



National Assembly for Wales
Cynulliad Cenedlaethol Cymru

EU Common Agricultural Policy: 2008 CAP Health Check

Abstract

This paper provides information on developments associated with the reform of the Common Agricultural Policy (CAP), with particular emphasis on the 2008 'Health Check'.

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EU Common Agricultural Policy: 2008 Health Check

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Executive Summary

A Communication on the 'Health Check' of the Common Agricultural Policy (CAP) was launched on 20 November 2007¹. The Communication marked the beginning of a consultation period, which will result in legislative proposals from the Commission. The 'Health Check' is not a fundamental reform of the CAP; rather it aims to ensure that the CAP functions effectively and to simplify it where possible.

The Welsh Assembly Government issued a consultation paper² seeking views from the farming and broader countryside interests in Wales on the Commission's proposals on 21 January 2008. Responses are sought by 28 February. The responses received will help to shape the Welsh Assembly Government's position on the discussions within the UK and in Europe.

Legislative proposals are expected to be presented by the Commission in May 2008. The Commission hopes that these will be adopted by the Agriculture Ministers of Member States by the end of 2008; they could come into effect immediately after their adoption. The proposals provide options including making the Single Payment Scheme more effective, adapting market support instruments, increasing compulsory modulation and putting limits on the payments to larger farms. In addition the proposals address new challenges facing the sector such as climate change, the protection of biodiversity and water management.

¹ Health Check of the Common Agricultural Policy, *Fit for new opportunities*, 20 November 2007
http://ec.europa.eu/agriculture/healthcheck/index_en.htm

² Welsh Assembly Government, *Common Agricultural Policy: 2008 Health Check Consultation*, January 2008
<http://wales.gov.uk/consultations/currentconsultation/envandcouncurrcons/1928666/?lang=en>

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EU Common Agricultural Policy: 2008 Health Check

1 CAP Reform

The most significant reform of the Common Agricultural Policy (CAP) took place in 2003. The main aspects of this reform were the replacement of numerous subsidy schemes with the Single Payment Scheme (Pillar One) and the strengthening of the Rural Development (Pillar Two) element of the CAP. As a result, payments are 'decoupled' which means they are no longer linked to the number of animals kept or the area of crops grown. Farmers are required to keep their land in Good Agricultural and Environmental Condition and must undergo 'Cross Compliance' checks (see paragraph 3.2) to ensure this.

As part of the 2003 reforms it was agreed that a review of how the CAP reforms of 2003 had been implemented would be undertaken in 2008 – known as a 'Health Check' of the CAP.

2 CAP 'Health Check'

On 20 November 2007, the European Commission published a Communication³ to the European Parliament outlining proposals for the Health Check⁴.

This is not another reform, nor does it deal with any budgetary issues. The aim is to ensure that the 2003 reforms are working and whether there is any need for adjustment. Legislative proposals will be brought forward by the Commission in May following on from the Health Check.

The Health Check addresses three main issues:

- How to make the Single Payment Scheme (SPS) more effective, efficient and simple;
- How to ensure market support instruments, (originally conceived for a Community of six Member States), are still relevant in a globalised world and an EU of twenty-seven;
- How to adapt to risks and opportunities presented by both new challenges, such as climate change, water management and growth in biofuels, and ongoing ones, such as the decline in biodiversity.

³ European Commission, *Communication from the Commission to the European Parliament and the Council: Preparing for the Health Check of the CAP reform*, November 2007

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2007:0722:FIN:EN:PDF>

⁴ DG Agriculture and Rural Development, *Health Check of the Common Agricultural Policy - Fit for new opportunities*, November 2007
http://ec.europa.eu/agriculture/healthcheck/index_en.htm

3 Key proposals

3.1 A move from the historic model for the Single Payment Scheme (SPS) to payment on a flatter or area basis

Wales currently operates under the 'historic model'. This means that, at present, some farmers in Wales receive payments on the basis of levels that they used to produce. The amount is based on the amount of land used and the amount of subsidy paid between 2000 and 2002. The Commission is critical of the fact that this can result in different payment levels being made to neighbouring farms.

The Commission is proposing that payments be made on a flatter area-basis rather than the historic model. This would mean a flat rate of payment per hectare, based on land areas.

Some argue that the historic model currently operating reflects issues such as the fertility, size, altitude and climate of any farm and can indicate the production capacity (but not production levels) of each farm. A flatter rate of payment would not reflect this production capacity, therefore would not take into consideration the variation in the types of environments in which Welsh farming activities take place.

The Commission is giving Member States the opportunity to adjust their chosen models to the flatter rate for the remainder of the financial period (to 2013) and is of the view that it is difficult to justify continuing to pay farmers on an historic basis. A change to this system in Wales would mean changes in the distribution of support between Welsh farmers.

In its consultation paper on the CAP Health Check⁵, the Welsh Assembly Government states that, subject to the responses to the consultation, its intention is to maintain the current historic model until 2013.

The Commission is also proposing that direct payments to farmers should be fully decoupled from production, i.e. not linked to the amount that is produced. Wales achieved this in 2003 with the introduction of the SPS, but some Member States chose to retain coupled support in some sectors. This means that farmers in Wales are paid on the basis of historic levels of production, but their payments are not linked to current levels of production.

3.2 Qualifying the scope of Cross Compliance

Cross Compliance is an important element of the CAP that requires farmers to reach agricultural, environmental, animal welfare and public health standards in order to receive payments. The Commission states that there is very little opportunity to make significant changes to this regime.

In line with the simplification of the CAP, the Health Check looks at the following cross compliance issues:

⁵ Welsh Assembly Government, *Common Agricultural Policy: 2008 Health Check Consultation*, January 2008
<http://wales.gov.uk/consultations/currentconsultation/envandcouncurrcons/1928666/?lang=en>

- Qualifying the Statutory Management Rules by removing those which aren't directly relevant to the objectives of cross-compliance;
- Amending, if necessary, the present list of Statutory Management Rules and Good Agricultural and Environmental Condition requirements to improve achievement of Cross Compliance objectives.

3.3 Upper and lower limits to support levels

The issue of the distribution of CAP payments has been one of great discussion. In recent years, the Commission has undertaken a transparency initiative to provide information on the distribution of payments. The SPS made the system more transparent, but has resulted in increased calls for a limit to be set on the level of support received by a small number of large landowners and farmers. In addition, there have been a number of complaints about the large number of farmers receiving small payments, who are often criticised for not being 'genuine' farmers.

The Commission is proposing thresholds as follows:

- Payments above €100,000 would be reduced by 10 per cent;
- Payments above €200,000 would be reduced by 25 per cent;
- Payments above €300,000 would be reduced by 45 per cent.

The Commission is also proposing that the amounts raised through these limits would be retained within the Member State (or regions in the case of the UK) and could be redistributed through other means. According to the Welsh Assembly Government's consultation paper⁶:

"There are around 290 SPS recipients in Wales who receive €100,000 or more which could generate €600,000 through imposing the proposed restrictions".

The Commission has not yet made any specific proposals for a minimum SPS level or qualifying area. According to the Welsh Assembly Government, there are currently around 3,800 SPS recipients whose payments are below €3,000, of which approximately 1,500 receive €1,000 or less. The current minimum is 0.3 ha of eligible land.

3.4 Market Measures

The current system for milk quotas ends in 2015; the Commission believes that it is no longer valid. The Commission's Communication states that it wishes to prepare a 'soft landing' for the dairy industry by a phased increase in quotas to help farmers take advantage of new opportunities in the market and lessen the impact of suddenly removing quotas. In its consultation, the Welsh Assembly Government asks for views on other measures apart from quota increases that could help the milk sector.

⁶ *ibid*

The Commission proposes to abolish set-aside; the current requirement for arable farmers to leave a certain percentage of their land fallow. Whilst the Commission recognises the environmental benefits of set-aside, and believes this shouldn't be lost, this is not why set-aside was implemented. The Health Check has suggested that such benefits could be kept by strengthening Rural Development (Pillar Two) support for specific types of land management. The European Parliament's Environment, Public Health and Food Safety Committee has raised concerns that, as this would be on a voluntary rather than mandatory basis it would reduce the amount of agricultural land available for biodiversity and conservation purposes⁷.

3.5 Modulation

The Commission recognises that new challenges facing agriculture make strengthening the Second Pillar of the CAP, which focuses on Rural Development, necessary.

Compulsory Modulation means top-slicing the money received by farmers for the Single Farm Payment (SPS), and transferring this money to Rural Development (Pillar Two) budget, which then funds activities such as agri-environment schemes, rural regeneration and diversification. The first €5,000 received by farmers is exempt from Compulsory Modulation.

The budget for the entire CAP is fixed until 2013 and, therefore, the only way to increase funds to the Rural Development Pillar in the short term is by increasing the Compulsory Modulation rates for Member States. The Commission proposes to raise existing compulsory modulation rates, by 2 per cent annually from 2010 – 2013, so that by 2013 it would be 13 per cent rather than the current rate of 5 per cent.

Funds from Compulsory Modulation are redistributed back to Member States through a formula that includes agricultural area, agricultural employment and GDP. The monies are used to fund their Pillar 2, Rural Development activities. Member states are guaranteed to get a minimum of 80 per cent of their modulated funds, which is the proportion that Wales currently receives. The Commission has not yet revealed whether this mechanism for redistribution will be amended as a result of any changes to Compulsory Modulation rates.

Member states can also impose Voluntary Modulation to 'top up' the funds for Rural Development activities, which means taking another percentage from the funds that is intended for Pillar 1 and transferring it to Pillar 2. Voluntary Modulation expenditure must be co-financed by national funding. The Welsh Assembly Government uses Voluntary Modulation to make up some of the deficit in the amount received for Pillar 2 in Wales.

The UK and Portugal are the only Member States that are doing this at present. According to a Communication from the UK Government to the Commission:⁸

⁷ Opinion of the Environment, Public Health and Food Safety for the Committee on Agriculture and Rural Development on the Health Check of the CAP, January 2008
<http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+COMPARG+PE-398.573+03+DOC+WORD+V0//EN&language=EN>

⁸ Welsh Assembly Government *Communication to the European Commission by the UK Government concerning voluntary modulation* Available from the National Archive's UK Government Web Archive:

"[...] in comparison with the other EU15 Member States, the United Kingdom receives a disproportionately low share of Pillar 2 funds when compared to its share of utilised agricultural area. Importantly, the United Kingdom also has the second lowest ratio of Pillar 2 funds to Pillar 1 funds in that the EU budget allocation for direct payments is some 14 times greater than the EU allocation for rural development. The EU15 average ratio of Pillar 1 to Pillar 2 funds is 5 to 1. Applying voluntary modulation allows the UK to tackle this disparity, and helps to ensure that the balance of funding between Pillar 1 and Pillar 2 is closer to that of other EU15 Member States".

The UK believes that applying voluntary modulation enables the UK regions to undertake activities in rural areas which provide a public good, such as environmental improvements and rural regeneration. Without Voluntary Modulation in the UK, the amount of activity funded under the Rural Development Plans would be significantly lower.

At present, different rates of Voluntary Modulation apply across the UK⁹:

Table 1: Current rates of Voluntary Modulation across the UK (%)

	2007	2008	2009	2010	2011	2012
Wales	0.0	2.5	4.2	5.8	6.5	6.5
England	12.0	13.0	14.0	14.0	14.0	14.0
Scotland	5.0	18.0	9.0	9.0	9.0	9.0
Northern Ireland	5.0	6.0	7.0	9.0	9.0	9.0

Source: Welsh Assembly Government

According to the Welsh Assembly Government's consultation document¹⁰, any adjustment in Voluntary Modulation rates to allow for increases in Compulsory Modulation could disadvantage Wales and the Rural Development programmes compared to the rest of the EU because there would be less money for Pillar 2 activities. In other words, unless the formula for redistributing Compulsory Modulation funds were changed (currently giving back to Wales only 80% of the money taken from Wales), Wales would not get back everything it contributed to Compulsory Modulation. This would mean that maintaining the level of spending within the Rural Development would be difficult.

3.6 Responding to the new challenges facing the industry

3.6.1 Risk Management

Decoupling funding from production enables farmers to respond better to the market, for example by moving away from low yield products to those providing a better return. Nevertheless, risks in terms of production, such as animal health, crop health and price risks still remain. The Health Check proposes:

http://collections.europarchive.org/tna/20070305110454/http/new.wales.gov.uk/topics/environmentcountryside/countryside_policy/rural_development/rdp0713/?lang=en

⁹ ibid

¹⁰ Ibid

- Risk management should be included within Rural Development measures and should become eligible for support through modulation;
- The need for any further risk management measures should be evaluated.

It is proposed that risk management activities be included within Rural Development measures because this would enable the development of national, targeted approaches.

3.6.2 *Climate change, bioenergy, water management and biodiversity*

The Commission believes that the agricultural industry should be responding to the following challenges:

- climate change and the reduction of greenhouse gas emissions;
- the EU target of 10 per cent of biofuels for road fuel and 20 per cent of all energy consumption to be from renewables by 2020;
- the need for sustainable water management;
- maintaining biodiversity and contributing to the aim of halting biodiversity decline (even though the 2010 target is unlikely to be met).

In response to these challenges, proposals are made for:

- Incorporating incentives into the Rural Development Pillar to reduce greenhouse gas emissions, manage water and grow biofuels;
- Inclusion of water management and climate change objectives within Cross-Compliance;
- A review of whether the energy crops scheme is necessary.

4 Timetable

Following debate which will take place up to the end of March, the Commission will be developing its legislative proposals for release at the end of May. Reports in Agra Facts on 11 January¹¹ stated:

“The legislative proposals for the Health Check of the CAP are tentatively scheduled to be published by the Commission College on Tuesday May 20 (in Strasbourg), Commission sources have confirmed this week. The timing is such that there is a realistic way of feeding the March 17 Farm Council conclusions on the Commission Communication into the formal proposals – and allowing the possibility of an unofficial response from Ministers at the Informal Farm Council in Maribor & Brdo (May 25-27) and a more formal response in the last Council under the Slovene Presidency in Luxembourg (June 23-24)”.

The aim is to agree any legislative proposals, under the French Presidency, before the end of 2008.

The Welsh Assembly Government has issued a consultation to seek the views of interested parties in Wales¹². These views will contribute to the Welsh Assembly Governments discussions at UK

¹¹ Agra Facts No. 03-08 11 January 2008

and EU level. The House of Lords' EU Committee has recently undertaken an inquiry into the Future of the CAP¹³ which took evidence from a broad range of stakeholders.

Key dates are outlined below:

- **February 2008:** European Parliament Agriculture Committee to deliver its opinion on the Health Check; end of Welsh Assembly Government consultation (28 February);
- **March 17 2008:** Agriculture Council – conclusions to be adopted;
- **May 20 2008:** Commission to present legislative proposals;
- **May 25 – 27 2008:** Informal response to the legislative proposals from Ministers at the Informal Agriculture Council;
- **June 23 – 24 2008:** Formal response from Agriculture Council;
- **July 2008:** French Presidency of the European Council starts
- **End 2008:** possible adoption by EU agriculture ministers - reforms would take effect immediately;
- **2008 - 2009:** CAP budgetary discussions for the post-2013 period.

5 EU Budget Review

As part of negotiations on the EU budget in 2005, and linked to the renegotiation of the UK's rebate, an agreement to review of the EU budget in 2008/09 was reached.

A consultation paper on the future of the EU budget¹⁴ has been produced by the Commission, on which it is seeking responses by 15 April 2008:

"[...] It will (rather) set out the structure and direction of the Union's future spending priorities, assessing what offers the best added value and most effective results. It will also examine how the budget works, how to get the right balance between continuity and responding to new challenges, and whether it should be managed differently. Finally, the review will take a fresh look at the best way of providing the resources necessary to fund EU policies".

This is a broad consultation which aims to kick start the debate on the future of the EU budget. The CAP 'Health Check' will feed in to this work.

¹² Welsh Assembly Government, *Common Agricultural Policy: 2008 Health Check Consultation*, January 2008
<http://wales.gov.uk/consultations/currentconsultation/envandcouncurrcons/1928666/?lang=en>

¹³ House of Lords EU Committee, Sub-Committee D, *The Future of the Common Agricultural Policy*
http://www.parliament.uk/parliamentary_committees/lords_s_comm_d.cfm

¹⁴ European Commission http://ec.europa.eu/budget/reform/issues/issues_en.htm

6 Future of the CAP after 2013

There have been some criticisms that the Health Check does not provide any details on the CAP after 2013. The French Minister for Agriculture, Michel Barnier, has said¹⁵ that he wants to launch a debate on the future of the CAP during the French Presidency of the EU which starts in July 2008 and will last 6 months. In the past, France has been resistant to reforming the CAP. However, President Sarkozy has also recently been reported as saying that he wants a new CAP that will be able to respond to the challenges of the future.

According to Agra Facts¹⁶:

"[...] French Minister Michel Barnier confirmed that the Sept 22-23 Informal Farm Council in Annecy next year would consider a study commissioned by the French government about the future of the CAP after 2013. He took the opportunity to mention the importance of self-sufficiency/food security, echoing President Sarkozy's comments about a new CAP – with a number of others re-iterating the security of supply arguments in the course of the debate".

7 Reactions to the CAP Health Check

7.1.1 Welsh Assembly Government

In a statement during plenary on 5 December 2007¹⁷, the Minister for Rural Affairs outlined her initial reaction to the proposals. With regards to the proposed changes to the Single Payment model, the Minister expressed some reservations towards moving from the historic model to a 'flatter rate' or area based model in 2009. It had been intended that Wales would operate the historic model until 2013.

The proposed increases to Compulsory Modulation rates were also highlighted as being of particular interest. The Minister also emphasised the need for Wales to retain the flexibility it had with regards to Voluntary Modulation under the current regime.

7.1.2 UK Government

The UK Government's vision for the CAP was provided in a 2005 document¹⁸ issued prior to the Council meeting at which the negotiations for the 2007-13 Budget took place (see above). The document essentially highlights a vision of a CAP where the EU's agriculture expenditure is mainly focused on the Second Pillar, Rural Development.

¹⁵ Ministère de l'Agriculture et de la Pêche, 2007 <http://agriculture.gouv.fr/sections/presse/communiqués/communication-en-conseil>

¹⁶ Agra Facts No. 97 – 07, 26 November 2007

¹⁷ Statement by the Welsh Assembly Government *EU Common Agriculture Policy: 2008 Health Check* 5 December 2007
<http://new.wales.gov.uk/about/cabinet/cabinetstatements/2007/eucomagri/?lang=en>

¹⁸ HM Treasury *A Vision for the Common Agricultural Policy* 2005 http://www.hm-treasury.gov.uk/media/6/4/A_Vision_for_the_CAP.pdf

Agra Facts¹⁹ reported a reaction from the UK at the first Agriculture Council meeting since the Health Check was issued:

“British Junior Minister Jonathan Shaw warned about the UK problem of lowering voluntary modulation with the introduction of compulsory modulation, pointing out that the revenue from the former (& applying compulsory modulation where the rate of co-funding is as yet unknown and where 20% of funding is re-allocated) might provide no net increase in RD funding for the UK, even though there would be new RD measures on which to spend public money”.

The Minister also warned that capping aid to larger farms would increase the administrative burden associated with implementing the Single Farm Payment.

The UK Government's view is also outlined in a report from the House of Commons EU Scrutiny Committee²⁰, which states:

“In his Explanatory Memorandum of 12 December 2007, the Minister for Sustainable Food and Farming and Animal Welfare at the Department for Environment, Food and Rural Affairs (Lord Rooker) says that the Government welcomes the Health Check and the Community budget review scheduled for 2008–09 as opportunities to pursue further reforms of the CAP, and that it will respond in due course. He also says that the UK will want to ensure that the Health Check will cut further the trade-distorting nature of the CAP, reduce regulatory burdens, give farmers greater control over their business decisions, and direct more public spending towards the delivery of targeted public benefits.

[...] the Minister says that the UK welcomes the prospect raised by the Communication of greater decoupling of subsidy from production across the Community, the end of compulsory set-aside, improved and simplified cross-compliance, the phasing out of dairy quotas, and the scaling back of intervention and export refunds. It is also pleased at the possibility of an increased transfer of funds from Pillar 1 (market support) of the CAP to Pillar 2 (rural development) through modulation, though it will at the same time be pressing for the UK to receive improved rural development funding, particularly in the light of the new environmental challenges highlighted by the Commission.

However, the Minister adds that the UK has some concerns that elements of what might be proposed under the Health Check (such as limiting higher levels of payment, and introducing new risk management measures) could run counter to the principles of simplification and market orientation”.

7.1.3 *Member States*

A briefing from Agra Facts²¹ highlighted initial Member State reactions to the Commission Communication during the Brussels Agriculture Council on 26 November 2007. The main divisive issues between the Member States are the Compulsory Modulation proposals, and those associated with the limits on aid to larger farms. The importance of simplification has been emphasised, as well as the need to reduce bureaucracy for farmers.

The Slovenian Presidency, which commenced in January 2008, aims to reach Council conclusions at the March 2008 Agriculture Council.

¹⁹ Ibid

²⁰ House of Commons EU Scrutiny Committee *Seventh Report of Session 2007 – 08* 9 January 2008
<http://www.publications.parliament.uk/pa/cm200708/cmselect/cmeuleq/16-vii/16vii.pdf>

²¹ Ibid

At the first Agriculture Council under the Slovenian Presidency on 21 January 2008, the same main concerns were expressed. A press release²² issued following the meeting stated:

“The Member States welcomed the Communication of the Commission and are of the opinion that it correctly assesses the main movements by the implemented reforms adopted in 2003 and 2004, as well as the main challenges for the CAP in the following years. As expected, opinions about the level of ambitiousness and scope of the adjustments defined in the Communication are divided”.

7.1.4 *European Parliament Agriculture Committee*

A statement on the European Parliament's Agriculture Committee's website,²³ which was issued soon after the Health Check proposals had been published, indicated:

“Most MEPs spoke in favour of simplifying payments and cross-compliance rules, abolishing set-aside, increasing quotas and phasing out the current system as well as increasing funding for rural development.

Several Members highlighted the risk that increased compulsory modulation in favour of rural development might work to the disadvantage of the poorer countries, which already have problems co-financing EU projects in this area.

The question of an upper limit on aid also prompted varying responses, with some Members worrying about the future of former large collective farms, such as in former East Germany”.

The Committee published a working paper²⁴ on the Health Check at the end of 2007, authored by German MEP Lutz Goepel. It is scheduled for adoption in February 2008, with a plenary vote in March. Commentators, including the Institute for European Environmental Policy, have said that whilst this working paper calls for evolution of the CAP, some of its proposals are inconsistent and may contradict ambitions for a more environmentally sustainable CAP.

7.1.5 *European Parliament Committee on the Environment, Public Health and Food Safety*

The European Parliament's Environment Committee issued an Opinion Paper²⁵ on 31 January 2008 which urged the European Parliament's Agriculture Committee to include a number of issues into its official response. The Opinion Paper:

²² Slovenian Presidency of the EU, Press Release, 21 January 2008

http://www.eu2008.si/en/News_and_Documents/Press_Releases/January/0121_MKGP_AGRIFISH.html

²³ European Parliament Agriculture Committee http://www.europarl.europa.eu/news/expert/infopress_page/032-13351-324-11-47-904-20071119IPR13319-20-11-2007-2007-false/default_en.htm

²⁴ Committee on Agriculture and Rural Development Working Document: Communication to the Council and the European Parliament on 'Preparing for the "CAP health-check"'

<http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+COMPARL+PE-398.391+01+DOC+WORD+V0//EN&language=EN>

²⁵ Opinion of the Environment, Public Health and Food Safety for the Committee on Agriculture and Rural Development on the Health Check of the CAP, January 2008

<http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+COMPARL+PE-398.573+03+DOC+WORD+V0//EN&language=EN>

- welcomes the Commission's recognition of the environmental challenges facing the agricultural industry;
- stresses the need for any public funds for agriculture to be linked to high standards of environmental, nature and animal welfare performance and for simplification not to mean a weakening of cross-compliance provisions;
- emphasises the relationship between agriculture and water quality, and the protection of biodiversity;
- seeks restraint from the Commission in relation to stimulating biofuel production;
- calls for increased funds to be made available for more sustainable production methods and rural development policies;
- raises concerns about the proposed abolition of set-aside.

7.1.6 National Farmers Union

The NFU in England and Wales has broadly welcomed the proposals in the Health Check²⁶ although they say it doesn't go far enough in streamlining and simplifying policy. Proposals that are welcomed include the abolition of set-aside, qualifying the scope of Cross-Compliance, the changes to Compulsory Modulation and resulting cuts to Voluntary Modulation. They asked for more details on proposals to integrate environmental measures into the Rural Development Pillar and warn that the proposals to impose limits on larger farm payments may cause the industry to react by adjusting their businesses.

NFU Cymru has indicated that it sees the Health Check as an opportunity to make adjustments to the 2003 reforms, and not an opportunity to make radical changes in direction. The Union does not believe that there would be any benefits for Wales in moving to a flatter rate SFP system; they argue that the total budget for Wales would remain the same and such a shift would merely result in redistribution of monies that would not bring any objective benefits.

NFU Cymru believes that any increases in Compulsory Modulation would need to be balanced with a reduction in Voluntary Modulation, with 100 per cent of Compulsory Modulation funds being reimbursed to the Member State. Should there be any continuation of Voluntary Modulation, they would like to see the Welsh Assembly Government retaining the ability to determine the rate.

NFU Cymru does not agree with the proposal to cap payments to larger farms, given that such farms often support large families or more than one family. They have also indicated that they would not wish to see any further Cross Compliance or Statutory Management requirement imposed on farmers.

7.1.7 The Farmers' Union of Wales (FUW)

In their response to the Commission's recent consultation on the Health Check, the FUW welcomed some elements of the proposals, such as the increase to the minimum land area upon which a Pillar One claim can be made and the abolition of set-aside land. The FUW believes there is an argument in favour of a review of the impact of limiting claims for larger farms and supports moves to examine ways to fully decouple aid payments from production under the SPS, although

they would like to see certain conditions for example the retention of flexibility with this model to take account of the importance of maintaining livestock numbers in certain areas such as uplands.

The FUW, however, has expressed objections or concerns regarding a number of areas, including the implementation of a flat rate area payment and the abolition of milk quotas, which they believe should be continued as a way of managing supply and minimising price volatility. The Union has also expressed concerns that any increases in Compulsory Modulation could jeopardise support for Rural Development programmes in Wales.

7.1.8 Royal Society for the Protection of Birds (RSPB)

A statement from the RSPB²⁷ has criticised the Health Check because they believe it provides:

“[...] only limited extra funds for green farming measures and rural development, dodges the loss of set-aside land and ignores evidence that countries are flouting requirements to enforce good environmental practice”.

The statement also suggests that the public will continue to criticise large subsidies to farmers unless they deliver public and environmental goods such as improvements to landscape and the reversal of declining bird farmland species.

RSPB Cymru is calling for a high level of Compulsory Modulation and funds to support environmentally beneficial farming. They believe that the expansion of rural development schemes would help farmers adjust to any large changes to traditional subsidies whilst delivering commitments for sustainable land use for food, fuel, ecosystem services, biodiversity and sustainable rural economies.

²⁶ National Farmers' Union Press Release 20 November 2007 <http://www.nfuonline.com/x24354.xml>

²⁷ RSPB, 20 November 2007 <http://www.rspb.org.uk/news/details.asp?id=tcm:9-175531>