





# Procedure file

Basic information		
INI - Own-initiative procedure	<a href="#">2007/2195(INI)</a>	Procedure completed
Health check on the CAP		
Subject 3.10 Agricultural policy and economies		

Key players			
European Parliament	Committee responsible	Rapporteur	Appointed
	 Agriculture and Rural Development		05/06/2007
		PPE-DE <a href="#">GOEPEL Lutz</a>	
	Committee for opinion	Rapporteur for opinion	Appointed
	 Environment, Public Health and Food Safety		30/11/2007
		Vers/ALE <a href="#">BUITENWEG Kathalijne Maria</a>	
Council of the European Union	Council configuration	Meeting	Date
	<a href="#">Agriculture and Fisheries</a>	<a href="#">2849</a>	18/02/2008
	<a href="#">Agriculture and Fisheries</a>	<a href="#">2843</a>	21/01/2008
	<a href="#">Agriculture and Fisheries</a>	<a href="#">2834</a>	26/11/2007
European Commission	Commission DG	Commissioner	
	<a href="#">Agriculture and Rural Development</a>	FISCHER BOEL Mariann	

Key events			
27/09/2007	Committee referral announced in Parliament		
19/11/2007	Non-legislative basic document published	<a href="#">COM(2007)0722</a>	Summary
26/11/2007	Debate in Council	<a href="#">2834</a>	Summary
21/01/2008	Debate in Council	<a href="#">2843</a>	Summary
18/02/2008	Debate in Council	<a href="#">2849</a>	Summary
26/02/2008	Vote in committee		Summary
28/02/2008	Committee report tabled for plenary	<a href="#">A6-0047/2008</a>	
11/03/2008	Debate in Parliament		
12/03/2008	Results of vote in Parliament		
12/03/2008	Decision by Parliament	<a href="#">T6-0093/2008</a>	Summary
12/03/2008	End of procedure in Parliament		

Technical information
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Procedure reference	2007/2195(INI)
Procedure type	INI - Own-initiative procedure
Procedure subtype	Strategic initiative
Legal basis	Rules of Procedure EP 54
Stage reached in procedure	Procedure completed
Committee dossier	AGRI/6/53467

## Documentation gateway

Non-legislative basic document		<a href="#">COM(2007)0722</a>	20/11/2007	EC	Summary
Committee draft report		<a href="#">PE398.676</a>	07/01/2008	EP	
Amendments tabled in committee		<a href="#">PE400.505</a>	31/01/2008	EP	
Amendments tabled in committee		<a href="#">PE400.608</a>	31/01/2008	EP	
Amendments tabled in committee		<a href="#">PE400.609</a>	31/01/2008	EP	
Committee opinion	ENVI	<a href="#">PE398.573</a>	31/01/2008	EP	
Committee report tabled for plenary, single reading		<a href="#">A6-0047/2008</a>	28/02/2008	EP	
Text adopted by Parliament, single reading		<a href="#">T6-0093/2008</a>	12/03/2008	EP	Summary
Commission response to text adopted in plenary		<a href="#">SP(2008)2060</a>	09/04/2008	EC	
Commission response to text adopted in plenary		SP(2008)2630/2	08/05/2008	EC	

## Health check on the CAP

**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 were 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.

## Health check on the CAP

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The Council noted the presentation by the Commission of the communication "Preparing for the "Health Check" of the CAP reform" which was adopted on 20 November and the Ministers' initial reactions to this important study on the functioning of the reformed CAP, and on its future.

The future Slovenian Presidency said it intended to organise, under its aegis, the discussions necessary to conclude discussions in March 2008.

The European Parliament has drawn up a work schedule which would enable it to adopt its opinion at the plenary session in March 2008.

On the basis of the proceedings of the European Parliament and the Council, and also the

consultations with interested parties, the Commission should come back with legislative proposals in May 2008; the future French Presidency intends to hold intensive discussions on those proposals so that the matter can, if possible, be concluded during its term of office.

The Communication mentions several adjustments that could be made to the CAP, such as:

- measures for achieving the total decoupling of aid: with regard to this question, some Ministers gave a reminder of their support for such an approach, which is intended to increase competitiveness, whereas others wanted to retain partial coupling, in particular for stock farming (suckler cows and sheep);
- review of cross-compliance: most delegations wanted to go further in the simplification exercise that had already started<sup>1</sup>;
- capping of payments: some delegation saw this as a means of better distributing aid, by limiting the amount of aid for large holdings, but other delegations were concerned about the risk of fragmentation to evade a possible size limit. Others feared the socio-economic impact of such an initiative in their countries where large-scale structures may have a historical basis;
- simplification of the Single Payment Scheme was welcomed by all the Ministers although some of them gave a reminder of the need to respect the commitments given in 2003 to farmers who need stability and foreseeability to optimise their investments and new installations. In addition, the "new" Member States applying the single area payment scheme (SAPS) welcomed the Commission's intention of examining the possibility of maintaining SAPS until 2013.
- changes with regard to market management tools (set-aside, price support, intervention (in particular cereals), export refunds): several delegations called for more detailed and cautious consideration of these questions, noting the exceptional market situation but considering it premature to draw medium or long-term conclusions;
- measures enabling environmental challenges to be met (alleviating the effects of climate change, biofuels, water management, respect for biodiversity, etc.) were also welcomed by all the delegations;
- the desirability of introducing a Community-wide risk management policy was also raised, with some delegations mentioning insurance systems for climate or health risks and others insisting on maintaining a Community commitment in this connection;
- strengthening the second pillar: the idea of gradually increasing compulsory modulation to reach 13 % in 2013 got a mixed reception, with some delegations uncertain of the real need for such a measure or regarding the increase as too drastic, while others stressed that the funds transferred in this way should remain earmarked for agriculture;

the question of the phasing-out of milk quotas, which are scheduled to end in 2015, was also mentioned repeatedly: most of the delegations could agree to it but some Member States drew the Commission's attention to the typical socio-economic aspects of certain regions (mountain, peripheral or very fragile).

Lastly, in a broader perspective, some delegations stressed the strategic role of agriculture for the security of supply of 500 million Europeans and the need to promote health and animal welfare standards at international level that are as rigorous as Community standards.

## Health check on the CAP

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The Council held a policy debate on the communication on the "health check" of the CAP since its 2003 reform, on the basis of a Presidency questionnaire, intending to discuss whether:

- the main developments since the reform of 2003/2004 and the main challenges to the CAP in the years ahead were correctly analysed in the Commission's communication;
- the level of ambition and the scope of the adjustments broadly outlined in the Communication represent an adequate response to these challenges;
- the avenues for action identified by the Commission would better align the CAP with general societal expectations while preserving the European model of agriculture.

The Council noted the support of a large majority of delegations for the analysis made in the communication and the new challenges identified by the Commission.

With regard to the level of ambition and scope, Member States based their views on those expressed at November's Council meeting.

The crucial role of farmers to adapt to the environmental and global changes was unanimously recognised. Several delegations highlighted the strategic importance of agriculture with regard to food security, and the multifunctional aspects of the CAP. The different concerns and views expressed by the Member States will be examined on a technical and political level during the weeks to come, and will, once again, be submitted to Ministers in February 2008.

The Presidency's intention is for the Council to draw conclusions in March 2008, in order to enable the Commission to present legislative proposals in May, so that they can be examined in detail in the second half of 2008.

The Commission noted its agreement on the proposed timetable and stated that it would call for the timely development of relevant legislative proposals by its services, on the basis of these conclusions.

## Health check on the CAP

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The Council held a policy debate on the communication on the "health check" of the CAP since its 2003/2004 reform.

The discussion was framed by a Presidency questionnaire, focusing on identifying the three main priorities of each Member State and the measures necessary to ensure a "soft landing" on the expiry of the milk quota regime in 2015.

The Council invited its preparatory bodies to continue work, with a view to agreeing Council conclusions in March.

## Health check on the CAP

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The Committee on Agriculture adopted an own-initiative report by Lutz GOEPEL (EPP-ED, DE) on the CAP 'Health Check'.

MEPs approve the guidelines of the European Commission's Communication on the preparation of the "Health Check" of the reformed CAP. However, they prescribe a certain number of recommendations on the following issues:

**Direct payments:** Members consider that direct payments will remain vitally necessary, not only in the event of market failures, but also to compensate Europe's very high environmental, animal protection and health standards, and the services provided for by farmers to society. Direct payments will still be necessary after 2013; however, the report stresses that they will be subject to new objective criteria, notably the direct creation of jobs on farms.

The Committee on Agriculture welcomes the Commission's proposal to grant Member States more flexibility, if required, to move towards the separation of direct payments from historical references and towards a more robust system. Members call on the Commission to clarify, on submission of the legislative proposal, whether a faster transition to an area-based regional or national single premium of decoupled payments is feasible, where possible by 2013, in the light of positive experiences in Member States. MEPs also call for a study of the repercussions which a premium justified by area could have, particularly concerning farms with a high density of livestock, on comparatively small farms.

The report calls on the Commission to push through the decoupling policy at a faster pace, unless in so doing this would result in significant socio-economic or environmental drawbacks in poorer regions. According to MEPs, all future decoupling should only occur following an in-depth examination of its potential effects, notably concerning the balance between different agricultural sectors, the augmented risk of single-crop farming, and the dangers it places on labour-intensive agricultural sectors.

MEPs are also aware of the key role played by livestock farming in European agriculture, particularly in countries and regions where labour-intensive livestock farming is extensive, and so consider that maintaining coupled animal premiums, initially until 2013, would be reasonable.

**Revision of Article 69 for new support systems:** for the committee, the current mechanism of Article 69 of Regulation (EC) No 1782/2003, which allows Member States to withhold and reassign up to 10% of direct aid to farmers in the framework of the first pillar (supporting agricultural markets), must be reviewed. Appropriations should primarily be allocated to: (i) measures aimed at preventing agricultural

production, and especially livestock farming, from being abandoned, in mountainous regions, wetlands, areas affected by drought or other impoverished areas; (ii) measures designed to restructure and boost key agricultural sectors (e.g. the dairy sector, for milk and beef production, and sheep sector); (iii) area-based environmental measures (e.g. organic farming); and (iv) risk management.

The provision of the revised Article 69 could be increased to 12% in the Member States, who so desire, subject to an impact assessment.

The Commission is called upon to present a report before 30 June 2010, in which it will comprehensively explain how the Community production of vegetables and livestock farming in Europe can be safeguarded in the long term.

Simplification, cross-compliance and market orientation: the Committee on Agriculture supports the immediate abolition of the set-aside obligation, which has lost its significance, as well as transformation of set-aside rights into normal rights. It considers that the environmental advantages of set-aside can be better and more directly realised through measures taken under the second pillar (rural development). However, MEPs reject any widening of the scope of cross-compliance, as long as Member States and the Commission fail to make substantial progress in simplifying and harmonising monitoring rules, and the Commission does not present an overview of the costs connected with cross-compliance to farmers.

Members call for cross-compliance to be more efficient in relation to the objectives that it pursues, and that it be applied more homogeneously across different Member States. They also call for an end to disproportionate burdens placed on livestock farming by cross-compliance.

The Commission is called upon to put in place the necessary mechanisms so that imports from third countries conform to the same standards as Community production, in terms of cross-compliance and food safety, for example.

Safety net: in view of the anticipated increase in environmental and climate dangers and in the risk of epidemics and considerable price fluctuations in the agricultural markets, the Committee on Agriculture considers additional risk prevention to be of vital importance as a safety net. It strongly supports the Commission's proposal to lower the intervention thresholds for market crops to 20%, maintaining an intervention threshold, reduced if necessary, only in the case of wheat.

In addition, MEPs consider that private or mixed sector insurance schemes, such as multi-hazard insurance, must be developed as a matter of urgency without negatively affecting the equal treatment of Member States. The Commission is called upon to examine the possibility of establishing or supporting a Community reinsurance system, which would help deal with problems deriving from climatic or environmental catastrophes. Risk prevention measures should be partially funded under the first pillar.

Modulation/capping ceiling/degressivity/minimum threshold: the Committee on Agriculture rejects the Commission's proposal on degressivity (with a reduction of up to 45%) in its present form, as there is no clear link between the size and revenue of farms. It emphasises that the Commission's proposal would unfairly disadvantage large farms and would lead to a reduction in the workforce and the destruction of well-developed, competitive structures.

Refusing any reduction of the first pillar's overall budget until 2013, the Parliamentary Committee also refuses additional modulation of appropriations of the first pillar (support for agricultural markets) to the second pillar (rural development) recommended by the Commission, which would result in an 8% reduction of direct payments to farmers until 2013.

However, MEPs consider that a progressive modulation can be envisaged, on the basis of an impact assessment, taking into account the farm structure, the agricultural workforce and/or its cost, and the particular types of production in the different direct payment schemes. The funds resulting from progressive modulation will be distributed in accordance with the prevailing rules governing modulation funds, and kept in the regions or the Member States in which they accrue. This progressive modulation, applicable over the period 2009-2013, will consist of a 1% reduction of the direct aid totalling between EUR 10 000 and EUR 100 000, 2% between EUR 100 000 and EUR 200 000, 3% between EUR 200 000 and EUR 300 000, and 4% for aid exceeding EUR 300 000.

Milk market organisation: aware that the current system of milk quotas is unlikely to be continued after 2015, MEPs call on the Commission to present a clear system to manage the quantity of milk produced, so as to ensure continued milk production in Europe, including in mountainous regions, isolated areas and other areas with particular difficulties.

Members call on all parties involved to use the time up until 2015 in order to stabilise or strengthen their market positions and to assure a 'soft landing' for the dairy industry, preferably by means of structural quota increases. They believe that Member States should be able to voluntarily increase quotas by 2% during the 2008/2009 dairy campaign.

## Health check on the CAP

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The European Parliament adopted, by 510 votes to 88 with 81 abstentions, a resolution on the CAP' Health Check', in response to the Commission's Communication on this subject.

The own-initiative report had been tabled for consideration in plenary by Lutz GOEPEL (EPP-ED, DE) on behalf of the Committee on Agriculture and Rural Development.

Parliament considers the scrapping of all form of regulation within the CMOs to be politically undesirable since, as the current situation shows, European and global reserves stand at dramatically low levels. This is having negative repercussions on consumer purchasing power and farmers' incomes, while at the same time encouraging speculation. Besides this, instruments are needed to combat a potential economic downturn and the risks posed by health incidents and increasingly frequent natural disasters arising from the unsettled climate.

Parliament feels that the challenge for the EU as regards the WTO negotiations is to match any future constraints in a way that maximises domestic welfare. The condition for any WTO agreement on agriculture is to reach an agreement on intellectual property covering geographical indications and recognition of the Non-Trade Concerns as import criteria. The Commission must take account of the specific characteristics of agricultural production as a food production sector and a structuring element for territorial balance, preservation of the environment and the safeguarding of adequate levels of food safety.

Members reject a reduction in the total budget of the first pillar for the period up to 2013. They also reject any discrimination according to farm size and legal form in the direct payments but acknowledge that all redistribution of aid in the first pillar must be based on a holistic assessment of its effects on social and regional cohesion, employment, environment, competitiveness and innovation.

**Direct payments:** Members consider that direct payments will remain vitally necessary in the future as a basic income guarantee, not only in the event of market failure but also for the provision of public goods by farmers and as compensation for Europe's high environmental, food safety, animal welfare and social standards. The Commission is asked to clarify whether a faster transition to an area-based regional or national single premium of decoupled payments is feasible, where possible by 2013, in the light of positive experiences in Member States. MEPs call for a study of the repercussions which a premium justified by area could have, particularly concerning farms with a high density of livestock, on comparatively small farms. Parliament also calls on the Commission to push through the decoupling policy at a faster pace, unless in so doing this would result in significant socio-economic or environmental drawbacks in poorer regions. All future decoupling should only occur following an in-depth examination of its potential effects, notably concerning the balance between different agricultural sectors, the increased danger of monocultures, and the threat to labour-intensive agricultural sectors. Direct payments will also be required after 2013, but these need to be based on new objective criteria, notably on direct employment generated by farms, or developed more clearly in the direction of a reward for farmers for land stewardship.

MEPs are also aware of the key role played by livestock farming in European agriculture, especially in certain countries and regions with large-scale animal husbandry and consider that it would be reasonable to partially maintain coupled animal premiums for the time being.

**Revision of Article 69 for new support systems:** Parliament states however, that maintaining coupled animal premiums in itself will not be enough. The current mechanism of Article 69 of Regulation (EC) N° 1782/2003, which allows Member States to withhold and reassign up to 10% of direct aid to farmers in the framework of the first pillar (supporting agricultural markets) will be reviewed. Parliament calls for appropriations under Article 69 to be allocated primarily for: (i) measures aimed at preventing agricultural production, and especially livestock farming, from being abandoned, in mountainous regions, wetlands, areas affected by drought or other impoverished areas; (ii) measures designed to restructure and boost key agricultural sectors (e.g. the dairy sector, for milk and beef production, and sheep sector); (iii) area-based environmental measures (e.g. organic farming); and (iv) risk management.

The budget for the revised Article 69 could, subject to the results of an impact assessment and on a voluntary basis, cover up to 12% of direct payments per Member State. The Commission is called upon to present a report before 30 June 2010, in which it will explain how Community production of vegetables and livestock farming in Europe can be safeguarded in the long term.

**Set aside and cross-compliance:** Parliament supports the immediate abolition of the set-aside obligation and the conversion of set-aside entitlements into normal entitlements. However, MEPs reject any widening of the scope of cross-compliance, as long as Member States and the Commission fail to make substantial progress in harmonising monitoring rules, and the Commission does not present an overview of the costs connected with cross-compliance to farmers. Members call for cross-compliance to be more efficient in relation to the objectives that it pursues, and to be applied more homogeneously across different Member States. They also call for an end to disproportionate burdens placed on livestock farming by cross-compliance.

**Safety net:** in view of the anticipated increase in environmental dangers and considerable price fluctuations, Parliament considers additional risk prevention to be of vital importance as a safety net. It supports the Commission's proposal to lower the intervention thresholds for market crops to 70%, maintaining an intervention threshold, reduced if necessary, only in the case of wheat. In addition, private or mixed sector insurance schemes, such as multi-hazard insurance, must be developed as a matter of urgency. However, the introduction of these schemes must not endanger the level playing field between Member States. The Commission should consider supporting a Community-wide reinsurance system. Risk prevention measures should be partially funded under the first pillar on the basis of Article 69, since they fall within the scope of market policy.

**Modulation and degressivity:** Parliament rejects the Commission's proposal on degressivity (with a reduction of up to 45%) in its present form, as there is no clear link between the size and wealth of farms. It emphasises that the Commission's proposal would unfairly disadvantage large farms and would lead to a reduction in the workforce and the destruction of well-developed, competitive structures.

Parliament supports, however, the efforts of the Commission to secure appropriate financing for a sustainable policy for rural areas under the second pillar of the CAP, although that objective must not be attained at the expense of the first pillar. In view of the already drastic nature of individual reductions, a further reduction in direct payments of 8% cannot, in the absence of an impact assessment, be accepted.

However, MEPs consider that a progressive modulation could be envisaged, on the basis of an impact assessment, taking into account the farm structure, the agricultural workforce and/or its cost, and the specific production types in the different direct payment schemes. The funds from the progressive modulation are to be distributed according to the prevailing rules governing modulation funds and to remain in the regions or Member State in which they accrue. This progressive modulation, applicable over the period 2009-2013, will consist of a 1% reduction of the direct aid totalling between EUR 10 000 and EUR 100 000, 2% between EUR 100 000 and EUR 200 000, 3% between EUR 200 000 and EUR 300 000, and 4% for aid exceeding EUR 300 000. Parliament also calls for voluntary modulation to be replaced by compulsory modulation.

**Milk market organisation:** since the current system of milk quotas is unlikely to be continued after 2015, MEPs call on the Commission to present a convincing plan for the milk sector that guarantees the continuation of milk production in Europe. All parties should use the time up until 2015 in order to strengthen their market positions and assure a 'soft landing' for the dairy industry, preferably by means of structural quota increases. Quotas should be increased by 2% in the milk year 2008/2009 on a voluntary basis for each Member State.

**European Mark:** Parliament calls on the Commission introduce a 'European mark' to identify the quality of EU agricultural and food production on the European market as well as the international markets, and identifying the strict standards, in relation to the environment, animal welfare and food safety under which production takes place.