

---

# **For an agricultural policy that is supported by society**

**Remodelling the EU agricultural policy with a view to a quality strategy**

**Objectives for the CAP after 2020  
and transitional steps to be taken in Germany in 2017/2018**

**Joint demands by the platform associations**

## Associations' platform on the CAP

In the associations' platform, the participating signatory associations and organisations develop joint demands for the Common Agricultural Policy (CAP) of the European Union. Going beyond these joint demands, individual organisations may have objectives and pursue demands that are more far-reaching or specific.

Information on the individual organisations and their demands can be found on their individual webpages (see list of addresses at the end of this brochure).

## Imprint

This platform was jointly developed by the undersigned associations, coordinated by the European Natural Heritage Trust (EuroNatur) and the Arbeitsgemeinschaft bäuerliche Landwirtschaft (AbL, a German family farmers' organization).

Rheinbach/Hamm, März 2017

**euRONATUR**

EuroNatur  
Stiftung Europäisches Naturerbe  
Euskirchener Weg 39  
D - 53359 Rheinbach / Bonn  
Tel.: 02226-2045, Fax: -17100  
lutz.ribbe@euronatur.org  
<http://www.euronatur.org>



Arbeitsgemeinschaft  
bäuerliche Landwirtschaft e.V.

Arbeitsgemeinschaft bäuerliche  
Landwirtschaft e.V. (AbL)  
Bahnhofstraße 31  
D - 59065 Hamm/Westf.  
Tel.: 02381-9053171, Fax: -492221  
jasper@abl-ev.de  
<http://www.abl-ev.de>

# Inhalt

<b>Preface</b> .....	<b>4</b>
<b>1) Summary</b> .....	<b>4</b>
<b>2) The starting point: Lessons of the crises</b> .....	<b>7</b>
2.1) Economic crises: Losses in the billions and drivers of structural change .....	7
2.2) Ecological crisis, loss of acceptance, and public commitments .....	8
<b>3) Using a quality strategy to create economic prospects</b> .....	<b>11</b>
<b>4) Guidelines for the Common Agricultural Policy after 2020</b> .....	<b>12</b>
4.1) Fundamental reform of support policy: Public funding only in exchange for services to society .....	12
4.1.1) Replace flat-rate area-based payments with remuneration for services rendered to society .....	13
4.1.2) Consistently align rural development including investment support with the quality strategy .....	14
4.1.3) Achieve objectives with a lower administrative burden .....	15
4.1.4) For farm diversity. Strengthening small and medium-sized holdings. Gaining new entrants .....	16
4.1.5) Areas with natural constraints to be taken into account in funding .....	16
4.2) Market organisation: avoid crises, overcome export fixation, advance quality strategy .....	17
4.2.1) Guidelines for a quality-enhancing market policy .....	19
<b>5) Utilise options offered by the EU in Germany in the transition period</b> .....	<b>21</b>
5.1) Increase in the rate of modulation from 4.5% to 15% of direct payment funding .....	22
5.2) Similar increased redistributive payments for the first hectares .....	24
5.3) Special payments for pastured management of sheep and goats .....	25
<b>6) Outlook</b> .....	<b>26</b>
<b>Signatories</b> .....	<b>27</b>

## Preface

With their current paper, the signatory associations call for a fundamental strategy and policy change with regard to the Common Agricultural Policy (CAP) of the European Union and its implementation in Germany.

The associations, which represent different sectors in environmental protection and nature conservation, agriculture, animal welfare and development policy, are concerned about the deep crisis in which much of the farming sector finds itself, they voice their common criticism of the existing agricultural policy of the EU and the German Federal Government, and they articulate a baseline and concrete demands for a fundamental and, in their view, urgently required overhaul of this agricultural policy.

This agricultural policy must take its orientation from society-wide needs. It is the associations' view that such a reorientation does not contravene the sustainable economic interests of agricultural operations in Europe, but rather that it would also generate great economic potential, creating opportunities for a greater number of farms than the agricultural policy in its current orientation.

The associations see their analysis and critique of the current CAP and their proposals not only as a contribution to the public consultation on the future of the CAP conducted by the EU Commission in early 2017, but also as a call to the elected members of the European Parliament and the German Federal Assembly as well as to the Council of Agriculture Ministers and specifically to the German Federal Government to not oppose a fundamental reform as part of the negotiations, as was evident in the last round of reforms. As early as in the discussions on the forthcoming EU multi-annual financial framework for the years after 2020, which must be guided by the global sustainability goals, agricultural policy must deliver compelling answers to the environmental, economic and social challenges of our time.

In view of the upcoming elections to the German Federal Assembly, the associations urge the government not to wait for the implementation of a new CAP, but to exhaust all the options already offered by the EU Regulations to instigate the necessary change right now, i.e. in 2017 and 2018. The Federal Government and the Länder must step up now.

## 1) Summary

To produce high quality food, to maintain diverse and species-rich landscapes, to create jobs in rural areas, to respect the dignity and well-being of humans, animals and plants, to contribute to clean drinking water and thriving villages – all these are important and well recognised tasks farmers pursue in our society. But to farm for a living also means to face cost pressures, to hardly have any influence on pricing by companies in the food industry and food trade or on agricultural policy framework conditions which thus far have been placing little value on the provision of services to society or on the maintenance of our common resources.

It is therefore not by accident that significant parts of our European farming and food industry are facing multiple fundamental crises to which the EU Common Agricultural Policy (CAP) has yet to offer compelling and effective answers. The particularly severe and prolonged price low

for milk and pork in the years 2014 to 2016 resulted in losses in the double-digit billion Euro range for the operations concerned (Chapter 2.1). Compared to earlier years, significantly greater numbers of farms have given up – a structural fracture in the rural areas. The crisis instruments applied by the EU have not addressed this problem in any meaningful way.

At the same time, widespread forms of livestock and crop production for several reasons lack societal acceptance, without which an economic sector can have no prospects (Chapter 2.2). The majority of the population views certain forms of livestock production to be so severely at odds with ethical principles in their treatment of (utility) animals, that a remodelling of livestock production is warranted for this reason alone.

The CAP must also be remodelled because important environmental and animal welfare objectives as well as EU Directives in force are not being implemented or complied with – not least in Germany. Several infringement proceedings against Germany are already before the courts: For excessive or, in part, renewed increases in nitrate levels in groundwater (Nitrates Directive), for excess phosphate contamination of environmental waters (Water Framework Directive), and for excess ammonia emissions (NEC and NERC Directives). In the agricultural landscapes, there has been a very considerable loss of diversity of species of flora and fauna, with the situation increasingly diverging from conservation targets the Federal Government has set itself in its Sustainable Development Strategy. In addition, the climate action plans of the EU and Germany expect the agricultural sector to make a greater contribution. The share of organic agriculture would need to increase threefold in order to reach the 20% target recently set in the updated Sustainable Development Strategy and in order to fulfil the organic farming sector's role model function.

Moreover, the EU made a commitment to assume international responsibility as part of the UN Agenda 2030 (Sustainable Development Goals) under which signatories strive to meet agreed goals such as to safeguard sustainable agriculture, maintain biodiversity and support smallholder farmer access to local and regional markets and value-added opportunities. Food exports from the EU that are sold in developing countries at dumping prices and thus push small producers and processors out of their local and regional markets run contrary to these goals.

The current and misguided agricultural policy presents major challenges to agricultural holdings. In order to be able to meet the necessary legal, political and societal objectives, they must make changes that can be both significant and costly. In this process the EU agricultural policy and its implementation in Germany leave farmers very much to their own devices. Indeed, the CAP and its national design have substantially contributed to causing the crisis situations. The expansion of livestock production in certain regions and on certain holdings has deliberately been driven forward by support for agricultural investments and also as a result of insufficient implementation of EU legislation in force. International competitiveness in the form of cost leadership and increasing export volumes by the agriculture and food industries was declared to be the main objective of the CAP, while the economic risks were imposed on the agricultural holdings as the weakest links in the food value chain. Society at large and ultimately the taxpayers were left to deal with the adverse impacts on the environment, animal welfare and rural development both in Europe and on other continents. It is high time for the CAP to be fundamentally aligned with societal objectives.

The associations suggest to use a quality strategy (Chapter 3) in order to address two issues, i.e. to consciously pick up on and implement the societal and sector-specific legal requirements for food production, and in turn to increase the value-added for most farms and to create sustainable economic prospects. This calls for a strategic approach which involves the various economic and societal actors. The available political instruments, from sectoral law to support policies to market and trade policies should be redesigned and utilised to this end. In this way, the CAP and its implementation in Germany must be devoted to this quality strategy.

In its support policy, the CAP after 2020 must consistently adhere to the principle of providing public funds solely to remunerate farmers for the provision of concrete services to society (Chapter 4.1). Given that significantly greater demands must be placed on farms if the societal and legal objectives are to be integrated into food production, significant funds will be required for this restructuring. Subsidies that are not conditional upon the provision of services to society result in perverse incentives and further bad investments and must therefore be stopped; these funds should be used to achieve societal objectives. Nonetheless, remuneration must go beyond mere compensation for additional expenditure or short-term income foregone and must also include an incentive element or reward for the provision of services. The reorientation of supports should be environmentally and socially compatible. A graduated system of supports which takes into account the degree of farm rationalisation will continue to be necessary.

In addition to support policies, the EU agricultural policy will in future continue to contain elements of active market design (Chapter 4.2). Rules must be installed that help avoid or significantly reduce the gravity of devastating and costly crises, such as those experienced in the dairy and pigmeat markets in 2014 to 2016. To this end, producer groups or sectors should be able to avail of and receive support for self-regulatory measures, as needed. Producers should be granted the right to institutional co-determination in order to help them break out of the position of being the weakest actors in the food value chain. In acute crises, the EU must also be able to intervene directly and to put in place quantitative controls.

Any form of dumping as part of the EU's international agri-food trade must be stopped. The CAP and EU trade policy must actively follow a 'no dumping' policy; the EU must not pass on its international responsibility in this regard to protective measures in import countries.

Moreover, a quality strategy calls for EU rules on mandatory, clear and meaningful food labelling, so as to allow consumers to assume their share of the responsibility.

Last but not least, the associations call for higher standards in European sectoral law on environmental protection and nature conservation, consumer protection and animal welfare in areas where protection objectives are not being achieved, and for consistent EU-wide implementation (Chapter 4.3).

## Short-term measures in Germany

In spite of the fundamental need for CAP reform at EU level, the EU is already giving member states a range of options to mitigate perverse incentives and to provide much greater remuneration to farm holdings for their provision of services to society than is currently the case. However, Germany makes use of these provisions only to a rather limited extent (Chapter 5).

Therefore the signatory associations call on the Federal Government, the Federal Assembly and the Länder in the Federal Council to adopt the following amendments by the summer of 2017 or the spring of 2018 at the latest:

- An increase up to a level of 15% in the redistribution of direct payment funding ('modulation') towards targeted support measures in particular for animal welfare, environmental protection and nature conservation in the current so-called second pillar (Chapter 5.1);
- A corresponding increase in the redistribution of up to 30% of direct payments to the first 46 ha per holding (Chapter 5.2);
- The provision, as a transitional measure in the run-up to a fundamental CAP reform, of a special payment for environmentally benign and ethologically sound (pasture-based) sheep and goat production, as the national herds are severely diminished (Chapter 5.3).

## 2) The starting point: Lessons of the crises

Despite the significant amount of funding devoted to it, the Common Agricultural Policy (CAP) of the European Union and its implementation in Germany is not addressing the major challenges faced by agricultural holdings and society at large respectively. Large sections of the farming sector in Europe as well as in Germany are in deep crisis while at the same time being faced with growing demands placed on it by the public and the legislators.

### 2.1) Economic crises: Losses in the billions and drivers of structural change

In mid-2014, not long after the December 2013 decisions on the reform of the Common Agricultural Policy (CAP), producer prices, especially for milk and pork, dropped to well under the cost of production and stayed at those levels for more than two years. This major and unusually prolonged price low exhausted the dairy and pig producers' operational reserves, and in many cases generated losses that will continue to strongly weigh on operating profits for years to come, following the price increases from mid and late December 2016 respectively. Almost 100,000 producers of dairy cattle and pigs are affected in Germany alone. As a result, the sectors have seen something of a structural fracture. In a climate where the prevalent orientation of agricultural policy and agronomy is towards international competitiveness and cost leadership, many farms lack viable prospects. Free trade agreements such as those planned between the EU and Canada and the United States respectively (CETA and TTIP) or between the EU and South American countries (MERSOCUR) or New Zealand will exacerbate this situation.

The economic crisis affected dairy and pork producers, two sectors which – especially in Germany – had significantly increased their output in anticipation of growing international sales. Despite many warnings, dairies and abattoirs as well as the Federal Ministry of Agriculture, agronomists and sector associations had for years been betting on allegedly steady growth in affluent export markets.

Livestock production was oriented towards “international competitiveness”. In the years of relatively high producer prices there was a construction boom, especially in holdings and regions with already high livestock numbers. In part this construction work was even supported by significant CAP funding. However, when important international output markets turned out not to be as absorptive or affluent as predicted, producer prices came under serious pressure as a result of surplus production. While this situation presents the food and export industries with very low purchasing prices, it also puts thousands of farms at risk and further fuels the process of concentration at operational and regional levels not only in Europe but also in countries targeted by European exports, especially in Africa and Asia.

The EU Commission, the Council of Agriculture Ministers and the Federal Government reacted very late, tentatively and timidly to the most serious market crisis for decades in the European dairy market. For two years they debated as to whether the EU should put in place temporary quantitative controls on dairy outputs or continue the subsidisation of powdered milk, butter and cheese storage which had once again been considerably expanded. Special payments of EUR 500 million each from the EU budget were released twice and only at the second attempt, in the summer of 2016, a proportion of these funds was made conditional upon voluntary reductions

or constancy in the farms' milk output. At this point, European dairy farms had already suffered losses in the billions and thousands of farms had given up.

At the same time, public reporting on the crisis in the dairy sector has shown that the people at large consider the demise of thousands of farms as a loss and that they place value on the preservation of the remaining family farms. Therefore, the CAP and the Federal Government must urgently provide effective options to farmers and society at large.

## **2.2) Ecological crisis, loss of acceptance, and public commitments**

In tandem with the economic crisis, certain forms of agricultural production are suffering a deep crisis of societal acceptance. Widespread types of livestock production are, almost by default, associated with routine procedures such as tail-docking in pigs or beak-clipping in chickens, procedures that run counter to animal welfare and have become a particular focus of public criticism. While such procedures have lowered the individual farms' operational cost of production, as driven by agricultural policy, the food industry, science and the extension system in order to increase international competitiveness, they cost the farming sector its necessary societal acceptance. Meanwhile, even the German Scientific Advisory Board on Agricultural Policy, Food and Consumer Health Protection is calling for a restructuring of livestock production to bring it in line with animal welfare standards.

The now customary sizes of livestock housing units as well as flock and herd sizes at individual locations are giving rise to protests even in their rural neighbourhoods. This is due, in part, to the high levels of local emissions and high volumes of livestock farm waste per unit area (slurry, poultry manure) associated with large production units. In some regions the volumes of slurry generated (including digestates from biogas plants) have risen to such levels that nitrate contamination of groundwater is once again on the rise and is exceeding legal limits.

In many areas of Germany, the objectives and threshold values set out in the EU Nitrates Directive concerning the protection of waters against pollution are not being met, with threshold values being significantly exceeded in some areas. Measures taken to date – i.e. primarily the German Fertiliser Ordinance – are not delivering the progress agreed. Therefore, in October 2016 the EU Commission took legal action against Germany at the European Court of Justice. What is needed is legislation on fertiliser use that effectively addresses the problems by tackling the root cause i.e. the polluters. This will present further challenges for many farm holdings.

Moreover, Germany is at risk of having infringement proceedings taken against it due to non-compliance with the Water Framework Directive; this will necessitate further measures to reduce locally excessive phosphate pollution. A third set of proceedings against Germany is imminent as the threshold value for ammonia emissions as set out in the EU Directive on the reduction of national emissions of certain atmospheric pollutants (NEC Directive) has for years been exceeded by about 20%. Its successor, the NERC Directive even mandates that Germany reduces its ammonia emissions by 29% by 2030. At present, the farming sector is the largest emitter of ammonia by far, with the nature and extent of livestock production being a significant factor.

Considerable improvements in the nitrogen balance are also required in order for the farming sector to be able to make the necessary greater contribution to climate protection. In the area of land-use in conjunction with other sectors, the EU Commission calls for an EU-wide reduction in greenhouse gas emissions of 30% by 2030 compared to 2005 levels (38% for Germany). The task at hand is clear: We need to get away from petroleum-dependent systems and must move



towards solar-based agriculture. Permanent pastures, peatlands and other carbon-rich soils must be maintained. Increases in the organic matter content of arable soils are of equal importance with a view to exploiting the unique potential the farming sector offers for carbon sequestration. To this end, crop rotations, which have become very narrow in recent decades, must be widened, i.a. through the integration of legume crops. Legumes also have the potential to noticeably reduce the need for energy-intensive mineral fertiliser. Additionally, solid livestock farm wastes such as farmyard manure and composts offer clear advantages in this regard compared to liquid manure and especially mineral fertilisers.

An at least similarly sizeable challenge for current forms of agriculture is the maintenance of the diversity of habitats of species of flora and fauna, a diversity that has historically been generated by the development of traditional agricultural land-use in the first place. In agricultural landscapes subject to intensive use of chemically-synthesised pesticides and fertilisers there has been a particularly significant and ongoing decline in biodiversity: The population sizes of indicator species recorded annually as part of the National Biodiversity Strategy are continuously moving away from the targets set rather than approaching them. Even the populations of formerly widespread species such as partridge (-95% in 25 years), lapwing (-75%) or skylark (-35%) have seen significant decline. Butterflies, bees and other insects can now hardly find any food in our agricultural landscapes; local studies have found that populations of flying insects have declined by 80% over a period of 15 years, a finding that is more than alarming. In the long-term, important fundamentals of agricultural production itself are at risk. The reasons for these developments can be found primarily in the decline of grassland and arable land use with lower fertiliser regimes and correspondingly lower yield intensities, narrow crop rotations, and the authorisation and use of certain pesticides.

Particular attention must be given to the implementation of the EU conservation directives which are the most important building blocks of EU nature conservation policy. Deficits are evident in particular in the design of and support for measures in the Natura 2000 network of protected areas, as was shown in an expert study commissioned by the EU Commission as part of the fitness check of the Habitats and Birds Directives. In this context, there has been an increasing focus on farm holdings operating in Natura 2000 sites and without which it will be impossible to achieve set conservation objectives. In Germany, almost 42,000 farms – or one in seven farmers! – are participating in contractual conservation management agreements, often in Natura 2000 sites. These farms must be given particular attention in the course of the reform of the agricultural policy as they are already delivering a high level of public services. However, many of the farms in such designated areas can not work profitably and are facing ruin. Biodiversity in agricultural landscapes therefore is not only at risk due to intensification but also due to abandonment. The demise of biodiversity is directly linked to the demise of the farms. Agricultural policy must create conditions that also offer long-term prospects to farmers in designated areas under conditions of adapted or possibly restricted land-use.

We must also ask the question as to what kind of framework conditions would bring us, the consumers, to assume our share of responsibility for the manner in which food is produced, processed and traded. There is room for an increased awareness of the fact that every bit of food we consume is linked to a real farm and a real cultural landscape. Greater awareness offers opportunities for taking an interest, for making responsible decisions as to food quality and also for entering into communication with other participants in the food value chain. However, the widespread lack of meaningful labelling with regard to the manner in which food is produced hampers such active participation in the market. In 2012 the EU introduced a mandatory logo for organic food. For eggs, labelling combines information on the production system and origin – a useful model. With a view to market differentiation, there is an urgent need for such mandatory transparency.

Many of the challenges outlined above are actively being addressed by organic farm holdings as part of an integrated, practical approach. Therefore, the Federal Government in its Sustainable

Development Strategy set a target to increase the share of organic agriculture in total agriculture to 20%. Given that currently 9.7% of all farms and 7.1% of the agricultural area are under organic management (2016 figures), there is clearly much left to do. This is true especially in light of the fact that the 20% target is to be understood as an intermediate goal on a pathway towards a countrywide environmentally and socially equitable farming sector. Conversion to organic farming can safeguard the livelihoods of many farmers, not only in times of crisis in the non-organic dairy and pigmeat markets.

Overall, therefore, there is a tremendous need for change in wide sections of our agri-food sector, going far beyond the conversion of additional holdings to organic farming. This need for change will also necessitate significant funding and carries considerable risk for the structure of our farming sector.

The need to come up with meaningful answers to pressing problems in the course of the pending CAP reform and its implementation in the member states is a weighty responsibility, as is the need to generate viable prospects for both farms and society at large. After all, the orientation of agricultural policy to date has played an essential role in creating the crises, given that agricultural policy guidance as manifest in regulatory instruments, funding policy and market organisation has not only enabled but also systematically driven forward the current forms of and developments in crop and livestock production.

### **3) Using a quality strategy to create economic prospects**

The associations are calling for a new common and strategic approach to tackling the many and varied tasks described above. They counter the dominant orientation of the CAP on international competitiveness of the European food industry with a quality strategy that is particularly focused on the European markets. The aim is to develop and exploit the nuanced value-creation potential of agricultural holdings for upstream and downstream enterprises and for the rural communities by purposely incorporating societal demands with respect to the quality of food production. As part of such a quality strategy, environmental and animal welfare criteria for example will no longer be fended off for as long as possible as a cost factor in international competition. Instead, ways will be sought in which compliance with the criteria developed together with society at large will be transposed into the necessary higher producer prices and greater regional added value. The positive experiences in the organic farming sector are exemplary in this regard.

#### **Remodelling livestock production**

Livestock production is a salient example of just how badly needed such a value-added quality strategy is. For a majority of livestock producers the need for change is of such a magnitude that it would ultimately represent an almost complete remodelling of their livestock management. The Scientific Advisory Board on Agricultural Policy, Food and Consumer Health Protection at the Federal Ministry of Food and Agriculture estimated the necessary funding to this end

to be in the order of three to five billion Euro per annum for Germany alone. Farms cannot bear this cost on their own. Funding must come from the market and the public purse. Necessary preconditions for all those that are economically involved are predictability and reliability.

Therefore, the various agri-policy instruments established in the regulations, support policies, market and trade policies including marketing support must be integrated and coordinated in a targeted manner.

Farms must be given clear orientation with regard to sectoral regulatory requirements, i.e. agricultural policy must provide timely clarity on expected and necessary changes to sectoral legal requirements including building construction, planning, regulatory and animal welfare law, in terms of both specific requirements and timing.

Farmers must be actively supported in an anticipatory manner, i.e. as early as possible. Funding policy must fundamentally be changed to this end. The limited financial resources must be used in a targeted manner, new support schemes must be created and old ones amended. Agricultural advisory services must similarly take their orientation from the new objectives.

Last but not least, the market organisation (including labelling rules) is in need of corrections and amendments so as to avoid a situation where the remodelling of the sector is undermined by serious market distortions.

While the remodelling of the livestock sector is a mammoth task, in the medium and long-term it also creates economic opportunities for the holdings and the rural regions, given that the ongoing acceptance deficit with respect to certain forms of livestock production holds a significant market potential for other, accepted forms of livestock management that are compliant with animal welfare and environmental protection (process quality). The consistent and strategic development and sustainable use of this market potential will offer economic prospects and societal support to a much greater number of family farms than a livestock production model geared towards international cost leadership will ever be able to offer.

## **Political co-responsibility**

Efforts will of course also be required from the economic actors involved such as the meat and dairy industry as well as the trade sector in order to leverage the potential of quality orientation and market differentiation. However, the policy arena must not leave to these actors the decision as to the scope and speed of implementing the necessary improvements. This is true not only for animal welfare but also for the protection of water, air and climate as well as for the enhancement of biodiversity in agricultural landscapes as long as market signals direct farmers away from acting favourably in this regard. Agricultural policy itself holds responsibility!

## **4) Guidelines for the Common Agricultural Policy after 2020**

The Common Agricultural Policy (CAP) of the European Union must provide necessary and sufficient answers to existing economic and societal challenges, as the competence and responsibility for the policies on agriculture, food and rural development lie, in particular, with the EU. This is also evident from the high proportion (40%) of the EU budget devoted to this policy area. These funds must now be used to generate pan-European and locally manifest added value and create trust in the competence of the EU to solve tangible problems. This requires an urgent and fundamental reorientation of the CAP which must be implemented in the upcoming EU financial period (multiannual financial framework of the EU for 2021-2028) at the latest. This reform must not again be limited to voluntary options for the member states and cosmetic corrections. Instead it must consistently and bindingly take its orientation from the quality strategy.

The signatory associations call for important minimum requirements for the CAP after 2020 as set out below.

### **4.1) Fundamental reform of support policy: Public funding only in exchange for services to society**

There is a need for a paradigm change from area-based support to targeted support for relevant services rendered to society by agricultural holdings. This new policy must encourage farmers to provide such services and to fulfil their important role in society in general and in the rural areas in particular.

To date the financially most important instrument of the CAP have been the so-called direct payments. More than 70% of the EU agricultural budget, or approximately EUR 42 bn per year, are made available for this direct aid as part of the so-called first pillar of the CAP (almost EUR 300 bn in the current financial period 2014-2020). Direct payments are made directly to applicant farmers via the member states. While the latest CAP reform gave member states significant leeway for a more targeted design of these payments, they made little use of it. This is particularly true for Germany (see Chapter 5). The bulk of the payments are still area-based, i.e. they are flat-rate payments per hectare of agricultural land. The more land a farmer manages, the more direct payments s/he receives. Little consideration is given to the way in which the farm is managed, the services for nature and the environment, animal welfare and climate protection it delivers, or the effort this involves. As a result, these payments primarily benefit intensive farms while lower-yielding ecologically compatible land-use is not adequately compensated.

The so-called greening introduced with the 2013/2014 CAP reform does not change the situation to any appreciable extent. Even the conditions proposed by the EU Commission were watered down to such a degree – first in the negotiations in the Council of Agriculture Ministers and the European Parliament, then in national implementation – that this alleged ‘greening’ is not able to halt biodiversity loss or achieve a minimum crop rotation or the maintenance of species-rich permanent grassland. Given that the greening is failing to achieve set objectives,

the associated bureaucracy and its system of sanctions gives rise to much discontent among farmers.

The declared aim of a more equitable distribution of direct payments or flat-rate area-based premia among farms in Europe also fell victim to massive resistance from the major farmers' associations, the agricultural industry and, not least, the Federal Government. While the member states were given options helping them to prevent a situation where 20% of farms receive 80% of the EU supports – i.e. primarily the extensive graduation of payments up to and including the number of workers, as called for by the associations – the binding EU-wide minimum standards are so modest that the direct payments continue to promote land accumulation in the hands of fewer but ever larger holdings unless the member states decide to go beyond these standards – which Germany has failed to do.

Therefore, these direct payments in the form of flat-rate payments per hectare are definitely not an answer to the big issues in the areas of environmental protection and animal welfare or for the maintenance of diverse family farm structures.

#### **4.1.1) Replace flat-rate area-based payments with remuneration for services rendered to society**

The signatory associations call for a fundamentally different use of EU funds. Funding must be used to achieve, together with Europe's farmers, urgently needed changes in livestock production and land management. The aim is a community-oriented, social-environmental qualification of the entire farming sector. Specifically, the platform associations take this to mean the following:

**Flat-rate area-based premia must be abolished and the funds must be used in a targeted manner and exclusively for services rendered to society by land managers. Payments must only be made where clearly defined services to society are being provided.**

Without adequate and appropriate remuneration such services are not being provided to a sufficient degree as they are not reflected in market prices. The necessary changes will not happen without additional incentives.

**Such services provided to society include, among others, the following:**

- A particularly high level of animal welfare in livestock production;
- Maintenance of or achievement of a high or typical level of biodiversity, as appropriate, in the wider countryside (contribution to the implementation of the biodiversity strategies of the EU and the Federal Government respectively);
- Safeguarding of diversely structured cultural landscapes with a high proportion of landscape elements and small-scale structures (ecological networks);
- Maintenance and management of species-rich permanent grassland (meadows and pastures including floodplains and humid grassland);
- Significant efforts towards the protection from pollution of surface and groundwater;
- Safeguarding and improvement of soil quality, especially with regard to soil biota, erosion protection, organic matter content and water retention potential;
- Special efforts towards the protection from pollution of the air in the farms' neighbourhood;

- Climate protection measures;
- Regional production, processing and marketing of characteristic, high quality and diverse foods, subject to the provision of the aforementioned services;
- Management in accordance with organic farming principles which, as an integrated approach, covers many of these sustainability objectives in one fell swoop.

Remuneration for such services must be at a level exceeding mere compensation for costs incurred or income foregone due to lower yields. In principle, this is prohibited for the current measures under the second pillar of the CAP (Support for Rural Development). In accordance with EU law, the supports merely compensate for lower yields and/or additional costs compared to “conventional” management.

There are a number of different concepts and proposals for the implementation, in terms of public funding law, of remuneration for services provided to society. These include an end to the two pillar structure of the CAP and its replacement with a single financial instrument, a focus on certain specific support measures currently included with the second pillar, point systems for the evaluation of baseline services, an autonomous EU fund for nature conservation, combinations of these approaches and other proposals. For the purposes of this paper, the associations refrain from favouring any specific concept. However, they emphasise the significance of the following basic requirements of the new support system:

- **It is necessary that remuneration for services to be rendered to society is both adequate and incentivising. The benchmark in this context is the service to society.**
- **The instrument of remuneration for services to society must be applied to the CAP as a basic principle and throughout the entire policy, i.e. for all payments: it should be aligned with the principle of full-scale implementation and fully applied to all support measures.**
- **Additionally, the support system’s concrete design in the member states should be allowed to take into account specific conditions. It would appear to be useful to orient funding more strongly towards regionalisation and programming.**
- **Sustainable agricultural funding must build on sufficiently ambitious and consistently implemented regulatory law applicable to all. In future, no agricultural holding must be allowed to be managed in an environmentally damaging manner, regardless of whether or not it receives financial support.**

#### **4.1.2) Consistently align rural development including investment support with the quality strategy**

Rural development policy (the so-called second pillar) constitutes a much smaller area of expenditure as part of the current EU agricultural policy, with close to a quarter of the CAP budget being devoted to a wide range of different support measures. These include anything from agri-environmental and nature conservation measures to support for organic farming, animal welfare measures, investment support for livestock housing, processing plants (e.g. dairies, abattoirs) and rural infrastructure (from sewage treatment plants to broadband networks to community facilities such as village crèches).

To a certain extent, some of the farming-related measures under the second pillar already remunerate farmers for environmental and conservation services. Other measures – especially in the area of agricultural investment support – are completely devoid of any such societal qualification. For example, funding is provided for pig housing in which it is practically impossible to humanely keep pigs without docking their tails. Therefore the government basically induces breaches of the law, given that existing animal welfare legislation permits tail-docking only in exceptional cases and where all other possible measures have been exhausted. There are however forms of housing and management that allow for ethologically sound livestock management. Moreover, it is counter-productive for the EU, the Federal Government and the Länder to provide investment aid for the construction of further livestock housing units without a true land base even in regions with already high livestock densities and considerable nutrient surpluses, only to then take countermeasures in the form of legislation on fertiliser use which affects all farmers. Accepted ethologically sound management systems must also be a precondition for funding for other livestock categories. Special services such as greater space requirements for the keeping of horned cattle must be given adequate consideration.

**Therefore, the associations call for a consistent and binding qualification of funding, including funding made available for current support measures under the second pillar. Here too, the principle of ‘public funding only for the provision of tangible services to society’ must apply.**

#### **4.1.3) Achieve objectives with a lower administrative burden**

Increasing numbers of and ever more detailed inspections as well as progressively stringent error definitions naturally result in higher failure rates. This „inspection spiral“ increasingly calls into question the efficiency of the control system while not achieving better results. The programming and execution of current support measures for specific services are therefore associated with an enormous burden, both for the administrations in charge (in Germany these are the Länder) and for the stakeholders in the regions. The current system is trying to achieve error avoidance by continuously introducing new rules which in turn are associated with the risk of financial sanctions. This undermines the acceptance and motivation of all involved. It is almost impossible to work out whether Brussels is responsible for this, or Berlin or the Länder. Another problem is the fact that especially the targeted support measures, such as ecologically compatible forms of management, are considered to be “insufficiently verifiable” which results in the Länder to not include them in their programming in the first place. The attempt to prevent misuse thus results in major inefficiencies in the use of funds.

- **A fundamental paradigm change is needed. Inspections and sanctions must be aligned with the achievement of set substantive objectives rather than with formal criteria hardly if not entirely unrelated to the achievement of same. In light of the above, the Commission’s regulations, delegated acts and guidelines for implementation must be reviewed together with the member states and, where appropriate, be scrapped.**
- **Additionally, in accordance with the principle of subsidiarity, local responsibility and decision-making must be strengthened. This will foster ownership and innovation.**
- **Moreover, higher de minimis limits and tolerances with regard to measures in conservation areas and, for example, the loss of ear tags should lower the farmers’ risk of sanctions as well as the administrative burden.**

#### **4.1.4) For farm diversity. Strengthening small and medium-sized holdings. Gaining new entrants**

Every year thousands of farmers give up, a fact that is being criticised and considered a loss not only in the villages but also by the overall population. The maintenance of diverse family farm structures and regional food processing has rightly been defined as a value in itself and an objective of agricultural policy, not least in statements made by the Federal Government.

Therefore, specific measures should be developed and offered to smaller and medium-sized agricultural holdings, so as to specifically allow these farms to participate in the necessary remodelling of the agricultural policy and the livestock sector in particular. For example, an end to tie-stall housing systems for dairy cattle must be accompanied by advisory and support measures specifically for holdings keeping smaller herds. In this manner, animal welfare can also contribute to the strengthening of family farm structures.

Young, well-educated farmers who take over farms or wish to establish new farms should actively be supported in their endeavours. This will require advice on farm transfers for retirees and new entrants, as well as specific support measures.

Moreover, the fundamental reorientation of supports should be designed to be socially compatible. The transition must be executed in such a way that cuts for the purposes of re-allocations are made first in those areas where there are the greatest windfall effects; in the case of direct payments these are the fully rationalised large-scale arable farms. Graduated payment systems that take into account the degree of rationalisation of farms will therefore continue to be necessary.

Certain services to society are most easily recorded at the individual farm level, e.g. a holding's crop diversity, the share of landscape structures such as hedgerows or riparian margins in total farmland or the average plot size (as a proxy measure for landscape diversity). It is useful to remunerate these services not only with reference to individual plots but also with reference to the whole farm.

**The associations advocate specific advisory and support measures for smaller and medium-sized holdings with a view to the necessary remodelling of the agriculture policy and the livestock sector in particular. The degree of rationalisation of farm holdings must be taken into account in the reallocation of funding. Tangible services to society related to the whole farm as a unit should be remunerated as such.**

#### **4.1.5) Areas with natural constraints to be taken into account in funding**

The productivity of and management effort associated with arable land, meadows and pastures is strongly dependent on natural site conditions such as soil type and texture, precipitation, groundwater level and landform (e.g. slopes). The diversity of sites and the associated forms of management are expressed not only in the diversity and specific characteristics of cultural landscapes but also in the different levels of land-use profitability. At the same time, it is especially the low-yielding sites that often are of particularly high value for biodiversity and ecosystems, and in part also for landscape protection and recreational value. In order to ensure



continued site-appropriate management of less profitable land, attractive funding measures must be offered to holdings managing such sites.

**Therefore the associations call for support for site-appropriate land-use management delivering tangible services to society in less favourable areas and sites with natural constraints.**

## 4.2) Market organisation: avoid crises, overcome export fixation, advance quality strategy

Europe's agricultural policy has been and continues to be more than a financial support policy. The organisation and regulation of agricultural markets is another of its key tasks. The ongoing dairy market crisis that began in 2014 shows just how fatal the impacts of support policies and market organisation can be: For many years now the construction of new and often vastly up-sized housing for dairy cattle has been supported by public funding from the EU, the Federal Government and the Länder and in this way has driven forward the expansion of milk production. The ultimate aim has been an increase in exports of dairy products. The risks of overproduction, price collapse and significant loss of income have been talked down, with the farmers and taxpayers shouldering the burden.

In order to at least allow for crisis interventions, as part of the 2013 EU CAP reform the EU Parliament had proposed a crisis instrument to be integrated into the market organisation for the time following the end of the milk quotas (March 31, 2015). It included a temporary sector-financed emergency incentive system designed to avoid the production of price-depressing surpluses. But the adoption of this instrument was prevented by the Council of Agriculture Ministers, and specifically also by Germany. The serious crisis in the dairy market began shortly afterwards. As a result of overproduction, producer prices dropped to such an extent that the EU dairy farms suffered annual losses in the double-digit billion Euro range. Reacting to the crisis, the German government among others called for and decided on the use of an additional one billion Euro of tax-payers' money in order to ensure the dairy farms' liquidity, or so the reasoning went. But political "aid packages" and support programs cannot compensate for the losses incurred.

The example shows that, even though the instruments have changed, the primary objective of EU market organisation and trade policy to this date is to increase exports and world market shares of the European agri-food industry. The suit of instruments no longer includes public export subsidies which used to lower the prices of European exports with a view to conquering third country markets. This function has now been assumed by other mechanisms, such as in particular the low prices for milk, pork and poultrymeat, environmental dumping and insufficient animal welfare as well as extensive administrative support for exports on the part of the EU Commission and the Federal Ministry of Agriculture.

### If 1 Cent per litre Milk is missing

Farmers cannot sustainably produce milk for 20, 25 or 30 cent/kg. That's a fact. There is something seriously wrong in the marketplace if milk is cheaper than mineral water or if butter is cheaper than shoe polish. Farmers need just and fair prices for proper production. Such "fair prices" do not exist where there is a milk of surplus and where delivery and supply contracts between dairy plants and farmers are designed in a manner that is heavily in favour of the creameries. No public financial "bridging system" can compensate for that.

In 2014, German dairy farmers produced approximately 32.4 million tonnes of milk (or 400 litres per German citizen). Germany alone would need EUR 6.4 billion in order to "make up" for the difference between the 20-25 ct/kg to which the milk price had fallen in 2016 and the 40 ct/kg the farmers need. In other words, a one cent drop in milk prices results in losses in the order of EUR 320 million to dairy farmers in Germany.

In many target countries, cheap European exports are also putting smallholder farmers, land workers and food-processing micro enterprises under pressure, often in the very same countries in which the EU and the Federal Government support development cooperation projects aimed at establishing autonomous value-added systems in agriculture and in the overall food value chain.

This runs counter not only to the EU's agreed principle of coherence but also to the objectives of the 2030 Agenda for Sustainable Development (Sustainable Development Goals) of the United Nations. As part of the latter, the EU as well as the Federal Government have committed to supporting smallholder farmers and to help them gain access especially to local and regional markets and value-added opportunities rather than continuing to drive them out of the markets. The EU Commission is well aware of this situation. In an internal strategy paper<sup>1)</sup> the Commission is asked, among other questions, as to whether global price competitiveness for basic crops is compatible with sustainable farm revenues in the EU. It is also being challenged to reconsider its "We feed the world" export strategy.

Within the EU, the Federal Government has been a central driver of the quantity and price-focused export strategy as part of the agricultural policy. Therefore Berlin is a key to moving past this orientation.

### Critical View on the dairy market

As early as 2009 the European Court of Justice addressed the question as to whether such export orientation is of benefit to European dairy farmers. Its verdict was unambiguous. It writes : "With regard to market equilibrium, the Court concludes that milk quotas have effectively limited production, but that their level has proved to be too high for a long period of time, compared to the market's capacity to absorb the surpluses. [...]"

The Court recommends that monitoring the development of the milk and milk product market should continue, so that liberalisation of the sector does not lead once again to over-production. Failing this, the Commission's objective of keeping to a minimum level of regulation, of the safety net type, might rapidly prove impossible to fulfil. [...]"

With regard to competitiveness, the Court notes that the EU share of world trade in milk products has been declining since 1984. The European producers of basic milk products (butter and milk powder) are only competitive on world markets when prices are high. For those products the world market will remain a secondary market. Only producers of cheeses and other products with high added value will be able to claim sustainable market shares. The Commission and the Member States should therefore focus primarily on satisfying the needs of the European domestic market, and also on the production of cheeses and other products of high added value which can be exported without budgetary assistance." (*European Court of Justice, Special Report No 14/2009*)

This is highly contradictory and hypocritical: The EU and the member states strongly criticise China for example for having major surplus capacities in the steel sector and for selling their products on the world market at lower prices than the price of production. But the EU does basically the same thing in the agricultural sector!

It is not the associations' objective to prevent trade and exports. Rather, the task is to overcome the seemingly compulsive fixation of the entire agri-food sector on increasing global export quantities. This fixation results in the level of producer prices in the overall market as well as social, environmental and animal welfare standards becoming aligned with those of the worldwide cheapest producers and most aggressive competitors. Within this logic, any factor that raises the cost of production must be eliminated either through rationalisation or the farmers' self exploitation. This blocks proactive development which equitably integrates economic, social and environmental objectives – a blockade that needs to be lifted. Public funds are insufficient by far to achieve this. Rather, standards and market conditions must be designed in such a way as to combine the agri-food sector's sovereign development with fair, quality-enhancing trade relations with other countries and continents. But even the planned trade deals such as CETA and TTIP do not address these issues. They are primarily concerned with pure trade liberalisation rather than with sustainability.

<sup>1)</sup> Karl Falkenberg: „Sustainability Now! A European Vision for Sustainability“. EPSC Strategic Notes, Issue 18, 20.07.2016.

### 4.2.1) Guidelines for a quality-enhancing market policy

The signatory associations call for amendments to the Common Market Organization of the EU in line with the following guidelines:

- **Livestock populations and production volumes must be aligned with local environmental carrying capacities. Nutrient cycles must be kept as locally focused and material flows as close-looped as possible. Animal welfare standards must consistently be aligned with the animals' ethological needs. The market organisation must similarly be aligned in this way.**
- **Self-regulatory measures of producer groups or sectors designed to avoid market crises must be permissible and should be supported by the EU and the member states as necessary. Within the food value chain, producers are independent only to a very limited extent from downstream stages of acquisition and processing. It is extremely difficult for them to effectively promote their economic interests vis-à-vis those of other actors in the chain. Therefore, additional instruments for producer co-determination are needed, at least in times of crisis, in order to avoid surpluses that result in serious price crises. Alliances of consumers or other comparable societal groups should actively be involved where possible.**
- **In acute market crises the EU must also have at its disposal direct intervention measures up to and including temporary quantitative controls. Payments of state aid in crisis situations such as the latest dairy market crisis must be conditional upon limits to or reductions in production quantities.**
- **Where food or other agricultural commodities are exported from the EU to developing countries, local market disruption must be prevented. Similarly, there must be no dumping effects as a result of direct payments, social or environmental dumping, or below-cost selling. Prior to exports to third countries appropriate dumping levels must be defined, for example by levying export taxes.**
- **With regard to the large quantities of feedstuffs and other agricultural commodities imported by the EU, international product and process standards, especially with regard to environmental protection and social standards, must as part of qualified market access be advanced in a manner that is sensitive to development policy objectives. Imports of products the production of which has a strongly negative climate footprint or damages biodiversity hotspots must be limited.**
- **Imports into the EU must be conditional upon compliance with the same or equivalent social, environmental, consumer and animal welfare minimum standards as are applicable in the EU. The EU should provide targeted support to smallholder producers in developing countries in order to allow them to comply with these standards.**
- **Food labelling rules should allow consumers to differentiate foods produced to socially desirable high quality standards. Meaningful food labelling is essential to driving forward market differentiation. A simple graduated system of mandatory labelling for different forms of livestock management as well as for the treatment of the animals in upstream and downstream sectors is necessary. It should be combined with origin labelling. In the longer term, meaningful labelling denoting production processes should also be introduced for cereals, fruit and vegetables.**
- **EU funding for marketing and public awareness-raising in the agri-food sector must entirely be placed at the service of the society-oriented quality strategy as outlined**

**above. Instead of support for export offensives there should be targeted support for the marketing of domestic products produced in a manner that is compatible with social, environmental and environmental welfare objectives.**

### **4.3) Consistent advancement and implementation of EU-wide environmental and animal welfare standards**

The EU sets essential framework conditions for the agri-food industry not only by means of funding and market rules but also through sectoral legal requirements with respect to environmental protection, animal welfare, consumer and health protection. In contrast to public funding law and market organisation, the EU-wide minimum standards for nature conservation, environmental protection and animal welfare are generally not directly applicable (Regulations). Instead the EU Directives in force in these areas must be transposed into national law and implemented by the member states. Where implementation is insufficient, the EU Commission must first warn the member state concerned before potentially taking infringement proceedings.

This has resulted in a situation where the EU-wide basic standards not only differ from member state to member state but in some cases implementation has been insufficient or even absent. In Germany this concerns i.a. the Nitrates Directive, the Water Framework Directive, the EU Biodiversity Strategy, the Habitats and Birds Directives, the NEC/NERC Directive on atmospheric pollutants and last but not least the EU's animal welfare provisions such as the Directive on the protection of pigs (see Box).

- **The associations call on the EU to raise the standards set out in sectoral law where these are insufficient in order to achieve set protection objectives and to ensure their rigorous implementation in all member states.**
- **The Federal Government and the Länder are called upon to ensure the rigorous and consistent implementation of existing EU sectoral law. At present this particularly concerns legislation on fertiliser use and animal welfare (applicable to all animal species).**
- **There is a need for a legally binding, tangible definition of “good agricultural practice” which is adapted to current knowledge and societal demands.**
- **Amendments are also urgently needed in the laws governing planning, building construction and approval processes for developments. They should, for example, strengthen the municipalities' and citizens' rights to co-determination and decision-making for example with regard to the construction of new livestock housing developments; they should also provide to farmers who wish to bring their livestock production in line with environmental and animal welfare objectives the necessary documentation for approval processes (currently even design specifications are often missing, e.g. for outdoor climate housing systems).**

## 5) Utilise options offered by the EU in Germany in the transition period

In February 2017, the EU Commission in preparation of the upcoming CAP reform has started a public consultation. A Commission Communication broadly outlining the next CAP reform has been announced for the end of 2017. The legislative proposals are expected to be tabled in the spring of 2018. This will be followed by discussions in the European Parliament and the Council of Agriculture Ministers. The timing of the final decisions will depend, among other factors, on the parallel discussions on the multiannual financial framework for the years after 2020 and the upcoming Brexit negotiations. Therefore it cannot be said with certainty whether the next CAP Regulations will come into force in 2021 or at a later time.

At the same time however pressure has been building since the latest CAP reform to make extensive changes to the policy, as outlined above. Neither the farmers nor society at large must be put off until the next decade. Instead, every chance should be taken to support the farms in meeting, as early as possible, the major challenges they face. Therefore the associations call for all the existing possibilities to be utilised with a view to the swift commencement of the necessary radical reform process, especially in Germany.

### Why we don't see ring-tailed pigs?

The Directive on the protection of pigs is an example of insufficient and contradictory treatment of EU sectoral law (Council Directive 2008/120/EC of 18 December 2008 laying down minimum standards for the protection of pigs). It sets out i.a. the following objectives:

Preamble 8: "Pigs should benefit from an environment corresponding to their needs for exercise and investigatory behaviour. The welfare of pigs appears to be compromised by severe restrictions of space."

Preamble 11: "Tail-docking, tooth-clipping and tooth-grinding are likely to cause immediate pain and some prolonged pain to pigs. Castration is likely to cause prolonged pain which is worse if there is tearing of the tissues."

Annex 1, Chapter 1: "(...)Neither tail-docking nor reduction of corner teeth must be carried out routinely but only where there is evidence that injuries to sows' teats or to other pigs' ears or tails have occurred. Before carrying out these procedures, other measures shall be taken to prevent tail-biting and other vices, taking into account environment and stocking densities. For this reason inadequate environmental conditions or management systems must be changed."

In practice, however, the tails of more than 90% of the pigs produced in Germany (and Germany is not alone in this) are still being docked, i.e. a large part of it is removed. And this is despite the fact that forms of management are indeed at hand that render this procedure unnecessary, i.e. the pigs under such management do not resort to tail-biting if their tails are not docked. Nonetheless, in Germany planning permission is granted for housing unit after housing unit giving rise to "inadequate environmental conditions or management systems". Worse still such developments are supported by public funding.

This example highlights the importance of the effective implementation of EU sectoral law in all member states and for all agricultural holdings and other food producers. Where EU sectoral law is insufficient in itself, it must be improved. Insufficiently effective EU-wide minimum standards and a lack of consistent EU-wide implementation have not only failed to provide the necessary protection for public goods and values, but for the agri-food industry in the various member states they also distort competition within the single European market.

In its current funding period (2014-2020) the EU makes available approximately EUR 6.2 billion per annum for the support of agricultural holdings and rural development in Germany. It is therefore the most significant funding body in this policy area in the country.

Since the 2013 reform, the decision-making powers as to how exactly these EUR 6.2 billion in EU funding will be used has to a significant degree been delegated to Germany itself. The EU offers a broad range of options for the use and redistribution of funding which were introduced with the reform not least owing to the pressure exerted by the signatory associations and their European partners who had called for such options. To date the Federal Government and the Länder decided to devote the bulk of the EU budget (EUR 4.8 billion/year) to direct payments in the form of single flat-rate payments per hectare of agricultural area and to not link these direct payments to effective environmental and socio-economic criteria even though Brussels is already allowing this to a significant degree.

In 2013/2014, Germany had the opportunity to target more than half of the EU funds provided for direct payments ("national ceiling") at agri-environmental measures, animal welfare and at strengthening farm family structures. However, only 11.5% of the direct supports are used in a more differentiated manner than a basic payment per hectare of farmland.

The associations call on the Federal Government and the Länder to make use, to a much greater extent than to date, of the existing opportunities to differentiate payments based on environmental and socio-economic criteria and to redistribute funding in the transitional period prior to the upcoming CAP reform. Moreover, the associations call on the parties standing for election to the German Parliament to unequivocally support the associations' stance in this regard in their electoral campaigns.

Specifically the following measures should be taken:

### **5.1) Increase in the rate of modulation from 4.5% to 15% of direct payment funding**

Since the Conference of Agriculture Ministers of the Federal Government and the Länder agreed in late 2013 on a compromise to transfer a mere 4.4% of direct payment funding to agricultural support measures under the second pillar, the pressure on farmers to act has grown considerably and especially on those engaged in livestock production. Use should now be made of the option to increase modulation and to also deliver targeted support to livestock producers in their orientation towards ethologically sound and environmentally compatible quality production, as well as to ensure the financial ability of the existing measures. The long-standing and significant growth in consumer demand for organic food allows for the accelerated expansion of the organic farming sector. Conventional farmers show a great interest in converting to organic farming and it should be possible to devote second pillar funding to relevant measures in this regard. Moreover, there is substantial additional demand in arable farming and in cooperative approaches of nature conservation and agriculture (contractual conservation management agreements).

Several of the Länder, which are in charge of administering these support measures, are already facing significant gaps in the financing of all of these measures. This means that there are farmers who would like to render services to society and participate in relevant programmes, but the federal states in which they farm do not offer these measures due to a lack of co-funding. It is for these reasons that a higher rate of modulation is urgently advisable. An increase from 4.5% to 15% would mean that Germany would have available a total funding volume of appro-

ximately EUR 500 million. These funds do not constitute additional public funding for the sector but rather are transfers from direct payments, but if they are used in line with the quality strategy they will allow for higher added value and thus create longer term prospects for the farms in the marketplace. Moreover, these quality markets are more robust towards price fluctuations in international output markets which is another argument for the strategic development of these quality markets and for the reallocation of funding.

The following measures are examples of what can and should be funded through increased modulated funds, with the Länder setting their own individual priorities:

- Expansion of the organic farming sector with a view to achieving, as soon as possible, the “20 percent organic agriculture” target set and pursued by the Federal Government itself.
- Construction or conversion of livestock housing for ethologically sound and environmentally compatible livestock production. This includes for example pig housing with different climate zones including outdoor climate areas or outdoor runs, with solid floors and bedding material such as straw to avoid routine tail docking. Similarly, the conversion of tie-stall housing for cattle into housing with outdoor runs or access to pasture could be funded in this way. Generally, funding should not lead to a further increase in the overall number of animals, especially not in regions with high livestock densities.
- Pasture-based management and a focus on forage for ruminants such as dairy cows, other cattle, sheep and goats, preferably in combination with the establishment of meaningful labels for grass-fed milk and beef as well as special marketing efforts in this regard.
- Expert advice on ethologically sound and environmentally compatible livestock management.
- Expansion of investment measures in nature conservation, targeted agri-environmental measures and contractual conservation management agreements in accordance with existing strategies or strategies to be developed by the Länder for Natura 2000 sites and EU species protection.
- Support for diverse crop rotations including the production of legumes such as field beans, peas, lupins and soya beans – a measure which would serve both soil and climate protection and would also increase the supply of domestically produced protein feeds.
- Creation of habitat networks in the cultural landscape that are deserving of the “ecological focus” label (flowering strips for beneficials, hedgerows, riparian buffer strips etc.).
- Peatland conservation as an important contribution to climate protection (also drawing on climate funding instruments).

In order to increase the rate of modulation to 15%, the Federal Government must notify the EU Commission of its decision by 1 August 2017. The higher rate will then be effective as of 2018. The signatory associations urge the federal ministries and coalition parties at the federal level as well as the ministries in the Länder and the Federal Council to instigate as soon as possible the necessary amendments to the Direktzahlungen-Durchführungsgesetz (Implementing law concerning direct payments to farmers).

At the same time, the associations call on the parties to work towards ensuring – in their electoral campaign for the Parliamentary elections and especially in the subsequent coalition negotiations – that at the EU level the Federal Government also provides for the opportunity to increase modulation in 2018.

**The inter-pillar transfer of direct payment funding towards specific measures under the second pillar should be increased from 4.5% to 15%. These modulated funds can and must be used for the targeted expansion of agri-environmental, climate protection and animal welfare measures, organic farming, nature conservation, advisory services and regional marketing in keeping with the quality strategy. The financial liquidity of existing measures under the second pillar must be ensured (this is not currently the case).**

## **5.2) Similar increased redistributive payments for the first hectares**

The 2013 agricultural policy reform did not only claim to be “greener” but also more equitable in the distribution of funding. However, this objective is also far from having been achieved. It is for this reason that as early as 2013 the platform of associations had called for all options with regard to national implementation to be exhausted and to use up to 30% of the direct payment funding provided by the EU to increase the payments for the first hectares per holding by up to 65% per hectare.

The aim of this redistribution would be to maintain the remaining numbers and diversity of family farms and to disincentivise ever greater farm sizes and land concentration, which in part are driven by the otherwise uniform per-hectare payments. Landscapes and municipalities characterised by diverse farm structures tend to be similarly characterised by greater social, cultural and biological diversity and a special attractiveness. Payments that are front-loaded to the first hectares would generally recognise and reward this fact.

The redistributive payment for the first hectares (up to 46 ha per holding in Germany) would be taken from the national allocation for direct payments remaining after modulation transfers to the second pillar and would thus not compete with increases for specific support schemes. The call for an increase in the redistribution of payments to the first hectares per holding is not meant to imply that this instrument should be retained for the CAP after 2020.

The associations call on the Federal Government and the Länder to make use of the redistribution scheme now. In order for the higher redistributive payments to be effective in Germany from 2018, the Federal Government must notify the EU Commission of its decision and the amendments to the national implementing law concerning direct payments to farmers by 1 August 2017 (increases in these redistributive payments can be made annually).

**Similar to the transfer of funds towards specific support measures under the second pillar, Germany should also make use of the option to take a proportion of the national allocation and redistribute it to farmers on their first hectares.**



### **5.3) Special payments for pastured management of sheep and goats**

Member states have the option to use up to 8% of direct payments for coupled support, for example for specific systems of managing cattle, sheep and goats. These specific aids can only be made available for specific management systems or in vulnerable areas of special economic, social or environmental importance and which are suffering particular difficulties.

In Germany, these conditions are met by pasture-based management systems for sheep and goats which have been declining and which are of special significance for nature conservation. Between 2005 and 2015 sheep numbers in Germany declined by 40%. This puts at risk the agricultural use of permanent pasture and conservation areas in difficult locations (particularly humid or particularly dry sites, sites that are difficult to manage due to slopes).

In the medium-term, the associations consider support for pasture-based sheep and goat production as part of agri-environmental or animal welfare measures, such as they are available under the second pillar at present, to be much more beneficial than a coupled direct payment. However, the EU Commission does not currently allow for support for pasture-based sheep and goat production under the second pillar; the Commission is of the opinion that pasture-based management is the norm in sheep and goat production and that therefore it is not eligible for agri-environmental or animal welfare schemes. While special nature conservation schemes using sheep or goats are eligible for funding, such schemes may not include an incentive element going beyond remuneration for additional expenditure incurred.

**Until such time as the introduction at the EU level of motivating remuneration for the provision of services to society – as called for by the associations – the associations consider coupled payments designed to maintain such land-use systems to be a useful instrument. The associations call on the Federal Government and the Länder to implement the necessary transfers from 2018 at the latest. The Federal Government should include the relevant provisions into their notification to the EU Commission by 1 August 2017 as mentioned above.**

## 6) Outlook

Since its inception, the Common Agricultural Policy (CAP) of the European Union has been the subject of repeated reforms. The results of these individual reforms mirror the balance of powers in the agri-food industry, between member states, and increasingly also within society at large.

The more strongly the agri-policy decisions and developments in the agri-food industry are at odds with environmental protection and nature conservation, consumer interests, animal welfare, development policies and also the interests of the majority of farmers themselves, the greater the pressure to reform the CAP.

Given the current crisis of the European Union, a budgetary and agricultural policy that is fit for the future and comprehensible to the Union's citizens is of utmost importance. Moreover, it can reasonably be expected that due to the Brexit and other challenges to the EU, the CAP budget will be challenged even more strongly than at present.

Nonetheless, the reforms are certainly not a "fast sell" given that the CAP does not only impact on the various agricultural structures and management systems but also on upstream and downstream industries, some of which have seen significant growth rates in recent years. The chemical industry, feed industry, dairy and meat industries, the farm machinery sector and banks all profit from the current trajectory of rationalisation and industrialisation of a significant proportion of the farming sector and its export orientation.

The consideration of societal concerns as part of the CAP, i.e. the necessary integration of environmental protection and animal welfare as well as social and development policy objectives into the agri-food sector increase the cost of European agricultural production compared to commodities produced on other continents. This in turn reduces export opportunities for mass-market products, the (international) competitiveness of which is primarily defined by their price.

Therefore, the fundamental reform of the CAP must not only provide compelling answers to challenges in the environment, animal welfare and human nutrition, but it must also come up with sound economic prospects for a majority of farm holdings in the economic sectors concerned, i.e. for farmers in Europe and also for enterprises in food processing, for suppliers and traders. The world market strategy which currently dominates the overall market and which banks on cost and price leadership must be replaced with a long-term sustainable, qualitative alternative offering higher added value per unit produced. While the market shares of third country exports of agricultural commodities produced in the EU are relatively small (even in the dairy sector less than 15% of the milk produced in the EU is exported to third countries in the form of dairy products such as powdered milk or bulk cheese), these exports have been determining the overall market. This dominant function of the exports must be brought to an end.

The signatory associations therefore emphasise the great importance of the quality strategy described in the first chapters of this paper. This strategy links the various agricultural policy instruments in a targeted manner and thus enhances the effectiveness and their usefulness for the benefit of agricultural holdings, the environment, animal welfare and the attractiveness of rural communities and landscapes. While there are inevitable conflicts of interest, this quality strategy should be developed, reviewed and adapted in a partnership process. Most importantly however we must begin this process now.

## Signatories

- Aktion Agrar – Landwende jetzt e.V.**, Artilleriestr. 6, 27283 Verden/Aller, [www.aktion-agrar.de](http://www.aktion-agrar.de)
- Arbeitsgemeinschaft bäuerliche Landwirtschaft e.V. (AbL)**, Bahnhofst. 11, 59065 Hamm, [www.abl-ev.de](http://www.abl-ev.de)
- Artgemäß GmbH und Co. KG**, Ludwig-Ehlers-Str. 8, 29549 Bad Bevensen, [www.artgemaess.de](http://www.artgemaess.de)
- Berufsvertretung deutscher Biologen e.V. (BDBiol)**, Stuthagen 25, 24113 Molfsee, [www.biologenverband.de](http://www.biologenverband.de)
- Biofleisch NRW eG**, Westenhellweg 110, 59192 Bergkamen, [www.biofleisch-nrw.de](http://www.biofleisch-nrw.de)
- Bischöfliches Hilfswerk MISEREOR e.V.**, Mozartstraße 9, 52064 Aachen, [www.misereor.de](http://www.misereor.de)
- Brot für die Welt - Evangelischer Entwicklungsdienst, Evangelisches Werk für Diakonie und Entwicklung e.V.**, Caroline-Michaelis-Str. 1, 10115 Berlin, [www.brot-fuer-die-welt.de](http://www.brot-fuer-die-welt.de)
- Bundesverband Beruflicher Naturschutz e.V. (BBN)**, Konstantinstr. 110, 53179 Bonn, [www.bbn-online.de](http://www.bbn-online.de)
- Bundesverband Berufsschäfer e.V.**, Zur Schäferei 1, 54675 Wallendorf, [www.berufsschaefer.de](http://www.berufsschaefer.de)
- Bund für Umwelt und Naturschutz Deutschland e.V. (BUND)**, Am Köllnischen Park 1, 10179 Berlin, [www.bund.net](http://www.bund.net)
- BUND Naturschutz in Bayern e.V. (BN)**, Dr.-Johann-Maier-Straße 4, 93049 Regensburg, [www.bund-naturschutz.de](http://www.bund-naturschutz.de)
- Bund Ökologische Lebensmittelwirtschaft e.V. (BÖLW)**, Marienstr. 19-20, 10117 Berlin, [www.boelw.de](http://www.boelw.de)
- Bündnis Junge Landwirtschaft e.V.**, Marienstraße 19-20, 10117 Berlin, [www.stopp-landgrabbing.de](http://www.stopp-landgrabbing.de)
- Deutscher Naturschutzring, Dachverband der deutschen Natur-, Tier- und Umweltschutzorganisationen (DNR) e.V.**, Marienstraße 19-20, 10117 Berlin, [www.dnr.de](http://www.dnr.de)
- Deutscher Tierschutzbund e.V.**, In der Raste 10, 53129 Bonn, [www.tierschutzbund.de](http://www.tierschutzbund.de)
- Deutscher Verband für Landschaftspflege (DVL) e.V.**, Feuchtwanger Str. 38, 91522 Ansbach. Der DVL vertritt bei Punkt 4.1.1 mit seinem Modell „Gemeinwohlprämie“ bei der Honorierung gesellschaftlicher Leistungen durch die Landwirtschaft eigene Inhalte (siehe [www.landschaftspflegeverband.de](http://www.landschaftspflegeverband.de)).
- Die Bäcker. Zeit für Geschmack e.V.**, Bert-Brecht-Weg 32, 30890 Barsinghausen, [www.die-baecker.org](http://www.die-baecker.org)
- EuroNatur - Stiftung Europäisches Naturerbe**, Euskirchener Weg 39, 53359 Rheinbach, [www.euronatur.org](http://www.euronatur.org)
- Germanwatch e.V.**, Stresemannstr. 72, 10963 Berlin, [www.germanwatch.org](http://www.germanwatch.org)
- Greenpeace e.V.**, Hongkongstraße 10, 20457 Hamburg, [www.greenpeace.de](http://www.greenpeace.de)
- NaturFreunde Deutschlands e.V.**, Warschauer Str. 58a/59a, 10243 Berlin, [www.naturfreunde.de](http://www.naturfreunde.de)
- Neuland e.V.**, Am Köllnischen Park 1, 10179 Berlin, [www.neuland-fleisch.de](http://www.neuland-fleisch.de)
- Netzwerk Solidarische Landwirtschaft e.V.**, Schnittloherweg 8, 25557 Steinfeld, [www.solidarische-landwirtschaft.org](http://www.solidarische-landwirtschaft.org)
- Schweisfurth Stiftung**, Rupprechtstr. 25, 80636 München, [www.schweisfurth-stiftung.de](http://www.schweisfurth-stiftung.de)
- Slow Food Deutschland e. V.**, Luisenstr. 45, 10117 Berlin, [www.slowfood.de](http://www.slowfood.de)
- Verband der Landwirte mit handwerklicher Fleischverarbeitung (Schwerpunkt ökologische Erzeugung) e.V.**, Tischbeinstr. 112, 34121 Kassel, [www.biofleischhandwerk.de](http://www.biofleischhandwerk.de)
- Verband Deutscher Naturparke e.V. (VDN)**, Holbeinstr. 12, 53175 Bonn, [www.naturparke.de](http://www.naturparke.de)
- Weidewelt e.V.**, Jahnstraße 3, 35579 Wetzlar, [www.weidewelt.de](http://www.weidewelt.de)
- WWF Deutschland**, Reinhardtstr. 18, 10117 Berlin, [www.wwf.de](http://www.wwf.de)
- Zukunftsstiftung Landwirtschaft (ZSL)**, Christstraße 9, 44789 Bochum, [www.zukunftsstiftung-landwirtschaft.de](http://www.zukunftsstiftung-landwirtschaft.de)

---

## **Signatories**

**Aktion Agrar – Landwende jetzt e.V.**  
**Arbeitsgemeinschaft bäuerliche Landwirtschaft e.V. (AbL)**  
**Artgemäß GmbH und Co. KG**  
**Berufsvertretung deutscher Biologen e.V. (BDBiol)**  
**Biofleisch NRW eG**  
**Bischöfliches Hilfswerk MISEREOR e.V.**  
**Brot für die Welt - Evangelischer Entwicklungsdienst**  
**Bundesverband Beruflicher Naturschutz e.V. (BBN)**  
**Bundesverband Berufsschäfer e.V.**  
**Bund für Umwelt und Naturschutz Deutschland e.V. (BUND)**  
**BUND Naturschutz in Bayern e.V. (BN)**  
**Bund Ökologische Lebensmittelwirtschaft e.V. (BÖLW)**  
**Bündnis Junge Landwirtschaft e.V.**  
**Deutscher Naturschutzring (DNR) e.V.**  
**Deutscher Tierschutzbund e.V.**  
**Deutscher Verband für Landschaftspflege (DVL) e.V.**  
**Die Bäcker. Zeit für Geschmack e.V.**  
**EuroNatur - Stiftung Europäisches Naturerbe**  
**Germanwatch e.V.**  
**Greenpeace Deutschland e.V.**  
**NaturFreunde Deutschlands e.V.**  
**Neuland e.V.**  
**Netzwerk Solidarische Landwirtschaft e.V.**  
**Schweisfurth Stiftung**  
**Slow Food Deutschland e. V.**  
**Verband der Landwirte mit handwerklicher Fleischverarbeitung e.V.**  
**Verband Deutscher Naturparke e.V. (VDN)**  
**Weidewelt e.V.**  
**WWF Deutschland**  
**Zukunftsstiftung Landwirtschaft (ZSL)**

---