

| Basic information  |                     |
|--|---------------------|
| <b>2006/0083(CNS)</b><br>CNS - Consultation procedure<br>Regulation  | Procedure completed |
| Voluntary modulation of direct payments under the common agricultural policy (CAP)<br><br>Amending Regulation (EC) No 1290/2005 <a href="#">2004/0164(CNS)</a><br>Amended by <a href="#">2008/0103(CNS)</a><br>Amended by <a href="#">2010/0372(COD)</a><br><br><b>Subject</b><br><br>3.10.14 Support for producers and premiums |                     |

| Key players                   |  |                      |                  |
|-------------------------------|--|----------------------|------------------|
| European Parliament           | <b>Committee responsible</b>                           | <b>Rapporteur</b>    | <b>Appointed</b> |
|                               | <a href="#">AGRI</a> Agriculture and Rural Development | GOEPEL Lutz (PPE-DE) | 21/11/2006       |
| Council of the European Union | <b>Council configuration</b>                           | <b>Meetings</b>      | <b>Date</b>      |
|                               | Economic and Financial Affairs ECOFIN                  | 2792                 | 2007-03-27       |
|                               | Agriculture and Fisheries                              | 2790                 | 2007-03-19       |
|                               | Agriculture and Fisheries                              | 2745                 | 2006-07-18       |
| European Commission           | <b>Commission DG</b>                                   | <b>Commissioner</b>  |                  |
|                               | Agriculture and Rural Development                      | FISCHER BOEL Mariann |                  |

| Key events |   |  |         |
|------------|---|--|---------|
| Date       | Event   | Reference  | Summary |
| 24/05/2006 | Legislative proposal published                                  | COM(2006)0241<br> | Summary |
| 18/07/2006 | Debate in Council   |  | Summary |
| 05/09/2006 | Committee referral announced in Parliament                      |  |         |
| 03/10/2006 | Vote in committee   |  | Summary |
| 05/10/2006 | Committee report tabled for plenary, 1st reading/single reading | A6-0315/2006   |         |
| 26/10/2006 | Debate in Parliament  |                   |         |
| 13/11/2006 | Debate in Parliament  |                   | Summary |

|            |   |   |         |
|------------|---|---|---------|
| 14/11/2006 | Decision by Parliament  |   |         |
| 22/11/2006 | Report referred back to committee                               |   |         |
| 24/01/2007 | Vote in committee   |   | Summary |
| 26/01/2007 | Committee report tabled for plenary, 1st reading/single reading | <a href="#">A6-0009/2007</a>  |         |
| 13/02/2007 | Debate in Parliament  |  |         |
| 14/02/2007 | Decision by Parliament  | <a href="#">T6-0036/2007</a>  | Summary |
| 14/02/2007 | Results of vote in Parliament                                   |  |         |
| 27/03/2007 | Act adopted by Council after consultation of Parliament         |   |         |
| 27/03/2007 | End of procedure in Parliament                                  |   |         |
| 05/04/2007 | Final act published in Official Journal                         |   |         |

| Technical information             |  |
|-----------------------------------|--|
| <b>Procedure reference</b>        | 2006/0083(CNS)   |
| <b>Procedure type</b>             | CNS - Consultation procedure   |
| <b>Procedure subtype</b>          | International agreement  |
| <b>Legislative instrument</b>     | Regulation   |
| <b>Amendments and repeals</b>     | Amending Regulation (EC) No 1290/2005 <a href="#">2004/0164(CNS)</a><br>Amended by <a href="#">2008/0103(CNS)</a><br>Amended by <a href="#">2010/0372(COD)</a> |
| <b>Legal basis</b>                | EC Treaty (after Amsterdam) EC 037   |
| <b>Stage reached in procedure</b> | Procedure completed  |
| <b>Committee dossier</b>          | AGRI/6/43235   |

| Documentation gateway   |                      |                              |            |         |
|---|----------------------|------------------------------|------------|---------|
| <b>European Parliament</b>                                      |                      |                              |            |         |
| Document type   | Committee            | Reference                    | Date       | Summary |
| Committee draft report  |                      | <a href="#">PE376.612</a>    | 24/08/2006 |         |
| Amendments tabled in committee                                  |                      | <a href="#">PE376.791</a>    | 19/09/2006 |         |
| Committee opinion   | <a href="#">BUDG</a> | <a href="#">PE378.594</a>    | 26/09/2006 |         |
| Committee report tabled for plenary, 1st reading/single reading |                      | <a href="#">A6-0315/2006</a> | 05/10/2006 |         |
| Committee draft report  |                      | <a href="#">PE382.346</a>    | 29/11/2006 |         |
| Committee report tabled for plenary, 1st reading/single reading |                      | <a href="#">A6-0009/2007</a> | 26/01/2007 |         |
| Text adopted by Parliament, 1st reading/single reading          |                      | <a href="#">T6-0036/2007</a> | 14/02/2007 | Summary |
| <b>European Commission</b>                                      |                      |                              |            |         |
|   |                      |                              |            |         |

| Document type        | Reference  | Date       | Summary                 |
|----------------------|--|------------|-------------------------|
| Legislative proposal | COM(2006)0241<br> | 24/05/2006 | <a href="#">Summary</a> |
| Follow-up document   | COM(2009)0407<br> | 29/07/2009 | <a href="#">Summary</a> |

| Additional information |          |      |
|------------------------|----------|------|
| Source                 | Document | Date |
| National parliaments   | IPEX     |      |
| European Commission    | EUR-Lex  |      |

| Final act   |
|---|
| <a href="#">Regulation 2007/0378</a><br><a href="#">OJ L 095 05.04.2007, p. 0001</a> <span style="float: right;"><a href="#">Summary</a></span> |

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

2006/0083(CNS) - 19/03/2007

The Council reached political agreement unanimously, with the abstention of the Latvian delegation, on the Presidency compromise proposal.

The agreed compromise text meets the three institutions' concerns equitably.

The final act will be adopted at a forthcoming meeting of the Council. The European Parliament's Committee on Budgets unblocked the 20% of the budget on 21 March 2007, thereby allowing Member States to meet their rural development programmes commitments.

The Presidency compromise introduces a legal basis which makes it possible for Portugal and the United Kingdom only to apply the voluntary modulation scheme. A review of the issue of modulation is provided for in the framework of the "health check" of the CAP reform, in 2008. The United Kingdom delegation stated that the four regions of the United Kingdom are planning to use voluntary modulation over the period 2007-2013 at less than 20% and that, in England, 80% of the modulation would be devoted to Axis 2 (protection of environment) to be co-financed at a significant level.

## 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.**

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

2006/0083(CNS) - 18/07/2006

The Council held a policy debate on voluntary modulation. On 10 July 2006, an **initial debate** took place in the Special Committee on Agriculture, where the delegations voiced their views on this proposal. Their main concerns related to: the lack of flexibility vis-à-vis the voluntary modulation scheme proposed by the Commission; the need for greater flexibility regarding the specific rates of modulation in a Member State depending on the different regions; the extension dates for notifying rates; and an exemption from the minimum EUR 5000 franchise. Some delegations also expressed their opposition to the need for compliance with the minimum spending rates per axis for these funds.

The **policy debate**, which was held on 18 July 2006, led to political guidance in order to allow the Special Committee on Agriculture to make progress on this issue with a view to formal adoption by the Council towards the end of 2006, pending the opinion of Parliament.

During the policy debate, several delegations stated their support for the Commission's proposal but called for greater flexibility on the chosen rate of voluntary modulation as well as voicing the possibility of an annual adjustment. In follow up to the discussion during the initial debate some delegations revisited the issue of applying different rates for regions in the same country. They also raised the matter of the two months deadline within which Member States need to notify the Commission of their chosen rates for modulation. A few delegations reiterated their wish for voluntary modulation to be exempted from the EUR 5000 franchise (a minimum threshold for direct payments below which compulsory modulation does not apply). The possibility that a distortion of competition among the Member States may result from the proposed scheme was also raised.

Commissioner Fischer-Boel reminded the Council of the decision to limit voluntary modulation to direct payments in the first pillar – direct payments and market expenditures – and indicated that the Commission had chosen to align the rules on *voluntary* modulation with those applicable to existing rules on *compulsory* modulation. Bearing this in mind the Commissioner stressed that the EUR 5000 franchise applicable to compulsory modulation would also apply to voluntary modulation, as well as the minimum spending rates per axis for rural development. As such, applying a regional application of voluntary modulation would be a departure from the compulsory modulation rules and would, furthermore, be difficult to manage.

On the request to adjust the modulation rate annually, Commissioner Fischer-Boel pointed out that modifying rates upwards or downwards would not be in the best interest of sound financial planning. She reminded the Member States that the provisions on voluntary modulation would be reviewed in the 2008 "Health Check" on CAP reform.

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

2006/0083(CNS) - 27/03/2007 - Final act

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

LEGISLATIVE ACT: Council Regulation (EC) No 378/2007 laying down rules for voluntary modulation of direct payments provided for in Regulation (EC) No 1782/2003 establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers, and amending Regulation (EC) No 1290/2005.

CONTENT: following a political agreement at its meeting on 19 March and following consultation with representatives of the European Parliament the Council adopted, with the abstention of the Latvian delegation, a Regulation laying down rules for voluntary modulation of direct payments under the common agricultural policy (CAP).

The Regulation has been approved following concerns in some Member States that they face difficulties in financing their rural development programmes following the adoption of Regulation (EC) No 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD). In order to support their rural development policies this present Regulation offers them the possibility of voluntarily reducing direct payments to farmers, by up to 20%, and using the funds to financial rural development programmes instead.

The Regulation introduces a legal basis allowing Portugal and the United Kingdom to apply the voluntary modulation scheme. A review of the issue of modulation is foreseen in the framework of the so-called "health check" of the CAP reform in 2008.

The United Kingdom delegation stated that four regions are planning to use voluntary modulation over the 2007-2013 period at less than 20% and that, in England, 80% of the modulation will be devoted to protecting the environment. The European Parliament had suspended 20% of EU 2007 budget appropriations for rural development unless the proposal to extend voluntary modulation to all Member States was withdrawn.

The suspension was lifted on 21 March, following unanimous political agreement on the presidency compromise. This will release 20 % bound appropriations from the reserve and allow the approval and implementation of rural development programmes for the new programming period without delay.

ENTRY INTO FORCE: 12 April 2007.

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

2006/0083(CNS) - 14/02/2007 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted a resolution drafted by Lutz **GOEPEL** (EPP-ED, DE) once again rejecting - under the consultation procedure - the Commission proposal for a voluntary modulation scheme under the common agricultural policy. (For details, please refer to the summary dated 24/01/2007.) The proposal was rejected by 89 votes in favour to 584 against with 19 abstentions

The legislative resolution (confirming Parliament's rejection of the proposal) was adopted by 572 votes in favour to 65 against with 16 abstentions.

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

2006/0083(CNS) - 29/07/2009 - Follow-up document

The present report has been prepared pursuant to Article 7 of Council Regulation (EC) No 378/2007, which provides that before 31 December 2008, the Commission shall submit to the European Parliament and to the Council a report on the application of voluntary modulation, accompanied, if needed, by appropriate proposals.

In the meantime, the [Health Check of the Common Agricultural Policy \(CAP\)](#) has responded to the need to increase funding for rural development by **increasing the rate of compulsory modulation**. The Member States applying voluntary modulation will gradually replace voluntary modulation by compulsory modulation, thus better aligning modulation rates across the EU.

**Main conclusions:** the report concludes that voluntary modulation has either been used for a short period (UK) or still has not been implemented as expected under the rural development programmes (Portugal). It is therefore very early to draw any firm conclusions on the impact of voluntary modulation on the economic situation of farms and their competitive position. Other factors (e.g. rising commodity prices, rising input prices, the credit crunch, etc.) have had probably a greater impact on total income from farming than voluntary modulation.

As regard other impacts, it should be noted that, in the UK, a wide range of environmental benefits is expected, mainly through agro-environmental measures where a significant increase in agri-environmental agreements has been observed.

Lastly, the Health Check of the Common Agricultural Policy (CAP) has responded to the need to increase funding for rural development by increasing the rate of compulsory modulation. The Member States applying voluntary modulation will gradually replace voluntary modulation by compulsory modulation, thus better aligning modulation rates across the EU. Therefore, there is no need to come forward with appropriate proposals as suggested in Article 7 of Regulation (EC) No 378/2007.