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Agriculture, Modulation and Environmental Policy

This paper comments on attempts to transfer spending within the Common Agricultural Policy from production subsidies to environmental subsidies. It also outlines how EC environmental legislation may affect farming in the next few years.

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Summary of main points

- The meaning of modulation in the Common Agricultural Policy is explained.
- The paper presents available options under the current EC rules and how they are used in the UK.
- There are summaries from conclusions of several reports suggesting further modulation in the UK.
- The new European Commission Proposals for the Common Agricultural Policy, including extensive modulation, are addressed.
- European legislation on agriculture and the environment is summarised, concentrating on the Nitrates Directive and the Water Framework Directive.
- An appendix covers EU agricultural spending.

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I What is Modulation?

The term “modulation”, in the terminology of the Common Agricultural Policy (CAP), means reducing agricultural support payments, so as to use the money for some other farming-related purpose. In the UK it is often taken to mean transferring money from agricultural production subsidies to subsidies for preserving the rural environment. Although the term does contain that possibility, it originated from rather different concerns of the European Commission, and contains some other options as well.

The idea of “modulation” appeared in the early 1990s in the proposals for reform of the Common Agricultural Policy (CAP) presented by the then Agriculture Commissioner Ray MacSharry. At that time, the term “modulation” was used to describe a policy of compulsory capping of direct payments to larger farms. That particular policy was strongly opposed by the UK, which has much the highest average farm size in the EU and where many large arable farms would have lost out. The proposal was dropped in order to gain UK support for the final settlement in 1992.¹

The Agenda 2000 agreement for reforming the CAP, reached in Berlin in 1999, contained the current policy on modulation - in the sense of enabling the money saved on subsidies to be transferred to other uses. Member States can choose whether or not to participate in it. They may reduce subsidies paid under the main CAP schemes, in order to use the money for a series of specific agri-environmental policies. These policies have to form part of a national Rural Development Plan, which requires approval from the European Commission.

The modulation provision currently in force comes in Council Regulation (EC) 1259/1999 of 17 May 1999 establishing common rules for direct support schemes under the Common Agricultural Policy:

Article 4 Modulation

Member States may decide to reduce the amounts of payments which would, but for this paragraph, be granted to farmers in respect of a given calendar year in cases where:

- the labour force used on their holdings during the calendar year, expressed in annual work units, falls short of limits to be determined by the member States, and/or
- the overall prosperity of their holdings during that calendar year, expressed in the form of standard gross margin corresponding to the average situation of either a given region or a smaller geographic entity, rises above limits to be decided by Member States, and/or
- the total amount of payments granted under support schemes in respect of a calendar year exceed limits to be decided by Member States.

¹ HC Deb 22 May 1992 c 629

“Annual work unit” shall mean the national or regional average annual working time of adult full-time farm workers employed throughout a calendar year.

“Standard gross margin” shall mean the difference between standard production value and the standard amount for certain specific costs.

2 The reduction of support to a farmer in respect of a given calendar year, resulting from the application of the measures referred to in paragraph 1, shall not exceed 20% of the total amount of payments which would, but for paragraph 1, be granted to the farmer in respect of the calendar year concerned.²

Modulation as set out in this Regulation includes possibilities very different from the way in which the UK has chosen to act. The first possibility concerns the labour force, and it looks as if the European Commission has framed the Article to include the possibility of action against farmers reducing their workforce. That fits in with the idea of the CAP as a social policy aimed at maintaining agricultural employment. The second option looks like reducing support payments in cases where profits in a region or “smaller geographic entity” rise excessively. Profitability in almost all sectors of UK farming is currently so low that the idea of curbing excess profits scarcely seems relevant. However, it looks as if the Article would allow the UK (or any other Member State), in a hypothetical example, to reduce payments to, say, East Anglian arable farmers if their profits were above a pre-determined threshold. The third option is the one taken up by the UK with its flat rate reduction in payments.

The UK and France are the only two countries to use this option, although Germany and the Netherlands might do so in 2003. The UK and France disagree about so much in the CAP that their participation in the same optional policy is surprising. To some extent, it reflects the fact that they see the CAP in a very different way. To the UK, the scheme offers a chance to make the CAP slightly more environmentally-friendly and to move the emphasis away from subsidy of production. To France, the policy relates back to the original use of the term “modulation” and offers an opportunity to transfer some funds from large farmers to projects supporting the countryside.

It is unusual for a CAP measure to offer such scope for different interpretation by Member States, although there is often some national variation in environmental policies to reflect different geographical conditions. The UK appears to have more appetite for extending the scheme, with the Policy Commission on the Future of Farming and Food recommending an increase in the rate of modulation in a report in 2002.³ This is discussed in more detail in section IV of this paper. In France, on the other hand, the scheme was suspended in May 2002, and has not yet been resumed.

² OJ L160, 17.05.99

³ Policy Commission on the Future of Farming and Food, *Farming & Food a Sustainable Future*, January 2002

The European Commission mid-term Review of the CAP in 2002 proposes considerable changes. Modulation would have to be automatically adopted by all Member States, and its rate would be progressively increased up to a ceiling of 20%. A separate proposal returns to the idea of capping payments on large farms.⁴

In proposals that the CAP should be made more environmentally friendly, the idea of modulation is often combined with a closely-related possibility of “cross compliance”. Cross compliance means that farmers can only receive certain grants if they satisfy particular conditions. It would be possible to have a scheme in which the two ideas amounted to the same thing. Farmers who satisfied the (mainly environmental) conditions would receive the complete payments. Those who did not would lose a percentage, with the money going to something else. Alternatively, there could be a scheme in which both ideas were used. Farmers would have to comply with environmental conditions in any case to receive their grants. They would also have their payments reduced by a certain percentage, with that money going to more explicit projects.

II The Rural Development Regulation in the UK

A. How the UK has used the EC Rural Development Regulation

The Agenda 2000 Reform of the CAP allowed Member States to introduce further measures to aid farming and rural areas more generally. This comes under the Rural Development Regulation.⁵

The Regulation covers:

- early retirement schemes;
- aid to young farmers;
- agri-environment schemes;
- training;
- hill farming;
- forestry.

The relationship with the devolved administrations in the UK is complex. The rate of modulation is agreed for each Member State, therefore for the UK. How the money is spent depends upon the Rural Development Plans, and there are separate Plans for

⁴ European Commission Press Release, “Towards Sustainable Farming” Commission presents EU Farm Policy Mid-Term Review, 10 July 2002

⁵ Council Regulation (EC) 1257/99 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF) etc, OJ L 160, 26.06.1999

England, Scotland, Wales and Northern Ireland. A problem would arise if DEFRA wanted to increase the rate of modulation, but the Scottish Executive did not.

On 7 December 1999, the then Minister of Agriculture (Nick Brown) announced that the programme for England would be worth £1.6bn over seven years, and explained the source of the money:

Four sources of revenue will cover this increased expenditure.

The first source is the funding that my department already allocates to existing schemes that will become part of the Rural Development Regulation. Similar budgets are held in Scotland, Wales and Northern Ireland.

The second source will be the EU's allocation of funds for the Rural Development Regulation. The EU's initial contribution to the UK amounts to some £100 million a year. This figure disappointingly reflects the low historic level of expenditure on rural development inherited from the previous government. I achieved, through negotiation, a 30 per cent increase, and intend to press for a further increase for the UK when the allocations of EU rural development funding are reviewed in 2002.

The third source will be the redirection, or modulation, into the RDR of a small percentage of £1.6 billion in direct production subsidies paid to UK farmers under the CAP commodity regimes. In 2001, 2.5% of payments will be modulated, this will rise to 3% in 2002, 3.5% in 2003 and 2004 and 4.5% in 2005 and 2006. Modulation will apply at a flat rate and to all direct subsidies to farmers under the CAP. All of this money will be redirected to expenditure through the Rural Development Regulation.

The fourth source will be the full match funding by the Government of the modulated element. In other words, each pound redirected, or modulated, to the Rural Development Regulation will be matched by an additional pound of new expenditure from the Government.⁶

All the UK proposals had to be submitted to the European Commission for approval. On 3 October 2000 Nick Brown announced that the Rural Development Plan for England had gained approval from the European Commission, and he explained how the money would be spent:

RURAL ECONOMY AND COMMUNITIES

- a new Rural Enterprise Scheme with expenditure rising from £8m in 2001/02 to £36m in 2004/05; a total of £152m over the Programme period for providing targeted assistance to support the development of more sustainable, diversified, enterprising rural economies and communities;

⁶ MAFF News Release, *Nick Brown announces a New Direction for Agriculture*, 7 December 1999

- a Processing and Marketing Grant with expenditure rising from £4 million in 2001/02 to £8 million a year thereafter; a total of £44 million to encourage innovation and investment to achieve added value for English primary products and to improve market opportunities;
- a new Vocational Training Scheme, with total expenditure of £22m over seven years, with £4m a year by 2003/04 for providing assistance for training activities with the objective of broadening the skills base of agricultural and forestry workforce;
- an increase, from £24m in 2000/01 to £36m in 2006/07 for the creation of new woodlands and supporting the management of existing woodlands for the benefit of rural economies and the rural environment: a total of £139m will be spent under the Woodland Grant Scheme and £77m under the Farm Woodland Premium Scheme, in the plan period;
- the introduction of a new Energy Crops Scheme to provide grants for establishing energy crops and producer groups; expenditure rising to £5m a year by 2002/03 to encourage planting of miscanthus and short rotation coppice.

RURAL ENVIRONMENT

- a doubling, from £97m in 2000/01 to £197m in 2006/07 of funds for conserving and improving the landscape, wildlife and historic heritage of the countryside and aid for farmers converting to organic farming. This will mean more than £1bn on continuing the Environmentally Sensitive Area Scheme, and on expanding the Countryside Stewardship and Organic Farming schemes, with £140m of this for organics;
 - from 2001, the new Hill Farm Allowance Scheme to help preserve the farmed upland environment and contribute to the maintenance of the social fabric of upland communities; a total of £239 million over 6 years.
- In addition, separately the Ministry will be launching a scheme to deliver advice and assistance through the use of specially trained small business advisers who will be available free to farmers seeking to diversify their enterprises.⁷

The full England Rural Development Programme is now available on the DEFRA website (<http://www.defra.gov.uk/erdp/erdpfrm.htm>). The Welsh Rural Development plan is at http://www.wales.gov.uk/subiagriculture/content/ruraldevplan/ruraldevplan_e.pdf. The Scottish Rural Development Plan is at <http://www.scotland.gov.uk/library3/misc/rdps-00.asp>

Modulation in England was implemented by *The Common Agricultural Policy Support Schemes (Modulation) Regulations 2000* (SI 3127), which came into force on 1 January 2001. Regulation 4 explains the scheme:

- (1) For the purposes of calculating the amount of any payment to which any person is entitled pursuant to any scheme in respect of a relevant scheme year, the Minister or (in the case of payments under Board schemes) the Intervention Board shall deduct from the relevant amount the specified proportion of that

⁷ MAFF News Release 349/00, *New Direction for Agriculture: Nick Brown launches England Rural Development Regulation*, 3 October 2000

amount, and shall apply the sum so deducted by way of funds for one or more of the relevant purposes.

(2) For the purposes of paragraph (1), a payment of agrimonetary compensation shall be treated as made in respect of the scheme year in respect of which the principal payment which it supplements was made.

(3) In this regulation, “the specified amount” means-

- (a) in respect of the scheme year which begins in 2001, 2.5%;
- (b) in respect of the scheme year which begins in 2002, 3.0%;
- (c) in respect of the scheme year which begins in 2003 and that which begins in 2004, 3.5%; and
- (d) in respect of the scheme year which begins in 2005 and that which begins in 2006, 4.5%

The Government explained its choice for the extent of modulation:

The Government consulted widely on the Agenda 2000 proposals and, after careful consideration decided to set modulation rates at a relatively low level with the aim of generating significant funds for the ERDP, but taking account of the current economic situation of the farming industry.⁸

The explanation suggests that the Government might wish to introduce a higher rate of modulation at a later date if economic conditions were more favourable.

Spending on the Rural Development Regulation has to be matched 100% by extra spending from the Member State. That imposes a serious constraint on the extent to which modulation is likely to be taken up. It is not just a straight transfer of funds from agricultural production to environmental improvement, but an extra cost for the UK Treasury.

For many years after the war, farming tended generally to be supported in order to boost agricultural production. From the late 1960s onwards, concerns increased in industrial countries about that approach. Particularly in the EU, the output of commodities with high support prices increased dramatically, resulting in unwanted surpluses. The benefits went mostly to the larger producers who had most to sell and therefore did best out of the high support prices. Environmental awareness increased in other areas, ranging from pesticide use to soil erosion. Concern over drinking water quality and the quality of water in rivers led to concern about what was going into the water. In the UK, concern was particularly strong, partly because the entry into the EU had led to extensive transfer of land from livestock to arable use. The ploughing up of land led to an increase of nitrates seeping into rivers. Many people began to wonder whether farming was really producing the countryside that they wanted.

⁸ MAFF News Release 432/00, *New Regulations to Redirect CAP Support Payments in England to Rural Development*, 8 December 2000

B. Agri-Environment Schemes in the UK

The main initial approach in the UK to the increasing concern over environmental damage caused by modern farming practices was to concentrate upon a few areas that were small but particularly important. In these environmentally sensitive areas (ESAs), particular schemes operate in which farmers modify their methods of farming so as to assist the local environment. Those who choose to participate in the schemes are paid subsidies for doing so. This was originally a UK scheme, although it now operates under the umbrella of the EU Rural Development Regulation. The scheme offers payments for different activities in each ESA according to local conditions. The DEFRA website, which also contains further details and payment rates, describes the scheme:

The Environmentally Sensitive Areas Scheme was introduced in 1987 to offer incentives to encourage farmers to adopt agricultural practices which would safeguard and enhance parts of the country of particularly high landscape, wildlife or historic value. There are now 22 ESAs in England, covering some 10% of agricultural land.⁹

Most people consider that the scheme operates well in the areas that it covers. The key feature of the scheme is that it – and successor schemes of the same type - is targeted at particular, limited, areas. That offers greater environmental benefits than a broader based scheme, but it also make it less suitable as a model for a country-wide approach.

Another scheme, Countryside Stewardship, was targeted at areas outside the ESAs, but with more limited objectives:

The Scheme aims to sustain landscape beauty and diversity, to protect and extend wildlife habitats, to conserve archaeological sites and historic features, restore neglected land or features, create new habitats and landscapes and improve opportunities for people to enjoy the countryside. By adapting land management practices, the farmer/land owner can enrich the countryside and give enjoyment to the public

Each county has its own specific targets for landscape types and features. Eligible landscape types and features include chalk and limestone grassland, lowland heath, waterside land, coastal land, upland, old meadows and pasture, historic features (such as orchards, parkland, buildings), field boundaries (including stonewalls, hedgerows, ditches and dykes), field margins, community forests, countryside around towns and new permissive access.

Payment depends on how much and what type of work is entered into the Scheme - each item of work attracts a set payment. Land management payments are made annually, and capital payments on completion of work.¹⁰

Countryside Stewardship shares with ESAs the principle that farmers who choose to participate are paid a subsidy. That would be unlikely to be the formula for a scheme to promote more extensive environmental objectives nationwide, because of the cost. The

⁹ <http://www.defra.gov.uk/erdp/schemes/landbased/esas/esasindex.htm>

¹⁰ <http://www.defra.gov.uk/erdp/schemes/landbased/css/cssindex.htm>

handling of measures to reduce the level of nitrates in drinking water illustrates the problem.

The UK Government tried to reduce the quantity of nitrates in drinking water by the use of Nitrate Sensitive Areas, on the ESA model of voluntary participation and subsidy. Instead, the EU Environment Directorate has introduced Nitrate Vulnerable Zones, where there are penalties for non-compliance rather than subsidies for participation. The UK Government has had to extend such zones to over 55% of the agricultural area of England. This measure will come into force in 2003 and is discussed in further detail in section V of this paper.

For a modulation scheme to have widespread environmental benefits, without dramatically reducing the incomes of farmers, it would be necessary to have a “broad and shallow” scheme to which most or all farmers would have access. In addition, awareness is growing that the environmental needs of the countryside cannot be limited to either a handful of areas of particular sensitivity or to a small group of striking features such as stone walls.

On 14 November 2002, DEFRA announced pilot areas for “broad and shallow or “entry level” agri-environment schemes. Four major types of farming are covered: grassland, mixed, arable/cropping and upland. The scheme will be piloted for two years before being rolled out in 2005-6.¹¹ One unanswered question is how this will affect farmers who are already in some other environmental scheme, such as countryside stewardship.

The UK Government has carried out other policies to prevent environmentally damaging farming practices. Environmental considerations come into play in decisions as to which pesticides and other chemicals are allowed for use. It was on environmental grounds that organochlorine sheep dips were replaced by the organophosphates that are believed by some to cause health problems for farmers. Regulations control the way in which silage, slurry and fuel oil have to be stored, so as to prevent contamination of the water supply.

Voluntary codes of practice exist for the protection of soil, water and air.¹² MAFF/DEFRA has made use of such voluntary codes to supplement legislation, as for animal welfare, for several reasons. Codes have been used on the grounds that it would be difficult to frame a sufficiently detailed law to cover many eventualities. Enforcement would present problems. A legalistic approach might impose considerable costs on farming, where a more flexible approach within the spirit of the code might achieve more.

However, this approach may have to change, because of the need to comply with EC Directives, particularly relating to water, discussed in section V of this paper. Farmers will have to incur costs to prevent water pollution. Money from modulation cannot be used to cover those costs, because of EC rules, explained on p40. The environmental projects financed by modulation will have to be in addition to those legal obligations.

¹¹ DEFRA News Release 465/02, *Pilot Areas Picked for Entry Level Agri-Environment Schemes*, 14 November 2002

¹² www.defra.gov.uk/environ/cogap/aircode.pdf;
www.defra.gov.uk/environ/cogap/soilcode.pdf; www.defra.gov.uk/environ/cogap/watercode.pdf

III Comment on Modulation

a. Overview

Several UK reports in the year 2002, whose views are expounded in the following subsections, have argued for an increased rate of modulation and for cross-compliance to be applied to CAP payments. The Farming and Food Commission called for modulation to be increased to 10% from 2004. In addition, if CAP reform did not go ahead in 2006/7, then the UK should be prepared on its own to raise the rate to 20%. The Royal Commission on Environmental Pollution also called for a phasing out of agricultural production subsidies. Until that time, production subsidence should be based upon environmental cross-compliance. Payments should be made to rural land managers for environmental and social objectives. The Environment Agency estimated the environmental cost and benefit of agriculture in England and Wales. It arrived at a negative figure and called for a range of environmental policies, including increased modulation.

In other words, several organisations are pressing for subsidies to be transferred from agricultural production to environmental objectives. Modulation and cross-compliance are steps on the way, not aims in themselves. However, in the real world of the CAP, modulation is available under current arrangements, and would be extended under the current European Commission proposals for the mid-term review. A very different report, for the Royal Institution of Chartered Surveyors, looks at the effect on farming profits of an extension of the present scheme.

b. The Farming and Food Commission Report

The Farming and Food Commission reported in January 2002 on the Future of Farming and Food.¹³ The report (sometimes called the Curry Report, after its Chairman Sir Don Curry) argued that farming should be treated like any other sector of the economy, with less Government involvement than at present:

The one thing that makes farms different is in their role as managers of the land. There we do see a case for different treatment. Sustainable land management is a vital need – clean water, air and healthy soils provide much wider public benefits. This is on top of the value of the countryside as part of our cultural heritage, as a place for wildlife, for its beautiful landscapes and as a massive earner through tourism. This is the one place where we do see a case for continuing public support for agriculture, incentivising the production of environmental public goods which would otherwise be underprovided by the market. We hope it will increasingly be possible for farmers to earn a return for higher standards through

the marketplace, and we have put forward initiatives to help this happen. Regulation, taxation, advice all have a role in raising and underpinning high standards. However, payments for positive management are likely to remain a key part of the strategy.

It calls for a reform of the CAP to remove perverse incentives to increase production and damage the environment.

As production subsidies are reduced, more should become available to lever out environmental and social public goods through rural development programmes...

The report made the following recommendation on modulation:

We recommend that the Government should increase rates of modulation to 10% from 2004.

If substantial CAP reform is not delivered in 2006-07 we believe the Government should give serious consideration to a further increase in modulation at that point to the maximum 20%. Its judgement at the time should, however, take into account the prevailing sterling exchange rate, if the UK remains outside the euro area at that time, and what has happened to trends in commodity prices. These will continue to be the key factors in driving net farm incomes, outweighing any effects from modulation.

We urge the devolved administrations and the UK Government to go forward together on this. We therefore recommend that the Government should, with its partner administrations in Scotland, Wales and Northern Ireland, modulate production subsidies, on a flat rate basis, at 10% from 2004 and use the resources made available by this to provide additional funding for the England Rural Development programme and for its sister plans in the devolved administrations. Extensification premia should be left unmodulated in recognition of their positive environmental effect. We recommend that the Government should fully match fund the modulated resources at a rate of 100% from the Exchequer.¹⁴

The striking part of this proposal is the recommendation that, in the absence of substantial EU reform, the UK should go ahead on its own to increase sharply the rate of modulation. If the current talks on CAP reform do not succeed, the UK Government could choose to go ahead with modulation on its own. In those circumstances, British farmers would almost certainly fear they would lose in terms of international competitiveness. Farmers in the rest of the EU with higher direct incomes would be better placed to invest in new equipment to improve quality and reduce costs.

The Policy Commission also explained how the money should be spent:

¹³ Policy Commission on the Future of Farming and Food, *Farming & Food a Sustainable Future*, January 2002

¹⁴ Policy Commission on the Future of Farming and Food, *Farming & Food a sustainable future*, January 2002 p 130

We recommend that the government should increase the level of spending substantially on agri-environment schemes, through modulation in the short term, and Community-wide “degression” of direct payments after 2006. Without endangering their outputs it should rationalise the existing agri-environment schemes and merge them to become the upper tiers of a new single stewardship scheme. The same scheme should in due course incorporate the other existing land management grants for example for woodland and flood protection.

The bulk of the new resources made available for agri-environment programmes by further modulation should be spent on a new, broad and shallow “entry level” stewardship tier, open to as many farms in England as possible, and accessed through a whole farm plan. This tier must be kept as simple and easy to administer for farmer and Government as possible, with payment on a flat rate basis per hectare. There should be as light a touch in compliance monitoring as EU rules will permit.¹⁵

c. *Reaction from the National Farmers Union*

The NFU strongly opposed the proposals in the Commission on the Future of Farming and Food:

The NFU has reiterated its total opposition to "modulation" following the publication of the Food and Farming Commission's report today. NFU President Ben Gill said that farmers would be angered about one of the report's core proposals - that of taking away 10% of farmers' support payments from 2004 to fund rural development and environmental measures. He said: "With the industry in its current dire state, it is hardly surprising that we oppose suggestions of taking money from farmers in this way. It equates to taking away cash that farmers simply do not have.

"I must stress that we are not opposed to rural development and environmental spending - quite the reverse. But we have always been against this way of paying for it and today's report has not changed our minds."

The NFU's key objective is for the whole industry to return to profitability, as set out in the NFU's Strategy for Agriculture document published last year. Therefore the NFU remains committed to developing a positive strategy for food and farming based on high standards, an integrated and transparent food chain, farmers collaborating to improve their position in the marketplace and development of new crop products.¹⁶

However, if modulation does go ahead, then the NFU wishes to influence the details. It would like the subsidies ring-fenced on a regional basis. Thus, if money is taken from farmers in East Anglia, it would be spent on schemes in East Anglia. The NFU also

¹⁵ Policy Commission on the Future of Farming and Food, *Farming & Food a sustainable future*, January 2002 p 132

¹⁶ NFU Press Notice, *NFU's Strong Opposition to New Modulation Proposals*, 29 January 2002

wants to make sure there are no schemes added on those that already receive money from modulation.¹⁷

NFU Vice President, Michael Paske, has expressed concern about the delivery mechanisms under the programme. He is worried that farmers are not receiving the full benefit of money, taken from direct subsidies, used to pay for it. He is not sure that administrative costs are being financed by extra money. He also repeated NFU criticism of the Curry recommendations and stated: “We are all resolutely opposed to modulation.”¹⁸

However, the NFU has also admitted that many cereal farmers reluctantly believe that modulation is the only option, and disagree with the union’s complete opposition.¹⁹

d. The Royal Commission on Environmental Pollution

The Royal Commission’s report on Environmental Planning in March 2002 included the following recommendations on support for agriculture:

9.32 Under the current CAP rules, countries can apply their own set of conditions, including environmental ones, to the payment of production subsidies; this is known as “cross-compliance”. We have heard no persuasive arguments against this approach and, in our view, recipients of public subsidy ought as a matter of principle to accept certain obligations. We consider production subsidies to agriculture should be phased out as soon as possible. While they remain part of the CAP, we recommend that farmers receiving such subsidies should be required to maintain a defined level of environmental protection on the land they manage. We urge the government to take full advantage of the existing scope for cross-compliance under the CAP to support the protection and enhancement of the environment, and to seek to widen the scope for cross-compliance as part of the reform of the CAP.

9.33 We note that the recent report from the Policy Commission on Farming and Food, which was published just as we concluded our study, similarly supports a phasing out of production subsidies. Like the Commission we believe that a prosperous rural economy is essential to the future of the countryside, and we agree that the low level of farm incomes is an obstacle to the creation of a better rural environment.

9.34 We believe there is justification for the state to continue payments to rural land managers, including arable and livestock farmers, for achieving well-

¹⁷ “Keep ex-subsidy cash in its own region”, *Farmers Weekly Interactive*, 12 October 2001

¹⁸ “Green Schemes ‘not working’”, *Farmers Weekly Interactive*, 11 February 2002

¹⁹ “Union Softer on Modulation”, *Farmers Weekly Interactive*, 12 June 2002

defined, measurable environmental and social objectives. We recommend that the Department for Environment, Food and Rural Affairs and the devolved administrations launch a wide debate on rationalising the support for owners and managers of rural land through the introduction of schemes that serve environmental and, where appropriate, other objectives. In the first instance, those proposals will have to be drawn up within the constraints imposed by European law. In the longer run, the government should press for changes to European law that will remove obstacles to such a unified approach.²⁰

e. *The Environment Agency Report 2002*

A report by the UK Environment Agency in May 2002 examined the relationship between agriculture and natural resources in the UK. It estimated the costs and benefits of agriculture in relation to the environment, also estimating how much of that cost could be offset by a change in policy. That is a new approach and perhaps an unwelcome approach for the farming industry. Farmers in general consider that they conserve the environment, and are poorly rewarded for doing so. They would accept that some aspects of modern farming are environmentally harmful, but they would see that as a small offset to their overwhelmingly beneficial effect on the land. That was not the Environment Agency conclusion.

The Report stated the environmental benefits of farming:

There are many positive environmental benefits of agriculture. Among them are aesthetic value, recreation and amenity; water accumulation and supply; nutrient recycling and fixation; soil formation; wildlife protection; storm protection and flood control; and carbon sequestration by trees and soils. Other positive social benefits include the provision of jobs and the contribution to the local economy and rural communities. Agricultural environmental services are worth £0.9 billion annually, according to recent research.

However, the report estimates a higher figure for environmental damage, as shown in the following table:

Table 1
Summary of Annual Agricultural Costs and Achievable Damage Reductions
(£m 2000 prices)

Agricultural Cost	Damage	Achievable Reduction in Short Run	Achievable Reduction in Long Run
Soil	264	172	198
Water	203	83	126
Air	760	76	201
Total	1,226	331	525

²⁰ Royal Commission on Environmental Pollution, *Environmental Planning*, March 2002, Cm 5459 p 127

The report explains:

On average, soil management practices cost significantly less than other management practices. Water management practices are the second most expensive (with slurry storage costs representing the highest capital expenditure), and overall, management practices to address air emissions are the relatively most expensive due to their capital-intensive nature.

The report makes a number of recommendations. Those related to modulation are given here in more detail. The report recommended the establishment of guidelines for “Good farming practice”; it also called for an update for the regulatory framework and a review of current prosecution policy. There followed several recommendations relating to modulation:

4 **Support CAP reform and increased modulation:** Reform of Government policies that cause environmental degradation is needed. This includes more effective integration and co-ordination between CAP and environmental policies (such as increasing cross compliance measures and applying “good farming practice” standards to Pillar I payments). The benefits of agri-environmental schemes would justify an increase in modulation from its planned 4.5% to its potential maximum of 20%.

5 **Target Agricultural Problems:** Action to remedy agricultural problems must focus on ways to reduce the greatest environmental risks. An effective targeted action must consider the type of environmental damage, relevant regional and industrial factors and the effectiveness of potential policies. However, such targeted action through “deep and narrow” schemes needs to be underpinned by a broad and shallow, whole farm scheme for all farmers.

6 **Change existing agri-environmental schemes:** This report highlights many problems that need addressing in the existing Rural Development regulation scheme. These include the need to achieve a better balance between wildlife habitat and landscape quality, with natural resource use and environmental protection. Inflexibility of existing schemes, monitoring, administration, enforcement, training; and end of contract issues have also attracted criticism. Changes proposed include developing new natural resource and environmental protection schemes (or modifying existing schemes). One need is to create a larger unified scheme. New schemes must encourage a “whole farm” approach; and promote good soil management practice.

Other recommendations, less directly linked to modulation, and therefore given in brief, were to:

- 7 Promote an environmental management system for farms.
- 8 Integrate environmental education with agricultural training.
- 9 Implement taxation reform.
- 10 Promote co-operation between water companies and farmers.

- 11 Consider land acquisition for environmental purposes.
- 12 Research the bargaining power of supermarkets and support consumer education.²¹

In other words, farmers are under increasing pressure to make extensive changes to their way of operating, so as to bring environmental benefits. Modulation is one policy that fits this context, but it is not the only one.

f. The Environment, Food and Rural Affairs Committee

In a report on the future of UK agriculture, published in November 2002, the Environment, Food and Rural Affairs Select Committee posed the following questions about modulation:

Questions over modulation

67. Modulation is in one sense very straightforward: expenditure for rural development and agri-environment schemes would come from monies that were previously channelled to supporting agricultural production. In other words, an objective widely seen as desirable can be attained by eliminating expenditure no longer seen as appropriate. However, there are a number of concerns about the process and implications of modulation:

the requirement for Treasury match-funding;

the impact of changing incentives on domestic farmers; and

the competitive implications when some European Union member states choose not to modulate direct payments, and when some choose different ways to use the monies obtained from modulation. (This is another area where Scotland may pursue a wholly different approach to England or Wales.)

68. The requirement that the Treasury matches monies modulated from direct payments raises a number of issues. Sustain argued that the Treasury must be "encouraged to match the funds freed up [through modulation] to support a far wider programme of agri-environment and rural development schemes". However, there is obviously a cost to the Exchequer as a result of such match-funding. There would also be implications for both the Treasury and for rural areas if the required rate of match-funding changes.

69. As direct payments are modulated the returns that farmers receive for crops and livestock for which they receive direct payments also change. This may make alternative enterprises which do not receive direct payments relatively more attractive. As a result the pattern of production may change over time, particularly as the proportion of direct payments that is modulated increases beyond the marginal levels that are currently envisaged by the Government. In turn, there may be implications for the budget available to take forward rural development measures since the funds available through modulation are derived from the direct payments which United Kingdom farmers receive. It is possible

²¹ Environment Agency, *Agriculture and natural resources: benefits, costs and potential solutions*, May 2002

that modulation may cause changes to enterprise mixes on farms, and so affect the United Kingdom's total entitlement to direct payments. In turn that will mean that the amount available from modulation and Treasury matched funding would also fall. **The impact of such a development is something which the Government must consider, and it should produce a report showing who the 'winners' and 'losers' would be under the proposed modulation schemes.**

70. Finally, there is the issue of differences in the competitiveness of farmers across member states if different rates of modulation are applied in different countries. The Secretary of State acknowledged that "there is a possibility that farmers in those member states [that have chosen to modulate funds] could be at a competitive disadvantage to other farmers because they are not having access to the same level of payment in the usual way". Here and elsewhere modulation in one country has different consequences to a common pattern of modulation in all.²²

g. The Royal Institute of Chartered Surveyors Report

This report was written for the Royal Institution of Chartered Surveyors (RICS) by Harper Adams University and the Scottish Agricultural College in 2002. The key findings were as follows:

- It is estimated that average net farm income might fall by £132m or 22% if modulation rates were raised by 10% as proposed by the Policy Commission chaired by Sir Donald Curry.
- Each 1% increase in modulation will reduce the agricultural value of an additional hectare of arable land by 0.6% and 0.85% for grazing land.
- The representative farm models show that gross revenues will fall by between 0.1% and 0.3% for each 1% increase in the rate of modulation. However, mixed farm types would experience a 1.6% decline, whilst dairy farms would be little affected.
- The cereal farm case study revealed that at an 8% modulation rate, oilseed rape was entirely substituted by cereals. This represents a shift to greater mono-cropping activity which may have adverse implications for the environment.
- The mixed farm case study showed that at between 6-8% modulation, the enterprise mix shifted towards more extensive sheep production.
- The findings showed that even optimising the response to modulation of direct payments may not offset its detrimental impact on farm incomes. If farms are unable to regain the re-cycled modulated funds, then there will be adverse knock-on effects within the agri-supply industries and rural services dependent on farming.
- On an annual basis the match-funded modulated revenue for re-cycling in 2002 only represents about 2.6% of the net income from farming.

²² Environment, Food and Rural Affairs Committee, *The Future of UK Agriculture in a Changing World*, November 2002, HC 550-I 2001-02

- The additionality criteria may make it difficult for many existing agri-environment scheme participants to benefit from re-cycled modulated funds.
- The Policy Commission [ie the Curry Report] proposals could potentially add £0.5b to the £0.6b raised over the period 2002-2006 including national match-funding.
- The availability of a broad and shallow conservation scheme may yield a small marginal positive benefit in aggregate, though mostly for mixed farms, and LFA livestock farms.
- Both the representative and case study modelling show that the environmental effects of optimal responses to modulation can yield benefits and dis-benefits.²³

In other words, the RICS report stresses the very small proportion of agricultural income currently covered by modulation in the UK. However, major effects could result from an extension of that policy, with very different effects on different sectors.

h. Modulation in France

France wanted to redistribute funds from the small number of large farms that take the great majority of money from the CAP. French modulation resulted in reductions in grants only to a tiny proportion of farms, with the rest left untouched. The beneficiaries were the small farms, who received the money to use in projects with environmental benefit or that preserve rural employment.²⁴

On 23 May 2002, Herve Gaymard, French agriculture minister after the presidential election, suspended the modulation scheme. He explained his reasons, amounting to a severe criticism of modulation, in a press release:

The criteria for modulation are complicated and hard to understand, including for farmers themselves, who also consider, often justly, that the reduction is inequitable: with equal income, some are touched, others are not. Besides, almost all the money collected over two years has up till now remained unused (215 million euros). The previous government was discussing with the Commission co-financing projects with this sum, but the rules negotiated at the time block the use of credits. These facts taken together create a feeling of incomprehension, indeed injustice. That is why the government...has decided on a moratorium for this modulation plan...The period of the moratorium will allow study of better means of using the credits already collected, notably to reinforce government

²³ RICS, *The Impact of Modulation*, July 2002

²⁴ P.Lowe, H.Buller and N.Ward, *Setting the New Agenda? British and French Approaches to the Second Pillar of the Common Agricultural Policy*, circulated, 2001

action particularly to benefit farmers from the least favoured areas. The moratorium does not affect other existing aids, which will continue to be paid.²⁵

IV Modulation in the mid-Term CAP Review 2002

A. The European Commission Proposals

The proposals in July 2002 include the capping of payments for large farms with modulation of all agricultural support payments. The European Commission wish to impose cross-compliance as a condition for support payments. There would also be compulsory set aside on arable land. In addition, there would be compulsory modulation.

The plan is to move away from high support prices, and even from direct payments related to the amount of crops planted or the number of livestock. The Commission proposes to introduce a single decoupled income payment per farm, based on historical payments adjusted to take into account the full implementation of Agenda 2000. Farmers would receive the payments regardless of what they did with the land. In a first stage, this payment will include the arable crop, beef and sheep sector. The payments will be subject to cross-compliance, modulation and capping. In addition, there will be compulsory environmental set-aside.

Reinforcement of environmental, food safety, animal welfare and occupational safety standards

The full granting of the decoupled farm income payment and other direct payments will be conditional on respect of a certain number of environmental, animal welfare and food safety standards, as well as occupational safety requirements for farmers...

Cross-compliance will be applied as a whole-farm approach attached to both used and unused agricultural land. On unused land, cross-compliance will involve the respect of statutory management requirements and the obligation to maintain land in good agricultural condition...In the case of non-respect of cross-compliance requirements, direct payments should be reduced while maintaining proportionality with respect to the risk or damage concerned...

A New Farm Auditing System

In order to meet society's expectations and to help farmers meet the standards of modern, high quality agriculture, the Commission considers that it is necessary to establish and support an EU wide system of farm auditing for professional farms, to be defined by member state on the basis of economic size. The focus of such farm audits would be material flows, on-farm processes and equipment relating to environment, food safety, animal welfare and occupational safety standards...

²⁵ Ministère de l'Agriculture Communiqué, *Moratoire sur la Modulation*, 23 May 2002

Environmental Set-Aside

In order to maintain the supply control benefits of set-aside, while reinforcing the environmental benefits under the new decoupled system of support, the Commission proposes introducing compulsory long-term set-aside (10 years) on arable land...

Increasing the Support for Sustainable Agriculture and Rural Development by Introducing Dynamic Modulation

In order to achieve a better balance between policy tools with the objective of further promoting sustainable agriculture, the Commission proposes introducing a system of dynamic modulation on a compulsory basis for all member states. Under dynamic modulation, all direct payments will be reduced progressively in arithmetical steps of 3% per year to reach 20%, the maximum agreed in Agenda 2000. This covers both coupled and decoupled payments.

It is proposed to introduce a franchise dependent on the employment situation on each farm. For up to 2 (full time) annual work units (AWU), the franchise will be EUR 5000. This will ensure that the majority of farms will not be subject to modulation. For each additionally employed AWU an additional EUR 3000 may be granted on an optional basis by member states. Although such a franchise would fully exempt from modulation around three quarters of the farms in Europe, it would account for less than a fifth of direct payments paid to farmers.

After the application of the franchise and modulation the sum paid to a farm will be EUR 300,000. Direct aid beyond this amount (and the franchise) will be capped and made available for transfer to the second pillar in the member state concerned.

The amount saved by modulation each year will be distributed to member states on the basis of agricultural area, agricultural employment and a prosperity criterion, to target specific rural needs...The additional funding for rural development generated by dynamic modulation will amount to around EUR 500-600 million in 2005 according to first estimates, and will increase annually by an equivalent amount with each 3% in dynamic modulation...²⁶

The EC Draft Instrument explains what would happen to the modulated money:

Currently, Member States which modulate direct payments on an optional basis keep the "savings" in their accounts and have to spend them again for additional rural development activities within a certain time span (3 years). This approach is unorthodox in budget terms and could not be extended to a Community wide system with transfers of important amounts. The Commission therefore proposes replacing the current system by more appropriate arrangements. It will make an ex-ante estimate of the amounts made available under modulation and capping in

²⁶ European Commission Press Release, "Towards Sustainable Farming" Commission presents EU Farm Policy Mid-Term Review, 10 July 2002

budget years 2005 and 2006 and propose reducing the ceiling under heading 1a accordingly. A corresponding amount would be proposed for transfer to heading 1b. The financial perspectives would be modified according to the procedure foreseen under article 20 of the Interinstitutional Agreement on Budgetary discipline.

The amounts saved by modulation in this way each year will be distributed to Member States on the basis of agricultural area, agricultural employment and a prosperity criterion, to target specific rural needs. Such a key reflects the important role of agriculture in land use and land management in rural areas. This will allow some redistribution from intensive cereal and livestock producing countries to poorer and more extensive/mountainous countries, bringing positive environmental and cohesion effects. The savings from capping will be distributed according to the amount capped in each Member State.

The additional EAGGF Guarantee funding for rural development generated by dynamic modulation will amount to around EUR 500-600 million in 2005 according to first estimates, and will increase annually by an equivalent amount with each 3% increase in dynamic modulation.

Member states may use this additional funding to reinforce their rural development programmes. They may wish to allocate such additional resources within their programmes on the basis of needs identified within the framework of the mid-term evaluation of rural development programmes and taking into account the possibilities offered under the new rural development measures which the Commission is now proposing. Member states will be permitted to allocate the modulation money to any of the rural development measures which are eligible to be included in their rural development programming financed under the EAGGF-Guarantee section. They may use the additional funds to increase the level of Community co-financing within their programmes up to the regulatory ceilings, finance new measures, increase the scope of and/or finance additional beneficiaries under existing measures.

In principle, the additional funding transferred from the 1st pillar to the 2nd pillar will not impose any additional budgetary effort by Member States when included within their rural development programming for 2005-06.²⁷

Many individual farmers in the UK would certainly face the prospect of losing 20% of their payments without any guarantee that it would be open to them to gain the money by carrying out environmental projects. The Draft Instrument does not state explicitly whether or not the Member State would have to match increased Rural Development regulation funding, as is the case under the current mechanism. However, the last paragraph quoted above suggests that such match funding would not be required.

²⁷ *Draft Instrument 10879/02 of 12 July 2002 ...on the mid-term review of the Common Agricultural Policy, 2002*

Commissioner Fischler pointed to British public opinion to justify his approach:

Presenting the Commission's CAP mid-term review proposals, Franz Fischler, Commissioner for Agriculture, Rural Development and Fisheries, said that 80% of the citizens in the United Kingdom want the EU farm policy to ensure safe food and a healthy environment. But only less than one third of those surveyed in the UK think that the existing CAP achieves these goals...²⁸

With the information available at the moment, it is not possible to know how important the cross-compliance would be.

B. Comment by the UK Government

The UK Government generally welcomed the Commission's proposals on modulation, with reservations:

While the UK Government has long advocated such a shift in support, we do not believe that the Commission's proposals go far or fast enough. Specifically, the Government would have liked proposals which offered real budgetary savings with only some of the money cut from payments being recycled into the second pillar of the CAP, with the rest being returned to the EU budget. This is needed to put the CAP budget on a sustainable footing as the UK takes forward its environmental and rural development objectives, and EU enlargement makes it all the more important that the CAP budget is under control. In addition, the Government is concerned that the inclusion in the Commission's proposals of a franchise at farm level below which modulation would not apply, and a ceiling above which producers would not be entitled to any direct payments, risks making it an unnecessarily complex system which will prove both unworkable and discriminate unfairly against certain categories of farmers.

The Government welcomes the Commission's proposal to introduce an objective key for the distribution between Member States of increased rural development funds, generated by this shift in support. There is a serious and damaging imbalance in the current allocation of funds and it will be important to take this opportunity to correct this. The Commission's proposals for simplifying and widening the scope of spending under the second pillar of the Cap are also welcomed. The UK is considering whether it should go even further, for example, by widening the range of schemes eligible for funding under the Rural Development programmes, and the range of potential beneficiaries.²⁹

²⁸ European Commission Press Notice, *Paying farmers for what society wants, Franz Fischler presents the CAP Review to the UK*, 17 July 2002

²⁹ *UK Explanatory Memorandum on Draft Instrument 10879/02 of 12 July 2002 ...on the mid-term review of the Common Agricultural Policy, 2002*

C. The effect of the modulation proposals on UK farming

As noted above, the idea of increasing modulation within the Agenda 2000 regime has been suggested by the Policy Commission on the Future of Farming and Food, and other bodies. The European Commission, on the other hand, is proposing increased modulation rates within the context of other changes to the support regime. The effects would be different because the Commission is proposing transferring support to direct payments. Under the current regime, the benefits of price support would be untouched by modulation. If the assistance to agriculture came entirely by direct payments rather than via high support prices, then, under the new regime, modulation would potentially affect all payments.

At the moment, on the other hand, a considerable amount of agricultural assistance still derives from price support. That was the basis for the CAP until recent years, and was retained in Agenda 2000 when the European Commission failed to obtain agreement to reduce support prices to international levels. Even in its current proposals, the Commission proposes the retention of milk quotas. The only point of so doing is to maintain milk prices above the international level.

The RICS Report (see Section IV F) pointed out that the effect of the existing type (Agenda 2000 type) of modulation on farm income depends upon the proportion of income that derives from direct payments. The very low recent farm income figures increase the importance of direct payments, and perhaps overstate their importance. Therefore the RICS table also includes direct payments as a proportion of output. (LFA = Less Favoured Area).

Table 2
Direct Payments and Farm Types in England³⁰

Farm Type	Direct Payments as % of:	
	Output	Net Farm Income (av 1999-2001)
Cereals	29	47
Dairy	6	68
LFA Livestock	40	527
Lowland Livestock	25	Not available
General Cropping	15	242
Mixed	19	447
All Farm Types	16	242

Modulation would reduce the direct payments, so it would have relatively little effect on the dairy industry. If the 1999-2001 net farm incomes are regarded as exceptionally low, and the output figure is examined, then LFA livestock would be potentially the worst affected by modulation, followed by cereals, lowland livestock and mixed farms.

However, the European Commission modulation proposals offer a lower limit. For up to 2 (full time) annual work units, the franchise will be EUR 5,000. For each additionally employed annual work unit an additional EUR 3,000 may be granted on an optional basis by Member States. According to Table 3, 78,570 UK farmers receive less than EUR 5,000. In view of the very low incomes in LFAs, many of those farmers would probably be exempt.

Cereal farmers, on the other hand, tend to be larger in terms of capital and income, so nearly all of them would be affected. Since direct payments form 29% of their income, a 10% rate of modulation would reduce their incomes (measured by output) by 2.9% and a 20% rate of modulation would reduce them by 5.8%. It is, of course, at this stage unclear how far it would be open to the cereal farmers to regain their money by undertaking environmental projects. However, those projects would probably involve extra costs.

The figures quoted above, taken with figures for total payments in each size category, can also give some idea of the income to be taken out of the UK farm sector if CAP payments are capped at EUR 300,000 per farm. The total amount paid to those receiving more than EUR 300,000 each is EUR 174,853,000. There are 380 farms in this category. If they each received EUR 300,000, total receipts would be EUR 114,000,000. Therefore payments would be reduced by EUR 61 m. It is normally assumed that virtually all the UK farms large enough to be affected by the EUR 300,000 cap would be arable farms.

The unanswered question, of course, is how far farmers would be able to recoup their losses by participating in extended agri-environmental schemes, the “broad and shallow” schemes that are being recommended.

UK livestock industry experts have estimated the effect of the European Commission’s modulation proposals taken together with their proposals to decouple subsidy payment from the level of output. Meat and Livestock Commission analysts argued that the UK could lose one third of its beef suckler herd. The national sheep breeding flock could contract from 17 million head to 12m by 2010 if the proposals were implemented. One reason for that prediction is the estimated disincentive effect of decoupling output from subsidy payment. Recipients, indeed, would not need to continue farming at all. It is not clear how much of that effect would come from the modulation proposals.³¹

³⁰ RICS, *The Impact of Modulation*, 2002, p 13

³¹ “MTR threatens UK Beef, Sheep Sectors”, *Agra Europe*, 11 October 2002 M/7

D. The effect of the capping proposals on UK Farming

The following figures, produced on a comparable basis across the EU, show direct aids by size category:-

Table 3³²

Aid Amount Category in Euros	Number of Farmers in Great Britain
<0	100
>0000 and <1,250	41,280
>1,250 and <2,000	11,660
>2,000 and <5,000	25,530
>5,000 and <10,000	22,110
>10,000 and <20,000	22,280
>20,000 and <50,000	26,180
>50,000 and <100,000	11,710
>100,000 and <200,000	4,460
>200,000 and <300,000	76
>300,000 and <400,000	300
>500,000	80
Total	166,460

The table shows not only the very high direct aid payments for the very few, but also the very low payments for most farmers. More than 50,000 farmers are receiving less than EUR 2,000. Roughly another 50,000 farmers received between EUR 2,000 and EUR 10,000. Then there is a third 50,000 between EUR 10,000 and EUR 50,000. Around 17,000 farmers receive higher payments than that. The Commission proposals would limit payments to the individual farm of 300,000 EUR. The following table shows the countries that would be most affected:-

Table 4

Aid Amount Category in Euros	Number of Farmers				
	Germany	Great Britain	Spain	Italy	France
>300,000 and <500,000	790	300	100	50	20
>500,000	470	80	30	20	0
Total	1,260	380	130	70	20

³² European Commission Figures quoted in *Agra Europe*, 4 October 2002 EP/4

In other words, Germany has the largest number of farms whose income would be reduced by capping at 300,000 EUR. That is because of the large estates resulting from the nationalised farms in Eastern Germany that were absorbed at the time of unification. The high Spanish figure represents the large estates in the south of the country. The UK has traditionally had a much higher number of large farms than the EU average, and successfully opposed the policy of capping when it was proposed in 1992.

E. Conclusion

The European Commission proposals for the CAP will continue to be debated until early 2003, but agreement will be needed by then if the EU is to use the proposals as part of its offer in the World Trade Talks on agriculture. It is unlikely that the European Commission proposals will go ahead in the original form. For example, a delay in implementation until 2006 must be likely. News that France and Germany have reached agreement on long-term control of spending on the CAP is important. It does not, however, tell us whether or not modulation will form part of the final agreement.

V European Environmental Legislation with Impacts on Agriculture

There are various EU Directives which impose, or will impose, a legal obligation on farmers in the UK to behave in certain ways, with the aim of reducing the impact of their activities on the environment. The Nitrates Directive restricts the way fertilizers can be applied. The Water Framework Directive is likely to restrict any activity which causes diffuse pollution of receiving waters. It is also looking increasingly likely that farmers will have to comply with waste management legislation.

A. Nitrates Directive

One piece of EC legislation with an important impact on farming methods is Directive 91/676/EEC on Nitrates from Agricultural Sources.³³ This Directive aims to prevent the pollution of waters by nitrates from agriculture by requiring Member states to place mandatory restrictions on agricultural practices where these contribute to the nitrate pollution of waters.

The implementation of the Directive requires Member States to designate Nitrate Vulnerable Zones (NVZs) within which the following measures are to be carried out to limit the loss of nitrates from soil into water:

³³ OJ L375, 31.12.1991

- Crop rotations, soil winter cover, catch crops, in order to limit leaching during the wet seasons.
- Use of fertilisers and manure, with a balance between crop needs, N inputs and soil supply, frequent manure and soil analysis, mandatory fertilisation plans and general limitations per crop for both mineral and organic N fertilisation.
- Appropriate N spreading calendars and sufficient manure storage, for availability only when the crop needs nutrients, and good spreading practices.
- "Buffer" effect of non-fertilised grass strips and hedges along watercourses and ditches.
- Good management and restriction of cultivation on steeply sloping soils, and of irrigation.

Further details can be found in Appendix 2.

Implementation in the UK

After consultation 66 NVZs covering around 600,000 hectares (8% of England's land area) were designated in April 1996, for the protection of drinking water supplies. Action Programme measures inside the NVZs were established in May 1998 and came into force on 19 December 1998.³⁴

However, in December 2000 the European Court of Justice (ECJ) ruled that the UK had failed to implement the Nitrates Directive fully, stating that it applied to *all* ground and surface waters so as to reduce the risk of eutrophication³⁵ as well as to protect drinking water sources.

Following the ECJ ruling the Government produced a consultation document on how to expand the NVZ to meet the requirements of the Directive. According to the document, 80% of England needed to be designated as NVZ to protect waters that are eutrophic or likely to become eutrophic. The paper presented two options: Option 1 involved applying an Action Programme across the whole of England; Option 2 would involve Action Programmes for the 80% of land in England that needed to be designated.

The consultation paper outlined the following benefits from controlling inputs of nitrates into watercourses:

³⁴ Some Member States (Germany, Denmark, Luxembourg, Netherlands and Austria) have set up national action programmes covering the whole country.

³⁵ **Eutrophication:** The accumulation of nutrients, particularly nitrates (from agricultural drainage), and phosphates (from sewage and detergents) in river or lake water. This nutrient enrichment accelerates the growth of all plants, but particularly that of aquatic algae and cyanobacteria. Their rapid growth can block waterways, interfere with drinking-water supplies and cause serious harm to plant and animal life by depriving them of oxygen.

- Reducing the escape of nitrate and other nutrients into the water environment to further reduce the risk of eutrophication and unusual plant growth.
- Helping to ensure industries dependent on high water quality remain viable, including recreation and tourism, fisheries industry and agriculture, horticulture and food processing.
- Helping to protect habitat areas important for wildlife conservation and to prevent decreases in biodiversity.
- Helping to ensure the quality of drinking water, and reducing the complexity and cost of water treatment
- Helping to promote the use of organic manures as an important source of nutrients, not a waste disposal problem.
- Helping to encourage a systematic approach to nitrogen fertiliser planning which reduces the risk of over-application by taking full account of the nitrogen available from the soil, previous crop residues and organic manures.³⁶

The cost of non-compliance with the Directive was estimated to be up to £50 million a year. Estimates of the cost of implementing a country wide Action Programme was £31.8 million a year and for 80% of England, £23.2 million.

The majority of the respondents to the consultation, 56%, preferred option one, which applied measures to the whole of England. The majority of farmers, 54%, also preferred option 1. However, counties where there was a greater support for option 2 were those where it would be more likely that farmers would fall outside NVZs.

The Government announced its decision to designate 55% of England as NVZ on 27 June 2002:

The overall extent of the new designations will be less than was originally estimated in the consultation document, as a result of work to define and quantify the NVZ areas more accurately than was possible at the time the consultation document was issued. Some new areas have been added, as was anticipated in the consultation document; but more areas have been removed.

I am today publishing a revised regulatory impact assessment, which estimates that the compliance costs incurred by farmers will amount to about £20m per year. Costs will vary considerably from farm to farm, but I acknowledge that some farmers, particularly those who need to construct additional slurry storage facilities, will incur substantial costs. To assist those farmers who are most affected, we will extend the existing Farm Waste Grant scheme to the new NVZ areas to help finance improvements to slurry storage facilities required to implement the action programme.

³⁶ DETR, *First Consultation Paper on the Implementation of the EC Water Framework Directive (2000/60/EC)*, March 2001; <http://www.defra.gov.uk/environment/consult/waterframe/index.htm>

Formal designations setting down the precise boundaries of the new zones will follow as soon as possible, and it will become a legal requirement to follow the action programme from 19 December 2002.³⁷

The National Farmers Union, which was very unhappy about the initial proposals, welcomed the reduction of the area to be covered by NVZ, but was still concerned that many areas and individual farms might have been wrongly included in the proposed designated area. It also expressed concern about the lack of an appeal mechanism for farmers affected by the declaration of Nitrate Vulnerable Zones.³⁸ The Government has since announced that farmers who feel their land has been wrongly classified can seek a review by writing to the Department by 31 December 2002.³⁹

Guidance and Assistance

The Government published *The Water Code*, a voluntary code of practice, in 1991 and updated it in 1998. In addition, guidelines for farmers in NVZ, published by DEFRA, were revised in 2002.

Farmers within NVZs can also obtain financial assistance from Government. *The Farm Waste Grant (Nitrate Vulnerable Zones) (England) Scheme 2000 SI 2890* contains provisions for grants to provide farmers whose land lies partly or completely within NVZ. These grants are available at a rate of 40% and up to a maximum of £85,000 towards the building or upgrading of facilities to contain or treat farm wastes or to ensure the separation of clean and dirty water.

B. Water Framework Directive

The Water Framework Directive (2000/60/EC) came into force on 22 December 2000.⁴⁰ It introduces the concept of integrated basin management with the aim of achieving environmental objectives for all water bodies. As part of the integrated basin management there will be a requirement to produce strategic management plans on a river basin level. The Directive will have impacts on all sectors whose activities affect the water environment, including agriculture.

The Government closed its first consultation on the implementation of the Water Framework Directive, on 29 June 2001. This aim of the first consultation was to give a general overview of the Directive and to examine the areas where choices were possible.

³⁷ HC Deb 27 June 2002 c1002w

³⁸ NFU Press Release, *NFU concerned at lack of appeal process on NVZ's*, 21 August 2002
<http://www.nfu.org.uk/pr/4028223/nvzappeals.htm>

³⁹ DEFRA Press Release 44/02, *Nitrate Vulnerable Zones designated to improve quality and comply with Nitrates Directive*, 7 October 2002.

⁴⁰ OJ L327, 22.12.2000

The principal aims of the Directive were summarised in the consultation document:

1.8 The Directive will:

- require objectives to be set for *all* water bodies rather than only those that the member state chooses to designate, and in most cases for these objectives to be met within 15 years
- provide for a new system of classifying surface water according to its ecological quality status
- require quantitative and chemical quality objectives to be set for groundwater
- promote sustainable water use based on long term protection of available water resources
- require comprehensive river basin management plans to manage surface waters and groundwater, with arrangements for providing information and public consultation
- give member states explicit requirements to take account of pressures on water quality from point and diffuse sources and ensure that necessary measures to meet quality objectives are selected, including the management of water quantity where appropriate to meet quality objectives
- require member states to ensure that there is no deterioration in the ecological status of water bodies
- place on a statutory basis much of the Environment Agency's existing good practice
- in meeting the Directive's obligations, contribute to achieving the objectives of international agreements, including those which aim to prevent and eliminate pollution of the marine environment such as OSPAR
- establish a framework for the protection of water which conserves aquatic ecosystems, and with regard to their water needs, wetlands directly depending on them.⁴¹

The key deadlines for complying with the Directive were also outlined in the consultation:⁴²

Timing	Deadline
22 Dec 2000	Directive entered into force (article 22)
+ 3 years	Bring into force the laws, regulations and administrative provisions necessary to comply with the Directive (ie to come into force by 22 December 2003) (article 24)
+ 3 years	Identify competent authority (article 3)
+ 3 1/2 years	Provide Commission with list of competent authorities (article 3)
+ 4 years	For each District, complete analysis of characteristics of the surface and groundwaters, review the environmental impact of human activity (industry, farming etc) and prepare economic analysis of water use (article 5)

⁴¹ DETR *First Consultation Paper on the Implementation of the EC Water Framework Directive* (2000/60/EC), March 2001, <http://www.defra.gov.uk/environment/consult/waterframe/index.htm>

⁴² DETR *First Consultation Paper on the Implementation of the EC Water Framework Directive* (2000/60/EC), Annex A, March 2001, <http://www.defra.gov.uk/environment/consult/waterframe/index.htm>

+ 4 years	Establish register or registers of Protected Areas (articles 6 and 7)
+ 6 years	Make operational monitoring programmes to ensure comprehensive view of water quality status within each River Basin District (article 8)
+ 6 years	Publish and consult on a timetable and work programmes for the production of River Basin Management Plans for each River Basin District (article 14)
+ 6 years	In the absence of agreement at Community level, for substances included on the first priority list (see article 16), member states to establish environmental quality standards for all surface water affected by discharges of those substances and controls on principal sources of discharges (same obligation to apply 5 years after subsequent inclusion of a priority substance in the list, in the absence of Community agreement) (article 16)
+ 7 years	Publish and consult on an interim overview of significant water management tissues for each River Basin District (article 14)
+ 8 years	Publish and consult on drafts of the River Basin Management Plans (at least 6 months to be allowed for comments in all the above cases) (article 14)
+ 9 years	Establish programmes of measures in each River Basin District in order to deliver environmental objectives (article 11)
+ 9 years	Publish first River Basin Management Plan for each River Basin District, including environmental objectives for each body of surface or groundwater and details of programmes of measures (article 13)
+ 10 years	Ensure proper water pricing policies are in place (article 9)
+ 12 years	Make operational programmes of measures in each River Basin District to deliver environmental objectives (article 11)
+ 12 years	Interim progress reports to be prepared on progress in implementing planned programmes of measures (article 15)
+ 15 years	Main environmental objectives to be met (article 4)
+ 15 years	And every 6 years thereafter – review and update plans (with same consultation and interim reporting arrangements described above) (articles 13,14 and 15)

Impacts on Farmers

The consultation document gave estimate costs of implementing the Directive for different sectors. The cost to agriculture was estimated at between £0.6-2.9 billion. The document qualified the estimate as follows:

Inevitably, there was (and still is) a high degree of uncertainty about these cost estimates, not least because of some of the assumptions on which they were based. Most significantly, it was not clear what the effect of existing or planned improvements would have on water quality.⁴³

And

As the RIA [Regulatory Impact Assessment] notes, any assessment of the costs facing a particular type of business is made difficult because the Directive is concerned with broad

⁴³ *ibid*

objectives to be achieved over large catchments and does not prescribe specific regulatory requirements. So these latter costs need to be treated with some caution.⁴⁴

The paper does include potential cost per hectare to farmers of implementing the Directive. These are based on a document produced by consultants for the DETR in 1999.⁴⁵ The estimated costs, obtained by comparing to compensation cost currently given to farmers for changing agricultural practices to improve water quality, for the "average" farm are given as approximately £175 per annum for arable land and £117 per annum for grassland.

DEFRA confirmed that the above costs are a very rough general estimate. It is envisaged that targets for water quality will be set for defined stretches of rivers. Targets will depend on the existing level of pollution and the cost on the measures required for pollution to be reduced. Less polluting crops and smaller farms will have lower costs. In addition the publication of the River Basement Management Plans, which are not due until December 2009, would give farmers considerable time to implement any required changes in farming practices.

Benefits of implementing the Directive in England and Wales were also estimated, though again there is potential for a wide margin of error, at between £1.6 billion and £6.2 billion. Other possible benefits from cleaner water are also highlighted, such as for groundwater used for abstraction as, there will be direct economic benefits from increases in quality, through reduced treatment costs or possible increased agricultural yield.

Second Consultation

The second consultation on the WFD was published in October 2002. Though the document identifies agriculture as the prime source of diffuse pollution it is unable to identify the precise measures that will be required for dealing with it and outlines the reasons as follows:

It is not possible at this stage to identify the extent to which additional controls will need to be applied in practice to implement WFD. In part this is because the quality criteria that will have to be met under the Directive have yet to be set, and in part because the extent of additional controls required will shift over time, as land-use changes and in response to other policy measures. For example, if, following Defra's current review of diffuse pollution of water by agriculture, measures were to be put in place that were successful in controlling pollution, then this could reduce or avoid the need to apply controls under WFD.⁴⁶

⁴⁴ *ibid*

⁴⁵ WRC, *Potential costs and benefits of implementing the proposed water resources framework Directive*, January 1999, DETR 4477/5

⁴⁶ DEFRA, *Second Consultation Paper on the Implementation of the EC Water Framework Directive (2000/60/EC)*, October 2002. <http://www.defra.gov.uk/environment/consult/waterframe2/index.htm>

The proposed solution for dealing with this, given that legislation to implement the Directive has to be in place by the end of 2003, is to create a new power to prevent or control diffuse pollution. This power would have no immediate regulatory impact, but would enable action to be taken to prevent or reduce diffuse pollution as required.

Priorities for Future Water Policy

The Government announced a Strategic Review of diffuse water pollution from agriculture on 27 June 2002. This is seen as

one of several steps towards cleaner air and water through improved control of diffuse pollution from agriculture. The aim of the Review is to identify cost-effective and proportionate policy measures that might be used to control diffuse water pollution from agriculture, reducing it to levels that meet existing commitments and encourage sustainable farm practices.⁴⁷

This was followed, on 6 November 2002, by the publication of *Directing the Flow - priorities for future water policy*. This stressed the need to co-ordinate policy on the two major EC water Directives, described above. Agriculture was seen as a major source of water pollution:

4.3 Addressing diffuse pollution from agriculture is the single biggest future challenge for improving water quality. Agriculture is responsible for over 70% of nitrates and over 40% of phosphates in English waters. Elevated levels of these nutrients can contribute to eutrophication of marine and freshwater, feeding the growth of toxic algal blooms and causing ecological harm. The problem is long term: nutrients can seep through the ground over many decades causing nitrate build-up in groundwater sources. This has implications both for future drinking water supplies and to the water quality of rivers fed by groundwater. Agriculture also contributed about 32% of serious and significant water pollution incidents in 2001 (compared to 27% in 2000).

4.6 The cumulative leaching of polluted water and soil erosion from agricultural land has a significant effect:

- Increased silt loads to English rivers and lakes reduce water quality and affect fish, plants and other wildlife;
- Around half of bathing waters in England are affected by diffuse pollution, including many by microbial pollution from livestock manure washed off farmland after rain;
- Pesticide contamination of drinking water sources requires treatment before the water can be supplied to consumers;
- High levels of ammonia, and ammonium ions, such as those originating from run-off of manure and slurry, can affect fish.

⁴⁷ DEFRA, *The Government's Strategic Review of diffuse water pollution from agriculture in England*, 27 June 2002, <http://www.defra.gov.uk/environment/water/dwpa/index.htm>

The report goes on to cast doubt on a voluntary initiative that was adopted in 2001 as an alternative to having a pesticides tax:

Pesticides Voluntary Initiative

The Pesticides Voluntary Initiative is a package of measures drawn up by representatives of the pesticides, farming and allied industries. Its aim is to address Government concern to see a significant reduction in the environmental impact of pesticides. Implementation began in Spring 2001 and is scheduled to last five years. The Government is carefully monitoring progress, which has been patchy to date, and will expect to see significant environmental benefits delivered, over and above those that would be delivered by a pesticides tax.⁴⁸

That provisional conclusion is worrying for farmers who are used to voluntary initiatives to improve the environment, often based upon financial incentives for those who participate.

C. Agricultural Wastes

Non-natural agricultural wastes fall under the EU Framework Directive on Waste, which came into in 1975,⁴⁹ and as such should be controlled in the same way as other waste streams. This has not been the case up until now, however the current Government is committed to bringing proposals forward shortly, with a consultation document due before the end of the year. Information on the exact amounts of waste involved is minimal, though the following estimates were published in 2002:⁵⁰

Table 5

Main Agricultural Waste Streams (1998)	Tonnes
Plastic Packaging	32,219
Other Packaging	11,936
Non-packaging plastics	60,506
Tyres	25,974
Vehicles/machinery	23,312
Oils	27,095
Batteries	2,812
Asbestos Cement	33,602
Pesticides washings	104,549
Spent sheep dip	116,454

⁴⁸ DEFRA, *Directing the Flow: Priorities for Future Water Policy*, 2002

⁴⁹ Directive 75/442/EEC

⁵⁰ *ENDS Report*, 'National strategy urged for agricultural wastes', 326, March 2002

The Waste Strategy published by the Government in May 2002 outlined the kind of controls farmers may soon be subject to:

When agricultural wastes are classified as controlled wastes, there will be an obligation on the part of the waste holder (the farmer) to decide whether the waste should be treated as special waste under the *Special Waste Regulations 1996*. Other wastes from agriculture that may be classified as special waste include cement asbestos from farm buildings and oil and batteries from farm vehicles and machinery. The deposit, recovery or disposal of agricultural waste will require a waste management licence once these changes have been implemented.⁵¹

The implications of the introduction of waste controls for agriculture were summarised as follows in an article published by the ENDS Report:

About half of these wastes comprise pesticide tank washings and spent sheep dip. The forthcoming controls are unlikely to make a major impact on these materials, since they are already subject to authorisation under the 1998 groundwater regulations when disposed of by spreading on land.

However, the new controls are likely to spell an end to most on-farm landfills and open burning, while small-scale animal carcass incinerators used on some farms will be phased out under the new EU Directive on incineration by 2005. There are also doubts whether low-tech "drum incinerators" used to destroy pesticide containers will be allowed to continue in use.

Off-farm recycling and recovery are currently held back by the high costs of collecting waste from farms, limited facilities and poor markets for recycled materials.⁵²

The Government recently set up a stakeholders' forum on agricultural waste, in August 2002, with the following remit:

The Forum will have a strategic role in fulfilling these commitments. Its key objectives will be:

- 1) To provide a forum for stakeholders to discuss the Government's forthcoming consultation paper and its proposals for extending to agricultural waste the waste management controls required by the Waste Framework Directive; and
- 2) To inform Government and the Environment Agency on issues arising from the implementation of these waste management controls and other agricultural waste related matters that will affect the farming community.⁵³

⁵¹ DETR, *Waste Strategy 2000 England and Wales Part II*, May 2000

<http://www.defra.gov.uk/environment/waste/strategy/index.htm>

⁵² ENDS Report, 'National strategy urged for agricultural wastes', 326, March 2002

⁵³ DEFRA Press Release 335/02, *Stakeholders' forum on agricultural waste*, 14 August 2002

D. Paying for Environmental Measures

The present and future requirements for the agricultural sector to comply with environmental measures, will result in increased costs to the sector. This was highlighted in the report by the Policy Commission on the Future of Farming and Food:

We recommend that Government develop and publish a strategy for implementing forthcoming environmental Directives. Besides describing how progress on meeting each Directive's environmental objectives is to be achieved, monitored and reported on, the strategy should include a regulatory impact assessment based on cost-benefit analysis covering the impact on farms. It should look forward over the next ten years. An initial assessment should be made available within a year, and should be updated annually thereafter.⁵⁴

The report also highlighted the need to increase the existing range of agri-environment schemes to become "broader and shallower" and therefore accessible to most farmers:

The broad and shallow scheme should be targeted on paying farmers for positive management over and above their legal obligations. But it needs to be tied in with action to meet those legal obligations, and planning must be done in a consistent manner for both.⁵⁵

However, as highlighted above, any assistance would have to be aimed at producing environmental benefits over and above those required by law, as the EU commission does not allow the use of subsidies, in any area, to comply with standards that are set by EU law. However the Commission, in its recent mid-term review of CAP, did propose the introduction of assistance to help farmers adapt, in advance, to demanding standards based on Community legislation in the field of the environment, food safety and animal welfare:

The possibility to pay temporary and degressive aid to farmers to help them implement demanding standards based on Community legislation in the fields of environment, food safety, animal welfare and occupational safety standards and which will become part of good farming practice or required minimum standards. Introduction and respect of such standards can entail additional costs and obligations for farmers, and initially lead to loss of income. The aim of the measures would be to encourage a more rapid and widespread adoption of such standards. In no case would aid be payable where the non-application of standards is due to the non-respect by an individual farmer of standards already incorporated in national legislation.⁵⁶

⁵⁴ Policy Commission on the Future of Farming and Food, *Farming & Food a sustainable future*, January 2002

⁵⁵ *ibid*

⁵⁶ *Draft Instrument 10879/02 of 12 July 2002 ... on the mid-term review of the Common Agricultural Policy*, 2002.

E. Conclusion

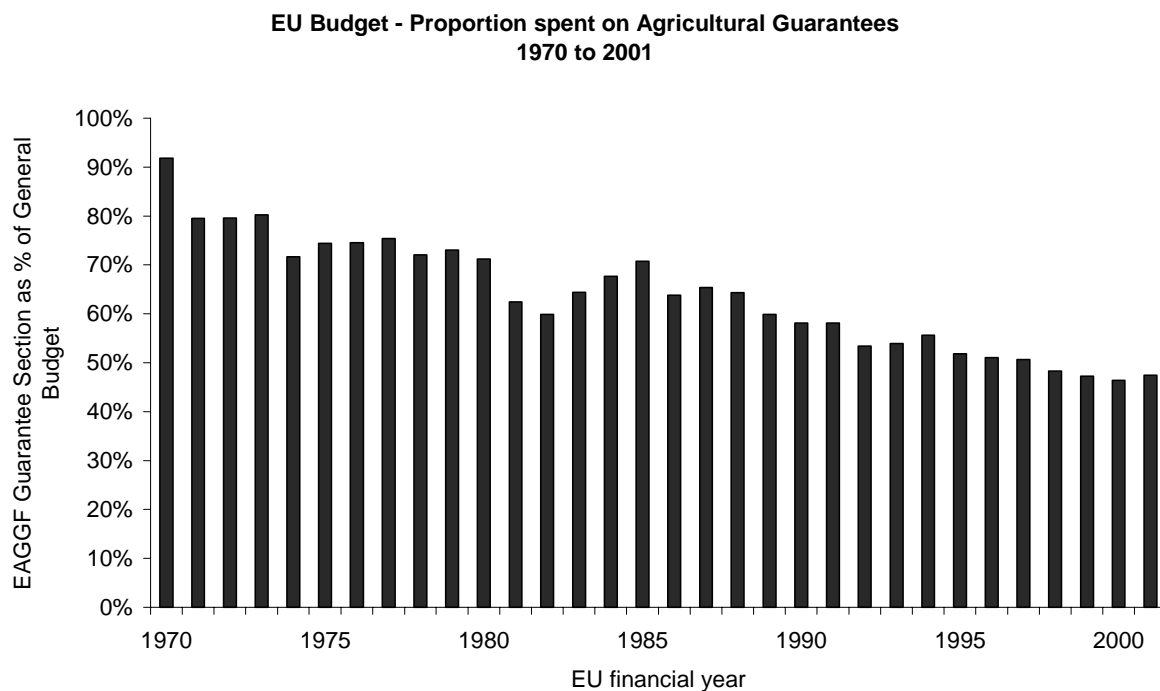
The UK will increasingly have to conform to environmental Directives covering all areas, and the agricultural sector is bound to have an important role in this process. Farming is no longer automatically trusted to bring benefits to the environment, and is becoming less likely in the UK to be exempt from complying with EU legislation. It is doubtful whether the voluntary initiatives for farmers to improve the environment will be able to achieve the necessary objectives set down by legislation. Thus, farmers risk facing both stricter laws and a reduction of their support payments from the EU, in order to provide increased funding for environmental projects. Currently the money saved from modulation cannot be used to cover the compliance costs for the above (or future) Directives, though the possibility does exist that funding may be made available to assist with compliance in the future.

Appendix 1 – EU Agriculture spending

For many years, spending by the EU was dominated by the Common Agricultural Policy. The European Agricultural Guidance and Guarantee Fund (EAGGF) Guarantee Section provides the budget for the various programmes of CAP spending whose aims are set down in the Treaty establishing the European Economic Community, as follows:

- To increase agricultural productivity
- To ensure a fair standard of living for the agricultural community
- To stabilize markets
- To guarantee the availability of supply
- To ensure that supplies reach consumers at reasonable prices.

Since the late 1980s there has been a steady decline in the proportion of the EU budget that has been devoted to the CAP as an increasing proportion of a growing EU budget has been going to non-agricultural areas – particularly the structural funds.⁵⁷

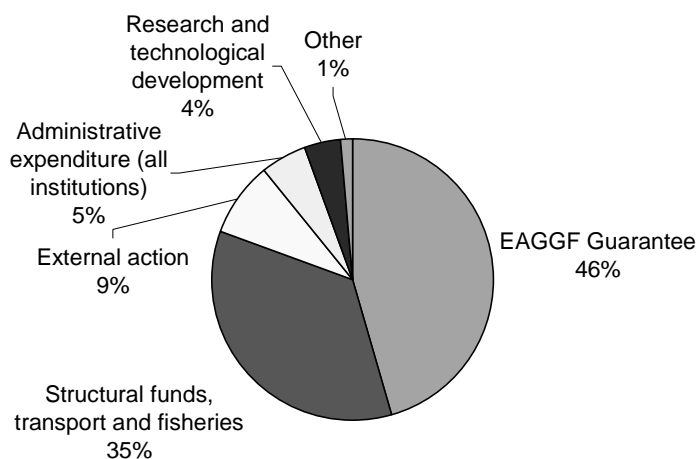


It is worth noting that EU spending on agriculture has risen in real terms over the last 30 years, albeit at a slower rate than other budget heads. In real terms, current EU agricultural spending is around four-times higher than in 1980.

⁵⁷ EC *The Community Budget: The Facts in Figures* 2000 edition
<http://europa.eu.int/comm/budget/pdf/infos/vademecum2000/en.pdf>

The 2002 Budget shows the following broad distribution of the EU budget, with agricultural spending now representing less than half of the total.⁵⁸

EU Budget 2002 - summary of appropriations



Projected EU budget figures suggest the real level of EU spending on agriculture (and its proportion of overall EU spending) will be roughly constant in the next few years.⁵⁹

⁵⁸ EC *The 2002 Budget in Figures* <http://europa.eu.int/comm/budget/pdf/budget/syntchif2002/en.pdf>

⁵⁹ EU *Financial Report 2001*

Appendix 2 – Summary of NVZ Rules

Closed Periods	Arable	Grassland
Manufactured Nitrogen Fertiliser (on all soil types)	1 Sept – 1 Feb	15 Sept – 1 Feb
Organic Manures (with high available N on sandy and shallow soils autumn only e.g. slurry and poultry manure)	1 Aug – 1 Nov (arable land <i>with no</i> sown crop)	1 Sept – 1 Nov (including arable land with autumn sown crop)
Nitrogen Limits	Arable	Grassland
Fertiliser Nitrogen	do <i>not</i> exceed crop requirement	do <i>not</i> exceed crop requirement
Organic Manures: (i) whole farm within NVZ (including grazing deposition)	210 kg/ha ₁ total N	250 kg/ha total N
(ii) field limit ₂ (excluding grazing deposition)	250 kg/ha total N	250 kg/ha total N

₁ reduces to 170 kg/ha after the first four years of Action Programme in NVZ

₂ NB available N from organic manures must not exceed crop requirement

Spreading Controls

- Do not apply nitrogen fertiliser or organic manures when the soil is:
 - waterlogged; or flooded; or frozen hard; or snow covered.
- Do not apply nitrogen fertiliser or organic manures to steeply sloping fields.
- Spread nitrogen fertiliser and organic manures evenly and accurately.
- Do not apply nitrogen fertiliser in a way that contaminates water courses.
- Do not apply organic manures within 10 metres of water courses.

Slurry Storage

There must be sufficient storage to meet the autumn closed period for spreading slurry. All new or substantially enlarged/reconstructed storage facilities must comply with the relevant regulations.

Record Keeping

Adequate farm records must be kept for at least five years covering cropping, livestock numbers, and the use of nitrogen fertilisers and organic manures.