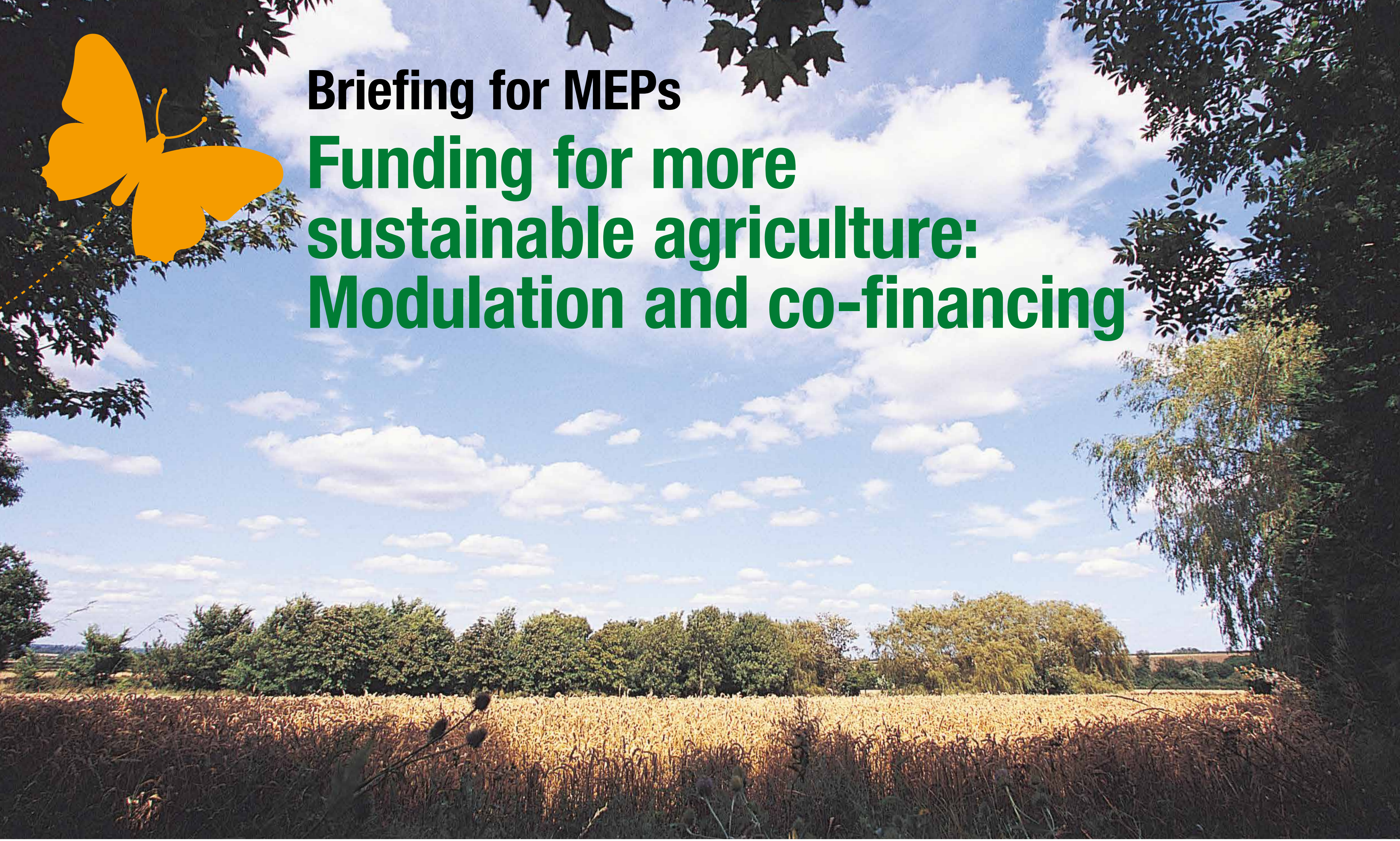


Briefing for MEPs

Funding for more sustainable agriculture: Modulation and co-financing

Wildlife and Countryside LINK
Scottish Environment LINK
Northern Ireland environment link

Funding for more sustainable agriculture

BACKGROUND

From 2014–2020, the Common Agricultural Policy (CAP) will account for almost 40% of the EU budget: some €53bn per year. But despite promises of a 'greener' policy, little of this funding will go towards more sustainable farming and land management practices. 75% will be spent on Pillar I direct payments which deliver little benefit for the public and stifle the development of the European agriculture sector. Although they form an important income stream for many High Nature Value (HNV) farming systems, including many in the UK uplands, direct payments cannot be justified in their current form as they are not explicitly linked to the delivery of environmental public goods. We must use the CAP budget more efficiently to secure public goods, by paying HNV and other environmentally progressive farmers in return for clear environmental delivery.

There is compelling evidence that targeted environmental schemes within Pillar II of the CAP represent good value for taxpayers' money[1] and help farmers adopt more sustainable, resilient and wildlife friendly businesses.[2] However, Pillar II (also known as Rural Development) has suffered disproportionate cuts in the Multi-annual Financial Framework. It is vital that steps are taken to mitigate this unjust situation. Positively, Member States will be able to transfer up to 15% of their Pillar I allocations into Pillar II. This transfer is referred to as 'modulation'. Far from welcome however, is the new option which allows all Member States to transfer a portion of their Pillar II budgets back into Pillar I – 'reverse modulation'.

1 CCRI (2010) Estimating the incidental socio-economic benefits of environmental stewardship schemes
2 RSPB and BirdLife (2011) Seeds of success: How agri-environment can yield results for nature and farming

WHY IS 'MODULATION' SO IMPORTANT?

Pillar II is well equipped to support farmers and land managers to address environmental challenges including biodiversity declines, resource protection and landscape conservation. However, its budget for 2014–2020 is far too small– €85bn, roughly €12bn per year. Research suggests that about €50bn per year would be required to deliver the EU's environmental objectives on agricultural and forested land.[3]

'Compulsory modulation' formed a key part of the 2007–2013 CAP with all Member States required to transfer a rising percentage of Pillar I funds into Pillar II – reaching 10% in 2012. This was an important reflection of the need to steadily increase the funding allocated to Pillar II. Whilst compulsory modulation will not form part of the 2014–2020 CAP, Member States are allowed to transfer funds voluntarily and it is vitally important that that these transfers take place to boost the Pillar II budget.

3 Hart, K et al (2011) Costing the Environmental Needs Related to Rural Land Management, Report Prepared for DG Environment, Contract No ENV.F.1/ETU/2010/0019r. Institute for European Environmental Policy, London

WHY IS 'REVERSE MODULATION' SO BAD?

Direct payments were never meant to be a permanent measure. Modulation was intended to slowly replace Pillar I payments with schemes that support the farming industry to become more responsive to market drivers and less dependant on public hand outs. This trajectory of reform recognised the importance of using CAP funds to 'buy' public goods which the conventional market fails to reward, including biodiversity, resource protection and landscape character.

This necessary trajectory of reform is reversed under the new CAP framework. All Member States will be allowed to transfer up to 15% from Pillar II into Pillar I, with some (including the UK) allowed to transfer up to 25%. This is a further blow to an already massively underfunded Pillar II pot of money and will severely undermine prospects for meeting the EU's own environmental targets. Reverse modulation will represent an extremely

Funding for more sustainable agriculture

inappropriate use of public money and should form no part of the CAP. It is imperative that governments across the UK give assurances that they will not use reverse modulation.

THE ROLE OF CO-FINANCING

Member States are currently required to co-finance Pillar II spending. This principle is sound as it both increases the funding available for rural development measures and gives Member States a clear interest in spending their Pillar II money wisely.

However, whilst co-financing of funds transferred into Pillar II for the next CAP (2014–2020) would also be sound in principle, in the current economic climate very few Member States can afford to do this. Therefore, in practice any requirement to co-finance would invariably lead to no modulation taking place. This situation must be avoided at all costs as without modulation, very few new agri-environment commitments could be offered between 2015 and 2020. Some existing agreements may even be closed early, impacting the most progressive farm businesses who have embraced these schemes to date.

It is therefore critical that there is no mandatory co-financing requirement for funds transferred into Pillar II.

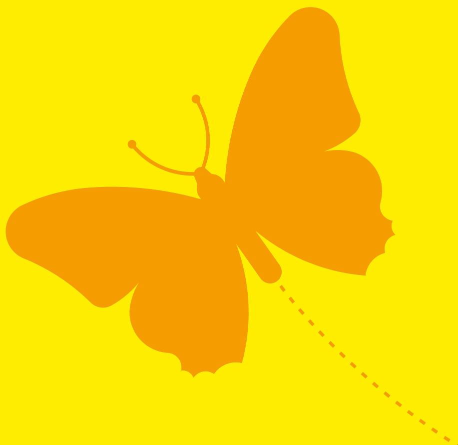
WHY PILLAR I 'GREENING' IS NOT A SUBSTITUTE FOR A WELL-FUNDED PILLAR II

'Greening' is a new addition to the CAP and will require some farmers to respect a set of greening requirements in return for 30% of their Pillar I direct payments. Whilst we strongly welcome the principle of attaching more environmental conditionality to Pillar I payments, it is important to recognise that they are less able to 'buy' targeted environmental benefits than Pillar II. For example, Pillar I payments are made annually and cannot include any management that takes more than a year to produce environmental benefits. In addition, CAP negotiations severely watered down the quality of the new greening requirements and as a result their ability to secure environmental improvement will be even more limited.

WHAT YOU CAN DO AS AN MEP

To ensure that the CAP delivers public benefit for UK taxpayers, please can you:

- **Reject mandatory co-financing of transfers into Pillar II in order to ensure such transfers are affordable for Member States.**
- **Ensure the maximum rate for transfers into Pillar II remains no less than 15% and the reverse modulation rate is reduced as far as possible.**
- **Reject reverse modulation as further reductions to Pillar II funds will seriously undermine prospects of meeting EU environmental targets.**



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WHO WE ARE

The UK's three Link organisations represent a suite of bodies working for the conservation, enjoyment and protection of wildlife, countryside and the marine environment. Our members practise and advocate environmentally sensitive land management and food production, and encourage respect for and enjoyment of landscapes and their features, the historic environment and biodiversity. We have been working together for many years to try and ensure that the CAP delivers all that it can for the countryside whilst rewarding those who embrace this responsibility in their management of the land.

Wildlife and Countryside Link
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Northern Ireland Environment Link
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Registered charity no. XR 19598

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CPRE — Campaign to Protect Rural England — Standing up for your countryside
The Mammal Society
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