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Don't postpone badly needed therapy!

Diagnosis of EU Agricultural Policy Undisputed

**Joint Statement of the Associations on the
2008 Health Check of the CAP**

October 2008

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Challenges facing EU agricultural policy are undisputed

The European agricultural policy is facing great challenges. Some of these have been at the top of the agenda for quite some time but insufficient progress has been made. Others have achieved new relevance. Some are matters of global urgency, such as EU responsibility towards the now 920 million starving people on the globe who are victims not least of the current EU agricultural trade and development strategies. At the same time it is incumbent on European agriculture and thus EU agricultural policy to swiftly introduce measures to reduce greenhouse gases and to utilize the soils' ability to sequester carbon.

In its agricultural policy analysis (Health Check) the European Commission itself identified a number of key challenges: Apart from climate protection the Commission lists the development of renewable energy sources, improved water management in the sense of more considerate use, increased efforts to protect biodiversity, and the reduction of discrimination in the distribution of direct support payments to farm holdings. There are a number of other issues which the Commission did not specifically mention but which nevertheless need to be addressed. These include the contribution agricultural policy must make to reversing immigration from some of Europe's rural areas, including area in Germany, and also necessary improvements in the conditions under which livestock is kept (animal welfare) as well as improved efforts to develop special quality products (such as GM-free foods) and establish them in the marketplace.

It is a painful truth that the orientation of agricultural policy so far has to a considerable extent been co-responsible for many problems – not because of the EUR 55 billion annually spent on the EU Common Agricultural Policy but because of the way that money has been used.

Considering this background, the EU Commission proposals of May 20, 2008 on the future development of the Common Agricultural Policy are very reserved.¹ With its proposal the Commission does not pay justice to its own analysis. Moreover, following considerable pressure from the farming sector, it even rowed back from its own proposals of November 2007. Nonetheless it proposes to use a small but increasing share of the funds to remunerate farmers better than to date for tangible services rendered with regard to the key challenges highlighted by the Commission. However, the proposals for the dairy market pursue objectives which are as contrary to the interests of environmentally and ethologically sound production on family farms as they are to development policy requirements.

The agriculture ministers of the EU Member States are expected to decide on the EU Commission proposals in November 2008 – as yet without co-decision powers of the European Parliament in this area. As insufficient as the Commission proposals may be, the resistance against the proposed small and necessary changes from the ranks of the agriculture ministers, and the German Federal Government in particular, is entirely misplaced.

In the statement presented here the undersigned associations representing interests in the fields of nature conservation and environmental protection, farming, consumer protection, animal welfare, and development cooperation evaluate the EU Commission's Health Check proposals. They also expressly direct their commentary at the German Federal Government, and in particular at the responsible Federal Ministry of Consumer Protection, Food and Agriculture (BMELV) which so far has been trying to slow down or even block progress in central areas and thus has been unilaterally accommodating the interests of those who have been profiteering from the EU agricultural policy.

The Federal Government is asked to no longer frustrate those EU Commission proposals which at least offer an approach to the resolution of urgent challenges, and instead to support them and to push

¹ COM(2008) 306/4 of 20.05.2008. These legislative proposals had been preceded by a EU Commission Communication entitled "Preparing for the "Health Check" of the CAP reform" (COM(2007) 277) of 20.11.2007. The European Parliament issued an own-initiative opinion (2007/2195(INI) in response to the Communication on 26.11.2007.

for necessary corrections in areas where the EU Commission proposals threaten to exacerbate rather than lessen problems.

All involved must realize that society's acceptance of the European agricultural policy must be won back. Payments must be based on a valid rationale; otherwise one plays into the hands of those who will demand drastic cuts sooner rather than later. However, cuts are not qualification and thus not a solution to pressing problems.

The CAP Health Check must not stop at stock-taking, it must swiftly start necessary and effective therapy.

Central demands of the associations

The associations call on the German Federal Government, and on the Federal Ministry of Consumer Protection, Food and Agriculture (BMELV) in particular, to ensure that the following demands are met:

1. Remuneration for services in the areas of nature conservation, environmental protection, animal welfare, and consumer protection.

Pro strengthening of rural development through progressive modulation

In the context of the decisions on the Financial Perspective for 2007-2013 cuts were made to funding for the second pillar of the CAP (support for rural development) but not to direct income transfers under the first pillar. The reason given for this decision has been that the “legitimate expectations” of the recipients of direct aid had to be met. It is incomprehensible that those holdings which provide special services in the areas of nature conservation, environmental protection, animal welfare, and consumer protection and which have been receiving compensatory payments for these services are not similarly worthy. The cuts made to second pillar funding must be reversed. Sufficient additional funds must also be made available to meet new challenges for which the second pillar has been given responsibility (Natura 2000, Water Framework Directive) or is to be given responsibility in the future (climate protection).

As there does not appear to be majority support amongst the Member States for the provision of additional funds, the associations support the EU Commission proposal for progressive modulation until 2013 of up to 22% of the direct aid. The reallocation of a proportion of direct aid for the benefit of the remuneration of qualitative services is the only option for securing funds for farming and thus for rural development for the time beyond 2013. Only a qualification of support in terms of nature conservation, environmental protection, animal welfare, and job protection can assure the necessary support from the taxpayer for providing these funds. The associations point out the fact that the EU Commission proposes that all new receipts from modulation stay within the Member State that generates them.

The associations support the Commission proposal to devote the additional resources which will be made available by an increase in compulsory modulation solely to what it terms the “new challenges”, *i.e.* climate protection, renewable energy, water management, and biodiversity. However, the associations call for clear priority to be given to site-specific and animal welfare-related agri-environmental measures (incl. summer pasturing, straw bedding). Therefore, at least 75% of the modulation funds are to be made available for Axis 2 measures of the EU Regulation on Rural Development (EAFRD). All measures must be committed to the overall objectives of climate protection, protection of biodiversity, and water protection. Technical flood protection measures such as the construction of flood banks, investments into energy installations of low efficiency, irrigation systems and water pipes must be excluded from funding.

At present the second pillar is less attractive for the Member States than direct aid, as the former obliges them to co-finance while the latter is paid fully by the EU. This unequal treatment must be abolished. As a first step, the minimum share of national co-financing for measures under the second pillar must be reduced.

We call on the German Federal Government to give up its resistance to progressive modulation and to become a proactive advocate of these demands.

2. Abolition of payment-based discrimination of holdings with high labour input. Pro a differentiated graduated system

Apart from the continued lack of ecological qualification of still more than 90% of EU agricultural expenditure, the CAP has also been facing strong criticism for the way payments are allocated to farm holdings. The associations have repeatedly drawn attention to that fact and have made relevant proposals². Even after the decoupling of direct aid from production type and quantity, funds are still allocated on the basis of the holdings' historic entitlements or (in Germany from 2013) solely on the basis of the holdings' eligible area.

Absolutely no account is taken of the enterprises' labour intensity and the holdings' labour input when the payments are made. This puts labour-intensive family farms, organic farms, and large holdings with a large workforce at a disadvantage. Rationalized tillage farms achieve payments of more than EUR 100,000 in direct aid per labour unit, while labour-intensive farms receive not even a tenth of that³. The allocation of payments is therefore an incentive to shed jobs rather than create new jobs and thus to provide added value in the rural regions.

The preferential treatment of rationalized holdings and the ensuing concentration of payments on a small share of holdings is also highly problematic from the development policy point of view, as it also leads to family farms in developing countries to suffer a competitive disadvantage in the sale of their products on domestic and international markets (indirect dumping).

In their communication of November 2007 the Commission has presented a proposal for discussion which aimed at correcting the adverse allocation effects of the payments. Payments per holding exceeding EUR 100,000 were to be cut by 10%, payments between EUR 100,000 and 200,000 by 25%, and payments exceeding EUR 300,000 by 45%. The funds freed in this way were to be made available to all holdings in the Member State concerned to support environmentally-friendly and high-quality production.

In its own-initiative opinion the European Parliament has taken up this proposal and has expanded on it by proposing that this degressivity with a reduction of up to 45% be made conditional on the farms being given the right to offset their labour costs against the modulation cuts. In this way, sizeable holdings with relatively higher labour requirements would have escaped the cuts. This proposal is largely congruent with the proposals made by the associations. Such a differentiated, graduated system would finally address the payment-based distortion of competition at the expense of labour-intensive holdings, no matter whether these are small, medium-sized or large.

However, the EU Commission has withdrawn its own proposals, almost, it seems, as if their proposal of November 2007 had not been made in earnest. Instead of the graduated reduction of 10 / 25 / 45% the Commission now refers instead to the element of progression in modulation. The deviation from reductions proposed previously (now: 3 / 6 / 9%) is so severe as to be inexplicable in rational terms. It resulted from pressure exerted by the current profiteers of the payment system who were primarily supported by the German Federal Government and the eastern German federal state governments.

The associations call on the German Federal Government to give up its resistance to a necessary modulation graduated with respect to the labour force, so that direct payments no longer incentivise workforce reduction but offer incentives to maintain and create jobs.

² 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. Rheinbach/Hamm, October 2001.

³ The current allocation of payments to agricultural holdings in Germany has the following allocation effects: The 20% of holdings in the largest size class receive 72% of all EU direct aid. This is largely in keeping with their share in the agricultural area of 70%. However, these holding represent only 40% of total labour units (workers converted into full-time labour units).

3. Orientation of dairy market policy towards the aims of rural value-added, climate protection, biodiversity and animal welfare. End export dumping.

In Germany milk production is the most important agricultural sector in terms of value-added. Large expanses of the low mountain ranges, coastal regions and alluvial landscapes are strongly characterized by dairy farming. The economic utilization of meadows and pastures (grassland) is inextricably linked with cattle. Therefore, locally adapted dairy farming is also of major importance for nature conservation and environmental protection and for the maintenance of touristically attractive cultural landscapes.

Over the past years and decades there has been a significant process of concentration in dairy farming in the EU. Since the introduction of the milk quota in the EU in 1984 the number of German farms keeping dairy cows dropped by more than 70% down to c. 100,000. As a result of numerous changes to the quota system in Germany which eased trade in and supra-regional movement of quotas, dairy production also became concentrated in certain regions. While dairy herds and milk production expanded in coastal regions of Lower Saxony and Schleswig-Holstein, in the Lower Rhine region and the Allgäu, production dropped in tillage regions and stock farming regions as well as in the low mountain ranges.

These changes are the main cause of the loss of meadows and pastures. Between 2003 and 2007 the area of (permanent) grassland in Germany declined from 5.02 million hectares to 4.87 million hectares (-3.1%). In Schleswig-Holstein and Mecklenburg-Western Pomerania the loss of grassland was even higher at more than 5%. Utilization of the remaining grassland areas is being intensified. Both these trends have negative repercussions for species diversity, as testified by the significant decline in populations of meadow birds such as lapwing, whinchat and meadow pipit. The loss of grassland is also harmful in terms of climate protection as grassland sequesters much more carbon dioxide than tillage land; the ploughing up of peaty soils is particularly severe in this respect and should be disallowed.

Structural change in dairy production has also brought about changes in livestock management. Pastoral management where cows are out on pasture during the summer has declined significantly as cows are housed year-round. Milk production is increased by feeding greater amounts of concentrate feeds, including imported soy the production of which has devastating effects in developing countries. Both permanent housing and productivity increases are very worrying from the animal welfare point of view. Moreover, they impact on milk quality (lower proportion of healthy unsaturated fatty acids).

The developments described above have gone hand in hand with producer prices for milk which over many years have not covered the cost of sustainable production. Dairy farmers who wanted to continue to produce milk were thus forced to cut costs – primarily by expanding the holding, investing into larger cattle houses and new milking technology and by taking measures to increase the cows' production. In the end they were left with more work which is still not sufficiently remunerated by milk prices.

The dairy market is the sector most effected by the EU Commission Health Check proposals. It is proposed to increase the milk quota – in addition to the 2% increase decided on April 1, 2008 – by a further 1% annually from 2009 to 2013 (an additional total of 5%). This continues the policy of setting the quotas clearly above the (non-subsidized) market demand. The Commission does not want to adapt its proposals for quota increases to the changing demands of the marketplace but instead it wants to set the increases for the next five years by political decree without reasonable market analysis. The EU Commission itself expects that the quota increase will lead to over-production of butter which will mean that “*the need for some limited additional expenditure on butter exports*”, i.e. export subsidies, “*cannot be excluded*”⁴ despite the fact that in the course of the WTO negotiations the Commission has already promised the final abolition of export subsidies for dairy products which have been suspended since mid-2007.

⁴ COM(2008) 306 final, p. 11

The problem of over-production of milk and dairy products will be exacerbated the EU Commission proposals which in turn will continue to keep producer prices for milk low. The pressure to rationalize and intensify production will thus be maintained and export dumping will continue.

The associations disapprove of the EU Commission proposals for the dairy market. They call on the German Federal Government to oppose quota increases. They call for framework conditions which will support milk producers in their endeavour to adapt their production to changing market demands. All support programmes are to be targeted at increased animal welfare, utilization of domestically produced feeds, positive impacts on maintaining employment in the farming sector and rural regions, and on biodiversity.

4. Abolish export subsidies. Utilize funds to strengthen regional, socially and environmentally compatible economies in developing countries

In the past, the EU has spent billions of taxpayers money to reduce the price of agricultural and food products below the level of European production costs in order to export them to third countries. This type of “dumping” with the aid of export subsidies (“export refunds”) has extremely serious repercussions in developing countries including the destruction of small farmers’ livelihoods and regional food industries.

Over the past two years export subsidies have been substantially reduced; however, they continue to exist as an instrument and can be re-invoked at any time as a means of crisis management, as seen in the pigmeat sector.

The associations demand that the suspended export subsidies will not be reactivated. Moreover, a binding plan for the complete abolition of export subsidies must be agreed by 2013. An adequate share of the funds thus released is to be made available to support sustainable agriculture in developing countries, following the proposals set out by the Commission for the budgetary years of 2007/2008. It must be ensured that the funds strengthen locally adapted and sustainable, socially and environmentally compatible family farming and regional food industries. It must not be the aim to use the public funds to open up additional markets for the fertilizer, seed and agri-technology industries.

5. Utilize funding opportunities for specific measures (Article 68 new)

The current EU Regulation already gives Member States the opportunity to autonomously reallocate up to 10% of the EU direct aid to specific measures to address environmental issues or for improving product quality in sectors concerned. The EU Commission now proposes to loosen current restrictions and to broaden the application of retained amounts. It is proposed that specific measures for certain farms specializing in dairy, beef, sheep and goatmeat production can be financed through this reallocation of funds. Moreover, it is proposed that under the new Article 68 support for crop insurance schemes and mutual funds for animal diseases can be provided. The associations regard the latter as indirect subsidization of the insurance industry and view it as an incentive to engage in forms of management entailing high yield risks or risks of livestock diseases which often prejudice soil and water protection and animal health.

The associations call on the German Federal Government to show commitment for the broadening of the application of funds in the area of environmental measures and quality improvement, but to reject the support for insurance schemes. Member States must be given the opportunity to still decide on the application of Article 68 after 2009. The Federal Government must apply Article 68 as the need for relevant measures arises so as to avoid a situation where

the financing of such measures is at the expense of measures and projects under the second pillar.

6. Abolition of compulsory set-aside must not lead to further loss of biodiversity. A substitute with effects in the wider countryside is required

The EU Commission describes the maintenance and protection of biodiversity as one of the key challenges it wishes to address with the Health Check proposals. At the same time the Commission admits that current measures have not achieved the declared objective of halting biodiversity loss⁵.

The abolition of compulsory set-aside will exacerbate this challenge, as when the lands which had been set-aside return to production, in many cases refuges for rare plant and animal species will be lost.

To solve this problem, the Commission merely makes reference to increased support for agri-environmental measures derived from progressive modulation and to additional requirements in the context of cross-compliance. In view of the scant means available for the second pillar and the fact that more than 300,000 hectares had been set-aside, this reference to the second pillar cannot be regarded as a solution. The proposed changes to cross-compliance requirements do not materially alter the situation; the landscape elements now specifically listed in the proposed regulation are already named in the German transposition of the existing regulation and the “*establishment of buffer strips along water courses*” is not suited to be effective over as significant an area as was covered by set-aside.

The associations call on the German Federal Government to ensure necessary replacements for the loss of refuges for flora and fauna resulting from the abolition of compulsory set-aside, *i.a.* through compulsory creation of ecological compensation conservation areas (*e.g.* strips sown in wildflowers and herbs, copses, and extensive grassland).

7. Strengthen climate-friendly farming methods, modify climate damaging ones

As all other areas of the economy and life in our society, the farming and food sectors too must face the challenge and do everything in their power to curb climate change. Climate protection is more important than adaptation to climate change.

The farming sector has a great potential to make various contributions to climate protection. The EU Common Agricultural Policy must define this potential and take appropriate measures to swiftly and effectively utilize it.

This concerns in particular:

- Reduction of crude oil dependent energy intensity in land use and livestock husbandry;
- Minimization of nitrous oxide emissions resulting from mineral fertilizer use and inappropriate use of organic fertilizer;
- Humus formation in the soil through a widening of crop rotations (support for production of legumes), greater use of straw bedding/farmyard manure etc.;
- Reduction of dependence on imported feedstuffs (soy) the production of which continues to contribute to the destruction of rainforest areas;

⁵ “Member States have committed themselves to halt biodiversity decline by 2010, a target which increasingly seems unlikely to be met. A large part of Europe's biological diversity is dependent on agriculture and forestry and the efforts to protect biodiversity will have to be increased, particularly in the light of the expected adverse effects of climate change and increasing water demand.” (COM(2008)3006/4, p. 10).

- Avoidance of the ploughing up of grassland, especially on humus-rich soils (peatlands, floodplains) in order to prevent the release of carbon dioxide sequestered in the soil, and arable reversion, especially on former peatland and floodplain sites;
- Use of agricultural by-products for energy generation (especially slurry, farmyard manure, waste wood) provided this does not counteract a positive humus balance;
- Safeguarding and supporting GM-free family farming;
- Further development and expansion of organic farming.

On the part of the EU agricultural policy, there is thus need for action in a multitude of areas both in terms of financial incentives for a reorientation and in terms of regulatory requirements.

The associations call on the German Federal Government to recognize climate protection as a key benchmark for the further development of the CAP and to instigate appropriate measures.

Outlook

The associations are conscious of the fact that the demands made in this paper are not the final answers to the challenges outlined. The demands rather follow on from the current processes in agricultural policy.

For this very reason the associations reject all attempts to prevent even the first necessary steps from being taken. In the current Health Check negotiations, there is no rational reason for postponing the healing process until, for example, the next financial perspective beginning in 2013. At the very least we must now set a clear course. Otherwise not only will the trust built up be needlessly forfeited – both on the part of the farming community and the taxpayers – but existing problems will further be aggravated. The later therapy commences, the more expensive it will be for all of us.

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