countering such crises. The rapporteur is, therefore, not in favour of a compulsory elimination of existing coupled payments, and he considers that any funding which is freed as a result of a reformed Article 69 or under the second pillar should be used, in particular, to preserve sectors which are regionally or environmentally significant, principally that of

livestock farming.

The rapporteur also considers that the proposals made thus far are not sufficient to safeguard livestock farming in Europe in the long term. He therefore expects the Commission to undertake, by way of preparation for the post-2013 financing period, a comprehensive analysis of the situation of livestock farming in Europe and to produce new proposals on how this, a key sector for Europe, can be safeguarded.

The rapporteur also supports the integration of other production-linked payment systems which are cumbersome to administer into the decoupled direct payment model (dry feed, flax, hemp, potato starch) and the elimination of the set-aside obligation, which no longer has a place as a volume-control system in a decoupled support system which is largely market-oriented. The modest environmental benefits can better be achieved through national legislation or, if appropriate, a change to Annex IV of Regulation 1782/2003 on the preservation of good agricultural and environmental condition.

The energy crop premium also runs counter to the system. As can be seen from this year's oversubscription, there is no lack of energy crops; on the contrary, these are being planted as a result of the high demand and current prices and require no further support. The funds which are thus freed could be spent on support measures according to Article 69, and particularly on transition measures for the dairy sector.

Parliament has only recently given a comprehensive outline of its position on cross-compliance, which is a vital element of the direct payment system. The standards can only be expanded if the burdens are clear (impact assessment) and, where appropriate, other standards are first abolished. The Commission must estimate the cost of potential new standards, before submitting the legislative proposal. Otherwise, increased demands at times of decreasing payments would scarcely seem justified.

Market instruments/risk insurance

The rapporteur considers that, in the light of more marked climatic fluctuations, new animal diseases and the growing speed at which these are spreading, and the opening of European agriculture to the world market, there will be a continuous increase in crises pertaining to yield, income and epidemics. There is an urgent need for an extra safety net.

The current instruments are either inadequate in this context or need to be replaced by new systems. Introducing multi-hazard insurance schemes or setting up a fund would seem feasible. State co-financing of such systems is vital and is standard practice for all major trading partners in the world market.

We must take the first step now. In doing so, we must not forget that the risks in Europe are distributed very unevenly across sectors and regions, and that the acceptance of a solution depends to a large extent on the agricultural structure and the experiences of farmers in the individual regions.
The first phase should therefore be to introduce solutions at regional or national level. The requisite funding could be made available in the framework of the second pillar or from funds

which are no longer needed in the national reserve as a result of the increased move to payments by surface area.

The Commission must implement strict monitoring, in view of distortions of competition. The participation of producer groups or sectoral associations must be examined by the Commission and Member States.

The rapporteur considers that the systems used so far, such as intervention or storage, should not be completely abandoned but reduced in terms of their function to a genuine safety net in the event of extreme price increases. He supports the Commission's proposals in this context.

Payments/second pillar

The Commission proposes various reductions for direct payments:

- increasing minimum thresholds,
- introducing a considerable, stepped degression in the case of payments in excess of 100 000 euros, and
- a further annual modulation of 2% for the 2010 - 2013 period (making a total of 8% in 2013).

The rapporteur rejects the proposed reductions as they appear here. The proposal could be justified if the sole aim of the direct payments were to support household income – even if this would mean small beneficiaries often appearing to be in less need of funding. However, the payments serve not least to maintain agricultural land management and, to a lesser extent, they are made in order to balance the high European standards. Yet the latter aims are virtually unattainable in a situation of high degression.

The rapporteur rejects the planned degression, which would mainly affect farms and regions in Eastern Germany, the Czech Republic, Slovakia, Great Britain and Spain and would lead, for example, to the suppression of over 1/3 of payments in some regions of Eastern Germany when taken together with the other planned reductions. The proposed degression would, moreover, lead to the economically senseless restructuring of farms or the abandonment of marginal land precisely in disadvantaged areas, and offers no agropolitical gains.

There has been no impact assessment of the effects of the reductions on individual farms, regional labour markets or entire regions, nor has any justification on agroeconomic grounds been advanced. We would expect the degression in its proposed form to receive a completely negative evaluation if considered in a purely agroeconomic sense, as it principally puts strong farms at a disadvantage. A high degression, which, moreover, disregards the specific structures in certain regions, the number of workers, the composition of ownership or special regional characteristics, is unacceptable.

However, the rapporteur agrees that, to a certain extent, we can assume that larger enterprises operate more efficiently and therefore require less assistance. He also considers the second pillar to be underfinanced. Since there are, realistically, no other sources of financing available, he proposes a moderate redeployment along the lines of a **'progressive modulation'**.

This would involve the following:
10 000 - 100 000 euros - 1% (for the whole 2009 - 2013 period)
100 000 - 200 000 euros - 2% (for the whole 2009 - 2013 period)
200 000 - 300 000 euros - 3% (for the whole 2009 - 2013 period)
over 300 000 euros - 4% (for the whole 2009 - 2013 period)

This progressive reduction of direct payments, moderate in its impact, would appear to be reasonable and appropriate, without the need for further scrutiny. It does not give rise to structural breaks or the hectic restructuring of existing farms which function efficiently. The exemption level of 10 000 euros means that pressure on middle-sized family farms will be relieved, and there is a beneficial financing effect for the second pillar, as the modulation will begin in 2009 and, unlike the Commission proposal concerning degression, will also include farms with between 10 000 and 100 000 euros, albeit to a very limited extent.
Not even this proposal can remove the basic flaw, whereby modulation and degression have the greatest redeployment effect in favour of the second pillar in regions with larger farm structures and therefore, generally, in those Member States which are least disadvantaged.

Funds resulting from redeployment should be used primarily in regions in which they accrue and for measures targeting risk insurance, the reinforcement and restructuring of important agricultural sectors, ending the milk quota, agri-environment measures (including adapting to climate change), animal protection or animal health, or measures aimed at the improved application of new scientific discoveries in agriculture, e.g. in the field of bioenergy.

The rapporteur would just like to point out that the largest beneficiaries of direct payments include not only royal houses but also environmental organisations. The discussion shows that in the future – i.e. after 2013 – direct payments should be more closely linked to specific efforts and particular additional burdens on farmers. A discussion on the level of payments would then be ruled out.

Milk

The rapporteur does not consider an extension of milk quotas beyond 2015 to be reasonable. There is a need for a clear signal to opt out now. The rapporteur assumes that the incomes of dairy farmers will stabilise, in spite of the rise in production costs, and that there will continue to be a high demand for milk products.

To avoid farmers further investing in the acquisition of expensive quota rights as a result of the current boom in demand, measures must be taken to achieve a continuous depreciation of the quota. The rapporteur considers that the best way to do this would be to substantially raise the quota in the short term and gradually decrease the superlevy.

Since, in some European regions, there is in practical terms no alternative to dairy cattle farming and milk production must be maintained at all costs, for reasons of landscape conservation and regional policy, special support measures must be developed for such regions and also for the sector as a whole. These might take the form of special coupled or decoupled premiums or sector-based restructuring measures and could be financed under a revised Article 69 or under the second pillar. Funding from the abolition of the energy crop premium and income from the super-levy and/or modulation might also be used.

Other matters

The rapporteur has made several suggestions for further development of the packages of measures in the second pillar which require no further explanation (improving quality production, better market penetration, adapting to climate change, closer alignment with the Lisbon objectives).

As preparation for the financing period after 2013, the rapporteur would also like to see the Commission produce a comprehensive analysis and evaluation of existing and potential future measures, with the aim of further improving the targeting of the range of measures in the CAP.