
Implementation of the EU agricultural reform in Germany

Utilizing the room for manoeuvre to achieve more environmental and consumer protection, more animal welfare, and more social equity in the farming sector!

Evaluation of the decisions on the reform of the Common Agricultural Policy (CAP) of 26 June 2003 and demands for their implementation in Germany
(Long version)

September 2003

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Associations:

Arbeitsgemeinschaft bäuerliche Landwirtschaft (AbL)

(family farmers' organization of Germany)

Bioland Verband *(organic inspection and certification body)*

Bund für Umwelt- und Naturschutz Deutschland (BUND)

(German Federation for the Environment)

Deutscher Naturschutzring (DNR)

(German League for Nature Conservation and Environmental Protection)

Deutscher Tierschutzbund *(German Society for the Prevention of Cruelty to Animals)*

Deutscher Verband für Landschaftspflege (DVL)

(German Association for Landscape Management)

Industriegewerkschaft Bauen Agrar Umwelt (IG BAU)

(Trade Union for Construction, Agriculture and Environment)

Naturland Verband *(organic inspection and certification body)*

Naturfreunde Deutschland e.V. *(Friends of Nature, Germany)*

Naturschutzbund Deutschland (NABU) *(German Federation for Nature Conservation)*

Schweisfurth-Stiftung *(Schweisfurth Foundation)*

Stiftung Europäisches Naturerbe (EURONATUR) *(European Nature Heritage Fund)*

Verbraucherzentrale Bundesverband (vzbv)

(German Federal Association of Consumer Advice Centres)

WWF Deutschland *(WWF Germany)*

Some notes on the English translation

This paper describes the demands posed by a broad societal alliance of German non-governmental organisations on the national implementation of the Luxembourg Agreement on the reform of the agricultural policy.

For readers who may not be entirely familiar with the German situation we would like to include some notes that will give a better understanding of these demands:

The agricultural area in Germany is comprised of approximately 70 % arable land and 30% grassland. Over the past years there has been a dramatic decline in the total grassland area. The remaining grassland is in part subject to considerable intensification, while at the other end of the spectrum grasslands are abandoned. In other words, it is in particular the ecologically extremely important extensive grassland management which is in crisis in Germany. Amongst other things this has to do with the fact that the funds coming from Brussels primarily benefit arable land. For example, premia of up to € 475 are payable for silage maize, while grasslands attract no premia. Therefore, from 1992 onward, it has been worthwhile to plough up grassland and plant it with silage maize instead.

In 2001, € 5,800 million of funds from the EAGGF were targeted at Germany. Of these funds, approximately € 3,700 million, *i.e.* close to 2/3 of all payments, comprised direct payments for arable crops. A further 12.5 % (c. € 740 million) were paid out in the beef sector, primarily in the form of the special beef / bull premia and the suckler cow premia. However, over the past years beef fattening has almost entirely been detached from grassland management. The suckler cow premium on the other hand does indeed benefit the grassland areas. The third most important item in terms of the EU payments made to Germany is the Second Pillar of the Common Agricultural Policy, *i.e.* "Rural Development" (attracting c. € 700 million, or 12% of the payments). Headage premia for goats and sheep which are also important for grassland management play hardly any role in Germany – only 0.6 % of the EU agricultural payments (€ 34 million) disbursed to Germany were paid out for these livestock categories.

The decisions taken in Luxembourg, especially those concerning the dairy sector, will lead to further problems for Germany's grassland regions, and those in the low mountain ranges above all. Therefore the call for a socially and ecologically equitable distribution of EU agricultural funds is the central theme in the catalogue of demands drawn up by the associations. The support for grassland farming is of vital importance in this context. As it will not be possible to tap into additional funds for the agricultural sector, reallocations of funds (from arable land to grassland) will be indispensable. Those who have most

profited from the agricultural policy in its current form protest such changes vehemently. It is this very dispute that dominates the discussion on agricultural policy in Germany.

Summary

1. The associations **welcome the decoupling of direct payments**. Decoupling creates the basis for a new support system which is more equitable, is ecologically more favourable, gives greater consideration to animal welfare, and is socially more acceptable.
2. The new **single farm payment based on a reference period** is **unacceptable** as it is anything but ecologically sound or socially equitable. It is intolerable that with the decoupling of direct payments a new reasoning for premia payments to farmers is being sought while at the same time the current flow of moneys under the old system is being cemented into the new single farm payment. How farmers can be remunerated at different levels for the same services can be conveyed to neither society nor the farmers themselves.
3. Article 58 gives Germany the opportunity **to introduce a general, nationwide single area payment**. This payment can be identical for both arable land and grassland and can also include “unproductive” lands. If this opportunity was seized a long-standing demand of the associations would be implemented. Only then the Luxembourg agricultural reform could truly be termed positive. Long overdue financial redistribution processes would finally get underway.
4. The **new rationale for the payments to farmers** is termed “**cross-compliance**”, *i.e.* the making conditional of the single farm payment upon compliance with environmental, food safety, animal health and welfare standards. We very much welcome such an approach in principle. However, in our opinion compliance with existing laws is not sufficient justification for eligibility for funding. The standards must go beyond existing statutory requirements in order to be acceptable to society in the long term. We therefore call on the Federal Government and the Federal States to set out minimum and maximum intensity level for good agricultural practice in accordance with Annex IV of the Regulation upon which the payment of premia is to be made conditional.

5. **“Modulation”** is designed to transfer funds from the classic market organisations to the Second Pillar of the CAP, *i.e.* “Rural development”. This corresponds to a long-standing demand of the associations and is regarded as a **positive** development. At 5% however, modulation is very modest and provides hardly any financial room for new innovative programmes.

6. The above is one of the reasons why it is of utmost importance that the **“national envelope”** in accordance with Article 69 be used. We welcome the fact that with this instrument, *i.e.* the **reallocation of 10% of the direct payments**, further incentives for more demand-orientation and quality-orientation in production can be given. Grazing programmes and other special types of land use can thus be supported.

7. **Dairy farming** is set to once more loose out as a result of agricultural policy decisions unless the **introduction of a single area payment** plus additional **aid for grass-based production** at least compensate in full for the agreed price cuts.

I. Introduction

In October 2001 fifteen environmental, nature conservation, farming, animal welfare, and consumer affairs associations voiced their demands for a re-orientation of the EU Common Agricultural Policy (CAP) in a Joint Platform¹. It was their aim to integrate the changed societal expectations for more environmental protection, consumer protection, animal welfare, and social equity into the agricultural policy. In taking a stance at an early stage the associations have actively and constructively been involved in the discussion on the Mid-Term Review of the current EU agricultural policy ("Agenda 2000"). They have contributed to achieving that the reform of the agricultural policy is no longer seen as a mere sectoral issue but as a socio-political task.

Almost two years later, in Luxembourg in June 2003, the EU agriculture ministers and the EU Commission have agreed a packet of measures for the reform of the CAP. The *Luxembourg Agreement* contains central elements of the associations' demands. This must be regarded as a major achievement even though some of the associations' expectations came to naught and some of the agreed measures clearly meet our disapproval.

In how far the *Luxembourg Agreement* can be valued as a success strongly depends on the degree to which the scope for manoeuvre the agreement leaves the Member States in terms of its implementation will be utilised: In which manner and to what end will the thousands of millions of direct payments to the agricultural sector and the rural areas be used? What is the future rationale for the transfer of funds into the farming sector, *i.e.* on what criteria will the dispensation of the future premia be based? Over the following months the EU Member States will have to develop the basis for the implementation.

We call on the Federal Government and the Federal States to utilize the scope given as part of this reform of the EU Common Agricultural Policy, allowing them to achieve more environmental protection, consumer protection, animal welfare, and social equity.

The undersigned associations herewith present their joint recommendations and demands in this regard².

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- 1 Euronatur / AbL (Eds.): Towards a New Agricultural Policy in the European Union. Joint platform by environmental, nature conservation, agricultural, animal welfare and consumer affairs associations. October 2001. see www.euronatur.org or www.abl-ev.de. In May 2003 the associations, in a joint appeal entitled "*Diese Reform muss ökologisch, sozial und tiergerecht ausfallen!*" (This reform must be ecological, social, and fulfil the welfare requirements of livestock!), reacted to the reform proposals and the ensuing discussion.
 - 2 This paper deals with key issues of the agreed reform. Apart from the dairy sector the specific agreements on market organisations (*e.g.* rice, nuts etc.) are not commented upon.

II. The decisions and their implementation in Germany

1. Decoupling of direct payments from production

The Luxembourg Agreement

The rationale for the current direct payments to farmers must be sought in the past: In 1992 compensatory payments were introduced to offset the cuts in guarantee prices. Naturally these compensatory payments were only made for crops which had been eligible for price support payments at that time.

This current coupling of direct payments to the production of certain arable crops (principally cereals, maize, oilseed rape) or certain types of livestock will be abolished from 2005, or from 2007 at the latest, *i.e.* there will be 'decoupling'³. This means that farmers no longer need to produce certain crops or certain types of livestock in order to qualify for payments. However, this also means that agricultural policy largely loses its production control function in the First Pillar.

Associations' assessment of the decision

In their October 2001 Joint Platform the associations declared their support for rigorous decoupling. The current arrangements have provided inappropriate production incentives in that to this day premia payments vary from product to product, while some products attract no premia payments at all. There is a silage maize premium but fodder legumes and grassland (meadows and pasture) do not attract premia payments. This inequity has had grave ecological consequences. The beef premia which are linked directly to the slaughter animal provide an incentive for intensive beef fattening. Nevertheless a part of these coupled premia is of no benefit at all to the producers – since the

3 Deviating from the Commission proposal to fully decouple payments, Member States have been given the option of maintaining limited elements as partially linked to production (i.a. cereal premia, beef premia) or fully linked to production (suckler cow premium or, alternatively, slaughter premium) as before ('partial decoupling'). The 'dairy premium' must be fully decoupled by 2007/8 at the latest, and may be decoupled from as early as 2005.

premium is coupled to the slaughter animal a considerable proportion of the premia is passed on to the abattoirs and the food trade. Therefore that proportion of the premium did not function as a compensatory payment for the farmers but reduced food prices, or increased the margins for processors and marketing companies.

The decision to decouple direct payments in principle is a correct step. However, decoupling does not by default lead to the necessary reallocation of the current funds, for example between grassland and arable regions. This shift will depend on the new criteria upon which the decoupled premia will be made conditional, and on the rationale and organisation of the new method of distributing funds.

Partial decoupling does not reverse the negative impacts of production-linked premia and requires additional administrative efforts as two premia regimes will need to be administered side-by-side.

Proposal for implementation

Decoupling should be implemented in 2005, and should include the dairy sector. There should be no partial decoupling.

2. Introduction of a “single farm payment” (so-called ‘reference model’)

The Luxembourg Agreement

The Luxembourg Agreement establishes that the current area and headage payments as well the future dairy premium will be transformed into a “single farm payment”. Each holding will be allocated a certain amount of payment entitlements. This reference amount is calculated as the average of the total amounts of payments which a farmer was granted under the support schemes in the years 2000, 2001, and 2002. To this will be added the compensatory dairy premia payments to be introduced during 2004 – 2006. For the dairy sector a later reference period was chosen where the individual reference quantity for milk will be multiplied by the amount of the “dairy premium” for the relevant calendar year.

Every payment entitlement which is paid in a particular year must be matched by a hectare of utilizable agricultural area on the holding in the same year.⁴

Associations' assessment of the decision

With the 'reference model' the present distribution of direct payments to farms will be largely made permanent. For each individual farmer this means that nothing much will change for the time being (maintenance of acquired rights); therefore the term "single farm payment" is misleading in that the current arrangement has led to extreme disparities and has also provided inappropriate production incentives. In Germany, for example, only 2 % of the holdings receive more than € 50,000 per year⁵ but this small share of holdings is in receipt of almost 40 % of all EU direct payments being made – this is almost as much money as all the 90 % of holdings in the small and medium size classes taken together which receive less than € 20,000 per year each.

The single farm payment would change nothing in terms of this distribution but it would fix it in place. This is neither socially equitable nor can it be defended on ecological grounds. Therefore the undersigned associations reject this model.

With the introduction of decoupling the current rationale for direct payments to farmers (compensation for previous price cuts) becomes invalid as the future decoupled payments will be provided independently from the volume of production. Thus with the Luxembourg Agreement a new rationale for the transfer of moneys is being sought – the decoupled payments will now be linked to the respect of environmental, food safety and animal welfare standards.

However, the calculation of payment entitlements for each holding by reference period or reference date would lead to a situation where similar holdings receive very different payment entitlements despite the fact that they provide similar services to society. This can not be conveyed to either society or the farmers themselves and it threatens the credibility and acceptance of the agricultural policy. The old payment calculations are at variance with the new approach of remunerating services to society – a new allocation system is required.

In their Joint Platform of October 2001 the associations have called for a "basic area payment" to which every farmer would be entitled given that he/she provides certain services in terms of nature conservation, environmental protection, animal welfare, and consumer protection (see cross-compliance).

4 Payment entitlements are not payable for land under table potatoes, fruit or vegetables in the year of production. If a holding manages less land with attached entitlements than that which equates to its number of payment entitlements the unused payment entitlements will be dormant for a maximum period of three years after which they will be allocated to the national reserve.

5 EU Commission figures for 1999. EU Commission MEMO 02/1998, Brussels, October 1, 2002. See Annex.

However, such a basic area payment would entail that funds be transferred, for example, from arable regions to grassland regions. The undersigned associations would regard this as a useful development but it is these very reallocation processes from which the EU Commission and the EU Council of Agriculture Ministers have shied away. Therefore the single farm payment has been introduced as the reference model, a model the associations reject.

Conclusion: The **single farm payment** is the **principal deficit of this reform package**. It renders the reform internally inconsistent and will not gain societal acceptance.

Proposal for implementation

The associations reject the introduction in Germany of the single farm payment based on a reference period. They reinforce their call for a nationwide basic single area payment.

3. Regionally uniform payment entitlements ("Area payment")

The Luxembourg Agreement

Diverging from the single farm payment (reference model) described above the Luxembourg Agreement in Article 58 of the Horizontal Regulation gives Member States the opportunity to introduce regionally uniform payment entitlements, as opposed to calculating payment entitlements by reference years or dates. This model is termed – not quite correctly so – as a "single area payment"⁶ and substantially corresponds to the associations' demand.

6 Strictly speaking the regionally uniform premium is not designed as an area payment as it is not linked to specific areas and will not automatically stay with the land if the land is leased or sold. Similar to the reference-based single farm payment the owner of the payment entitlement can decide to retain the payment entitlements even if he/she does no longer hold the land itself. In that case the payment entitlement will be dormant (*i.e.* will not be paid out) for a maximum of three years after which it may be withdrawn.

With this model the total amount of decoupled direct payments into a region (Federal States, or even entire Member State in the case of small countries) are not paid out to the previous recipients of premia in keeping with the 'acquired rights philosophy' but are equally distributed to all agricultural lands (excluding permanent crops but including grasslands). Different from the single farm payment based on reference periods, the payment entitlement for each hectare of agricultural land within the 'region' has the same unit value. However, a differentiation can be made between grassland and arable land, *i.e.* the per unit value of payment entitlements could be made higher or lower for meadows and pastures compared to arable land.

It will also be possible to combine the reference period-based farm payment and the regionally uniform "area payment". According to the EU Commission it will even be possible to allocate a (decoupled) basic payment to each holding when introducing a regionally uniform payment in order to avoid hardship cases in the transition to a "single area payment".

Associations' assessment of the decision

In their Joint Platform of October 2001 the associations have called for a single area payment decoupled from production. Payment of such a premium should be subject to the respect of defined standards in nature conservation, environmental protection, animal welfare, and consumer protection. Essential advantages of this area payment are inherent in the regionally uniform payment.

Proposal for implementation

The undersigned associations call for the introduction of a nationally equal flat rate payment for both arable land and grassland regions in Germany. Intermediate steps to achieve this aim may be necessary.

Setting different premia for grassland and arable land respectively would not only multiply the administrative burden but it would also continue to disadvantage the ecologically valuable grasslands.

So-called "unproductive" areas on agricultural holdings containing ecologically important small structures (landscape elements such as hedges, specimen trees, traditional extensive grassland-orchard management systems, field margins) should be included as areas with premia entitlements. This avoids the ecologically negative incentive of minimizing the size of such landscape elements on farm holdings and also avoids administrative efforts⁷.

The single area payment should – following a transition period, if required – include the total amount of decoupled premia. Furthermore all the options to achieve a socially more equitable distribution of direct payments should be utilized, by introducing cross-compliance of payments with ‘labour and employment’ conditions.

The associations have prepared a proposal for making the transition to a single area payment with as little hardship as possible. This proposal can be found in Annex 1.

4. Use of the national ceiling (Art. 69)

The Luxembourg Agreement

Pursuant to Article 69 Member States are given the opportunity to **retain up to 10% of the direct payments** and to use these funds **to support “specific types of farming”** which are important for the protection or enhancement of the environment or for improving the quality and marketing of agricultural products. Different from modulation (see below) this is a voluntary option for Member States. There are no provisions for national co-funding. Detailed rules have yet to be devised for this instrument. Especially the relationship to rural development measures, and the agri-environmental programmes in particular, has yet to be clarified.

Associations’ assessment of the decision

The associations welcome the creation of this instrument and call for its implementation. Similar to the modulation which has been adopted (see below) this instrument would allow for more targeted support of production techniques which are more beneficial in environmental as well as animal welfare terms, and it could support quality production (which would increase societal acceptance of the payments). Especially in the light of the small volume of funds generated by modulation the ‘national envelope’ is a necessary instrument.

⁷ European law already provides for this.

It is conceivable that certain production types would be supported in this manner, which are particularly desirable from the environmental, animal welfare, or consumer protection point of view but which are threatened with falling by the wayside in the course of the full decoupling of direct payments. More specifically the following could be supported in this way:

- a grazing premium (support for grassland)
- promotion of extensive beef production
- compensation for management restriction in Special Areas of Conservation under the EU Habitats Directive
- adjustment aids for higher quality requirements as well as for increased record keeping requirements for farmers
- support for extensive pasture rearing of goats, sheep, and for shepherding.

5. Cross-compliance of payments with environmental conditions

The Luxembourg Agreement

From the financial year 2004/5 onwards direct payments will compulsorily be linked to the respect of minimum environmental, food safety, animal and plant health and animal welfare standards, *i.e.* only if these standards are adhered to will the payments be made in full.

Eighteen statutory requirements in force in the EU (Regulations and Directives) have to be adhered to, governing the protection of

- a) public, animal, and plant health,
- b) environment
- c) animal welfare.

These statutory management requirements are listed in **Annex III** of the Horizontal Regulation.

Additionally farm lands must be kept in “good agricultural and environmental condition”. **Annex IV** contains a very general list of criteria (relating to soil erosion, “soil organic matter”, soil structure, and to the “minimum level of maintenance”) which have to be put into more concrete terms by the national authorities.

Member States also have to ensure that land which was under **permanent pasture** on December 31, 2003 is maintained under permanent pasture. However, there are derogations, provided that the Member State takes action to prevent any “significant” decrease in its total permanent pasture area.

Where the **statutory management requirements** for good agricultural and environmental condition are not complied with by a holding, the total amount of direct payments to be granted can be reduced or completely cancelled (repayment). Member States may retain 25% of the amounts resulting from payment cuts, the remainder will be credited to the EU.

Associations’ assessment of the decision

The associations welcome the fact that their demand for compulsory cross-compliance of direct payments with minimum conditions has been taken on board in the Luxembourg Agreement. The associations regard the cross-compliance rules as the new rationale for direct payments to farmers.

The agricultural sector will continue to have to stand up to the question as to for what purpose these payments are being given. Reasons such as “we have always been getting this” will meet as little understanding as pointing to the respect of legislation in force. However, in the future the money should be used to support farmers who do what society expects from them but what they are under no obligation to do and what is also uneconomic for them.

The associations regard cross-compliance within the meaning of Annex III of the Regulation (compliance with the law) as more of an instrument which allows the further sanctioning of violations of legislation in force.

Especially through the detailed design of the criteria contained in Annex IV of the Regulation cross-compliance offers the opportunity to meet society’s demands for a multifunctional agricultural sector by qualifying payments in environmental, food safety, and animal welfare terms. This is the basis for a new social contract with the farming sector in the context of which financial transfers are safeguarded in exchange for desirable services rendered to society at large. It is through the appropriate design of detailed cross-compliance rules and through the additional cross-compliance of payments with social conditions that a sustainable legitimisation of these payments will be created.

Proposal for implementation

As has been explained above, agricultural policy will largely lose its production control function with the introduction of decoupling. It is conceivable that without clear cross-compliance rules farmers could receive public funds even for abandoned lands or conversely for very intensive management (factory farming). Such a situation must be avoided. The associations have already outlined relevant proposals to this effect in their Joint Platform. We therefore call on the Federal Government and the Federal States to define a minimum level of maintenance as well as a maximum intensity level.

The eighteen Regulations and Directives in force as listed in **Annex III** provide limited scope in the context of the implementation of the EU agricultural reform. Rather, it is the German federal laws and statutory instruments in force implementing the EU targets which must be further developed⁸.

In contrast, the environmental standards laid down in **Annex IV** must be put in concrete terms in the course of the implementation of the agricultural reform at the levels of the Federal Government and/or the Federal States, and their auditable (verifiable) objectives defined. There is considerable scope in this regard and this scope should be utilized to good effect. The associations propose the following guidelines:

- Objective and nationally uniform requirements should be defined. This creates clarity and increases acceptance.
- The criteria must be easily auditable in order to keep the administrative burden as small as possible.
- The detailed design of the cross-compliance rules must also generate a legal position which is consistent with the code of usual good farming practice. In particular, the transposition of the German Federal Act on Nature Conservation and Landscape Management into the relevant Acts of the Federal States (until 2005) must be considered.
- Farmers should only be forced, through cross-compliance, to keep lands open from unwanted vegetation where this can be achieved with standard agricultural techniques (trafficable lands). Lands which could only be kept open using manual management (e.g. steep dry grasslands, extremely wet lands) should continue to be eligible for agri-environmental schemes⁹.
- The requirement of abstaining from the production of genetically modified plants must be added to Annex IV.

The detailed demands by the undersigned associations are given in Annex 2.

6. Compulsory modulation to strengthen rural development

The Luxembourg Agreement

While Agriculture Commissioner Fischler in the summer of 2002 had initially suggested to use modulation to transfer a total of 20 % of direct payments, equating to approximately € 4,500 million, into the 'Second Pillar' (support for rural development), he had already greatly reduced this sum in the proposed legislation put forward in January 2003. According to that proposal only 6 % of payments, or approximately € 1,400 million would have been reallocated by 2013.

Now the Council of Ministers has decided to introduce compulsory **modulation**, *i.e.* to reduce payments granted to farmers by 3 % in 2005, 4 % in 2006 and 5 % from 2007 onwards. The funds thus retained will be made available for rural development measures.

While the proposed legislation provided for the total amounts which the modulation has generated in the Member States to be transferred to Brussels from where they would have been redistributed based on 'cohesion criteria', it has now been decided that a Member State shall receive at least 80% of the total amounts which the modulation has generated in that Member State. To compensate for the abolishment of rye intervention this share has been increased to 90% for Germany. Both the funds reverting to Brussels as well as those being retained in the Member States must be made available for rural development measures.

At the same time the maximum Community contribution (co-financing rate) for agri-environmental programmes and animal welfare measures will be increased from 75 % to 85 % in structurally weak regions (*e.g.* the New *Länder*) and from 50 % to 60 % in all other regions.

8 The associations voice their interests in the context of ongoing amendments. However, the rules as listed in Annex III leave substantial questions as to the operationalisation of the legal provisions into testable and verifiable criteria. There is especially the question as to how legal provisions which are not directly applicable at the level of the individual farm holding can be integrated into the cross-compliance rules.

9 If farmers on extreme sites were forced to keep such lands open it is conceivable that in some regions many ecologically important sites would be abandoned.

Associations' assessment of the decision

The associations welcome the introduction of compulsory modulation. However, with a planned redistribution of a mere € 1,200 million from the First to the Second Pillar, modulation is much lower than expected. From a national point of view it is seen as positive that, in contrast to the original Commission proposal, the funds generated by modulation will largely remain in the Member States.

Since Germany has already voluntarily introduced a 2 % modulation the additional funds being transferred to the Second Pillar will be much too small to meet the demands of an effective programme. The associations call for a significant increase in modulation from 2008 onwards and regard it as necessary that the national envelope (see above) will be utilised in the meantime in order to finance programme parts which theoretically, given sufficient funds, could also be financed under the Second Pillar (grazing management etc.).

The expansion of rural development into a true (second) pillar of agricultural policy must remain a prime objective. The traditional agricultural policy has thus far failed in trying to halt the drift of rural populations to urban centres and in trying to maintain employment. Therefore sustainable rural development must be supported in its objective of creating flexible forms of employment which will strengthen the economic, ecological and social fabric of rural areas.

7. Decisions regarding the market in milk and milk products

The Luxembourg Agreement

It has been decided to continue with a reformed **dairy quota system** until the 2014/15 campaign. The increase of the quota by 1.5 % decided as part of Agenda 2000 for the years 2005 to 2007 has been postponed for one year and will thus commence in 2006. The additional increase by 2 % for the years 2007 and 2008 as proposed by the Commission has not been passed. A potential increase will be discussed at a later stage with a view to the market situation.

The **intervention prices** for butter and skimmed milk powder will be gradually reduced by a total of 25 % in four steps for butter, and by a total of 15 % in three steps for skimmed milk powder.

These measures will lead to a substantial reduction in milk prices. In order to compensate for this reduction direct payments will be introduced which, however, will only compensate for approximately 56 % of the reduction. From 2006 onwards 3.55 Cent/kg will be payable.

Associations' assessment of the decision

Even the current market organisations for milk and milk products with their instruments intervention, export subsidies, and milk quotas have not been able to halt negative developments such as the concentration and intensification of dairy farming and the migration of milk production from the more marginal grassland regions to arable regions and highly productive grassland areas – at most they have slowed down these developments. From 1993 onward the negative changes were further amplified with the unilateral payment of the silage maize premium.

The Luxembourg Agreement did not fully go along with the Commission proposals for legislation and this is a welcome development as otherwise the consequences for the dairy farmers would have been even more grave. Nevertheless, it must be realised that the decisions may well render milk producers the losers of this reform as only about half of the income losses resulting from the cut in intervention prices will be compensated – this is at variance with previous reforms in the cereal and beef sectors. There will be additional pressure on prices as a result of the postponement, or depending on the market situation the possible abandonment, of the 1.5 % quota increase decided as part of Agenda 2000. This will increase the already existing pressure of volume¹⁰. Unless countermeasures are taken as part of this reform the situation threatens to deteriorate to a point where many dairy farms will no longer be able to cope. A withdrawal of dairy farming from entire areas, such as for example the low mountain ranges, would also be a great loss for landscapes and the environment¹¹.

10 *Despite the quotas* about 20% more milk is being produced in the EU than the market can absorb without state aids.

11 One example: A grassland farm, producing 10,000 kg milk per hectare and year, will 'lose' about • 650 to • 700/ha as a result of the expected price reduction of 6.5 to 7 cent/kg. If the compensatory payments were paid to the holding either as a single farm payment or as a pure grassland premium that would still be a 'shortfall' of approximately • 300/ha. Therefore the grassland areas badly need special consideration; an additional grazing premium financed from the national envelope after Article 69 would therefore be valuable.

Especially in the grassland-dominated regions dairy farming is the prime source of income and thus the economic basis for many holdings. It is also the most important economic activity for the maintenance of the cultural landscape in such regions. In Germany about half of all agricultural workers are involved in dairy farming. In grassland regions up to 80 % of the agricultural net product results from milk production. Grassland comprises about 30 % of Germany's agricultural area.

Historically, a major part of the diversity in cultural landscapes has been generated through livestock keeping and pasturage. Regional differences in terms of soils and climate as well as the variety of land use types and management regimes have given rise to great biodiversity (including the diversity of regional landraces of livestock). However, the type of intensive dairy production which is much practiced nowadays has also given rise to significant environmental problems (e.g. eutrophication, regular ploughing-up and reseeded, earlier and more frequent grassland cuts).

Extensive grass-based dairy farming is of particular importance in terms of both conservation and environmental concerns as well as in animal welfare terms. However, agricultural policy so far would appear to have been designed predominantly for arable farmers – in 2001 arable crops were supported to the tune of € 17,800 million as opposed to the € 1,900 million spent on the milk market.

Proposal for implementation

The use of Article 58 for the introduction of a regional single farm payment is of central importance for both dairy farms and grassland regions. Additionally, measures such as the introduction of a grazing premium should be established. In the longer term other accompanying measures must gain in importance alongside the quota rules.

The early decoupling of the dairy premium is also necessary and should be executed in 2005. As the experience in the beef sector has shown a coupled 'litre premium' would largely not be of benefit to the producers but would ultimately be passed on via the creameries to the trade. Moreover, a coupled dairy premium has the effect of inflating quota prices.

In order to solve the problem of surplus milk production the associations propose a flexible adaptation of the milk quota to demand: if intervention stocks increase the milk quota is to be reduced.

Annex 1

The transition to the single area payment should be designed as follows:

1. The current **payments for arable crops** will be fully decoupled and will be merged with nationwide single area payments for grassland and arable land. In 2005 the differential between the value of the entitlement per hectare must be not greater than 100 € and by 2010 the value of the payments for grassland and arable land respectively must be equal.
2. All current **beef premia** and the **dairy premium** will be fully decoupled. Notwithstanding the following point (3.) these premia will be merged with the single area payment.
3. In order to avoid hardship situations in the transition from headage payments (including the dairy premium) to single farm payments, in the first five years of decoupling holdings will retain a **basic payment of € 15,000 per holding** of their **headage** premia (which are to be decoupled).

For holdings receiving more than € 15,000 in headage payments this **basic payment** can, on application, be increased. This would be achieved by **crediting 50 % of the employment costs** of the holding (in the relevant livestock sectors).

This solution is designed to avoid situations whereby holdings with high premia payments per hectare of agricultural area are overburdened by the increasing market orientation. Severe prize drops are thus mitigated against. Holdings with a small land base and a high turnover per unit area – with due consideration to a sustainable link between production and area in livestock enterprises – should not lose more money than holdings with a large land base and a small turnover per unit area.

4. Within a transition period of five years the future single farm payment under point 3.) will be transformed into a single area payment in a step-by-step process.
5. Subsequent to this transition period the single area payment will be made subject to a graded, labour-force related modulation (or depression) (*cf.* the proposal contained in the Joint Platform of October 2001).

Annex 2

Demands by the associations for the more detailed design of Annex IV (“Good agricultural and environmental condition”) as part of cross-compliance

Annex IV. Good agricultural and environmental condition

Issue *)	Standards *)	Demands by the associations
Soil erosion: Protect soil through appropriate measures	<ul style="list-style-type: none"> - Minimum soil cover - Minimum land management reflecting site-specific conditions - Retain terraces 	<ul style="list-style-type: none"> - Year-round vegetative cover on lands susceptible to erosion and/or nutrient translocation must be guaranteed. - Sustainable link between production and area in livestock enterprises (livestock density of max. 2 LU/ha, or balanced nutrient input/output). - Crop terraces are to be maintained.
Soil organic matter: Maintain soil organic matter levels through appropriate practices	<ul style="list-style-type: none"> - Standards for crop rotations where applicable - Arable stubble management 	<ul style="list-style-type: none"> - Crop rotation on arable land must be practiced with no one crop having a share of more than 50 % in the rotation and with a minimum share of 20 % of catch crops (including Leguminosae, clover grass leys, rotational set-aside). - Soil organic matter balance to be established for lands used for arable crops.
Soil structure: Maintain soil structure through appropriate measures	<ul style="list-style-type: none"> - Appropriate machinery use 	<ul style="list-style-type: none"> - The Federal Soil Protection Law must be observed, and Par. 17 (2) in particular.
Minimum level of maintenance: Ensure a minimum level of maintenance and avoid the deterioration of habitats	<ul style="list-style-type: none"> - Minimum livestock stocking rates or/and appropriate regimes - Protection of permanent pasture - Retention of landscape features - Avoiding the encroachment of unwanted vegetation on agricultural land 	<ul style="list-style-type: none"> - A minimum level of maintenance of the agricultural lands must be guaranteed (at least one cut/year incl. removal of the cut vegetation, or a minimum stocking level equivalent to 0.4 LU/ha, or regular seasonal use for grazing). - Set aside is to be limited to a maximum of 50 % of the agricultural area of a holding. - A regionally typical share of landscape elements, or a minimum of 5 % of the agricultural area, whichever the higher, must be retained¹². - A single plot must not comprise more than 25 ha.

*) Corresponds to Annex IV of the Commission’s draft for the Horizontal Regulation.

¹² In Chapter II. 1. the associations call for the inclusion of unproductive landscape elements into the regional single area payment.

Annex 3

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