

# EUROPEAN PARLIAMENT

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*Committee on Budgets*

**2006/0083(CNS)**

26.9.2006

## **OPINION**

of the Committee on Budgets

for the Committee on Agriculture and Rural Development

on the proposal for a Council regulation laying down rules for voluntary modulation of direct payments provided for in Regulation (EC) No 1782/2003 establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers, and amending Regulation (EC) No 1290/2005  
(COM(2006)0241 – C6-0235/2006 – 2006/0083(CNS))

Draftsman: Herbert Bösch



## SHORT JUSTIFICATION

### I. History and content of the proposal

On 15/16 December 2005 the European Council in Brussels adopted a document named "Brussels European Council 15/16 December 2005 - Presidency Conclusions"<sup>1</sup> and which contains in paragraph 6 under title "Financial Perspectives" the following reference: "The European Council reached agreement on the Financial Perspective 2007-2013 as set out in doc. 15915/05."<sup>2</sup>

In this document, under "Heading 2 - Preservation and Management of natural Resources", the Member States agreed the following:

*"62. At their discretion, Member States may transfer additional sums from within this ceiling to rural development programmes up to a maximum of 20% of the amounts that accrue to them from market related expenditure and direct payments. The European Council invites the Council, on the basis of a proposal from the Commission, to establish the modalities which will govern such transfers. Sums transferred to support rural development measures pursuant to such arrangements shall not be subject to the national co-financing and minimum spending per axes rules set out in the Rural Development Regulation."*

The European Parliament expressed reservations concerning the European Council agreement<sup>3</sup> : (Declaration No 9 of the IIA of 17 May 2006.)

The Commission, which had been "invited" by the European Council to use its right of initiative according the Treaties and present a proposal, notified some half-hearted objections to this "invitation"<sup>4</sup>.

However, the Commission then accepted the "invitation" by the European Council and, on 24 May 2005, presented a proposal laying down rules for voluntary modulation.<sup>5</sup>

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<sup>1</sup> published on the Council of the European Union's Website:

[http://www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressData/en/ec/87642.pdf](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/87642.pdf)

<sup>2</sup> [http://www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressdata/en/misc/87677.pdf](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressdata/en/misc/87677.pdf)

<sup>3</sup> *"The European Parliament takes note of the conclusions of the European Council of December 2005 concerning voluntary modulation from market-related expenditure and direct payments of the Common Agricultural Policy to rural development up to a maximum of 20% and the reductions for market-related expenditure. When the modalities of this modulation are laid down in the relevant legal acts, the European Parliament will evaluate the feasibility of these provisions in respect of EU principles, such as competition rules and others; the European Parliament currently reserves its position on the outcome of the procedure. It considers it would be useful to assess the issue of co-financing of agriculture in the context of the 2008-09 review."*

<sup>4</sup> *"The Commission takes note of Point 62 of the conclusions of the European Council of December 2005 whereby Member States may transfer additional sums from market-related expenditure and direct payments of the Common Agricultural Policy to Rural Development up to a maximum of 20% of the amounts that accrue to them from market-related expenditure and direct payments. When laying down the modalities of this modulation in the relevant legal acts, the Commission will endeavour to make voluntary modulation possible whilst making all efforts to ensure that such a mechanism reflects as closely as possible the basic rules governing the rural development policy."*

<sup>5</sup> COM(2006)0241

<sup>3</sup> EP's reservation were formalised in its resolution on the IIA on budgetary discipline and sound financial management and in declaration No. 9 on voluntary modulation, P6\_TA-PROV(2006)0210

The proposal:

- is based on Article 37 of the EC Treaty (European Parliament will only be consulted)
- allows for shifting up to 20% of direct payments from the first pillar of CAP to rural development (2nd pillar) in addition to the compulsory modulation decided in the context of the 2003 CAP reform
- enables the funds to be used freely in accordance with the provisions of the EAFRD-Regulation; the rules on minimum expenditure per axis must be complied with
- has the same calculation basis as the compulsory modulation, including the specific measure for small farmers (reduced percentage applied to the first EUR 5 000 for small farmers)
- makes provision for specific measures for rural farmers through an additional amount of EUR 5 000
- provides that co-financing is not compulsory
- requires Member States to decide the rate of reduction for the whole financing period within two months.

Your draftsman wants to point out that he is not against the principle of modulation as such, which implies the transfer of funding from pillar I "market support and direct payments to farmers" to pillar II "Rural development", since it reflects the spirit of the Common Agriculture Policy. Rural development is the key tool for the restructuring of the agriculture sector and to encourage diversification in rural areas.

However, Parliament cannot accept the way in which the European Council proceeded, once again, on this issue, and the manner in which the Commission put the mandate of the Heads of State and Government into practice:<sup>3</sup>

#### 1. Co-financing of the CAP

Unlike the rules applied in all other Structural Funds and unlike previous provisions on modulation, the proposal does not provide for co-financing. Furthermore, the Commission committed itself as expressed in its declaration Nr. 10 of the IIA of 17 May 2006 to make all efforts to ensure that such a mechanism reflects as closely as possible the basic rules governing the rural development policy. Voluntary, non co-financed modulation causes severe problems, as the non-cofinancing violates the principles of shared responsibility and additionality of the EU funds.

Furthermore, Parliament proposed in the Böge report (A6-0153/2005) that the financing problems of the CAP could be solved by introducing a new co-financing mechanism in the EU policy on agriculture.

#### 2. Financial Regulation

Modulation implies a transfer within Heading 2 of the MFF 2007-2013 and therefore has a consequence as regards classification of expenditure. However, the Commission proposal does not contain detailed provisions on how the amounts will be moved within the budget, from chapter 05 03, Direct Payments, to chapter 05 04, Rural development programmes. The European Parliament wishes to state clearly that these appropriations can only be transferred

having due regard for the principles of specificity, of unity and of budget accuracy and transparency according to the provisions of the Financial Regulation.

### 3. Disregard of European Parliament as branch of the Budgetary Authority (Article 272(9) TEC)

Under voluntary modulation, the Member States can unilaterally and without the involvement of Parliament increase expenditure provided for in Annex I to the IIA by several billion euros. Such a far-reaching change in the budget for non-compulsory expenditure without the prior involvement of the Budgetary Authority violates the spirit and the letter of the IIA.

### 4. Impact on the calculation of the MRI

The decrease of compulsory expenditure and the increase of non-compulsory expenditure related to voluntary modulation will have an impact on the calculation of the MRI (maximum rate of increase), which has to be assessed in more detail.

### 5. No prior impact assessment has been made

It is unacceptable and irresponsible that the Commission did not perform a proper impact assessment prior to the release of its proposal, even though it is required by the IIA of 16 December 2003 on Better Lawmaking. Furthermore, no complete and clear financial statement has been provided by the Commission.

In the light of the above mentioned argumentation with regard to the budgetary prerogatives of the European Parliament and in the absence of an impact assessment, Parliament cannot agree to such a far-reaching initiative.

With reference to the EP declaration Nr. 9 of the IIA of 17 May 2006 your draftsman considers it would be useful to assess the issue of co-financing of agriculture in the context of the 2008-09 review.

Therefore:

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The Committee on Budgets calls on the Committee on Agriculture and Rural Development, as the committee responsible, to propose rejection of the Commission proposal.

## PROCEDURE

<b>Title</b>	Proposal for a Council regulation on laying down rules for voluntary modulation of direct payments provided for in Regulation (EC) N° 1782/2003 establishing common rules for direct support schemes under the common agricultural policy and establishing certain support schemes for farmers, and amending Regulation (EC)N° 1290/2005
<b>References</b>	COM(2006)0241 – C6-0235/2006 – 2006/0083(CNS)
<b>Committee responsible</b>	AGRI
<b>Opinion by</b> Date announced in plenary	BUDG 5.9.2006
<b>Enhanced cooperation – date announced in plenary</b>	10.7.2006
<b>Drafts(wo)man</b> Date appointed	Herbert Bösch 6.9.2006
<b>Previous drafts(wo)man</b>	
<b>Discussed in committee</b>	26.9.2006
<b>Date adopted</b>	26.9.2006
<b>Result of final vote</b>	+: 18 –: 0 0: 0
<b>Members present for the final vote</b>	Reimer Böge, Herbert Bösch, Vito Bonsignore, Brigitte Douay, Salvador Garriga Polledo, Dariusz Maciej Grabowski, Ingeborg Gräßle, Nathalie Griesbeck, Catherine Guy-Quint, Jutta D. Haug, Anne E. Jensen, Janusz Lewandowski, Jan Mulder, Giovanni Pittella, Kyösti Virrankoski, Ralf Walter
<b>Substitute(s) present for the final vote</b>	Albert Jan Maat, Mairead McGuinness
<b>Substitute(s) under Rule 178(2) present for the final vote</b>	
<b>Comments (available in one language only)</b>	...