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VOLUNTARY MODULATION

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This short briefing aims to provide members of the Agriculture and Rural Development Committee with a brief overview of the voluntary modulation of direct payments to farmers in Northern Ireland and the other countries of the UK.

SUMMARY OF KEY POINTS

Modulation is the Common Agricultural Policy (CAP) principle whereby funds from Pillar 1 (direct payments to farmers) are transferred to Pillar 2 (rural development). Currently the European Commission imposes a mandatory 5 percent modulation on EU15 member states, meaning that 5 percent of direct payment spending is transferred to rural development budgets.

Comment [TE1]: Just deleted this because as you explain below the 5% is reallocated back to Member States using an allocation key so they do not get exactly 5% back.

In March 2007 the European Council agreed a new voluntary modulation Regulation that allows Member States to modulate up to an additional 20 percent of the Single Farm Payment budget to the Rural Development budget if the Member State meets one of two conditions:

- the Member State already applies a voluntary modulation system (UK only); or
- the member state already has an exemption from co-financing rural development measures (Portugal only).

CONTENTS

WHAT IS MODULATION?

Modulation, in theory is a simple concept: the transfer of budgeted spending from one category of spending to another. In this instance the transfer of a proportion of direct payments (single farm payments) to farmers made under the Common Agricultural Policy (CAP) from agricultural market support (Pillar 1) to rural development (Pillar 2).

A compulsory modulation rate of 5% is currently levied on all direct payments in the EU15 under the provisions of European Council Regulation Number 1782/2003. Farmers receive a full refund on the compulsory modulation applied to the first €5,000 of direct payments that they receive.

Comment [TE2]: Because some Member States have only partially implemented the Single Farm Payment and have retained some other payments which are still modulated.

WHAT IS VOLUNTARY MODULATION?

Voluntary modulation is the system allowing EU Member States to modulate direct payments to farmers at a rate over and above that of the compulsory EU-wide modulation scheme. Monies collected by voluntary modulation are retained by the Member State concerned and can only be spent on rural development initiatives.

WHAT ARE THE ORIGINS OF VOLUNTARY MODULATION?

Voluntary modulation of direct payments to farmers under the CAP originates from the Agenda 2000 agreement, which was reached at the European Council meeting in Berlin on 26 March 1999. Agenda 2000 set the policy framework for European agricultural support for the period 2000 to 2006.

One of the provisions of the Agenda 2000 agreement was to allow Member States to voluntarily modulate direct payments to farmers based on one of a number of criteria, e.g. size of a farm workforce, prosperity of the farm or total payments granted. Modulation was limited to a maximum of 20% of the payments made to individual farmers. Voluntary modulation was applied across the UK from 2001.

This system only remained in place until the conclusion of the mid-term review of the CAP. The mid-term review introduced compulsory modulation of direct payments in all EU Member States from 2005 at a rate of 3%, increasing to 5% from 2007 onwards. The first €5,000 that farmers receive is not modulated. The modulated funds are reallocated by the European Commission between Member States according to an allocation key, which uses a complex formula based on factors including agricultural area, agricultural employment and gross domestic product (GDP) per capita in purchasing power. Each Member State is guaranteed to get back at least 80% of the money it contributes.

Following the introduction of compulsory modulation a transitional arrangement was agreed to allow the Member States that had introduced voluntary modulation to continue to apply a rate of voluntary modulation over and above the compulsory EU-wide modulation. Monies collected through voluntary modulation after 2006 could only be spent on commitments made before 2006. In addition the funds raised could only be used for the so-called "accompanying measures", e.g. Less Favoured Area support or agri-environment.

The operation of voluntary modulation schemes was extended following the agreement at the Council of the European Union on 19 March 2007. New Regulations (Council Regulation (EC) No 378/2007) were agreed allowing those member states that retained voluntary modulation to continue to operate voluntary modulation schemes during the period 2007 to 2013. The new Regulations require monies collected through voluntary modulation to be spent on the appropriate rural development programme.

The issue of voluntary modulation is likely to be re-examined as part of the CAP Health Check which will be carried out during 2008. The European Commission will submit an analysis of the impact of voluntary modulation to the European Parliament and Council before the end of 2008 to inform any decisions on the future of the scheme.

HOW ARE MODULATED FUNDS SPENT?

Modulated funds must be spent in accordance with the Rural Development Regulation (1698/2005). The Regulation sets compulsory minimum allocations to the three rural development program axes that modulated finds must be spent on, which are:

Axis 1: Improving competitiveness of farming and forestry (minimum of 10%)
Axis 2: Environmental stewardship in land management (minimum of 25%)
Axis 3: Improving the quality of life in rural areas (minimum of 10%)

Money raised from voluntary modulation must be spent in accordance with these minimum percentages. Within each axis Member States are free to decide which of the options they choose to fund.

It is worth noting that Member States must co-finance all compulsorily modulated funds, i.e. Member States must provide the additional money from their national exchequers towards rural development spending in addition to that raised through compulsory modulation. Voluntarily modulated funds do not have to be match funded by national governments, although they can choose to do so.

Comment [TE3]: I don't think it has to be match funded 50:50, I think the rate depends on which of the options are being funded.

WHAT IS THE PURPOSE OF VOLUNTARY MODULATION?

Funds raised through voluntary modulation are used to part finance the rural development programmes developed by the four 'regions' of the UK.

WHAT OTHER EU MEMBER STATES OPERATE A VOLUNTARY MODULATION SCHEME?

The UK is the only EU Member State to operate a voluntary modulation scheme. Council Regulation (EC) No 378/2007 prevents any other Member State from introducing a voluntary modulation scheme, with the exception of Portugal.

WHAT LEVELS OF VOLUNTARY MODULATION HAVE BEEN SET BY OTHER MEMBER STATES?

As explained above, no other EU Member State operates a voluntary modulation scheme.

WHY IS VOLUNTARY MODULATION USED IN THE UK?

The UK introduced voluntary modulation because it needed to increase funds available for agri-environment schemes that were being over-subscribed, initially in England and then across the UK.

Uptake by the UK administrations of discretionary rural development spending from the EU has historically been low. It has been the policy of successive UK governments to limit this spending, as it has knock on effects on the size of the rebate the UK gets back from its contribution to the EU budget.

EU Rural development money for the period 2000-06 was shared out largely according to historic levels of spending by Member States. This meant that the UK received a proportionately smaller share of EU15 rural development funds due to its history of comparatively low rural development spending, e.g. the UK received around 3% of the total rural development budget even though it has 12.5% of the EU15 agricultural area. This in turn has limited the amount of EU money available for rural development spending in Northern Ireland.

The recent accession of 12 Central and Eastern European Countries to the EU has increased the call on the rural development budget. Furthermore, in response to the demands of some Member States to constrain the EU budget, the European Council chose to cut the amount the European Commission had suggested for the rural development budget line, when agreeing the EU budget in December 2005.

VOLUNTARY MODULATION RATES IN THE UK?

The EU compulsory modulation rate is set at 5% for the period 2007 until 2012. The rates of voluntary modulation announced for England and Northern Ireland are as follows:

	Region	
Year	**NI**	**England**
2007	7%	12%
2008	8%	13%
2009	8%	14%
2010	9%	14%
2011	10%	14%
2012	10%	14%

Due to delays associated with national elections, Scotland and Wales are yet to announce their voluntary modulation levels. The Northern Ireland Office Agriculture and Rural Development Minister, David Cairns, announced the Northern Irish modulation levels highlighted above prior to the restoration of devolution. There would appear to be no legislative barrier to the new Minister for the Department of Agriculture and Rural Development, Michelle Gildernew MP MLA, setting a different voluntary modulation level. However, any change to the level of voluntary modulation would impact on the funds available for the implementation of the rural development programme.

WHEN MUST THE UK INFORM THE EUROPEAN COMMISSION OF ITS DECISION REGARDING THE RATES OF VOLUNTARY MODULATION FOR THE PERIOD 2007-2012?

Member States operating voluntary modulation schemes must notify the European Commission of their proposed voluntary modulation rates within two months of the new Regulation coming into force. The Regulation came into effect on 12 April 2007, meaning the Commission must be notified by 12 June 2007. Any change to the rates of voluntary modulation in Northern Ireland would have to be confirmed by the Minister by this date.

IF VOLUNTARY MODULATION WAS NOT INTRODUCED, WHAT ALTERNATIVES EXIST TO ACHIEVE THE SAME OBJECTIVES?

Voluntary modulation exists to part fund initiatives set out in the rural development programmes of the four ‘regions’ of the UK. Were voluntary modulation to be abandoned then the resulting drop in funding would have to be made up from government funds or rural development spending would have to be cut accordingly.

VIEWS ON VOLUNTARY MODULATION

The UK Government and devolved administrations consider voluntary modulation to be a useful resource for the funding of rural development initiatives, e.g. David Milliband MP stated on 29 March 2007 that:

> *…voluntary modulation is essential to enable us to deliver on the commitments we have made to implement effective agri-environment schemes…*

Some environmental NGOs also support voluntary modulation as a way to ensure that the maximum level of CAP expenditure is targeted at schemes aimed at environmental improvement, e.g. in their response to the consultation on the draft Rural Development Strategy RSPB Northern Ireland asked that the Department of Agriculture and Rural Development:

> *Takes all opportunities to secure agri-environment funding through additional voluntary modulation and supporting fund shifting in future CAP reform negotiations.*

However, there is considerable opposition to voluntary modulation, e.g. the Ulster Farmers Union reports that voluntary modulation is the subject of "…*strong opposition from the farming industry*".

Concern about voluntary modulation is not restricted to Northern Ireland. Giving a speech on the future of the CAP during her recent visit to Northern Ireland the European Agriculture Commissioner, Mariann Fischer Boel, stated:

> *"We will look at the strong case for raising the level of compulsory modulation, to help make sure that our rural policy meets our expectations", she added. "I don't think that voluntary modulation is up to the job".*

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