



European Economic and Social Committee

**NAT/409**  
**"Health check"**  
**of the CAP**

Brussels, 23 October 2008

**OPINION**

of the

European Economic and Social Committee

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;**

**The proposal for a 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 and**

**The proposal for a Council Regulation amending Regulation (EC) No 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) COM(2008) 306 final – 2008/0103+0104+0105 (CNS)**

On 18 June 2008 the Council decided to consult the European Economic and Social Committee, under Articles 36 and 37 of the Treaty establishing the European Community, 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;*

*The proposal for a 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 and*

*The proposal for a Council Regulation amending Regulation (EC) No 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD)*

COM(2008) 306 final – 2008/0103+0104+0105 (CNS).

The Section for Agriculture, Rural Development and the Environment, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 8 October 2008. The rapporteur was **Mr Van Oorschot** and co-rapporteurs **Mr Kallio** and **Mr Wilms**.

At its 448<sup>th</sup> plenary session, held on 21, 22 and 23 October 2008 (meeting of 23 October), the European Economic and Social Committee adopted the following opinion by 117 votes to 28 with 18 abstentions.

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## 1. **Conclusions and recommendations**

1.1 On 20 May 2008 the European Commission published proposals to streamline the Common Agricultural Policy (CAP) in order to ensure it is working as well as possible in an enlarged European Union and in a changing international context. This is called the Health Check.

1.2 The EESC considers that the Health Check discussion should take better account of the variety of tasks confronting the CAP (e.g. European agricultural model, food security as a central issue). The EESC therefore stresses the need for an adequate agricultural policy at EU level in the short and the longer term with sufficient funding . This will presumably require – at least – as much as before. The necessity of the CAP and the purpose of individual measures should be better explained to the public, so that there is not a permanent discussion about funding.

1.3 The EESC recalls its earlier opinion on the future of the CAP in which the EESC notes that farmers are going through a tough period of transition. The EESC therefore considers that the

main concern of the Health Check should be to make implementation easier, more straightforward and to respond to new challenges in the market and in society with respect for the multifunctional role of agriculture.

- 1.4 The EESC considers that payments to finance the wide-ranging work done by farmers that is not rewarded by the market continue to be necessary. In the meanwhile the EESC considers that payments based on historic production will become more difficult to justify. Member States should be allowed to adjust their payments towards a flatter rate. This should be subject to wide debate in advance in the context of the post 2013 CAP. Member States should be able to decide on an adequate transitional period to avoid placing farms in a difficult situation. The rules of cross-compliance have to be made less complex and duplication of controls has to be avoided.
- 1.5 The EESC agrees upon further decoupling of payments in order to give farmers "freedom to farm". However, Member States should not be required to decouple in order to preserve fragile industries or regions, provided this does not generate market distortions. The EESC supports the aims of "article 68" although this article is not the solution for all problems. In some cases more flexibility is needed. Member States should examine thoroughly the consequences of redistribution of payments to farmers before implementation of this measure.
- 1.6 The EESC considers that adaptations to the present intervention scheme, other than tendering, should be examined in the first instance. The EESC also calls for new tools to be devised to create a sustainable safety net. In addition, the EESC suggests maintaining the set-aside mechanism while adjusting the percentage to be frozen in line with market trends.
- 1.7 The EESC calls for a more detailed assessment of possible future developments in the dairy market and consequences before the decision is finally taken to allow the milk quota to expire in 2015. The EESC calls upon the Commission to set out more precisely the measures envisaged to maintain dairy production in vulnerable areas and to explain their financial consequences and how they will be funded. The EESC cannot agree to the planned quota increase until such a strategy is put forward. The EESC advocates setting up a European milk network in order to bring supply into line with demand, uphold producer incomes and stabilise the presence of dairy farmers across Europe. Setting up such a network would enable a new balance of power to be established between industrialists, producers, distributors and even consumers.
- 1.8 The EESC recognises the new challenges mentioned by the European Commission on climate, water, renewable energies and biodiversity, which clearly require additional funding under the second pillar. These new challenges can only be funded by modulation as existing funds have been assigned elsewhere under the budget until 2013 and new sources of additional monies are unlikely.

## 2. Introduction

- 2.1 On 20 May 2008 the European Commission published the proposals for the Council regulations on several modifications to the Common Agricultural Policy (COM(2008) 306/4). The main objective of this so-called "Health Check" is to assess the implementation of the 2003 CAP reform and to address those adjustments to the reform process that are deemed necessary in order to further simplify the policy, to allow it to grasp new market opportunities and to prepare it for facing new challenges in market and society.
- 2.2 Besides the Health Check, it is also necessary to discuss the development of the CAP after 2013 to meet new challenges which agriculture, society and the agricultural value chain are facing.

## 3. The changing world food situation

- 3.1 For thirty years farm prices have followed a downward trend in real terms. In 2007 there was a sudden and steep rise in certain agricultural commodity prices. Important reasons for the rise in prices were the increasing global demand, very low stock levels and bad harvests due to climatic conditions. This had a knock-on effect on farmers producing livestock facing high feed prices. However, agricultural prices are beginning to fall again. Between autumn 2007 and April 2008 milk prices fell by about 30% and wheat prices fell by about 20%<sup>1</sup>. By way of example this fact, combined with rising costs means that the income of arable farmers is expected to fall by 16 to 24% in 2008. In real terms the prices of agricultural commodities still remain below levels witnessed during the 1973 or 1979 oil crises<sup>2</sup>.
- 3.2 The last few months have shown clearly that we have entered a period of volatile agricultural prices, which is not good for consumers, confronted with rising prices of agricultural products, nor for farmers and stakeholders in the food chain, who must continuously make reasoned investments. This situation must be incorporated into any discussion on a future agricultural policy if food security is to remain an EU objective.
- 3.3 Given growth in world demand for food it is expected that consumer prices are unlikely to fall back to their former level in the short to medium term, but a greater volatility of producer prices is expected.
- 3.4 The effect of higher commodity prices on consumer prices is limited due to the declining share of agricultural raw materials in food production costs compared to energy and labour costs. For example, the cost of wheat only makes up 4% of the cost of a loaf of bread<sup>3</sup>.

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1 Presentation of the Health Check Proposal to the COMAGRI, 20 May 2008.

2 European Commission: What caused the present boom in agricultural prices?

3 Speech Mariann Fischer Boel: Food, feed or fuel, Berlin 18 January 2008.

Furthermore, the share of food in the total household expenditure is low (around 14% in the EU-27). The EESC considers that it is necessary to rationalise the food chain in the interests of farmers and consumers<sup>4</sup>.

3.5 The UN's Food and Agriculture Organization (FAO) has to be improved to manage food supplies and, since agriculture has come under the World Trade Organization, greater inequalities have been created between agricultural systems. Ways of thinking must change: agriculture must be given the opportunity to organise itself worldwide through a discussion forum comprising the most representative – and not necessarily the richest – national farming organisations.

3.6 The EESC considers that the Health Check of the CAP should take into account these changes in the world food situation. In this respect, farmers should be able to continue their multifunctional role within the European Agricultural Model.

#### 4. **General Remarks**

4.1 The European Economic and Social Committee recalls its initial opinion<sup>5</sup> on the *Health Check of the CAP and its future after 2013*. In that opinion, the EESC notes that farmers and food processing businesses are going through a tough period of transition. There is a great deal of willingness to respond in an entrepreneurial manner to new market conditions, provided that the promises made during the reforms are kept and sufficient legal and planning certainty is provided. The EESC considers that the main concern of the Health Check should be to identify needs for adaptation of existing legislation, enabling:

- easier and more straightforward implementation; and
- the removal of obstacles to targeted implementation of reform measures which have already been agreed upon.

Besides these topics the EESC recognises that the EU is facing new challenges in which farmers can play an important role and that the food market situation needs new responses.

However, the key words in the "Health Check" should be stability by means of market organisation, simplification and adjustment.

4.2 It is also important that measures under the "Health Check" underline the further development of the European model of agriculture and enable farmers to fulfil their multifunctional role:

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<sup>4</sup> The EESC is working further on this issue in the exploratory opinion "The EU and the global food challenge", CES 813/2008.

<sup>5</sup> NAT/359, CESE 1457/2007 of 25.10.2007, OJ C 44 of 16.2.2008, p. 60.

- to meet the highest standards in the world for food safety and quality, environmental protection and animal welfare;
- to maintain the countryside and conserve nature; and
- to make a key contribution to employment, maintain agricultural production and the vitality of rural life throughout all regions of the EU.
- to avoid depopulation of rural areas and the abandonment of agricultural land.

The EESC considers that the Commission proposals contain substantial changes compared to the present situation. It is necessary to reflect on these changes in depth.

## 5. **The "Health Check" Measures**

### 5.1 **Single Payment Scheme (SPS)**

- 5.1.1 The European Commission proposes to allow Member States to adjust their SPS model by moving gradually to flatter payment rates per entitlement in order to render the SPS more effective and efficient. In parallel the proposals include a series of simplification measures in the implementation of SPS.
- 5.1.2 There is growing concern in Europe for sustainability. There is a lack of progress in taking into account non-trade concerns in international agreements, although this is vital if we are to respect citizens' wishes. Furthermore, there is continued reduction in EU border protection. On the basis of these arguments, the EESC considers that enabling farmers to cover costs of sustainable production not covered by the market through a system of direct payment will be essential for safeguarding the European agricultural model and farmers' income beyond 2013. This must remain a clear task of the CAP.
- 5.1.3 The EESC considers that compensation payments to finance the wide-ranging work done by farmers that is not rewarded by the market will continue to be necessary. In the meanwhile levels of payment based on historic production will become more difficult to justify. Member States who have not already done so should be allowed to adjust the distribution of their national ceiling towards a flatter rate of payment during the period 2009-2013, or start in 2013. Before doing so, Member States should examine carefully the consequences on farm income, the adaptability of farmers and the need for long term planning certainty. If this approach were to be taken, Member States should be able to decide on an adequate transitional period so as to avoid causing any problems for farms which might have invested under different rules.
- 5.1.4 The SPS applied in most new Member States is simple to administer but can also be over simplistic when it comes to support intensive farmers (fruits and vegetables, animal production, tobacco, etc.) in a meaningful way compared to the arable crops sector. A more balanced solution, e.g. within the SPS framework, should be found in the medium term by use of the other existing instruments or new instruments to be EU wide developed.

5.1.5 All land in the new Member States which complies with good agricultural and environmental conditions at the time of request of payments should be eligible.

## 5.2 **Cross compliance**

5.2.1 The European Commission wishes to simplify and improve the targeting of cross-compliance. The Commission proposes the withdrawal of certain requirements not linked to farmer responsibility and proposes the introduction of new Good Agricultural and Environmental Conditions (GAEC).

5.2.2 The EESC supports the maintenance of the link between the single farm payment and the respect of EU standards associated with agricultural activity through cross-compliance. The EESC welcomes the Commission proposals to streamline cross-compliance. There is also a clear need to make cross-compliance less complex, in particular by clarifying the rules, introducing a "de minimis" rule and reducing the number of different inspection visits that are carried out on individual farms. Duplication of controls, such as audits by Quality Assurance Schemes (QAS), should also be avoided.

5.2.3 Agriculture is an important sector which provides much employment throughout the EU. Efforts must be made to reduce the number of accidents in farming and to encourage more skilled labour. Therefore the EESC considers that specified aspects of job safety on the farm are highly important, i.e. instructions on machinery use, hygiene and adequate storage of dangerous materials. They must be governed by national social legislation and could be included in the scope of cross compliance. To provide stimuli to the farmer the EESC recommends to widen the possibilities of the EU social fund in the area of job safety and skills.

5.2.4 In line with the aim to make cross compliance more efficient and more directly related to farm activities, the EESC considers that the statutory management requirements on the placing of plant protection products on the market is not a responsibility at farm level and should thus be withdrawn.

5.2.5 The EESC calls for an impact study of the implementation of the GAEC before any new element is added to the scope of GAEC. This study should include the effects on farmers as well as the administrative burden. The EESC considers that environmental benefits associated with set-aside, buffer strips and landscape features should be maintained, even if there is a desire to abolish the obligatory set-aside. If this is to be achieved via voluntary measures as part of rural development, there must be relevant incentives, which do not exist at present. These measures should be rewarded accordingly.

5.2.6 A special approach should apply with respect to the new Member States. The system of cross compliance should be introduced gradually, bearing in mind that the direct payments system is

applied gradually. They should apply cross compliance in full when they reach the 100% level for the Single Area Payment Scheme (SAPS).

### 5.3 **Partially coupled support**

5.3.1 The European Commission considers that decoupling has enabled farmers to respond better to market signals in a more sustainable way. At the time of the 2003 reform of the CAP it was decided to allow Member States to retain a certain level of coupled support in some sectors. The Commission stresses that operating two systems has not contributed to simplification. The Commission proposes to allow Member States to maintain the coupled premia for suckler cows, sheep and goat meat only.

5.3.2 The EESC takes a sceptical view of further decoupling in Member States that maintain partially coupled support in order to enable more market orientation. The EESC is aware that, in some cases, decoupling could lead to the disappearance of certain types of production and to the abandoning of production in certain regions with severe consequences for the environment, the rural economy and employment. Article 68 should be available to address these problems. Member States should not be required to decouple. Remaining coupled support should not lead to market distortions between Member States.

### 5.4 **Specific support**

5.4.1 The European Commission proposes the broadening of the (present) article 69 for several purposes, including addressing the question of both disadvantages for farmers in specific sectors in certain regions and of top-up entitlements in restructuring areas. Member States applying SPS may currently retain up to 10% of their national budget ceilings for measures related to environmental protection or for improving the quality and marketing of agricultural products.

5.4.2 The Commission considers that changes in traditional market instruments and the shift towards direct producer support have prompted discussion on different ways of managing risk, with price risk and production risk identified as the two main sources of variation affecting income. The Commission proposes that Member States can use article 68 for crop insurance and mutual funds for animal and plant diseases.

5.4.3 The EESC supports the aims which are mentioned in article 68, although this article is not the solution for all problems which might emerge. The EESC can agree upon increased flexibility in the use of Article 68 on condition that any additional funds are used for strengthening the position of farmers. It considers that in very specific cases in some Member States the limit on funding could be higher than the current overall maximum of 10% of the national ceiling. The EESC supports the proposals on crop insurance and mutual funds for animal and plant diseases, considering that the aim should be to protect consumers and farmers. These measures should not undermine existing insurance schemes or community measures (art 44 and veterinary fund). Due to the importance to the whole of society of preventing



diseases, the EESC proposes that these funds should be co-financed by the Member States, as proposed by the Commission.

5.4.4 The EESC considers that using article 68 may lead to a considerable redistribution of payments to farmers. Furthermore the EESC fears that article 68 is not a sufficient tool to address all the issues. Therefore Member States should examine thoroughly the consequences for farmers of the possible use of article 68. The EESC considers that the amounts previously allocated to the agricultural budget should remain within the farm sector and could be used for article 68.

5.4.5 The cumulative impact on the farm income of modulation and article 68 should be examined. If the Commission proposals were to be implemented it could mean a cut in direct payments of at least  $10+13\% = 23\%$ . Therefore the EESC considers that the effects should be thoroughly examined.

## 5.5 **Payment limitations**

5.5.1 The European Commission identifies the fact that the introduction of the single payment has made the distribution of payments more visible. The large number of farmers that receive small amounts of payments cause a high administrative burden. The Commission proposes that Member States apply a minimum amount of EUR 250 or a minimum size of 1 hectare or both. In addition, the Commission proposes a progressive modulation. It is also proposed that the New Member States become eligible for modulation as of 2012.

5.5.2 In principle, the EESC accepts the Commission proposals establishing minimum requirements for payments in order to reduce administrative costs while giving Member States a choice as regards implementing these minimum requirements.

5.5.3 The EESC considers that the discussion on progressive modulation centres on the question of whether a higher modulation rate can be expected of those businesses in the EU which receive more than EUR 100 000 in direct payments annually. As large recipients benefit generally from economies of scale, moderate progression is justified, especially as businesses do have the opportunity to use the new measures under the second pillar and thus to again obtain CAP money.

## 5.6 **Markets**

5.6.1 The Commission raises the question how an effective intervention mechanism can be created, which works as a safety net but without reliance on subsidised exports. The Commission proposes to simplify the provisions on public intervention via the extension of a tendering system. For durum wheat, rice and pig meat, the Commissions proposes to abolish intervention.

- 5.6.2 The EESC considers that the weakening of internal market management mechanisms and the reduction in border protection which has taken place as a result of CAP reforms and trade negotiations since 1992 has made the EU much more exposed to world market fluctuations. At the same time these fluctuations on the world market, and thus risk, are on the increase: climate change is resulting in more extreme fluctuations in harvests worldwide and global travel is increasing the risk of the spread of disease. Farmers have to deal with all these challenges. In this context, abandoning all regulatory mechanisms could be dangerous during a period of short supply and strong demand.
- 5.6.3 The EESC considers that one of the most important objectives of the CAP, and pillar 1 in particular, will be to provide sufficient, safe and varied food for its 500 million consumers. Adequate instruments are needed to reach this objective. Despite the fact a tendering system could improve market orientation, it reduces the safety net to farmers and can increase uncertainty on the market. Therefore the EESC proposes that, first, other adaptations to the present intervention scheme should be examined e.g. a shorter period for intervention. The EESC calls for new tools to be devised to create a sustainable safety net, given the need for food security for European citizens and a fair farm income.
- 5.6.4 The EESC suggests that the Commission set up European market management networks that would provide a robust framework for matching supply and demand and enable producers across Europe to be interlinked, thereby responding effectively to social expectations. This would rebalance market forces, enabling consumers' requirements to be better met. The Commission should have oversight of this organisation.
- 5.7 **Set-aside**
- 5.7.1 The Commission proposes to remove set-aside as an instrument of supply control, based on the market outlook situation. Member States are given tools to ensure that the environmental benefits can be retained.
- 5.7.2 Set-aside is a supply management tool which can prove useful and flexible. The EESC considers that despite good market prices at this moment the market situation may weaken again at some point. The EESC therefore feels that it would be logical to maintain the set-aside mechanism<sup>6</sup>, adjusting the percentage to be frozen in line with market trends.
- 5.7.3 The EESC considers that any environmental benefits associated with set-aside must be maintained in order to increase acceptance from agriculture. This can be achieved via voluntary set-aside as part of rural development only if adequate incentives are available, which was not guaranteed in the past.

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<sup>6</sup> NAT/359, CESE 1457/2007 of 25.10.2007, OJ C 44 of 16.2.2008, p. 63, point 5.7.1.

## 5.8 Dairy quota

- 5.8.1 In 1984 milk quotas were introduced as a response to overproduction. The Commission considers that the conditions leading to this introduction to be no longer relevant. In light of the increase in demand for milk and dairy products the Commission proposes a increase of the milk quota of 1% per year for the next five years. This increase in quota is meant to prepare for a soft landing of the system as it expires in 2015. The European Commission has analysed the social impacts of changes to the milk quota system. The quota expiry will lead to restructuring of the milk production sector in which smaller producers especially are likely to be subject to predatory competition with potential implications for certain regions.
- 5.8.2 As the quota will, as the legislation currently stands, expire in 2015, the EESC calls upon the Commission to carry out a more detailed analysis than has been the case until now of how predictability and regional balance can be achieved in a sustainable market post 2015. Milk is an essential, healthy food product and in addition, dairy farmers play an important role in rural economies. In particular, it will be important to introduce measures which help farmers to improve their competitive position.
- 5.8.3 Dairy production is a very important sector in the vulnerable areas of the EU. Therefore the EESC also calls upon the Commission to envisage measures – including financial provisions – to maintain dairy production and a vibrant rural economy in these vulnerable areas. The EESC considers that the Commission has not submitted a workable concept with the proposals it has put forward. Article 68 will, only in some respects, be a sufficient instrument for this, and is far from being able to cover the expected high follow-up costs.
- 5.8.4 . As there is no real adjustment plan, the EESC is currently against quota adjustments. Quotas must be adjusted in line with market demand, and not arbitrarily. With a view to the post-2015 situation, a European milk network needs to be created, under which production could be adjusted to consumption and a new balance of power established within networks. In this way, milk production could be maintained in the most vulnerable areas.

## 5.9 Other support schemes

- 5.9.1 The Commission proposes immediate decoupling for the sectors protein crops, hemp, durum wheat and nuts. For rice, potato starch, dried fodder and flax, the Commission proposes to decouple with a two-year transitional period.
- 5.9.2 Without coupling production could disappear with negative effects to regional economies, the environment or EU supplies. Therefore the EESC considers that the possibility of shifting these payments to the SFP should be examined carefully on a case by case basis and if needed, coupled payments should be continued in order to avoid significant reduction of production in vulnerable areas. These sectors need a reasonable transition period and accompanying measures to develop new market opportunities.

5.9.3 The energy crop premium is administratively cumbersome and, given the targets set by the Council for the incorporation of biofuels, there is no further need for an incentive at the level of production. The funds no longer used for the energy premium should be used to strengthen the position of farmers.

#### 5.10 **Climate change**

5.10.1 The Commission considers climate and energy issues to have moved to the top of the agenda. In March 2007 the EU leaders decided to cut CO<sub>2</sub> emissions by at least 20% by 2020 and by 30% if global targets can be agreed upon. The Commission considers that agriculture can make an important contribution to reducing Green House Gas emissions.

5.10.2 The EESC considers that EU agriculture has contributed more than many other sectors to curbing greenhouse gas emissions and must continue down this path<sup>7</sup>. Agriculture is also one of the sectors which is most exposed to the impact of climate change.

5.10.3 It is becoming a matter of increasing urgency to better understand the implications of climate change for agriculture and therefore research is the priority. This type of research is being financed under the 7th EU Research programme but this must be speeded up and reinforced.

5.10.4 It is also important to increase incentives to farmers to cope with climate change and to carry out climate neutral production systems. In this respect the EESC supports the indicative list of types of operations on climate change in the rural development plan.

#### 5.11 **Water management**

5.11.1 The EU objectives with regard to water policy are laid down in the Water Framework Directive. The Commission considers agriculture to have a major role to play in water management.

5.11.2 One of the most pressing problems concerns water – both scarcity and quality, and also moisture and flooding. The EESC supports that part of the funds accruing from modulation should be used to increase water management incentives as part of rural development measures under axis 2. The EESC considers that the operations should have a direct link to agriculture.

#### 5.12 **Renewable energies**

5.12.1 In 2007 the EU leaders set a binding 20% target for the use of renewable energy sources, including a 10% share of biofuels in petrol and diesel consumption.

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EC Study: Climate change: the challenges for agriculture (Dec. 2007).

- 5.12.2 The EESC supports the list of indicative action types with regard to renewable energies.
- 5.12.3 The EESC thinks it is extremely important to promote further research in order to optimise production systems so that the contribution of bioenergy to reducing CO<sub>2</sub> emissions and energy efficiency is maximised. The possibility to develop second generation biofuels, using agricultural co-products, has to be further researched.
- 5.12.4 Farmers could play an essential role in the provision of sustainable bio-energy supplies at local or regional level (e.g. microgeneration plants using local biomass) thereby contributing to the Kyoto objectives. State aid rules should make an exemption for this kind of projects.

### 5.13 **Biodiversity**

- 5.13.1 The Commission considers a large part of the biodiversity in Europe to be dependent upon agriculture and forestry and that the efforts to protect biodiversity have to be increased. Agriculture has a key role to play in protecting biodiversity. Member States have committed themselves to stopping the decline in biodiversity by 2010.
- 5.13.2 In several Member States there are good examples of projects that improve biodiversity. The EESC supports the indicative types of action the Commission mentions to improve biodiversity on condition that the incentives go directly to farmers because they are essential for the maintenance of vibrant rural areas with economic and employment opportunities.

### 5.14 **Strengthening the second pillar**

- 5.14.1 The Commission plans to meet these four new challenges (point 5.10 to 5.13) with a new package of measures which is to be established under the second pillar, with the necessary additional resources coming from modulation. The Commission notes that an increase in compulsory modulation is the only way to obtain additional funding for rural development, since all other EU funds have been earmarked until 2013. The Commission proposes to increase compulsory modulation with 8% in four steps until 2012.
- 5.14.2 The EESC considers that the results of negotiations on the 2007-2013 financial perspective have led to inadequate funding of the second pillar. The EESC takes the view that the different functions of the CAP must be preserved. Any further modulation of first pillar direct payments must respect this requirement<sup>8</sup>. Therefore the EESC will only support the proposed modulation if it is guaranteed that this budget is clearly and specifically targeted towards helping farmers to meet these new challenges. The role of employment and employees in agriculture in this change process should be recognised. The implementation via the national rural development plans must be made more effective and accessible for farmers. National co-financing must be ensured in advance.

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<sup>8</sup> See footnote 5.

## 6. **Budgetary impact of the Health Check proposals**

- 6.1 The Commission recalls that the CAP has an in-built financial discipline mechanism. Due to the fact that most support is now fixed and the market outlook has significantly improved, the potential for the application of financial discipline has diminished. Furthermore, the Commission states that the proposals for modulation are budget neutral, but can lead to additional national expenditure. The Commission expects almost no extra expenditures on market measures.
- 6.2 The total budget for the CAP has decreased from 0.6% of the EU GDP in 1993 to less than 0.4% in 2007. The real budgetary expenditure has risen from about EUR 40 billion in 1995 to around EUR 50 billion in 2007 (including Rural Development), despite the almost doubling in the number of Member States from 15 to 27.
- 6.3 15 years ago the EU spent EUR 10 billion per year on export subsidies. In 2009 this budget is limited to only EUR 350 million<sup>9</sup>. The European Commission has agreed to abolish export subsidies entirely by 2013, on the condition that trading partners provide parallel commitments.
- 6.4 The EESC considers the CAP to be one of the most important backbones of the European Union. As the world food situation shows, Agricultural Policy will remain very important. The EESC is of the view that farmers not only play an essential role in food supply, but have to fulfil a multifunctional role.

## 7. **Towards long-term objectives of the CAP post 2013/financial framework**

- 7.1 The EESC considers that it is useful to draw up clear objectives and priorities for the CAP post-2013 in order to contribute to the discussions on the next financial perspectives.
- 7.2 Bearing in mind that the world's population is expected to continue to grow to 9 billion people in 2050 and consumption per capita will rise, food production needs will increase. At the same time, the amount of good agricultural land is decreasing worldwide due to factors such as erosion, saltification and urbanisation. As a result, it may not be possible for European consumers to take food security for granted in years to come. A future CAP must take into account these new developments.
- 7.3 At the European level, consumers require healthy and varied food in sufficient quantities, which has to be produced in a sustainable way. Imports must comply with EU standards, which is currently not always the case. At the same time, European citizens are worried about

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<sup>9</sup> The Common Agricultural Policy: sorting the facts from the fiction, 20 June 2008.

climate change and sustainability. Farmers in the EU can play an important role in meeting society's expectations.

- 7.4 Farmers would prefer to obtain their income from the market. However, society in Europe also expects farmers to provide a number of services which are not remunerated via the market. Direct payments to reward farmers for ensuring the highest standards of sustainable production systems, as well as additional services, will therefore remain essential, as will payments to promote rural development. Furthermore, the CAP will remain a fundamental instrument to support regional economies.
- 7.5 In achieving the objectives outlined under 3.3, in the future the CAP should emphasise more on:
- ensuring secure supplies of safe and varied food and supply of renewables;
  - ensuring a fair income to farmers;
  - ensuring that production is both sustainable and competitive throughout all regions of the EU;
  - contributing to a vibrant countryside with economic and employment opportunities.
- 7.6 In the longer term the EESC considers that the objectives of the CAP and the instruments to achieve them should be better harmonised among all Member States.
- 7.7 The EESC stresses the need for an appropriate agricultural policy at EU level in the short and the longer term with sufficient funding. This will presumably require – at least – as much as before. It is the job of politicians to better explain to the public the necessity of the CAP and the purpose of individual measures, so that there is not a permanent discussion about funding.

Brussels, 23 October 2008.

The President  
of the  
European Economic and Social Committee

The Secretary-General  
of the  
European Economic and Social Committee

Mario Sepi

Martin Westlake

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**N.B.:** Appendix overleaf

## APPENDIX

The following Section Opinion texts were rejected in favour of amendments adopted by the assembly but obtained at least one-quarter of the votes cast :

### Point 1.7

*"The EESC calls for a more detailed analysis than has been the case until now of dairy market development given that the milk quota will, as the legislation currently stands, expire in 2015. Given the need for planning certainty the EESC calls for quota adjustments which ensure a soft landing for producers, provided that these do not disrupt the market. The EESC calls upon the Commission to envisage measures to maintain dairy production in vulnerable areas and to explain their financial consequences and how they will be funded."*

#### Voting

For : 66  
Against : 42  
Abstentions : 41

### Point 1.8

*"The EESC recognises the new challenges mentioned by the European Commission on climate, water, renewable energies and biodiversity. These new challenges require additional funding by modulation and by the use of structural funds. The EESC is of the opinion that strengthening food security should be considered a new challenge."*

#### Voting

For : 64  
Against : 58  
Abstentions : 37



**Point 1.9**

*"The EESC considers that the views on modulation differ widely. As a compromise, the EESC proposes that the extra modulation rate to fund new challenges should be limited to 3% in total and proposes to lift the threshold to EUR 7 500. The EESC is not in favour of further progressive modulation. The extra funding should be aimed specifically at helping farmers."*

**Voting**

For : 64  
Against : 58  
Abstentions : 37

**Point 5.5.3**

*"The EESC considers that several aspects are at stake in the discussion on progressive modulation. Progressivity is also increasing the administrative complexity of farm payments. In many cases farmers with large or small farms provide employment which is important for the region. The EESC considers that modulation already affects the profits of the largest recipients most. On the other hand large recipients benefit generally from economies of scale. Progressive modulation therefore has a significant impact on the competitive balance between agricultural enterprises of different sizes. Farmers need to be able to plan ahead and therefore to be able to count onto commitments made by the authorities. On the basis of these arguments the EESC is not in favour of progressive modulation."*

**Voting**

For : 64  
Against : 58  
Abstentions : 37

**Point 5.7.3**

*"The EESC considers that any environmental benefits associated with set-aside must be maintained in order to increase acceptance from agriculture. This can be achieved via voluntary set-aside as part of rural development only if adequate incentives are available and these incentives are rewarded accordingly. The point of view of the EESC is that this rural development support should be linked to farmers' activities."*

**Voting**

For : 64  
Against : 58  
Abstentions : 37

**Point 5.8.3**

*"Dairy production is a very important sector in the vulnerable areas of the EU. Therefore the EESC also calls upon the Commission to envisage measures – including financial provisions – to maintain dairy production and a vibrant rural economy in these vulnerable areas. The EESC considers that article 68 will, only in some respects, be a sufficient instrument for this, and is far from being able to cover the expected high follow-up costs."*

**Voting**

For : 66  
Against : 42  
Abstentions : 41

**Point 5.8.4**

*"The EESC considers that in the period 2009-2015 the quota should be adjusted on the basis of the market development. Dairy farmers need planning certainty and a smooth transition. On this basis the EESC calls for quota adjustments which ensure a soft landing for producers. These adjustments should not jeopardise the stability of the markets and they should take into account the vulnerable position of small dairy farmers and regions."*

**Voting**

For : 66  
Against : 42  
Abstentions : 41

**Point 5.14.1**

*"The Commission plans to meet these four new challenges (point 5.10 to 5.13) with a new package of measures which is to be established under the second pillar, with the necessary additional resources coming from modulation. The Commission notes that an increase in compulsory modulation is the only way to obtain additional funding for rural development. The Commission proposes to increase compulsory modulation with 8% in four steps until 2012."*

**Voting**

For : 64  
Against : 58  
Abstentions : 37

### Point 5.14.2

*"The EESC considers that the results of negotiations on the 2007-2013 financial perspective have led to inadequate funding of the second pillar. The EESC takes the view that the different functions of the CAP must be preserved. Any further modulation of first pillar direct payments must respect this requirement<sup>10</sup>. Therefore the EESC can only support further modulation if it is guaranteed that this budget is clearly and specifically targeted towards helping farmers to meet these new challenges. In addition to the four challenges mentioned by the Commission, the EESC proposes to add the challenge of food security and food safety, in view of the recent food price discussions. The role of employment and employees in agriculture in this change process should be recognised. The implementation via the national rural development plans must be made more effective and accessible for farmers. National co-financing must be ensured in advance."*

#### **Voting**

For : 64  
Against : 58  
Abstentions : 37

### Point 5.14.3

*"Direct payments are extremely important for the values that agriculture represents for society. Besides this, farmers need planning certainty. On the other hand, the EESC recognises the new challenges mentioned by the Commission. The EESC notes that the opinions on modulation diverge considerably. As a compromise the EESC proposes a modulation rate of 8% in total (current 5% plus 3 x 1%). The EESC recommends that besides rural development other funding, like structure funds, should be examined. The EESC also recommends an increase in the threshold to EUR 7 500. This must replace voluntary modulation. The possible negative effects on farmers' income of modulation in combination with Article 68 should also be thoroughly examined."*

#### **Voting**

For : 64  
Against : 58  
Abstentions : 37

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<sup>10</sup> See footnote 5.

**Point 6.4**

*"The EESC considers the CAP to be one of the most important backbones of the European Union. As the world food situation shows, Agricultural Policy will remain very important. The EESC is of the view that farmers not only play an essential role in food supply, but have to fulfil a multifunctional role. Therefore any budgetary savings should be used to strengthen the position of farmers on their way to sustainability."*

**Voting**

For : 64  
Against : 58  
Abstentions : 37

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