



*EU Environmental Policy Briefing\**

## **New Information on the Likely Content of the 2008 CAP Health Check**

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Information on the likely content of the 2008 CAP Health Check is constantly evolving and subject to much conjecture based on public comments made by Commission officials, unofficial comments attributed to the Commission, and other sources. It is often hard to verify the accuracy of unpublished proposals, which in any case may change as a result of ongoing consultations within the Commission and with Member States.

### ***Compulsory Modulation to be set at 13 per cent by 2013***

According to reports in the press<sup>1</sup>, Agriculture Commissioner Mariann Fischer Boel is keen to increase the rate of compulsory modulation. In public, she is extremely supportive of Pillar Two. The proposals are thought to suggest an incremental, annual increase of two per cent in the rate of compulsory modulation from 2010 until 2013. This would result in compulsory modulation being set at a rate of 13 per cent by 2013, eight per cent higher than the rate currently provided for. Agra Facts estimates that each two per cent rise in the rate of compulsory modulation would result in the transfer of €500-600 million per year to Rural Development spending across the EU. Previous suggestions for an annual increase of one per cent in the rate of compulsory modulation from 2009 until 2013 seem to have been shelved. Commentators may have expected the Commission to propose a higher rate given that some Member States may exert pressure for a lower rate. It is thought that more than 80 per cent of farms would remain unaffected due to the €5,000 threshold (or franchise) on payment receipts. Voluntary modulation would presumably be axed.

Initial reactions from a number of Agriculture Ministers at the Informal Council meeting in Porto suggest that Member States, which broadly support retaining a strong Pillar One as opposed to increasing Rural Development spending, would be opposed to such an increase in the rate of compulsory modulation. These are likely to include France, Ireland and Spain. Member States such as the UK and Denmark are thought to be in favour of the increases.

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### ***Move towards full decoupling but with increased use of 'Article 69'***

Reports in Agra Facts<sup>1</sup> suggest that the Commission's Health Check proposals will signal the intention to remove the option to maintain partially coupled direct payments. The Commission acknowledges that full decoupling may not be possible in the short term, particularly for payments such as the suckler cow premium. At the same time, there are rumours that the Commission would like Member States to make more use of 'Article 69', which in effect, allows 'recoupling' of payments to specific sectors on the basis of objective environmental (and other) criteria. In the UK, all direct payments have been decoupled. The only example of the use of 'Article 69' for promoting beef production in Europe is in Scotland, where it has been used to introduce the Beef Calf Scheme.

### ***New Proposals for Tapered Capping***

According to reports in Agra Facts<sup>1</sup>, it seems likely that the Communication on the Health Check will contain a proposal for a system of tapered or scaled capping of large Single Payments. One possibility is that this would apply to individual holdings in receipt of €100,000 or more. If implemented, this could result in a 10 per cent reduction to payments between €100,000 and €200,000; 25 per cent to payments between €200,000 and €300,000; and 45 per cent to payments over €300,000. This is a change of direction from previous attempts by the Commission to implement an absolute cap on payments over €300,000. One reason might be to make the division of farm holdings, in order to circumvent the capping rule and maximise income from the Single Payment, less attractive.

The Member States most likely to be affected by such proposals are Germany and the UK. A number of speculative uses for the money 'saved' are in circulation. One possibility reported in Agra Facts suggests that the money 'saved' by capping would be available for use in the Rural Development Programmes of the Member State in which the caps are applied. Presumably this money, at least in theory, could be used to supplement agri-environment schemes in much the same way as payments from voluntary modulation have been used by the Department for Environment, Food and Rural Affairs (Defra) in England. An alternative option is that the money saved by a Member State may be retained in Pillar One and recycled through 'Article 69'. According to reports in Agra Facts approximately 25,000 farm holdings out of a total of seven million holdings would be affected by the proposals. The proposal could result in a shift of approximately €1 billion to Rural Development spending, if this option is pursued.

### ***Set Aside***

The Commission will propose to abolish set aside in its current form as part of the Health Check. However, speaking at a conference organised by the Land Use Policy Group (LUPG) in Brussels on 'Future Policies for Rural Europe: 2013 and beyond', Commissioner Fischer Boel acknowledged that set aside had resulted in 'beneficial environmental side-effects'. It was stressed that the Commission would like to maintain these benefits where possible, resulting in speculation that a substitute for set aside, targeted at environmental benefits rather than at crop supply management as is currently the case, could be introduced as part of the Health Check. The Commissioner appears adamant that this will not be catered for by cross compliance,

raising speculation that a separate legal provision may be inserted into the revised legislation or that Article 69 could be used to deliver a set aside-type provision.

### ***Milk Quota***

The Commission seems certain to propose milk quota increases following the publication of a market report due at the end of 2007 as part of the Health Check. It is anticipated that the Commission will propose to abolish milk quotas by 2015. Speaking at the Informal Agriculture Council in Porto on 17 September, Commissioner Fischer Boel urged Member States to introduce ‘more flexibility’ to their national milk quota regimes’. France’s system which restricts milk quotas from being redistributed between regions was singled out as being ‘old fashioned’<sup>2</sup>. The UK has one of the more liberal milk quota regimes in the EU. Milk production in the UK is currently below quota level and as a result would not be directly affected by recent Dutch proposals to increase milk quotas by two to three per cent in April 2008. This was raised as a result of poor market conditions and appears to have the support of a number of Member States. It looks set to be discussed at next week’s Agriculture Council. However, despite the imminent Health Check proposal, the Commission is unlikely to support such a move for the time being on the basis of current market conditions.

In addition to the developments discussed above it is thought that the Communication will include proposals relating to climate change adaptation and sustainable water use.

### ***References***

1. Agra Facts No. 74-07 (18/09/07) - ‘*Health Check Rumours; Informal Council; and Potential Impact of Degressive Capping and New Modulation Concept*’
2. Agra Europe (18/09/07) - ‘*EU urges more milk quota flexibility*’
3. Conference organised by “Land Use Policy Group and the Bundesamt für Naturschutz” on “Future policies for rural Europe 2013 beyond - delivering sustainable land management in a changing Europe”

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