

# Land Use Policy Group

*The UK statutory  
conservation, countryside  
and environment agencies*



## **Response to European Commission consultation on the ‘Health Check’ Communication January 2008**

The Land Use Policy Group (LUPG) is pleased to contribute to this consultation. Answers are provided below to most of the specific questions posed. These answers represent the combined views of the UK conservation and environmental protection bodies that make up LUPG’s membership<sup>1</sup>.

Before responding to the individual questions, LUPG would like to re-iterate its support for the vision of the Health Check as part of a two-step process, implementing some incremental changes to the current system, but also helping to set a longer-term direction for the future of CAP. In this context it is very important that any incremental changes agreed are carefully assessed for consistency with the longer-term direction of travel. LUPG would be extremely concerned about any changes that would seem to reverse the direction of recent reforms, particularly any moves to re-introduce old-style price support policies.

LUPG would like to draw particular attention to the answers given below to the questions on cross compliance (1.2), set-aside (2.2) and modulation (3.3). These appear, from a UK environmental perspective, to be the most pressing issues requiring incremental adjustments to the Common Agricultural Policy (CAP) as part of the Health Check process.

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<sup>1</sup> See [www.lupg.org.uk](http://www.lupg.org.uk) for more information on the Land Use Policy Group’s membership and previous activities.

## **1. TAKING STOCK OF THE IMPLEMENTATION AND SYMPLIFYING THE SINGLE PAYMENT SCHEME**

Existing Pillar I direct payments are not geared to delivering sustainable rural land management and development, and in LUPG's view represent poor value for public money. To ensure that public monies contribute more effectively to sustainable development and yield public benefits commensurate with the substantial expenditure involved, there needs to be a large-scale transfer of funds from income support (i.e. Pillar I) to support for rural development (i.e. Pillar II), including the purchase of environmental goods and services that would not otherwise be provided by functioning and sensibly regulated markets. Whilst such a fundamental overhaul of the CAP may be outside the scope of the Health Check exercise, it is still important to do as much as possible during the current budgetary period to ameliorate the lack of clear purpose inherent in the direct payment system.

To ensure consistency with a longer-term vision for the CAP, any changes to the Single Payment Scheme (SPS) made as part of the Health Check should be based on a consideration of the current purpose of direct payments. We believe these are essentially transitional, but expect further clarification from the Commission in this regard when it publishes its draft legislative proposals.

### **1.1. Simplifying the Single Payment Scheme (SPS)**

– **Q: With respect to which rules could the SPS be further simplified without negatively affecting the functioning of the system?**

– **A:** Moving to one single type of entitlement for the SPS would represent a significant simplification. However, retaining a link to the historical allocation of set-aside entitlements might be useful when designing any environmental measures to replace set-aside.

By revising Article 69 of Council Regulation (EC) No 1782/2003, the rules governing the implementation of National Envelopes could be simplified to reduce the need for funds to be recycled within the same sector and to allow some complementarity with rural development measures.

– **Q: Do you agree that Member States should be allowed to adjust their SPS model towards a more flat rate of support, at national or regional level?**

– **A:** In principle, we support the introduction of a more flexible approach to the delivery of the SPS which allows for the use of flat rate payments at either national or regional level. A flat rate or banded, regionalised model would be an improvement on a purely historical system. However, this would not be a satisfactory end point because payments would still comprise income support with only a weak link to environmental goods.

We believe that more resources should be transferred to rural development where there is a much more direct relationship between payment levels and the purchase

of specified quantities of public goods. However, in the transitional phase and while the transfer between pillars takes place, we need to ensure that Pillar I direct payments are more closely related to environmental objectives. By standardising the direct payment models in all 27 EU Member States, a move to a flatter rate of support could be seen as part of progressing towards a different policy framework that has a clear policy objective of public good delivery.

– **Q: What type of impacts would you expect with the introduction of flatter rates of support for farmers?**

- **A:** From an environmental perspective, a flatter rate might be fairer to those farmers who previously reduced their levels of activity as part of agri-environment agreements and who may then have found themselves disadvantaged by the adoption of a historic model. There are, nevertheless, potential negative side-effects to moving to a flat-rate system that need to be acknowledged. There is the problem of ensuring that farms with large areas of very low intensity farmland do not receive unreasonably large payments, which means that payments need to be graded according to the agricultural value of the land. English experience also shows that the subsidy becomes payable on parcels of land that might not otherwise have received any payment. As long as these potential effects are recognised and managed accordingly, however, they should not preclude a move towards a ‘flatter’ system of payments.

The transitional approach employed in England to smooth the shift between a system predominantly based on historic entitlements to an area-based one appears to have been successful in minimising the impact of the redistributive income effect.

## 1.2. Cross compliance

– **Q: What would be the potential outcome of maintaining cross compliance at its existing standards?**

- **A:** Our information<sup>2</sup> indicates that the introduction of cross-compliance rules is bringing about some improvement in basic environmental management standards on farms, but that the degree of improvement is modest and varies between Member States.

This is partly because the standards of the Statutory Management Requirements (SMRs) generally reflect the status of implementation of relevant Directives in each Member State. There is also disparity in the outcomes from the implementation of some Directives compared to others. For example, actions taken at farm level are more clearly defined and consistent in the case of the Nitrates & Sewage Sludge Directives than for Birds & Habitats Directives.

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<sup>2</sup> Silcock P & Swales V (2007) *Cross compliance: a policy options paper*. Prepared for Land Use Policy Group, June 2007. See [www.lupg.org.uk](http://www.lupg.org.uk) for report.

Similarly, Good Agricultural and Environmental Conditions (GAEC) are largely established at the discretion of individual Member States. Some Member States have implemented a relatively large number of standards or applied additional standards. For example English farmers are required to complete a Soil Protection Review and must not cultivate within two metres of the centre of a hedge or one metre of a watercourse. In France there are additional standards regarding the use of water. However, many more Member States appear to have only focused on some of the issues and standards set out in Annex IV of Regulation 1782/03, and key requirements have been so loosely translated that the likelihood of adherence is questionable. For example, BirdLife International reports on the continued removal of landscape features in many Member States.

Even in those Member States that have made the greatest use of cross compliance to raise management standards, the level of environmental protection is modest compared to the levels of subsidy provided. Cross compliance does seem to have encouraged greater adherence to environmental legislation, but we believe that farmers should not be rewarded for simply obeying the law. A recent study has also shown that the administrative burden on farmers is very limited<sup>3</sup> and taxpayers must surely be expected to question the justification for the existing payment regime as time passes.

We also believe that cross compliance (specifically GAEC) should be used in conjunction with agri-environment schemes to retain the environmental benefits that have resulted from set-aside. Set-aside has until recently operated alongside cross compliance as another obligation attached to the receipt of the Single Payment. We further set out our views on this issue in Section 2.2.

In its current form, cross compliance can have some environmentally perverse impacts. For example, current GAEC conditions aimed at preventing land abandonment can dis-incentivise the creation of new woodland. There are also large areas, especially in the UK uplands, that are unnaturally devoid of trees and scrub and where in many, though not all, cases the more diverse habitats that would result from a reduction in grazing would be welcome from an environmental perspective. Since there are also areas where tree regeneration will be damaging, a targeted approach by Member States to the application of GAEC is required.

If cross compliance is maintained at its existing standards, Pillar I will continue to deliver only modest environmental benefits in a way that is not consistent across Europe. Cross compliance needs to evolve into a more comprehensive, rigorous and enforceable set of baseline standards of environmental performance that encompasses new and emerging challenges, such as the response to climate change. It needs to provide a clear framework for farmers, who can build its requirements into their business planning.

Increased uniformity of performance across Member States could perhaps be achieved through a programming type approach to GAEC, similar to that applied to the Rural Development Regulation.

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<sup>3</sup> Ramboll Management (2007) *Study to assess the administrative burden on farms arising from the CAP*. A report for the European Commission, October 2007.

- **Q: What impacts do you see emerging with the possible addition/deletion of certain legal requirements or GAEC standards?**
- **A:** Set-aside has until recently operated alongside cross compliance as another obligation attached to the receipt of the Single Payment. We believe that the loss of this measure will have substantial negative impacts on farmland bird populations and other farmland wildlife as well as on water quality unless alternative arrangements can be put in place (see Section 2.2). We also consider that over time, the scope of cross compliance should be extended by the addition of simpler controls covering a wider range of topics. For example, the Water Framework Directive (WFD) and potential Soils Directive are both important pieces of environmental legislation that will have significant impacts on agricultural practices.

There is logic in including the WFD alongside the Nitrates Directive in due course. It could complement the improvements to diffuse pollution work being carried out through the Nitrates Directive, in particular for Member States where Nitrate Vulnerable Zones (NVZs) only cover a part of the country. In the case of Member States with a whole country NVZ designation, SMR4 (Nitrates Directive) together with associated capital grant schemes and advisory programmes will go a long way towards meeting the requirements of the WFD. In the case of the potential introduction of the Soils Directive, its incorporation as a SMR might mean that the soil GAEC could be simplified or dropped altogether.

Where Member States feel it appropriate to add existing national legal standards applicable to farmland into the requirements of GAEC, we feel that they should have the opportunity to do so. In the context of the UK, one example would be the legislation covering public rights of access to the countryside. It would be advantageous to allow for more Member State flexibility as part of the text surrounding Annex IV of Regulation 1782/03.

In general, extending the scope of cross compliance through additional SMRs and additional GAEC issues and standards should in theory improve compliance with the relevant regulations, ensuring farmers abide by any new management requirements and thereby enhancing environmental outcomes. However, the relative costs and benefits need to be examined before doing so, taking into account issues of clarity, enforceability and the net regulatory burden.

### **1.3. Partially coupled support**

- **Q: Should decoupling be applied in full extent to all sectors? Would there be specific impacts with this option?**
- **A:** LUPG supports the decoupling of income support payments for agriculture and argued strongly for this as part of the 2003 CAP reforms. However, decoupling alone only makes support less trade distorting and less bureaucratic; it does not guarantee the delivery of any public goods. Eliminating the distorting effect of the remaining coupled subsidies on land management should be one of the necessary steps to achieve our long-term vision for sustainable land management, within which payments are re-coupled to the delivery of public goods and benefits.

The application of decoupling has not been uniform across Europe and this makes it difficult to assess precisely its overall impact, and, indeed, it is still working its way through the system. While full decoupling is generally perceived as beneficial from an environmental point of view, there appear to have been certain specific negative environmental effects. Work within the UK suggests that whilst incentives to over-stock within the uplands have been reduced, decreases in the numbers of both suckler cows and breeding ewes could lead to the emergence of an under-grazing problem in some places in the long term. This might adversely affect the condition of certain Natura 2000 sites. Taking a wider view, small-scale cattle farming and mixed livestock systems are strongly associated with high levels of biodiversity and the richness and variety of the rural landscape. The loss of significant numbers of cattle, driven by decoupling and market forces (which are making small scale production in remote areas ever less viable), could have disastrous consequences for the character and environment of some parts of rural Europe, such as the Scottish Highlands and the Austrian Alps – and indeed for their rural communities.

Member States should be required to assess and where necessary correct any detrimental environmental and socio-economic impacts of decoupling. We believe that such an approach is necessary to ensure that any potential environmental damage is avoided and that appropriate flanking measures can be put in place.

- **Q: Should decoupling be applied in full extension but negative impacts mitigated by alternative flanking measures? In this case, what kind of measures?**
- **A:** Yes. A wide range of other measures, including regulation, incentives and advice need to be in place to ensure that a shift towards a more fully decoupled system of payments does not cause environmental damage. Agri-environment schemes will be particularly important and a continued shift towards full decoupling needs to be accompanied by the continued expansion of Pillar II. This would enable Member States to retain any environmentally or socially beneficial side effects currently arising from coupled Pillar I payments in a more focused and efficient manner. At the same time, it will be important for all Member States to implement existing environmental regulations effectively and reinforce these via the cross-compliance system.

National Envelopes (Article 69 of EC 1782/03) could have a role to play in protecting particularly vulnerable sectors, provided there is sufficient flexibility to move resources from one agricultural sector to another. Such flexibility will be particularly necessary to deal with the environmental pressures arising from the lack of viability of small vulnerable sectors, where the majority of producers are already subject to adverse economic pressure. To avoid the retrograde step of recoupling support directly to production rather than to environmental benefit, it is important that the National Envelope mechanism is subject to a rigorous Commission approval process.

- **Q: Are there any sectors where targeted, partially coupled support should remain and which problems do you consider this support to mitigate?**

- **A:** We do not believe there are any sectors where partially coupled support should remain. However, a move to full decoupling may require associated flanking measures, such as a further expansion of agri-environment schemes or the use of National Envelopes, in certain circumstances. Less intensive suckler cow systems may represent such an example as they are often particularly associated with environmental benefits. Cattle are less selective grazers than sheep and so tend to maintain the diversity of species rich grasslands more effectively. Heavy animals such as cattle play an important role in preventing the spread of both bracken and coarse grasses provided that grazing starts sufficiently early in the year. Farmyard manure is a particularly important component in managing traditional hay meadows, as nutrients are released much more slowly than is the case with inorganic fertilisers. In addition, cattle dung provides food and shelter for a variety of invertebrates, some of which such as hornet robber fly (*Asilus crabroniformis*) are nationally protected species in their own right, with others providing food for other protected species such as horseshoe bats (listed on Annex II of the Habitats Directive).

LUPG believes that further consideration should be given to designing a system that would provide additional payments to those producers prepared to use cattle to achieve environmentally beneficial outcomes. This could perhaps be based on a modification of the existing agri-environment models where traditional breeds of cattle are being used in specified situations.

A National Envelope could fund an effective mechanism for raising the standard of nutrient management and thereby helping to address diffuse water pollution from agriculture, if applied in a targeted way and focused on delivering nutrient budgeting and soil management. This would contribute towards the objectives of the WFD. A National Envelope could also be used to encourage the retention of mixed farming systems.

#### **1.4. Upper and lower limits in support levels**

- **Q: How effective do you think capping will be in addressing the problem of the uneven distribution of payments between the farmers?**
- **A:** LUPG is not qualified to comment in detail on the impact of capping on the distribution of payments, although we note the risk of evasion through the division of holdings. From an environmental perspective, the distribution of the money is a secondary consideration. Limiting higher payments alone will achieve little for environmental objectives, unless the resulting monies can be diverted to rural development activities, or spent on measures under a revised Article 69 of Regulation (EC) No 1782/2003. Taking a longer view, capping would serve little purpose as part of a system that properly rewarded land management for public goods, so would have to be unpicked at a later date if the CAP were to move in that direction.

It should be noted that modulation would provide a better longer-term alternative method of limiting Pillar I direct payments to wealthier farmers. This is because of the operation of the franchise which exempts the first €5,000 payments from modulation. Over 80% of EU farmers received less than €5,000 in direct

payments in 2005, so would be unaffected by the proposed increase in the modulation rate. Therefore, despite the media interest in the capping of the largest subsidy payments, the Commission should not lose sight of the fact that an increase in compulsory modulation is the more important proposal of the two.

– **Q: What would be in your opinion the advantages and disadvantages between the application of an absolute or progressive way in the introduction upper thresholds in payments?**

– **A:** The application of an absolute approach will increase the risk of holdings being split up. Before implementing such a proposal, a mechanism is required to ensure that any reforms are not subsequently undermined.

– **Q: In the context that a large number of farmers receive significantly low amount of payments, in many cases even below the administrative costs, what potential impacts do you see in the option of adopting a minimum level in payments?**

– **A:** From an environmental perspective, SPS payments at the lower end of the range, may help to retain agricultural systems within marginal areas, where subsistence farming is often related to the maintenance of traditional landscapes and high biodiversity, in particular in Central and Eastern European Countries and marginal areas of Southern Europe. Such payments may also have an effect of stabilising the social fabric of rural areas, especially where alternative sources of income are difficult to find.

Nevertheless, since maintaining small direct payments is not the most administratively efficient way of helping maintain either the social fabric of rural areas or the environment, it may be appropriate to give Member States the option of increasing the minimum payment threshold under the SPS. However, the requisite environmental and social benefits should then be secured using rural development funds, whether through agri-environment measures, LFA or Axis 3.

## **2. GRASPING NEW OPPORTUNITIES AND IMPROVING MARKET ORIENTATION**

### **2.1. Cereals Intervention**

– **Q: What do you think is the best way to maintain the safety-net role of intervention for cereals?**

– **Q: What would be the impacts of the extension of the "maize" model to the other feed grains?**

– **Q: What kind of impacts do you see with the creation of an intervention system available only to high quality bread wheat?**

– **A:** We have no comments to make on these issues.

## 2.2. Cereals set-aside

– **Q: Do you consider that abolition of set-aside in the current context of market and policy developments is appropriate?**

– **A:** With the decoupling of direct payments, using set-aside to control supply is no longer justified. LUPG does not wish to argue for the continuation of set-aside in its current form. However, if set-aside is to be abolished, the European Commission must ensure that this change does not result in any net environmental damage. We therefore welcome commitments made in the Commission's communication on the Health Check paper "to preserve the environmental benefits accrued from the present scheme".

Set-aside was not designed to deliver environmental outcomes, but evidence suggests that it has had a range of environmentally beneficial side-effects<sup>45</sup>. Set-aside has reduced the intensity of arable farming and as a result has made a significant contribution to achieving the environmental objectives of promoting biodiversity (benefiting farmland birds and rare arable plants), improving water quality and protecting features such as watercourses, hedgerows and archaeological sites. Unless compensatory measures are introduced, the permanent abolition of set-aside will undermine the progress made towards meeting the national and international targets for reversing biodiversity loss as well as objectives for tackling diffuse water pollution under the Water Framework Directive.

– **Q: What measures do you consider appropriate in order to maintain environmental benefits associated with set-aside?**

– **A:** We believe that a package of measures is required to retain fully the environmental benefits formerly provided by set-aside, combining both a mandatory approach using an expansion of cross compliance, and a voluntary approach based on an enhanced agri-environment measure possibly using a National Envelope.

An approach based on voluntary measures alone risks not being taken up in the most productive cereal growing areas, where other habitats are both extremely fragmented and limited in extent. This risk is heightened by recent rises in commodity prices and limited resources for many agri-environment schemes. Furthermore, since the current cross-compliance conditions were established on the basis that set-aside (and its anticipated environmental benefits) would remain in place, it is not unreasonable to extend these same conditions should set-aside now be abolished.

We therefore believe that the introduction into cross compliance of a new GAEC standard requiring farmers to keep a defined percentage of their arable land within environmental management should form part of the package of measures

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<sup>4</sup> E.g. Silcock P & Lovegrove C (2007) *Retaining the environmental benefits of set-aside*. Report prepared for LUPG ([www.lupg.org.uk](http://www.lupg.org.uk)). March 2007.

<sup>5</sup> Options for mitigating the environmental impact of a zero percent set-aside rate for the 2008 harvest year: advice from Natural England & Environment Agency to Defra. August & September 2007.

necessary to maintain the environmental benefits currently associated with set-aside. In France, for example, there is already a requirement for 3% of land eligible for CAP subsidies to be sown with an environmental cover<sup>6</sup>. Under our proposal, farmers could choose between a range of activities to satisfy this requirement including bare fallows, wider field margins, uncropped field corners, over-wintered stubbles, wildlife seed mixtures, pollen and nectar mixtures as well as rotational / non-rotational summer fallows. Farmers could quickly and easily select the best combination for their land, according to cropping patterns (predominantly either winter or spring cropping) and local situation (e.g. light or heavy soils).

Agri-environment schemes have the advantage of being able to be tailored specifically to desired outcomes and LUPG believes that an enhanced agri-environment measure will also be needed to complement the new GAEC standard.

The agri-environment component of this combined approach would need to focus, in particular, on the in-field areas that are so important for farmland birds, as rotational management requirements are likely to be undersupplied by any new cross-compliance condition. Agri-environment schemes could also be used to enhance environmental outcomes on land being managed under a new GAEC standard.

In specifying the new cross-compliance condition, a key question is what percentage of land should now be designated as ‘arable land under environmental management’? Land managed under this requirement is likely to provide greater environmental benefits per hectare than land under the existing set-aside rules, so the required rate could be considerably less than 10%. However, if the rate was set too low, many farmers might choose to meet their obligation entirely through taking land out of production on a long-term basis. Whilst this would still have some benefits, it would not secure the right conditions for many plants and most farmland birds, which need fallow land to be provided on a rotational basis. A rate of 5% is therefore suggested as a starting point for discussion.

### 2.3. Dairy Quota

- **Q: In the light of new market opportunities, do you consider that the quota system is still fulfilling its stated objectives?**
- **A:** Retaining the current quota system has no justification in a liberalised market and LUPG agrees with the proposal to dismantle the system post-2015.
- **Q: What benefits and what risks do you see from doing nothing and simply letting the quota regime expire in 2015?**
- **A:** The removal of quotas seems likely to lead, through economies of scale and the concentration of production, to the loss of smaller dairy farms. Any move to larger dairy units could have negative consequences for the environment, arising

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<sup>6</sup> Ministère de l’agriculture et de la pêche (Ministry of agriculture, food and fisheries), *Conditionnalité 2006 – Domaine BCAE*, fiches I à VI, 26 January 2006.

from their greater outputs of nutrients (albeit within legal limits) within a localised area. In some parts of Europe, perhaps most notably in upland areas, small dairy farms may deliver substantial environmental benefits, grazing by dairy cattle being a key feature of some High Nature Value (HNV) farming and agro-forestry systems. Such systems may well be lost unless specific payments can be made to support the continuation of small-scale dairying and the infrastructure associated with it. One possible mechanism for providing this type of support to the producers involved would be to use Article 69 of Regulation 1782/03.

It is important that the Commission's impact assessment weighs carefully the factors above when coming to a view on the environmental consequences of its proposals.

- **Q: What kind of effects do you see emerging in the case of a gradual phasing-out of quotas through increasing their annual level? What would you propose as an alternative or accompanying transition measure?**
- **A:** We recognise that in some other Member States dairy farming can be central to the maintenance of High Natural Value ecosystems, in particular within mountainous regions. Simply standing by and letting the regime expire is likely to result in the disappearance of these HNV systems, especially in alpine and boreal regions. To avoid these negative consequences, a specific support system should be put in place to assist such extensive systems. This objective could be achieved through the application of Article 69.

#### **2.4. Other measures of Supply Control**

- **Q: What would be in your opinion the implications from the application of decoupling in those sectors?**
- **Q: Are there any cases where you consider coupled support essential in order to retain regional or economic benefits? If so, how can it be made more efficient and better targeted?**
- **A:** Supply control measures in a decoupled world are outdated and a general approach to lifting unnecessary restrictions is the preference of LUPG. However, due regard must be taken to the environmental impacts of any policy changes. These environmental consequences must form a central part of the Commission's Impact Assessment Report.

### **3. RESPONDING TO NEW CHALLENGES**

#### **3.1. Managing risk**

- **Q: Do you consider that currently available policy instruments provide adequate coverage to manage price risks? Do you see the need for additional measures you envisage, and if so which ones?**

- **A:** The logic behind decoupling is designed to ensure that farmers are more closely connected to market demands. Existing intervention measures such as minimum price guarantees appear incompatible with the current policy trajectory as well as with WTO requirements and are being progressively dismantled as a result.

LUPG believes that it should not generally be the business of the CAP to manage price risks. In the past, measures aimed at stabilising commodity prices had the unintended consequence of stimulating production levels, causing significant environmental damage in the process.

- **Q: Do you consider that currently available policy instruments provide adequate coverage to manage weather-related or disease-related risks? Do you see the need for additional measures you envisage, and if so which ones?**

- **A:** There is a danger that such compensatory payments could create a situation in which the CAP appears to underpin the taking of unnecessary risks, for instance by compensating for crop failure in situations where particular crops should not have been planted in the first place. Most risks to individual producers could be dealt with more effectively via market-based mechanisms, such as insurance schemes. These could help provide a simpler solution at a lower cost to the European taxpayer, without creating perverse side effects.

There is a case for using the CAP to reduce risks to society as a whole. For instance, land management measures relating to the restoration of upland peatlands and natural flood plains can help to reduce the risk of flooding in urban areas, whilst at the same time also providing other benefits in terms of biodiversity and reductions in greenhouse gas emissions.

- **Q: Do you see scope for the application of EU-wide measures to better address price and production related risks, or should such measures be applied more at the Member State and regional level?**

- **A:** We do not believe that the management of price and production related risks should be a major focus of the CAP, or that the management of these risks will normally require the application of EU-wide measures.

### **3.2. Climate change, bio-energy, water management and biodiversity**

- **Q: Do you consider that existing instruments under both pillars of the CAP are sufficient to respond to these challenges?**

- **A:** As Europe begins to play its part in tackling the global challenge of climate change, we foresee significant changes in the role expected of land managers. The production of safe and good quality food will remain a crucial objective, but rural areas also need to be seen as more important for the ecosystem services they provide – the natural processes supporting all life on the planet – and immediate action is needed to maintain or, wherever possible, enhance these functions, particularly those relating to the management of greenhouse gases, water and biodiversity.

LUPG therefore agrees that climate change, water management and biodiversity are all important challenges where the management of land is central, which justify financial incentives being made available to farmers and which need to be tackled at a European level due to their trans-boundary nature. We feel that the CAP could have a particular role in the long-term safeguarding of European biodiversity by helping wild plants and animals adapt to climate change. The CAP should also have a role in responding to the challenge of bio-energy, but we are not convinced that this role should include incentives for growing bio-energy crops. Market forces and demand-led initiatives seem to have the capacity to ensure supply. The principal role for CAP should perhaps be to use cross compliance to apply social and environmental sustainability criteria to the production of bio-energy crops. There may also be a role for Axis 1 of Pillar II in relation to capital investment in the technology required to produce energy from farm waste.

LUPG does not believe that the existing instruments under either pillar of CAP are sufficient to respond to the challenges identified. Pillar I contributes relatively little to the response because cross compliance is largely concerned with preventing further environmental damage and is constrained by national interpretation and implementation of both the SMRs and GAEC. The loss of set-aside will furthermore have significant impacts on wildlife and natural resources unless adequate mitigation measures are put in place. Pillar II has considerable potential to address the challenges, but the budget is dwarfed by that for Pillar I, even with additional contributions from modulation. The ability of Pillar II to deliver against its existing objectives, let alone additional ones, is severely constrained.

In view of the above, LUPG believes that a response to the challenges identified will require both a strengthening of the cross-compliance conditions underpinning Pillar I as well as a significant further expansion of the budget for Pillar II.

- **Q: If you consider that strengthening rural development instruments is needed, what would be your proposal in better addressing these new challenges?**
- **A:** The most critical requirement if rural development instruments are to be strengthened so that they can address these challenges is additional funding. LUPG feels that the scale of these challenges, and the potential for rural development instruments to play a major role in the response, adds weight and urgency to the proposals for a further transfer of CAP funding from income support payments to appropriate rural development measures.

Tackling these challenges will also require more effective integration between cross compliance, Pillar II and Cohesion Policy funding, especially in areas where substantial capital investment is needed to enable changes in farming and land management practices. It is fundamental that EU policies and programmes recognise that the sustainable use of natural resources and the maintenance of a high quality environment, with attractive, accessible landscapes, clean water, healthy soils and rich biodiversity is a precondition for sustainable long term economic development and not something that should be seen as being in competition with it.

### 3.3. Strengthening rural development

- **Q: Do you think the proposed increase in modulation will help in achieving RD objectives, especially those linked to new challenges?**
- **A:** LUPG supports increased modulation, since the funds transferred into Pillar II of the CAP through this mechanism can be better targeted to achieve specific policy objectives, such as improving environmental quality, diversifying the rural economy and increasing agricultural competitiveness.

Without a further re-balancing between Pillar I and Pillar II, financial limitations would leave the rural development budget unable to accommodate the significant new challenges identified in the Health Check communication, such as responding to climate change. LUPG believes however that modulation should be viewed as a transitional tool, pending a more fundamental review of the CAP budget. LUPG would ultimately like to see a CAP budget focused on the purchase of environmental public goods and incorporating a fairer allocation of rural development funds between Member States, based on an objective assessment of need rather than historical accident.

The Health Check communication proposes that the rate of compulsory modulation should increase by 2% every year from 2010 onwards, reaching 13% in 2013. Given the increased expectations of Pillar II, as outlined in the Health Check Communication, it is vital that every Member State benefits from a net increase in their rural development budgets to enable their Programmes to meet the increasing scale of need.

Under this very modest proposal, it clearly would not be possible to phase out the mechanism of voluntary modulation without seriously damaging those rural development programmes that are heavily dependent on this mechanism. To do so would achieve the exact opposite of the Commission's intention in proposing increased compulsory modulation. LUPG would find unacceptable any proposal to scale back existing rates of voluntary modulation that led to an overall reduction in the rural development budgets for the UK or for any of its constituent regions.

Voluntary modulation has been criticised for causing competitive distortions. LUPG is not wholly convinced by these arguments, especially as the Single Payment is intended to be non-trade distorting. We suggest the Commission should address these claims in its Impact Assessment Report, if it intends bringing forward draft legislative proposals to force Member States to scale back the rate of voluntary modulation applied. Similarly, an assessment should be made of the counter argument that, as a supplement to compulsory modulation, voluntary modulation can play an important role in allowing individual Member States to adjust the scale of their rural development programmes to suit their needs.

While the existing proposal for an 8% rise in the compulsory modulation rate is modest, the annually increasing profile is helpful in defining the longer-term direction of travel – and in that respect is preferable to the setting of a static level. Setting the modulation rate for 2013 could seem to be pre-empting decisions on

the future Financial Perspective and CAP finances post 2013, and on future needs relating to the Rural Development Regulation. For this reason, it might be more appropriate to propose an indicative figure for 2013 that would need to be reviewed at a later date.

– **Q: How do you think the extra funds should be allocated to better respond to those new challenges?**

– **A:** As highlighted above, LUPG believes the guiding principle for allocating rural development funds is that the criteria should be needs based. The complexities involved in designing a Community-wide allocation system based solely on need have led to the use of proxy indicators such as agricultural area, agricultural employment and gross domestic product (GDP) per capita in purchasing power. LUPG would like to see the development of a better system for allocating rural development funding between Member States. This should include more emphasis on agricultural area (as a proxy for the scale of the challenges to be met) rather than the level of past rural development spending, but could also involve criteria based on High Nature Value farming and forestry as part of the allocation formula.

Whilst it is possible to conceive of a centralised system of allocation based on identified rural development needs, we believe that Member States (and individual Regions) are best placed to strike the necessary balance between the various strands of rural development within countries.

ENDS