Modulation and other financial transfers from EAGF to EAFRD

Modulation

Modulation is a system of progressive reduction of direct payments allowing a transfer of funds from Pillar 1 (EAGF) to Pillar 2 (EAFRD). In order to achieve a better balance between policy tools designed to promote sustainable agriculture and those designed to promote rural development, this system of progressive reduction of direct payments ("Modulation") was introduced during the CAP Reform of 2003. In addition to reducing expenditure in Pillar 1, modulation also reduces the ceiling of the total expenditure allowed under markets and direct aids ceiling set in the financial perspectives. The limit the overall expenditure allowed for agriculture and rural development under Heading 2 is unchanged as the transfer from Pillar 1 to Pillar 2 is budgetary neutral.

Compulsory modulation

In 2003, it was stipulated that direct aids for farmers in EU-15 (after a franchise of € 5000) would be decreased by 3%, 4% and 5% respectively for 2005, 2006, 2007 and the following calendar years. At a 5% rate, modulation led to an annual transfer of about € 1.2 billion (in current prices) from the first pillar to the rural development envelope of the EU-15.

Since 2003 the agricultural sector has been facing new and demanding challenges (climate change, bio-energy, better water management etcetera) which had to be tackled in the framework of the rural development policy. However, the financial perspective for the period 2007 to 2013 did not provide for the financial means to reinforce the Community's rural development policy as necessary. Under these circumstances, it was decided to finance a large part of the rural development needs for the new challenges by the introduction of a gradual increase in the reduction of direct payments through modulation.

Therefore, in the framework of the Health Check reform, the modulation system was significantly changed. The main change was the introduction (from 2010 budget year onwards) of progressive modulation rates which will be applied as follow:

- The first € 5.000 received by a farmer are exempted from modulation
- Any amount in excess of € 5.000 will be reduced by 7%, 8%, 9% and 10% for respectively budget year 2010, 2011, 2012 and 2013.
- An additional reduction of 4% will be applied for amounts exceeding € 300.000

This increase in the modulation rate led to a net additional transfer from the first pillar to the rural development envelope for the period 2010-2013 of € 3.25 billion (2010: € 0.48 billion; 2011: € 0.69 billion; 2012: € 0.91 billion; 2013: € 1.2 billion).

Voluntary modulation

In addition to the compulsory modulation, the United Kingdom decided to apply a voluntary modulation of direct payments in accordance with Council Regulation (EC) No 378/2007. The total amount to be transferred to rural development for the period 2010-2013 amounts to approximately € 1.4 billion.

The increase of the compulsory modulation amounts in the framework of the health check for UK was compensated by a similar reduction of the voluntary modulation amounts (€ 0.47 billion for the period 2010-2013).

Other financial transfers from EAGF to EAFRD

The regulation governing direct aids since the Health Check (Title VI of Regulation 73/2009) foresees three additional transfers from the first pillar to the EAFRD. A transfer for restructuring in the cotton regions (22 million € per year starting in 2010) a transfer for restructuring in the tobacco region (484 million € starting in 2011) and the possibility to transfer a certain amount (the "unspent amounts" are set out in annex III of Regulation (EC) No. 1120/2009) to the rural development envelope instead of using it to finance the specific support foreseen in article 68 of Regulation (EC) No 73/2009. Germany and Sweden have transferred their "unspent amounts" to Rural Development (€ 51.6 million).

Legal References

Basic Act: Regulation (EC) No 73/2009. (OJ L 30 of 31.1.2009 p. 16)

Implementing Act Regulation (EC) No 1122/2009 (OJ L 316 of 2.12.2009 p. 65)