# Health check on the CAP

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PURPOSE: to prepare for the “Health Check” of the Common Agricultural Policy reform.

BACKGROUND: during 2007 and 2008, the Commission will develop its approach to the budgetary review 2008/2009. The Health Check of the CAP constitutes a preparatory action within this framework, without prejudging the outcome of this review. It fine-tunes the 2003 reforms and contributes to the discussion on future priorities in the field of agriculture. The aim is to improve the functioning of the CAP based on lessons learned since 2003 and to adapt to the new challenges and opportunities in 2007, in an enlarged European Union of 27 Member States. While the 2003 Reform modernised the CAP, the Health Check will present an opportunity to review this policy. There are **three main questions** to be addressed:

1. How to make the Single Payment Scheme more effective, efficient and simple?
2. How to ensure that market support instruments that where originally created for a Community of 6 Member States remain relevant in an increasingly globalised world and a European Union made up of 27 Member States?
3. How to master new challenges, from climate change to growth in biofuels and water management and ongoing ones such as biodiversity, by adapting to the new risks and opportunities?

CONTENT: the Communication from the Commission suggests a broad outline of adjustments to several elements of the CAP. These adjustments do not constitute a fundamental reform, but prepare EU agriculture to adapt better to a rapidly changing environment. Based on the conclusions of public dialogue with stakeholders and on-going impact analysis, the Commission will submit appropriate proposals in the spring of 2008.

The Commission believes it is necessary to make the single payment scheme more simple and efficient. New improvements have been proposed:

- **Simplifying the Single Payment Scheme:** the Commission proposes to abandon the system whereby payments are calculated based on historic output in favour of a system based on a flatter rate and to examine, against this background, whether Member States which are currently applying the SAPS, should be allowed to continue to do so until 2013.
- **Qualifying the scope of cross-compliance:** appropriate targeting of Statutory Management Requirements (SMR) and Good Agricultural and Environmental Conditions (GAEC) is necessary.
- **Partially coupled support:** the extent of recent reforms renders partially coupled support less and less relevant from the point of view of producers, as more sectors are integrated into the SPS. However, partially coupled support may retain some relevance in certain regions where the level of production is low overall, but important economically or environmentally (such as suckler cows in extensive beef producing regions). The Commission proposes a case-by-case analysis to identify the potential risks from a move into full decoupling and the possible alternatives.

- **Upper and lower limits of support:** the Commission suggests looking into the possibility of introducing some form of limitation of payments: a) for the higher level of payments the Commission believes that a solution would be found in a model where the support level is gradually reduced as overall payments increase, while retaining some support even at high overall payment levels; b) for small payments a minimum level of annual payments can be introduced and /or the minimum area requirement can be set at a higher level in such a way that would not affect real farmers.

The Commission also believes it is necessary to grasp new opportunities and improve market orientation. In this respect, there are several issues that must be addressed:

- **The role of market intervention and supply controls:** it is a question of how to create the right intervention system – one which works as a safety net, and which can be used without reliance upon subsidised sales (whether externally or internally).
- **Cereal intervention:** maintaining intervention for a single cereal (bread wheat) could provide a safety-net, whilst allowing other cereals to find their natural price level.
- **Set aside:** the Commission suggests abandoning compulsory set aside, while maintaining the environmental benefits that it has brought. The aim would be to strengthen rural development support to environmental forms of land, water and ecosystem management.
- **Expiry of dairy quotas:** this involves, in particular: i) proposing the necessary quota increases to prepare the "soft landing" for the expiry of quotas by 2014/15; ii) identifying any required changes in other dairy policy instruments that would facilitate this transition; iii) proposing measures that would mitigate the expected negative impact in specific regions, especially mountainous regions which would face great difficulties in maintaining a minimum level of production.

Lastly, the Commission examines how the CAP can respond to new challenges and grasp the opportunities for European agriculture. Among these, it is worth mentioning **managing risks**, combating **climate change**, **more effective water management**, making the most of the opportunities offered by **biofuels** and protecting **biodiversity**.

The new challenges stemming from the issues identified in this Communication make a further strengthening of the second pillar necessary. With the CAP budget now fixed until 2013, strengthening rural development funds can only be achieved through increased co-financed compulsory modulation. To achieve this, it could be envisaged to: i) increase the existing compulsory modulation by 2% each year for the budget years 2010–2013; ii) analyse appropriate ways to take account of the implied compulsory modulation in the EU-10, whilst respecting the current distribution of regional development funds between Member States.