Voluntary modulation of direct payments under the common agricultural policy (CAP)

2006/0083(CNS) - 24/05/2006 - Legislative proposal

PURPOSE: allowing the Member States to voluntarily reduce the direct payments to farmers, by up to 20%, and to use those amounts to finance rural development programs.

PROPOSED ACT: Council Regulation.

CONTENT: the Commission has presented this draft Regulation in response to a European Council agreement on the financial framework for 2007-2013 whereby Member States are given the option to "modulate" or reduce market expenditure and direct payments by up to 20% on CAP expenditure. The amounts thus gathered may be channelled into rural development programmes rather than being spent on direct payments to farmers. In order to do so the Commission must amend two related Regulations:

- Regulation 1782/2003, *establishing common rules for direct support schemes under the CAP*. (For a summary of its provisions refer to CNS/2003/0006); and

- Regulation 1290/2005, *on the financing of the common agricultural policy* (For a summary of its provisions refer to CNS/2004/0164).

To recap, Regulation 1782/2003 introduces the partial decoupling of production-related aid by making payment of such aid conditional on compliance with rules on the environment, animal welfare, hygiene standards and the preservation of the countryside. The Regulation allows for a single farm payment, which (partially) de-couples payment from production. It also seeks to develop the "second pillar" of the CAP relating to rural development through increases in horizontal aid, separate from production activity ("first pillar"). Regulation 1290/2005, on the other hand, sets out the specific requirements and rules on the financing of expenditure falling under the CAP, including on rural development. To do so it sets up two funds: the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD).

The present proposal lays down the rules for voluntary modulation of direct payments by setting out how the Member States can apply voluntary modulation and how the money can be used for rural development. A first important principle will be that the money will transit through the Community budget. Thus any decrease in commitment appropriations relating to direct payments or the "first pillar" will result in an equivalent increase in commitment appropriations for rural development or the "second pillar". The proposal, therefore, has no direct impact on the Community's budget since it is budgetary neutral.

Voluntary modulation will be aligned, as much as possible, to the provisions for compulsory modulation by applying the same base of direct payments. In other words, a franchise of the first EUR 5000 of direct payment would also apply to such additional reduction as in the case of compulsory modulation involving an additional amount of aid to be returned to the farmers, within ceilings per Member State applying voluntary modulation to be fixed by the Commission. The Member States would be required to communicate the rate of voluntary modulation they wish to apply to the Commission, covering the period 2007-2012 (calendar years for direct payments).

Member States applying for voluntary modulation would receive the corresponding amounts as a second source of Community funding for their rural development programmes, to which all rural development rules would apply. Released funds would be used within the mainstream rural development programmes to allow management programmes by the same management authorities and paying agencies. Lastly, the Commission would be empowered to adopt the implementing rules for integrating voluntary modulation and for its financial management.

For further information concerning the financial implications of this measure, please refer to the financial statement.